



THE REAL DEAL – 3rd ISSUE ALL OUR EYES ON U.S. POLITICS

Last month President Trump welcomed Italian Prime Minister Giuseppe Conte, announcing a [new strategic dialogue](#) between the two countries. Trump also welcomed European Commission President Jean-Claude Juncker to discuss trade policy. On Capitol Hill, the House departed for its 5-week summer break while the Senate has a [truncated August recess period](#), only leaving Washington for 15 days. There is less than 100-days left until the mid-term elections and election politics cast a long shadow over all activity.

TRADE POLICY DEVELOPMENTS

Over the past month, the Trump administration has made progress with the European Union (EU), unleashed new trade actions against China, continued to try and advance the North American Free Trade Agreement (NAFTA) renegotiation efforts, and imposed tariffs on Turkey.

During their July 26 meeting, Trump and Juncker pledged to work together on a number of fronts with Trump declaring a “new phase in the relationship.” The [measures announced](#) would have the EU buying more liquefied natural gas and soybeans from the United States; a dialogue between the two sides would also begin to “reduce the differences on regulatory standards.” Both sides pledged to hold off on further tariffs and to work together to address unfair trade practices.

While there were signs of progress on the transatlantic trade front, the trade war with China continued to escalate. The administration [expanded tariffs on steel and aluminum products](#) under Section 232, a provision used to protect national security, and imposed [tariffs on Chinese products under Section 301](#), a provision dealing with unfair trade practices. The administration is also threatening more aggressive action by early fall. China has [vowed to retaliate](#) and [slapped 25% tariffs on \\$16 billion worth of U.S. goods](#). On Capitol Hill, a vote in the Senate revealed bipartisan support for declaring that Congress should have a say in whether the president imposes tariffs on national security grounds. [Every Democrat and all but 11 Republicans backed the measure](#), which called on Senators working on the Energy & Water Appropriations Bill to include language providing “a role for Congress in making a determination under Section 232.” Additional [legislation](#) has been introduced by Senators Portman (R-OH), Jones (R-AL) and Ernst (R-IA) that would overhaul the Section 232 process.

In July, negotiators from the United States, Mexico and Canada were in Washington continuing to renegotiate NAFTA. Incoming Mexican president Andrés Manuel López Obrador (known as AMLO) has pledged to cooperate with and support the NAFTA positions of the current government, which remains in power until December. Both AMLO and U.S. Treasury secretary Steve Mnuchin have stated that [an agreement could be reached quite soon](#).

In August, the Trump administration imposed [tariffs of 20% on aluminum and 50% on steel](#) on Turkey and [sanctioned two Turkish officials](#) for their role on the detention of U.S. pastor Andrew Brunson. The moves complicate the already tense relationship between Washington and Ankara, and come at a time of [deepening economic concern](#) in Turkey.

The implications of the uncertainty over trade policy is impacting the business sector. In the [minutes of its June meeting](#), the Federal Reserve noted that companies across the United States are reporting that they are scaling back or postponing plans for new investments and capital spending because of the tariffs. Companies are also reporting decreased availability of needed inputs, [pushing up consumer prices](#).

TAX REFORM 2.0 & THE RISING DEFICIT

House Ways and Means Committee Chairman Kevin Brady (R-TX) unveiled his framework for [“Tax Reform 2.0”](#) in late July. The framework provides a brief outline of additional tax measures to be pursued such as: making middle-class and small business tax cuts permanent; allowing start-up businesses to deduct more initial start-up costs; new retirement savings plans and new family savings plans. The legislative path forward to this plan is uncertain; unlike the [Tax Cuts and Jobs Act](#) passed in 2017, this measure would not have the option of being passed under the legislative process known as [“reconciliation”](#) and would need to pass a 60-vote threshold in the Senate. The White House is looking into whether it has the authority to index capital gains taxes to inflation by executive order, thereby [bypassing Congress](#). Amid the talk of renewed tax cut efforts, the U.S. Treasury announced a plan to [boost borrowing and increase the auction sizes for U.S. debt](#) by an additional \$30 billion over the next three months, to \$329 billion from July through September—an increase of \$56 billion over the April estimate and a figure 63% higher than what was borrowed during the same six-month period last year. Forecasts now predict that [budget deficits will exceed \\$1 trillion](#) over the next four years.

DEFENSE POLICY BILL SENT TO PRESIDENT

This past month the House and Senate passed the [John S. McCain National Defense Authorization Act for Fiscal Year 2019 \(NDAA\)](#), marking the 58th straight year that Congress has sent the defense policy bill to the president’s desk. This is only the second time in the last 33 years that the measure has been enacted prior to the October 1 start of the fiscal year. The over \$700 billion defense policy bill is aimed at building up the military and included provisions that reaffirmed the United States commitment to NATO, established a new position on the National Security Council dedicated to countering Russian election interference, put controls on U.S. government contracts with China’s ZTE Corp and Huawei Technologies, and bars the delivery of F-35 Joint Strike Fighters to Turkey until a report is issued on Turkey’s behavior. Also included, as [Title XVII](#) of the NDAA, was the Foreign Investment Risk Review Modernization Act of 2018 and the Export Control Act of 2018, which significantly modify the rules for foreign investments in the United States and the export control regime. The legislation strengthens the Committee on Foreign Investment in the United States (CFIUS), which reviews proposed foreign investments to weigh whether they threaten national security; establishes a new assistant secretary of the Treasury for investment security; requires the Commerce Department to create new export restrictions on “emerging and foundational” technologies that are not otherwise captured under the export control regime; and tasks the secretary of Commerce and an interagency group to identify such technologies that are essential to national security and are not currently controlled under the International Traffic in Arms Regulations.

NEW SANCTIONS ON IRAN

Sanctions were [re-imposed on Iran](#) at midnight on August 7, marking the first wave of Iran-related sanctions following U.S. withdrawal from the Joint Comprehensive Plan of Action in May. These sanctions bar any transaction with Iran involving dollar bank notes, precious metals, aluminum, steel, commercial passenger aircraft and coal, and they end imports into the United States of Iranian carpets and food stuffs. A second round of sanctions, targeting the sale of Iranian oil and transactions with its central bank, are scheduled for November.

REGULATORY ACTION ON AUTOS

This month the Environmental Protection Agency and Department of Transportation released [a proposed rule](#) to roll back the emissions standards on cars and light trucks finalized by the Obama administration, setting up a conflict between the standards put forward in California and federal standards. The agencies propose freezing the standards at their planned 2020 level, directing new autos to average 37 miles per gallon, and canceling any future strengthening. The Obama rule would have resulted in 54.5 miles per gallon by 2026. The proposed rule release starts a 60-day period during which the public may submit comments before an agency review period and release of the final rule. Attorneys General of 19 states, [led by Xavier Becerra of California](#), have promised to sue once the rule becomes final.

PERSONNEL MOVES

White House – Deputy chief of staff **Joseph Hagin** is retiring; the new deputy chief of staff is **Daniel Walsh**. **Everett Eisenstat**, deputy assistant to the President for international economic affairs and deputy director of the National Economic Council, has left his post and will be replaced by **Clete Willems**. **Andrew Olmem** will become acting director for domestic policy. At the National Security Council, the new director for North Korea is **Anthony Ruggiero**, senior director for weapons of mass destruction and counterterrorism, **Andrea Hall**, is leaving and will be replaced by **Major General Julie Bentz**, and **Grant Schneider** has been named chief information security officer. **Marc Short**, assistant to the president and director for legislative affairs has left.

Commerce Department – Former Louisiana congressman **John Fleming** is the nominee for assistant secretary for economic development.

Defense Department – **Alan Shaffer** is the nominee to be deputy undersecretary for acquisition and sustainment.

State Department – Secretary Pompeo has appointed **T. Ulrich Brechbulh** as Counselor. **David Hale**, the current ambassador to Pakistan, has been nominated for undersecretary for political affairs. **R. Clarke Cooper** is the nominee for assistant secretary for political-military affairs. The following ambassadorial nominations have been transmitted to the Senate: **Kathleen Kavalec** for Albania; **Philip Kosnett** for Kosovo; **Lynda Blanchard** for Slovenia; **Derek Hogan** for Moldova; **Adrian Zuckerman** for Romania; **Judy Reinke** for Montenegro. **John Richmond** has been nominated to serve as director of the office to monitor and combat trafficking and Ambassador to Estonia **James Melville** resigned his post, [expressing disagreement with President Trump](#).

Treasury Department – The Senate Finance Committee has approved of the nomination of **Justin Muzinich** for deputy secretary.