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Welcome to the July edition of the CEO Report, POLITICO Pro's high-level outlook on the policy issues driving the month ... and beyond.

Take two on Obamacare repeal: Senate leaders will take another run this month at passing their health care bill that dismantles parts of Obamacare and cuts Medicaid, Pro Health Care's Jason Millman reports. Deep divisions within the GOP ranks forced Majority Leader [Mitch McConnell](#) to scrap a vote before the July Fourth recess. Leaders are reworking their bill to find the magic formula that will unite enough conservatives, who want a fuller repeal of Obamacare, and moderates, who oppose deep cuts to Medicaid. McConnell can't afford to lose more than two GOP votes to fulfill the party's long-term pledge to repeal Obamacare, and if the effort fails, moderate Republican senators may push for a bipartisan compromise that fixes the 2010 health care law instead of replacing it. House Republicans and the Trump administration are also likely to keep testing other ways to weaken the law and its mandates.

Passing the repeal bill is all the more important for Republican leaders, as it will directly affect their efforts to implement tax reform this year.

Speaking of tax reform: Two more tax reform hearings are scheduled for this month, according to House Ways and Means Chairman [Kevin Brady](#) (R-Texas). One will focus on how to benefit small businesses through tax code changes. The other will examine how individuals and families can get a boost from other revisions in tax law, including lawmakers' goal of making it simpler and easier to file personal taxes, Pro Tax's Aaron Lorenzo reports.

Brady didn't announce exact dates when he previewed the hearings, nor did he specify whether the full committee or its Tax Policy Subcommittee would hold the hearings.

The hearings come amid concerns that the timeline for tax reform is slipping further as Republicans continue to struggle with Obamacare. They are also squabbling over the budget they plan to use to pass tax reform.

"I'd like to get to tax reform, because that's something that could really benefit our country," Senate Finance Chairman [Orrin Hatch](#) (R-Utah) told reporters. "The longer [health care] goes on, the more difficult it's going to be to do true tax reform."

TRADE

coalescing around a tailored approach that would target imports from individual countries rather than taking across-the-board measures.

The two reports, should they recommend use of import restrictions, are sure to be met with criticism from U.S. business groups and close international allies. Business groups have warned that broad restrictions could backfire by hurting industries that rely on such materials while also opening the U.S. up to retaliation. President Donald Trump has 90 days to decide on a course of action after receiving the reports.

A G-20 showdown: Trade is slated to be at the forefront of the agenda when Trump heads to Hamburg, Germany, early this month for the G-20 meeting. European leaders began gathering in late June to prepare a united front, and vow to challenge Trump on trade and the debate over climate change. German Chancellor Angela Merkel, who will host the two-day summit, has promised a focus on "rules-based, fair and multilateral trade," while new French President Emmanuel Macron has pledged to address any member state that questions free trade.

NAFTA strategy, at last : Around July 16, the administration also will be sending Congress a detailed list of negotiating objectives it will take into the upcoming renegotiation of NAFTA. The report, required under Trade Promotion Authority, will be the clearest outline to date of the White House's goals for a renegotiation that has been promised and hyped but rarely talked about in specific policy terms.

What becomes of the China dialogue? Also at mid-month, the White House is expected to wrap up its 100-day trade initiative with China. The comprehensive dialogue was launched in early April during Chinese President Xi Jinping's warm and fuzzy first encounter with Trump at the Mar-a-Lago resort. The administration's goal has been a plan to reduce the U.S. trade deficit with China. It's proven to be a boon for the U.S. beef industry. But officials have said Trump appears to be growing frustrated with Beijing of late, and any trade-related action to come out of the Section 232 review is likely to target China's steel exports. — *Megan Cassella*

BUDGET & APPROPRIATIONS

Cutting a deal : Still without a budget resolution, GOP lawmakers will spend this month

trying to rally support for a fiscal blueprint to guide the federal funding process. Since that resolution is more than two months overdue, spending committee leaders will continue to work without knowing their funding constraints for the fiscal year that begins Oct. 1. Making do, House leaders are expected to keep readying spending measures for floor action, continuing to guess at topline numbers the budget resolution is supposed to set. But in the Senate, spending work is still moving slowly, as lawmakers in that chamber press on with hearings on funding priorities.

While the House Budget Committee has tried to strike a deal that would appease enough GOP lawmakers for the legislation to make it out of committee, centrist House Republicans are lining up to oppose a draft budget aimed at curbing entitlement spending.

Debt limit update : Besides the Sept. 30 drop-dead deadline for funding the federal government, lawmakers are eyeing the moving target for increasing the debt limit. Even though Treasury Secretary Steven Mnuchin has urged lawmakers to take action before the August recess, he has also clarified that the federal government could keep paying its bills through September. And the CBO just announced that the government is expected to run out of money to pay its debts in "early to mid-October." — *Jennifer Scholtes*

CYBERSECURITY

Taking the world hostage : In the last two months, two game-changing global cyberattacks have crippled hundreds of thousands of computer networks around the world, relying in part on software flaws originally exposed in a leak of apparent NSA hacking tools. The quick succession of bruising worldwide infections has raised questions about whether the NSA should be sitting on a pile of powerful tools that can be repurposed for nefarious ends. Top tech firms have united with civil liberties groups and digital rights advocates to call on the government to focus on alerting companies to their digital flaws, rather than building cyber weapons to exploit them.

The White House has committed to reviewing the decision-making process that determines whether the government notifies a company after it uncovers a digital defect. Trump's top cyber adviser, Rob Joyce, recently told POLITICO in a wide-ranging interview that he has launched a top-to-bottom review of that process, dubbed the Vulnerabilities Equities Process. "We've got ways to improve it," Joyce said, without putting a timeline on the review. "I think you'll see us tweak the charter and be a little more public about the activities."

While May's game-changing global malware outbreak was ultimately tied to North Korean hackers, the leading theory is that the recent attack was intended to simply wreak havoc on critical infrastructure.

Reports on reports : Federal agencies are hitting the first set of rolling deadlines for reports ordered in Trump's recent cybersecurity executive order. The executive fiat is expected to set the stage for the administration's efforts to secure porous federal networks and upgrade the country's lagging cyber defenses. The missive ordered sweeping reviews of cyber risks at every agency, as well as a report on current efforts to protect vital infrastructure like power plants and hospitals. Additionally, the government must prepare a document on building the cyber workforce, which is facing significant shortages of well-trained employees. So far, the Treasury Department has submitted its document, while the Commerce Department just completed a report on international cybersecurity priorities. The Pentagon is still working on its submission. Expect more documents to start coming in throughout the month.

Tasking a task force : House Democrats are launching an election-security task force to develop recommendations for hardening the country's election systems before Russia's cyber agents return in 2018. The new panel will hold hearings, collect data on state-level election hacks and interview election officials and cybersecurity experts. The task force's timeline is unclear, and its first meetings have not yet been set. For now, only Democrats are involved, but House Homeland Security ranking member [Bennie Thompson](#) — who is leading the panel with Rep. [Robert Brady](#), the House Administration Committee's top Democrat — said Republicans were "absolutely welcome" to join.

Funding the cyber war: The Senate and House both appear on track to fully fund the Trump administration's \$647 million request for U.S. Cyber Command, representing a 16 percent boost from the previous year. The military's digital war division is rapidly staffing up as it moves toward a goal of reaching full operational capacity by the end of the 2018 fiscal year. — *Cory Bennett*

TECHNOLOGY

Blackburn's BROWSER Act languishes: Rep. [Marsha Blackburn](#) (R-Tenn.) is still seeking a Democratic co-sponsor (or two) for her legislation — the BROWSER Act — that would put internet service providers like Comcast and Verizon and internet services like Facebook and Google under the same set of rules when it comes to privacy. BROWSER, which was quietly introduced in May, would require opt-in consent from customers before sharing their browsing history. Blackburn's office has been having meetings with both liberal- and conservative-leaning groups to discuss the legislation and reaching out to Democratic legislative directors to ask if they want to co-sponsor. But no one's bitten yet.

Behind the scenes : Democrats seem reluctant to link up on privacy legislation with Blackburn, citing her involvement in helping roll back the FCC's broadband privacy rules via the Congressional Review Act earlier this year and their conviction that the FCC should have some role in managing online privacy, rather than keeping it strictly at the

FTC. Using the CRA to eliminate the FCC's Obama-era broadband privacy rule before it took effect sparked a firestorm of activism online and even resulted in a nasty billboard in Blackburn's district that read, "Blackburn betrayed you." Blackburn's office has said she's serious about the bill, but it's hard to see a Democrat joining her at a time when partisan bickering over net neutrality and privacy is leaving little room for negotiation. Tech companies are spooked by the bill, worried it would upend their online targeted advertising business models, while companies like Oracle and AT&T have thrown their support behind it. — *Ashley Gold*

EMPLOYMENT & IMMIGRATION

Will DOL defend the fiduciary rule? The Trump administration is defending the Labor Department's fiduciary rule in court. The Obama-era rule requires that broker dealers consider only their client's best interest — and not commissions or fees — when providing retirement advice. In February, financial service groups appealed a decision from a Texas district court judge upholding the regulation. The Trump administration filed a [brief](#) July 3 that defended most of the Obama administration's rule. Oral arguments are scheduled for July 31.

Although the financial services industry and Hill Republicans requested that Labor Secretary Alexander Acosta delay further the rule's effective date, he declined to do so, citing legal constraints under the Administrative Procedure Act. In a Wall Street Journal op-ed announcing his decision, Acosta acknowledged that "courts have upheld this rule as consistent with Congress' delegated authority" but said that "the fiduciary rule as written may not align with President Trump's deregulatory goals." In June, the Labor Department sent a request for information on the fiduciary rule to the White House OMB — the first sign that the Trump administration will at least make changes to the regulation. The request for information is expected soon.

Even though the White House ordered the Labor Department to review the fiduciary rule and Acosta appears inclined to make changes, the Trump administration is expected to defend the rule in court, in part because the case challenges the Labor Department's authority to promulgate the rule. The agency has two other options, both of which are unlikely outcomes. The Labor Department could settle the case, or it could withdraw. But if the Labor Department withdraws from the case, another party in favor of the rule, like the AARP, could intervene. — *Marianne LeVine*

FINANCIAL SERVICES

Flood warning : The House and Senate will ramp up efforts to reauthorize and overhaul the National Flood Insurance Program, which provides critical protection for millions of homeowners. Time is running out before the popular program expires in

September. The House this month is expected to vote on controversial legislation that would scale back the program over a five-year renewal period — a bill that's facing opposition from homebuilders, Realtors and a bipartisan group of lawmakers. Senate Banking Committee leaders have been crafting their own legislation, which the panel is expected to consider when Congress returns. A group of Republicans and Democrats on the committee representing coastal constituents are backing a bill that would freeze interest on the program's \$24.6 billion debt, which built up after a series of devastating hurricanes.

Yellen faces lawmakers : The Federal Reserve is not expected to raise interest rates when its policymaking committee meets this month, but all eyes will be on Janet Yellen anyway. The Fed chair will testify before the House Financial Services Committee on July 12 and the Senate Banking Committee on July 13. She's likely to face questions about the central bank's continued promises for another rate hike in 2017, as well as its plans to start shrinking its massive, \$4.5 trillion asset holdings later this year. The Federal Open Market Committee could also provide more insight on plans for its balance sheet in the release today of its minutes for last month's meeting and after its next session on July 26. The FOMC isn't seen increasing rates again until September at the earliest.

Clayton's debut : SEC Chairman Jay Clayton's views on where he wants to take the agency have been mostly a mystery since he was confirmed by the Senate in early May, except for his desire to promote more IPOs. That may change on July 12, when the former Wall Street lawyer will deliver his first speech since becoming head of the SEC, at the Economic Club of New York. Clayton is facing pressure from Republicans to act on the fiduciary rule as well as a European stock market regulation that has American asset managers up in arms. Democrats want him to preserve a rule that would force companies to disclose where they obtained "conflict minerals" to ensure they don't come from war zones in Africa and elsewhere. — *Mark McQuillan*

AGRICULTURE

Conaway's fight over farm bill funding: House Budget Chairwoman Diane Black hopes to clear a path to the floor this month for the budget resolution she has been developing, and that process will have much bearing on funding for the farm bill. A markup was put off until after the July Fourth recess as Black negotiated with committee chairmen, including House Agriculture Chairman Mike Conaway, who has resisted demands for massive cuts being championed by the GOP's right flank.

Black, seeking to appease both defense hawks and Freedom Caucus members, has pushed for \$200 billion in mandatory cuts over 10 years. Conaway and more moderate Republicans have fought back, with Conaway arguing that slashing mandatory spending would make it harder to pass the next farm bill, which is due in September 2018. Conaway said late last week that he and Black had agreed to "a number" that his

committee would have to work with in fiscal 2018. But much work lies ahead for Congress on the fiscal 2018 budget — starting with the markup.

Trump under pressure to fill out Perdue's team : It took nearly every one of Trump's first 100 days to get Agriculture Secretary Sonny Perdue confirmed, and it's looking like an even longer period will be needed to install Perdue's leadership team. As Trump nears his 200-day mark (which comes in the middle of August), nominations still have not been made for deputy secretary and two undersecretary posts that will drive his reorganization of the USDA. Perdue has complained about the delay, and a coalition of 16 farm groups has said enough is enough.

Perdue recently told Senate appropriators that some key officials won't be confirmed until after Congress' monthlong August recess. The nominations could come this month, which would give the Senate a chance to make room on its busy calendar when it returns to work. Perdue has also said he's sent several names to the White House for consideration, though none of them have been disclosed. He is said to have chosen American Soybean Association CEO Stephen Censky for deputy secretary, and Iowa Agriculture Secretary Bill Northey and Indiana Agriculture Director Ted McKinney for undersecretary positions with responsibility over farm production and trade, respectively. — *Catherine Boudreau*

EDUCATION

Education Department kicks off 'arduous' rulemaking process : The Trump administration this month will take its first steps toward rewriting two of President Barack Obama's signature higher education regulatory achievements. The department is planning to overhaul the "gainful employment" rule, which is meant to cut off federal funding to career college programs that produce graduates with large amounts of debt relative to their earnings. The department also wants to rewrite the "borrower defense to repayment" package of regulations, which it has blocked from taking effect. Those rules are aimed at making it easier for defrauded federal loan borrowers to discharge their debt; they would also prohibit mandatory arbitration clauses in college enrollment agreements and give the Education Department new powers to take action against financially troubled schools.

Education Secretary Betsy DeVos has pledged a "regulatory reset" of the two Obama-era rules. Her agency will hold two public hearings this month — on July 10 and 12 — to get feedback. Rewriting and renegotiating the two contentious regulations will be an "arduous task" that requires "significant oversight and resources," the department noted in a memo last month. One obvious challenge will be personnel: The administration has yet to announce the nominations of permanent political leaders for top higher education positions. — *Michael Stratford*

Career education bill moves to Senate: The effort to update the law that dictates how

the federal government spends about \$1 billion annually on career and technical education programs is now in the hands of the Senate. Last month, the House passed a bipartisan bill that backers say would simplify requirements that states must follow when applying for federal funds and make it easier for providers to participate. But it's unclear whether it will gain traction in the Senate. A similar bill passed by the House last year hit a snag in the Senate when HELP Chairman Lamar Alexander sought to include tougher provisions to restrict the Education secretary's authority to approve state plans. An Alexander spokeswoman has said that updating the law — the Carl D. Perkins Career and Technical Education Act — is a priority and that he's asked Sen. Mike Enzi (R-Wyo.) to take the lead in developing a Senate bill. Last month's House vote was one of the first on a major piece of education legislation in either chamber during the Trump administration. — *Kimberly Hefling*

DEFENSE

Defense committees get to work: Three of the four congressional defense panels have approved annual policy and spending legislation. The House and Senate Armed Services committees both approved their versions of the fiscal 2018 National Defense Authorization Act, while the House Appropriations Committee advanced its annual defense spending bill.

Time will be short, though, to consider the bills on the House and Senate floors before Congress begins its monthlong summer break in August. The House NDAA is the first bill up and will likely be considered on the House floor the week of July 10.

Playing the numbers game : All three defense bills rolled out so far violate the 2011 Budget Control Act, which limits national defense spending, including the Pentagon and nuclear weapons programs under the Energy Department, to \$549 billion for the new fiscal year, beginning Oct. 1. The House Budget Committee is also set to unveil a spending framework after the July Fourth recess that will double down on the approach.

Lawmakers will need to strike a deal to raise the spending caps to meet the substantially higher funding levels laid out by defense committees, let alone launch a yearslong military buildup. But a budget accord will likely require concessions on domestic spending from Republicans to gain Democratic support.

More action on nominees : The top ranks at the Pentagon are beginning to fill out more, five months into Trump's presidency. The Senate Armed Services Committee has advanced the nomination of former Boeing executive Patrick Shanahan to be deputy Defense secretary to the full Senate for a final confirmation vote.

The panel is also expected to hear from Trump's nominee to be Navy secretary, financier Richard Spencer, whose confirmation hearing was postponed last month. And Trump has now tapped Textron Systems President and CEO Ellen Lord to be Pentagon

acquisitions chief. — *Connor O'Brien*

TRANSPORTATION

It's all coming together? The House and Senate have now each marked up very different FAA reauthorization bills — the House with a proposal that would splinter the FAA and hand air traffic control to a nonprofit corporation, and the Senate, well, without that proposal. But each chamber's respective committees approved the bills just before the July Fourth recess, and that makes this a pivotal month. It's still unclear whether House Transportation Chairman [Bill Shuster](#) (R-Pa.) will garner enough support to bring his FAA bill to the floor, but he's said he wants to do so in mid-July. Sen. [John Thune](#) (R-S.D.) has made similar noises, but his FAA bill may be tripped up by uncertainty over how the GOP plans to proceed on health care. In any case, this month will be a key one, with either substantive movement on this major aviation policy bill, or the continuation of a slow slide into another end-of-September extension. — *Kathryn Wolfe*

HEALTH CARE

Congress faces deadlines on FDA funding, kids' health care : Congress is racing toward a pair of deadlines on key health care programs that typically have bipartisan support but have been held up by the intense fight over Obamacare. The House and Senate this month will both try to pass FDA user fee agreements dictating how much medical device and drug companies will contribute toward the agency's budget to speed the process for reviewing their products. The framework for an agreement has been in place for more than a year and should move quickly through both chambers this month ahead of the September deadline. The path forward is somewhat less clear on reauthorization of the Children's Health Insurance Program, also set to expire after September. It's widely expected Congress will extend the program covering about 8 million kids, but there's been little public discussion on whether Republicans will insist on any changes that could be problematic for Democrats. —*Jason Millman*

EHEALTH

All eyes on FDA : Now that CMS' proposed 2018 regulations for the Medicare Access and CHIP Reauthorization Act are out (the rulemaking establishes some requirements for Medicare physician payments) — and some doctors and electronic health record vendors are breathing big gulps of relief about Secretary Tom Price's "keep going slow" approach to health IT implementation — much of the attention of the eHealth world is on the FDA user fees legislation. We'll be keeping a close eye to see whether Congress assigns the agency the dollars that will be necessary to fund the agency's new digital

health division. — *Arthur Allen*

DATAPOINT

Testing the stability and strength of U.S. banks: The Federal Reserve has released results of its annual stress tests, known as the Comprehensive Capital Analysis and Review, which measure whether 34 bank holding companies have sufficient capital to weather a severe economic crisis. The test results have a direct effect on whether banks with more than \$50 billion in assets can make dividend payments to shareholders or buy shares of their own stock to increase their value. The lenders in this year's CCAR hold roughly 75 percent of the total assets of all U.S. banks. — *Cristina Rivero*

View the full graphic [online](#) and find out more about DataPoint [here](#).

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