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TURMOIL, DRAMA, AND STABILITY

THERE IS NEVER A DULL MOMENT IN WASHINGTON. In an extraordinarily politicized environment, the Trump Administration continues to move dramatically, challenging previously established policy patterns and directions. But there are areas of relative calm and normalcy. The U.S. economy continues to move ahead almost placidly along a trajectory set months ago. In Congress, there is intense political maneuvering, but there is also a bipartisan push to move the appropriations process at least partly according to regular order (something that hasn't been accomplished for a couple of decades). This *WIBR* will leave it to others to analyze the possible commercial consequences of President Donald Trump's May 8 announcement of the U.S. departure from the Iran nuclear deal and his upcoming meeting with North Korean dictator Kim Jong-un. We will review the current state-of-play in Congress and the economy and then look at U.S. trade policy, which continues to be an area facing prospects of major change.

CONGRESS: FY19, EASING THE PATH – Congress reached a budget deal in February lifting the spending levels for Fiscal Years 2018 and 2019 and followed this up in March by passing an Omnibus Appropriations Bill completing funding for FY18. This has cleared the path for action on FY19 spending without the travails that have accompanied the appropriations process in recent years. However, passing the 12 individual appropriations bills has always been tough in election years. Thus it is unlikely that all 12 will move to enactment through regular order, that is, passage by Appropriations Subcommittee and full Committees followed by debate and passage on the House and Senate floors, with differences reconciled in conference committee. Nonetheless, leaders of both parties have been meeting together on the issue and are expressing the desire to move the bills expeditiously through regular order. This is an interesting development given the partisan clashes on Capitol Hill that make it unlikely any other significant legislation will move with bipartisan support – or move at all – this year.

Bipartisanship, Maybe for Real: Although the Republican leadership decided not to pass a FY19 Budget Resolution, the February budget deal eased the way for the Appropriations Committee leaders to set the allocation of money for each subcommittee. House subcommittees have begun working on their bills (one has even passed the full committee), and aim to finish quickly so that the Senate has time to take them up. Senate leaders want bills to begin coming to the floor in June. If things go well, it is still not likely that all 12 will be finished before the October 1 start of FY19, so uncompleted bills would be rolled into an omnibus (or “minibus”) bill. Another possible path is that the individual bills will be crafted but not voted on until the post-election lame-duck session – avoiding tough votes before

the election – with government funding carried into the new fiscal year through a short-term Continuing Resolution.

Any of these scenarios would improve on the messy stop-gap funding methods and brinksmanship of recent years. But because appropriations bills can be filibustered, they need bipartisan support to pass the Senate. And so it is significant that Senate Minority Leader Chuck Schumer (D-NY) told reporters that Democrats want “an appropriations process that ensures the bills adhere to the budget deal, exclude poison pill riders, and... make it across the finish line,” and Appropriations ranking member Patrick Leahy (D-VT) said, “We are going to do it right.”

More Work Time?: To push matters along, the White House and, separately, a group of Republican senators are calling on congressional leaders to add more Washington workdays and trim back the August recess if the appropriations process moves too sluggishly and the Senate doesn't act quickly on pending presidential nominations. This is an especially tough ask in an election year, but it signals the intention to return to regular order.

Rescinding: Aside from the lack of time, the appropriations process could be stymied by a Republican effort to rescind already approved government funding. It had been expected that the first request to pare \$15.4 billion in past-years' funding that has not been spent would be followed by a second request to rescind funds just appropriated in the March Omnibus. The Democratic leadership objected to the first rescission, though for the 38 targeted programs, the authorization has run out or they have been inactive, so the real-world impact would be negligible. The purpose was to show that Republicans still care about cutting the budget deficit. Rescinding FY18 funds, however, would spur Democrats to charge that if the Republicans can't be trusted to honor the February and March agreements, then they can't be trusted on FY19 appropriations. In fact, to avoid this disruption and because the rescission request would take up already-scarce floor time, Senate Majority Leader Mitch McConnell (R-KY) had indicated he wouldn't bring the first package to a vote. However, when the White House sent its request to Congress on May 8 it did not promise to seek FY19 rescissions, so if it passes the House, McConnell may bring it up, and although Democrats still oppose it, White House rescission requests are fast-tracked – the vote, which must take place within 45 days, cannot be filibustered.

While the rescissions therefore probably won't bring down the appropriations process, President Trump renewed his threat to veto spending bills if they don't fund the proposed southern border wall and immigration reforms. “We may have to close up our country to get this straight,” he told a May 5 rally in Ohio. But if regular order holds, there may not be an omnibus bill or a CR for which a veto would shut the government.

Otherwise, Priorities on the Hill: The pre-election Congress isn't in any condition to do big things this year, and so it probably won't tackle immigration again. Among items Congress is expected to deal with is the annual National Defense Authorization Act (NDAA). Since it is must-pass legislation, it may have amended to it a bill to reform the Committee on Foreign Investment in the US (CFIUS). Aimed at tightening CFIUS to better control Chinese takeovers of US assets, it has broad support, but parts are controversial – and thought to be overly-restrictive and thus counterproductive. This issue may become part of the NDAA debate.

Also due this year is the five-year Farm Bill, massive legislation authorizing both farm support and food assistance programs. The House and Senate are on separate tracks. The House Agriculture Committee has approved the usually bipartisan bill on a straight party-line vote,

opposed by Democrats because it includes a new work requirement for food aid. The Senate bill is expected to leave out the work requirement. Thus, it is possible a farm authorization bill won't be enacted this year. That won't shut down agriculture programs, but it is a situation farmers, already facing great uncertainty over commodity prices and export markets, are eager to avoid. Other possible legislation with commercial implications, both enjoying bipartisan support, are the Miscellaneous Tariff Bill that has passed the House and awaits Senate approval but has become slightly controversial because of unilateral tariff cuts, and the do-over of Dodd-Frank banking reform to ease the burden on smaller banks. It has passed the Senate, but the House may push for more controversial rules changes.

A COOPERATING ECONOMY, FOR NOW – The U.S. economy continues to make gains, performing better than Japan and Europe yet not, apparently, overheating, just showing enough upticks in inflation, employment, and even (still weak) productivity to allow the U.S. Federal Reserve to keep its current course. The estimate of U.S. first-quarter GDP growth registered 2.3% (annualized), a low figure that likely reflects longstanding problems with seasonal adjustment calculations, and although personal consumption was weak, business investment was strong. The April nonfarm payrolls report showed just 164,000 net jobs added, following a weak March report. The labor force participation rate actually went down, while the unemployment rate fell to 3.9%. Perhaps most striking is that the data have been painting the same basic picture of moderate, underwhelming growth with a tight labor market but meager wage and inflation gains for years, raising the question whether, as the economy enters its second longest expansion on record this month, it is also heading toward the final stages of this business cycle.

Symmetry: The Fed, however, is removing monetary stimulus. It still plans to raise its short-term interest rate target twice more in 2018 – the next expected in mid-June – while continuing to unwind quantitative easing, trimming its bond holdings. These moves will give it room for a return to more accommodation should the economy reverse course, but at present there is more speculation that it might add a fourth rate hike this year. Yet its statement following its May 2 meeting sent a different signal: that inflation is reaching its 2% target but it won't react if it moves higher. The word of the day is “symmetric”. The Fed expects inflation to keep close to its “symmetric 2% objective,” and so won't change course if it fluctuates above that level. There are, of course, risks to this picture of an unflappable economy, even short-term. Among them: the impact of the U.S. leaving the Iran nuclear deal could be felt in oil prices, and the current course of U.S. trade policy carries uncertainty with it.

TRACKING TRADE – The uncertainty comes from many directions – the push to overhaul NAFTA, the demands for change from China, the plans to impose tariffs on allies' steel and aluminum on national security grounds under Section 232, and U.S. discontent with the WTO. For NAFTA and the Section 232 tariffs, the endgame is approaching.

China: For China, the clash intensified following an early May high-level meeting in Beijing where the U.S. delegation tabled demands Beijing won't agree to and received in return hardline Chinese demands that Washington won't agree to. At stake most immediately are \$50-\$150 billion in U.S. punitive duties, justified under trade law Section 301, and an equal amount in Chinese retaliation. The U.S. demands were such obvious non-starters – cutting the goods trade imbalance by \$200 billion, terminating government aid to China's high-tech industries –

that some have actually speculated they were raised to assure there would be no quick resolution. Others were relieved that the U.S. didn't settle for small adjustments to China's practices that would leave the larger question of its use of objectionable practices to gain technological dominance unaddressed. Commerce Secretary Wilber Ross described the talks as “constructive but not conclusive.”

Beijing chose to highlight not the impasse but the agreement to set up a “work mechanism to keep close communication.” And indeed, a few days later the White House announced that Vice Premier Liu He, who led the talks in Beijing, would be in Washington in mid-May for another round. It will happen to coincide with public hearings on the proposed tariffs. There is much opposition from businesses and farmers that will suffer from the tariffs and the retaliation, and the upcoming meeting suggests that there is still a chance they may be averted. But anyone assuming either side is planning a retreat would be surprised by the rhetoric from both at the May 8 WTO General Council meeting. China, having put on the agenda the U.S. Section 301 and 232 tariffs and U.S. blocking of the selection of new Appellate Body judges, pummeled Washington for “dangerous and devastating... unilateralism and protectionism.” The U.S. representative shot back: “it is amazing to watch... the world’s most protectionist, mercantilist economy position itself as the self-proclaimed defender of free trade.... The WTO must avoid falling... into a fantasy world.... [and] confront the havoc created by China's state capitalism.”

Section 232: On Section 232, the U.S. did back down, temporarily. Just hours before the May 1 deadline, the President extended to June 1 the temporary exemptions that had been given to the EU, Canada, and Mexico, and announced that deals were near for Australia, Argentina, and Brazil. Within two days, Brazil and Argentina agreed to accept quotas on steel exports. Brasilia, however, protested that the U.S. had presented an unjustified non-negotiable demand and signaled that it might complain to the WTO. Facing the same demand for voluntary export quotas, the EU has not agreed. It is unclear if resolution will come before tariffs are imposed, for EU members are split, with the European Commission, supported by France, refusing to accept tariffs or quotas, while the Germans want a resolution shaped around a wider trade deal with Washington.

NAFTA 0.0? Mexico and Canada also face the June 1 tariff threat, contingent on concluding the NAFTA renegotiation. The U.S. wants an agreement in principle by June, timing that could allow the current Congress to pass it in a lame-duck session. But there have been no breakthroughs on any of the difficult U.S. demands, with talks bogged down on the central question of automotive rules-of-origin now linked by Washington to raising worker wages in Mexico. Washington's offer is considered unworkable both by Mexico and the North American auto industry. Mexico has just tabled a counter-offer. But there won't be a deal without huge concessions. Meanwhile, the U.S. withdrawal threat has been revived. The President is contemplating giving his six-month withdrawal notice if an agreement is reached, not to kill NAFTA but to save it in its new form, in case a wary Congress decides it prefers NAFTA 1.0 to NAFTA 2.0. However, it is not clear that a presidential withdrawal notice without congressional concurrence would actually terminate NAFTA. The tactic has aroused intense opposition, including from some pro-NAFTA Democrats who just warned the White House not to “try to strong-arm Congress.” In the end, the Administration may have to rely on Democratic votes to get a new agreement through.

AGRICULTURE DEPARTMENT

UNDER SECRETARY FOR FOOD SAFETY- Texas Tech University Professor of Food Safety and Food Microbiology **Mindy Brashears** has been nominated.

UNDER SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT- The President has nominated a 35-year veteran of the Colorado Forest Service, **James E. Hubbard**.

ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE- **Ken Isley** has been selected. He has almost 40 years of experience in the international agriculture business, most recently with DowDuPont.

LIAISON TO WHITE HOUSE- **Sam Clovis** is leaving and returning to Iowa.

COMMERCE DEPARTMENT

UNDER SECRETARY FOR EXPORT ADMINISTRATION- **Mira Ricardel** is leaving Commerce. She has been chosen by White House National Security Adviser John Bolton to join the National Security Council senior staff as Assistant to the President and Deputy National Security Adviser.

DIRECTOR OF PUBLIC AFFAIRS- **Rebecca Glover** is taking this post. She has worked for Senator Richard Burr on the Senate Intelligence Committee staff.

DEFENSE DEPARTMENT

ASSISTANT SECRETARY FOR STRATEGY, PLANS AND CAPABILITIES- Marine Corps University Vice President for Academic Affairs **James Anderson** is the nominee. His experience includes service as Director of Middle East Policy in the Office of the Secretary of Defense.

ENERGY DEPARTMENT

DEPUTY ASSISTANT SECRETARY FOR OIL AND GAS- This post is being taken by **Shawn Bennett**, formerly with the Ohio Oil and Gas Association.

JUSTICE DEPARTMENT

SENIOR ADVISER TO THE ATTORNEY GENERAL- Former National Security Council staffer **Ezra Cohen-Watnick** will work for Attorney General Jeff Sessions advising on national security and counterintelligence matters. Cohen-Watnick had been Senior Director for Intelligence at the NSC but left after eight months on the job.

DEPUTY DIRECTOR, FBI- Associate Deputy Director **David Bowdich** succeeds Andrew McCabe.

LABOR DEPARTMENT

ASSISTANT SECRETARY FOR EMPLOYMENT AND TRAINING- The nominee is **John Pallasch**, who has most recently worked in the Kentucky Department of Labor and was previously a Deputy Assistant Secretary at the Labor Department in Washington.

STATE DEPARTMENT

SECRETARY- **Michael Pompeo** has been confirmed by the Senate and sworn in to office.

UNDER SECRETARY FOR POLITICAL AFFAIRS- The nominee may be **Paula Dobriansky**, who was an Undersecretary in the George W. Bush Administration.

AMBASSADORS- The Senate has confirmed **Richard Grenell** for **Germany**...It appears that the Administration's nominee for **Australia**, **Admiral Harry Harris**, may be nominated for **South Korea** instead.

ASSISTANT SECRETARY FOR NEAR EASTERN AFFAIRS- **David Schenker** has been nominated. He has been Director of the Program on Arab Politics at The Washington Institute and previously served in the Office of the Secretary of Defense as Levant Country Director.

DIRECTORATE OF DEFENSE TRADE CONTROLS- DDTC has made the following leadership changes: **Anthony Dearth** is the new **Chief of Staff**; **Sarah Heidema** has been selected as the new **Director of Policy**; **Catherine Hamilton** has been selected as the new **Director of Licensing**; **Terry Davis** is **Deputy Director of Licensing**; **Jonathan Dennis** and **Yolanda Gantlin** co-lead the **Space, Missile, and Sensor Systems Division** until a permanent replacement is identified; and **Jae Shin** has been selected as the new **Chief of the Compliance and Civil Enforcement Team**.

TREASURY DEPARTMENT

DIRECTOR, OFFICE OF FOREIGN ASSETS CONTROL- **John Smith** is leaving after over a decade on the job. Deputy Director **Andrea Gacki** will be Acting OFAC head.

WHITE HOUSE

CHIEF OF STAFF- The Washington political rumor mill suggests that **John Kelly** may be a candidate for Secretary of Veterans Affairs, even as former Congressman and Chairman of the House Veterans Affairs Committee **Jeff Miller** appears to be the leading candidate.

NATIONAL SECURITY COUNCIL- **John Bolton** took over as NSC head on April 9 and is making staff changes. **Deputy National Security Adviser Nadia Schadlow** resigned on April 10, and NSC Spokesman **Michael Anton** has left. Also resigning is Homeland Security and CounterTerrorism Adviser **Tom Bossert**.

COORDINATOR OF U.S.GOVERNMENT ACTIVITIES TO COMBAT MALARIA- The President is appointing **Dr. Kenneth Staley**, now a consultant with McKinsey and Company and earlier an executive with Medtronic, where he led ventures aimed at expanding access to medical technology in emerging economies.

CYBERSECURITY COORDINATOR- **Rob Joyce**, who has been on detail from the National Security Agency, is returning to NSA.

OFFICE OF THE VICE PRESIDENT- The new National Security Adviser for Vice President Pence is Lieutenant General **Keith Kellogg**, who has been Chief of Staff and Executive Secretary of the National Security Council.

COMMODITY FUTURES TRADING COMMISSION

COMMISSIONER- Former CFTC General Counsel **Dan Berkowitz** will be nominated. He has most recently been a Washington lawyer specializing in futures and derivatives.

ENVIRONMENTAL PROTECTION AGENCY

DEPUTY ADMINISTRATOR- Former coal lobbyist and Chief of Staff for Senator James Inhofe **Andrew Wheeler** has been confirmed by the Senate.

OFFICE OF POLICY- Senior Counsel and Associate Administrator **Samantha Dravis** has resigned.

SUPERFUND- **Albert Kelly**, who has been top adviser on Superfund, is leaving EPA.

EXPORT-IMPORT BANK

PRESIDENT- Deputy USTR **Jeffrey Gerrish** has been named Acting President. He will continue his USTR portfolio that includes Asia, Europe, the Middle East, and Industrial Competitiveness.

FEDERAL RESERVE

BOARD OF GOVERNORS- The President has announced he will nominate Columbia University Economics Professor **Richard Clarida** as **Vice Chairman** and Kansas State Bank Commissioner **Michelle Bowman** as a Member.

ECONOMIST- Associate Director of the Program Direction Section **Sean Campbell** is leaving for a position with the Financial Services Forum.

MILLENNIUM CHALLENGE CORPORATION

BOARD OF DIRECTORS- Two new members have been nominated: former Florida Congressman **Alexander Crenshaw** and former Chief of Staff for then-U.S. Senate Majority Leader Harry Reid, **Susan McCue**.

OVERSEAS PRIVATE INVESTMENT CORPORATION

BOARD OF DIRECTORS- President Trump has nominated former logistics company executive **Louis DeJoy** as the public member and design/construction executive **Fred Perpall** as the small business representative.

U.S. AID

DEPUTY ADMINISTRATOR- Former State Department Foreign Service Officer and IBM executive **Bonnie Glick** has been chosen as the White House nominee. She currently serves as Deputy Secretary in the Maryland Department of Aging.

CONGRESS

HOUSE MEMBERS- Speaker **Paul Ryan** (R-WI) has announced that he will serve until the end of this session of Congress but will not stand for reelection. He has endorsed Majority Leader **Kevin McCarthy** to succeed him as head of the Republican Conference, but there may be a leadership struggle...Texas Republican **Blake Farenthold** announced his immediate resignation...Pennsylvania Republican **Charlie Dent**, who had previously announced his retirement, has said he will leave Congress in May...Florida Republican **Dennis Ross** has added

his name to the list of retirees... **Patrick Meehan** (R-PA) has resigned...Republican **Debbie Lesko** won a special election in Arizona's 8th District and becomes the newest Member of the House and succeeds **Trent Franks**, who retired...**Robert Pittinger** (R-NC), a sponsor and major advocate for CFIUS reform legislation, lost his primary.

HOUSE STAFF- Ways and Means Committee Staff Director **David Stewart** is leaving his post. His successor will be **Gary Andres**. Andres has been a Senior Executive Vice President with the Biotechnology Innovation Organization, and earlier he was Majority Staff Director for the House Energy and Commerce Committee...**Matt Weibel** is leaving as Deputy Chief of Staff for Representative Justin Amash (R-MI) and will work for the Cato Institute...Massachusetts Democrat Seth Moulton has hired **Alexis Prieur L'Heureux** as his Chief of Staff.

SENATE- The new Chairman of the Appropriations Committee is Senator **Richard Shelby** (R-Ala.)...Missouri Republican **Roy Blunt** succeeds him as Chairman of the Rules Committee.

SENATE STAFF- **Hanz Heinrichs** has moved from Senator Shelby's staff to the Appropriations Committee professional staff where he works on the Defense Subcommittee. **Sam Fletcher** has started as Senator Shelby's National Security Advisor...**Michael Needham** from Heritage Action for America is becoming Chief of Staff for Senator Marco Rubio (R-FL)...**Cynthia Pullom** has left Senator Chris Murphy's (D-Conn) staff to work for the Investment Company Institute.

FOREIGN EMBASSIES

AMBASSADORS- Two ending their tours in Washington this summer are **David O'Sullivan** of the **European Union** and Germany's **Peter Wittig**. Ambassador Wittig will become Ambassador in London. His successor will be Foreign Ministry State Secretary **Emily Haber**.

INTERNATIONAL ORGANIZATIONS

EUROPOL- **Robert Wainwright**, who has been **Executive Director** of the European Union's law enforcement agency, has ended his nine-year term. Wainwright was key in transformation of the agency into a strong link for transatlantic security and a strong partner for the FBI.

INTERNATIONAL MONETARY FUND- **Edward Anderson** has been selected as the Fund's **Chief Information Officer**. He has been Global CIO at World Vision International.

UNITED NATIONS- Secretary-General Guterres has announced the appointment of **Martin Griffiths** of the United Kingdom as **Special Envoy for Yemen**. Griffiths is a former British diplomat and has served as the first Executive Director of the European Institute of Peace.

WORLD TRADE ORGANIZATION- Ambassador **Julian Braithwaite** of the United Kingdom is the new **Chair** of the **Committee on Regional Trade Agreements**, and **Zhanar Aitzhanova** of Kazakhstan is new **Chair** of **Services Negotiations**.

ADVISORY COMMITTEES, BOARDS AND COMMISSIONS**BOARD FOR INTERNATIONAL FOOD AND AGRICULTURAL DEVELOPMENT-**

Mississippi State University President **Mark Keenum** has been designated a Member and Chairman of BIFAD, which works to draw on higher education's scientific knowledge to advise U.S. international assistance efforts. President Trump also nominated **Richard Lackey** as a Member. Lackey is Managing Director of Greatwater Fund and Founder of Global Food Exchange.

PRIVATE SECTOR, ASSOCIATIONS AND NGOs

AMERICAN CHEMISTRY COUNCIL- Former California Congressman **Cal Dooley** will retire as President and CEO at the end of the year.

AMERICAN PETROLEUM INSTITUTE- **Mike Sommers**, who was Chief of Staff for former House Speaker John Boehner, is will become the new President. He has most recently been President of the American Investment Council.

CONSUMER TECHNOLOGY ASSOCIATION- **Karen Chupka** has been promoted to Executive Vice President, and **Tiffany Moore** to Senior Vice President, Political and Industry Affairs.

DISTILLED SPIRITS COUNCIL- President and CEO **Kraig Naaz** is leaving in June.

THE HEARTLAND INSTITUTE- Former Kansas Congressman **Tim Huelskamp** is now President... Past President and Founder **Joe Bast**, who has been Director and Senior Fellow, is retiring.

INSTITUTE OF INTERNATIONAL BANKERS- **Briget Polichene** from MetLife has been named as the new CEO, succeeding Sally Miller.

MASTERCARD- Obama Administration U.S. Trade Representative **Michael Froman** has joined as Vice Chairman and President, Strategic Growth.

U.S. CHAMBER OF COMMERCE- The Chamber's Executive Director of International Policy **Christopher Wenk** is leaving to join Kia Motors Washington office... **Chuck Chaitovitz** is now Vice President for Environmental Affairs and Sustainability.

U.S.-INDIA BUSINESS COUNCIL- **Lauren Diekman** has joined USIBC as Senior Director, Energy and Environment. She previously had the India portfolio at the Energy Department.

U.S.-KOREA INSTITUTE- This Johns Hopkins School of Advanced International Studies institute is being closed because funding from the South Korean government will be ended. **Robert Gallucci** has been the Institute's Chairman.