



June CEO Report

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If you have any questions or feedback on this newsletter, please feel free to contact me at (703) 558-3566 or jstewart@afia.org.

Warm regards,

John Stewart

AFIA's Manager of Government Affairs

By Alex Weprin | 05/05/2017 07:00 AM EDT

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

Funding season: June is always a furiously busy time for work on funding the federal government. And that process is sure to be particularly disorderly this month as Congress gets back to work after the Memorial Day recess. For one thing, Republican leaders have yet to pass a budget resolution, forcing them to trudge blindly through spending season without the guiding light of overall spending levels, Pro Budget and Appropriations editor Jennifer Scholtes notes. Congress is supposed to pass its own budget by April 15 each year, but Republican leaders aren't expected to release that document for several weeks. So lawmakers are likely to be stuck in this limbo for most of the month - if not longer.

Despite that self-imposed setback, spending committee leaders will call up Trump administration officials this month to testify on funding priorities for their agencies and will continue meeting behind closed doors for some informal budget-writing sessions.

Beyond the basic challenge of trying to pen funding levels without knowing overall budget limits, GOP leaders are already starting to worry about their ability to ultimately pass the 12 federal spending bills before government funding runs out on Sept. 30. If they learned anything from the last go-round this spring, it's that they will be hard-pressed to get enough Democratic support without scrapping some of President Donald Trump's biggest priorities - like border wall funding. And Trump has already threatened to hold strong in the next game of political chicken, tweeting last month that "our country needs a good 'shutdown' in September to fix mess!"

Debt-limit talks: While lawmakers thought they had until late September or early October to act on the debt limit, Trump administration officials now says that deadline will probably need to be moved up by a few weeks, Jennifer reports. And since Congress is out of session in August, leaders are scrambling to come up with a deal that could pass before the government defaults on its debt. A compromise will be hard to come by, though, since both parties are internally divided over whether to go for a "clean increase" in the debt ceiling or whether to throw in spending cuts and boosts.

FINANCIAL SERVICES

Focus on the Fed: This will be a pivotal month for the Federal Reserve, with the central bank expected to push ahead with its ambitious agenda. At its June 13-14 meetings, the Fed's top policymaking body is likely to raise its main borrowing rate once again as part of its plan to end the economic stimulus that it began during the financial crisis. The Fed will telegraph its intentions going forward, keeping an eye on economic data that's showing possible signs of slowing inflation, which could undercut plans for future rate hikes. The central bank has also signaled it will clarify how it plans to unwind its massive \$4.5 trillion balance sheet, a delicate operation since it risks rattling the financial markets.

Mnuchin's review: The Treasury Department will in the coming days release the first in a series of eagerly awaited reports on how financial regulations can be overhauled, an initial step in fulfilling a campaign promise by Trump. Treasury Secretary Steven Mnuchin has indicated that the first report will include recommendations on the Volcker rule, a hotly contested measure that prevents banks from engaging in proprietary trading, and community banking.

Stress tests: At the end of the month, the Fed will announce the results of its annual stress tests on the biggest U.S. banks, which could affect dividend payments and stock buybacks planned by the lenders. For the first time this year, none of the banks with less than \$250 billion in assets will be subject to the portion of the tests that measures the firms' risk-management procedures, the first in what is likely to be a move to ease the examinations.

Showdown on Dodd-Frank repeal: One of the House's first tasks when it returns from the Memorial Day recess will be voting on the Financial CHOICE Act, which would repeal and replace banking regulations from the Dodd-Frank law. House Financial Services Chairman Jeb Hensarling has agreed to remove a section of the bill that was the most controversial among Republicans - a repeal of the debit card swipe fee cap known as the Durbin Amendment. The Senate Banking Committee will take a step toward drafting its own legislation with hearings focused on smaller lenders.

Housing reform: Look for mortgage reform to bubble up in June. The Senate is expected to confirm Pam Patenaude as deputy secretary of HUD after her June 6 confirmation hearing. And the National Association of Home Builders will have its annual member fly-ins to gin up support for overhauling Fannie Mae and Freddie Mac. - Mark McQuillan

TAX

Clock's ticking: If the White House and Republican leaders in Congress want to keep their promise of enacting tax reform before the end of the year, they'll have to pick up the pace this month. Both sides say they are hammering out details behind closed doors, while House Republican leaders have kept up their public sales job, saying the stars are aligned for a once-in-a-generation overhaul of the tax code. But there are distractions galore. First there is that debt limit increase, which is never an easy lift. And the Senate is still working on an Obamacare repeal-and-replace plan. Then there's that month-long recess looming in August. National Economic Council Director Gary Cohn said that the White House will likely wait to release its detailed tax plan until after the recess.

If the Senate's Obamacare bill lands this month, there will be plenty of tax implications. The House's plan eliminated taxes used to fund the Affordable Care Act, notably the 3.8 percent investment tax on high-income earners. It would also phase out a 0.9 percent Medicare surcharge those earners pay. But Republican senators don't seem wedded to getting rid of those levies. "That's hard to say right now. We just have to see," Senate Finance Chairman Orrin Hatch said last month. "It's going to be negotiated." The Senate may also go its own way on tax credits designed to make health insurance more affordable for lower-income Americans. The House bill pegged the tax credits to age. But senators want to follow Obamacare's model of basing premium assistance on income.

Staffing up: The Senate could also take up the nomination of David Kautter to be the Treasury Department's assistant secretary for tax policy, depending on how fast the vetting goes. It's a key position at Treasury, especially with tax reform in the works. If Kautter is confirmed - and, so far, there's no reason to think he won't be - it could also free the logjam on deputy assistant secretary vacancies in Treasury's tax office. Kautter, who was nominated by Trump last month, has a long tax policy resume. He's been working most recently as partner-in-charge of the Washington National Tax practice for the consulting firm RSM US LLP. He's also been an instructor at American University, following more than three decades at Ernst and Young. Kautter also worked on Capitol Hill as tax legislative counsel for former Sen. John Danforth (R-Mo.). - Toby Eckert

CYBERSECURITY

It's here, now what: Trump in May finally signed his long-awaited cybersecurity executive order, which launched sweeping reviews of the federal government's digital vulnerabilities and directs agencies to adopt specific security practices. Now agencies are getting down to work. In the next month, officials will be working toward a July 14 deadline to submit an "action plan" detailing how they will implement the desired security practices, which are outlined in a cybersecurity framework developed by the technical standards agency NIST. By July 14, agencies will also have to submit their quarterly cybersecurity report, as required by the Federal Information Security Modernization Act, or FISMA. The Office of Management and Budget and the Department of Homeland Security will then create a government-wide analysis for Trump based on those reports.

No more leaky pipes: The White House and Congress are also taking action to upgrade the government's aging computer networks, which cost the government billions to maintain. Jared Kushner's Office of American Innovation will hold a meeting on June 19 with a panoply of tech-sector executives. The group will discuss IT modernization ideas. And in Congress, the White House is backing a House-passed bill that would earmark hundreds of millions of dollars for government network improvements. Currently, though, the Senate has no plans to take up the bill, which has significant bipartisan backing. Observers say the measure needs a vocal upper chamber champion to break through the congressional clutter.

Cyber to get \$\$: The Senate and House versions of the annual defense policy bill are expected to drop this month, and both will include a major focus on expanding the country's cyber war-fighting capabilities. Lawmakers want to use the bill to make

cybersecurity a more desirable career path within the military. They fear that in the rush to fill out U.S. Cyber Command's Cyber Mission Force by the 2018 fiscal year, the military has failed to take steps to keep cyber service members in digitally focused fields.

Trump has also signaled his preference for boosting cyber spending within the Pentagon and across much of the government. His full budget request seeks \$647 million for U.S. Cyber Command, a nearly 16 percent increase over the most recent fiscal year, according to Cyber Command head Adm. Michael Rogers. It also requests a bump for the DHS office that works with companies to detect and mitigate digital assaults and calls for an increase in money for the FBI to fight cybercrime. In June, the Senate will hold a hearing on the DHS budget request, and likely will schedule one on the Justice Department's funding asks as well. - Cory Bennett

AGRICULTURE

Getting the band together: The first meeting of the White House Interagency Task Force on Agriculture and Rural Prosperity is expected in the next few weeks, and launching its efforts will likely be a top concern for Agriculture Secretary Sonny Perdue this month. Trump tapped Perdue to lead the group, which he authorized via an executive order signed on the Agriculture secretary's first day in office, in late April. The panel will bring together Cabinet members and other officials; it must report to Trump in October on regulations and other policies that are hampering economic growth for farmers and for rural America.

Covering Perdue's flanks: The Agriculture secretary and the White House are also likely this month to announce picks for key sub-cabinet-level positions - officials who will be essential to Perdue's ability to drive his agenda. The secretary is said to have settled on American Soybean Association CEO Stephen Censky for deputy secretary and is eyeing Iowa Agriculture Secretary Bill Northey and Indiana Agriculture Director Ted McKinney for two important undersecretary positions that will be created as part of the secretary's USDA reorganization.

Farm bill always on the mind: The House Agriculture Committee is moving ahead with its preparatory work for the next farm bill, due next year. The committee has two hearings scheduled for Congress' return this week: On Wednesday the full panel will review international food aid programs, and the next day its nutrition subcommittee will look at modernizing the Supplemental Nutrition Assistance Program, which Trump's budget proposal targeted for major cuts. - Jenny Hopkinson

DEFENSE

A packed defense calendar: Congress returns from recess with a lengthy defense to-do list.

The House and Senate Armed Services Committees are expected to begin moving their versions of the annual National Defense Authorization Act in late June. But with both chambers facing tight legislative schedules, lawmakers will be hard pressed to approve their bills and for a joint-House-Senate conference committee to hammer out the differences before the August recess.

Similarly, appropriators in the House and Senate are expected to begin work on their separate defense spending measures, but are unlikely to agree on final legislation before the summer break.

Still no spending topline: One key hurdle both authorizers and appropriators face is the overall level of national defense spending.

Trump has proposed \$603 billion for the new 2018 fiscal year, beginning Oct. 1, including the base Pentagon budget and national security programs under the Energy Department. But defense hawks on Capitol Hill, including House and Senate Armed Services Chairmen Rep. Mac Thornberry (R-Texas) and Sen. John McCain (R-Ariz.), have criticized that level as insufficient to sustain a major military buildup and instead have proposed \$640 billion.

House Defense Appropriations Subcommittee Chairwoman Kay Granger (R-Texas), however, calls the \$640 billion topline "a high bar."

And the slow pace for Pentagon nominees drags on: The Senate has confirmed a handful of senior defense nominees, but the ranks of Senate-confirmed officials at the Pentagon remain thin.

Boeing executive Patrick Shanahan was announced as deputy defense secretary in March, but his nomination still hasn't been formally sent to the Senate. And two of the military services are still without civilian secretaries. Only Air Force Secretary Heather Wilson has been confirmed. Trump's second pick for Army secretary, Tennessee state Sen. Mark Green, has withdrawn. And the president on Friday tapped financier Richard Spencer to be Navy secretary. - Connor O'Brien

EDUCATION

DeVos sells Trump budget priorities: Education Secretary Betsy DeVos continues her effort to sell the administration's proposed budget, which includes a 13-percent cut to education spending while making an unprecedented investment in school choice,

including expanding charter schools and publicly funded private school options. DeVos is scheduled to testify Tuesday before a Senate appropriations subcommittee on Labor, Health and Human Services, Education and related agencies.

A decision on defense to repayment: The Obama administration proposed new standards for debt relief when students are defrauded by their college, and those "borrower defense to repayment rules" are slated to take effect on July 1 - but they could be delayed or scrapped this month. DeVos told lawmakers last month that the rules are "something that we are studying carefully and looking at and we will have something further to say on that within the next few weeks."

Charter schools gathering: The National Alliance for Public Charter Schools is having its annual summit in D.C. this month, which is sure to attract a lot of Hill folk and possibly administration officials. Netflix CEO Reed Hastings is set to deliver a keynote address. - Ben Wermund

ENERGY

Adieu, or Au Revoir? Trump officially announced he would start the process to officially pull the United States out of the Paris climate change agreement, but he left open an invitation to negotiate a replacement to "see if we can make a deal that's fair." Angry European leaders have rejected reopening the discussions among the 195 nations that signed the deal, and greens are skeptical the offer is real, since Trump easily could have reduced the U.S. commitment under the deal rather than seeking to leave it. But whether there will be any back-channel discussions or other efforts to alter the White House's decision remains to be seen. The withdrawal process is long and won't be completed until November 2020 - shortly after the next presidential election.

Energy nominees primed for action: Trump's picks for the Federal Energy Regulatory Commission and the departments of Energy and Interior are expected to get the endorsement of the Senate Energy and Natural Resources Committee shortly after lawmakers get back to Washington this week. FERC for months has had a lack of quorum, preventing it from green-lighting major natural gas projects or finalizing new electricity policies. Expect Senate Majority Mitch McConnell to move Neil Chatterjee's and Rob Powelson's nominations as FERC commissioners to the floor quickly so the agency can deal with its backlog. Sen. Lisa Murkowski also said her committee would swiftly vote on DOE and DOI deputy nominees Dan Brouillette and David Bernhardt. However, the Senate is still waiting for the Trump administration to send a trio of nominees for the Nuclear Regulatory Commission. That agency's chairwoman, Kristine Svinicki, sees her term expire June 30. - Matt Daily and Darius Dixon

HEALTH CARE

Pharma waits on the Supreme Court: The justices are expected to issue rulings this month in a pair of cases the pharmaceutical industry is closely watching. One case, Amgen v. Sandoz, will help settle a long-running dispute on how quickly drug makers could bring to market cheaper copycat versions of expensive biologics. The second case, Bristol Myers Squibb v. Superior Court of California, could limit where patients sue drug makers for harm caused by their products.

Health insurers face key Obamacare deadline: Insurers worried about the GOP's Obamacare replacement plan have until June 21 to file proposed 2018 rates with the federal government. Some major and regional insurers, citing major uncertainty about the repeal effort, have already announced their withdrawal from the individual insurance market in 2018. Other insurers are seeking higher rate hikes to gird themselves against potential chaos in the Obamacare marketplaces. Meanwhile, insurers are still pleading with the Trump administration and Congress to save a key Obamacare subsidy that Trump has repeatedly threatened to scrap. -Jason Millman

EMPLOYMENT & IMMIGRATION

Labor Secretary Alexander Acosta has until the end of June to inform an appeals court whether he will defend the Obama administration's overtime rule. The regulation, issued last year, doubled (to \$47,476) the salary threshold under which virtually all workers are guaranteed time-and-a-half pay if they work more than 40 hours in a given week. Originally set to take effect in December, the rule was blocked in late November by a preliminary injunction from a district court judge in Texas. The Obama administration immediately appealed that decision, raising the question of whether the Trump administration would continue the appeal. DOL, which lacked a new Labor secretary until April 27, twice requested additional time to file a reply brief, most recently in April. The new deadline is June 30.

It seems unlikely that Trump favors keeping the overtime rule, given his sweeping use of the Congressional Review Act to veto no fewer than 14 regulations issued late in the Obama administration. And Trump's on record saying he'd like to scale the rule back for small businesses. Acosta also seems not to favor the rule. At his confirmation hearing, he questioned DOL's authority to raise the salary threshold to as high as \$47,476, echoing language in the November injunction. The likeliest course is that Acosta will drop the legal challenge, then start fashioning a new overtime rule that raises the threshold closer to \$33,000, a dollar figure he cited at the

confirmation hearing as a truer inflation adjustment than \$46,476. It all depends , of course, where the starting point lies. Implementation of such a rule would likely be years off. - Marianne Levine

TECHNOLOGY

Buckle up: Expect a bumpy ride in the FCC's seemingly never-ending net neutrality debate. Chairman Ajit Pai has proposed rolling back the agency's Open Internet order from the Obama administration, kicking off a lengthy public comment period. The number of comments in the proceeding has surged - to roughly 3 million, at last count - due in part to a fiery pro-net neutrality segment from HBO host John Oliver.

About those comments: The flood of comments has also generated allegations of foul play. Some reports indicate bots have been flooding the FCC's comment site with anti-net neutrality comments, while the FCC says the historically creaky site has been subject to a distributed denial-of-service attack. Net neutrality activists have expressed skepticism about that claim and asked the FCC to provide proof, and a group of Democratic senators has asked the FBI to brief them on the alleged cyberattack. The prolonged period of public comment is giving both sides in the debate - big internet service providers and conservative groups on the one hand, and digital activists, Democrats and some tech companies on the other - a chance to marshal their arguments and lobbying campaigns. So expect the issue to inflame passions for months, with the FCC expected to vote on the final order sometime in the fall. - Eric Engleman

TRADE

Sugar sanctions loom: Today is the day for Mexico to reach a new agreement with the United States if it wants to keep U.S. tariffs on sugar imports suspended. If no deal can be reached, Commerce Secretary Wilbur Ross has vowed to impose the duties, which had been set at up to 80 percent. Late Friday, the head of Mexico's sugar industry said that there was a "good chance" the two countries would come to a deal today. Such retaliation, if it comes to fruition, would set a negative tone with Mexico ahead of what is expected to be a contentious renegotiation of NAFTA.

And speaking of NAFTA: Public comments on NAFTA's negotiating objectives are due by June 12 and the U.S. Trade Representative's office will hold a June 27 public hearing on the upcoming trade talks.

Sizing up the deficit: The Commerce Department and the USTR office have until June 30 to release an analysis on the trade deficit. Trump set that deadline in a March 31 executive order and Ross has said the department is working to finish the report earlier than the scheduled completion date.

Import inquiries: The Commerce Department will hold a June 22 public hearing on its investigation into whether aluminum imports are a threat to national security. Public comments on that case are due June 29, and Commerce has said it will conclude that inquiry and a similar one on steel imports by the end of the month.

Oh, Canada: The nation will get hit with a U.S. trade action as the Commerce Department is expected to issue preliminary anti-dumping duties on June 23 on U.S. imports of lumber from Canada. The department set preliminary countervailing duties in that case in April. - Adam Behsudi

TRANSPORTATION

Another kind of dual tracking: If the anticipated timelines hold, this should be a consequential month in transportation as the administration and Congress ramp up their efforts on both an infrastructure package and a bill to reauthorize the FAA.

FAA: The White house is expected to propose today a new nonprofit, non-governmental entity to control the nation's air traffic control system, hewing to a non-governmental structure that will mean lower fees than "the patchwork combination of aviation taxes paid today," according to a document of principles obtained by POLITICO. Meanwhile the House is expected to roll out its version of an FAA reauthorization as soon as this month. The House Transportation Committee has held hearings and stakeholder meetings. And although members and aides will likely be haggling over details for some time, a plan could be rolled out quickly, especially with the shot in the arm it's gotten from the White House. Committee Chairman Bill Shuster (R-Pa.) is hoping to sit down and talk about it with Trump this week.

Infrastructure: The White House fiscal 2018 budget request contained some broad-brush goals for Trump's big infrastructure plan, but some were left wondering if that was what DOT Secretary Elaine Chao has been promising since she assumed her post. POLITICO has learned that the White House is anticipating releasing even more details this month. Stay tuned. - Kathryn A. Wolfe

DATAPoint

Consumer confidence continues its retreat from March high: New data from the Conference Board show consumer confidence fell 1.5 points to 117.9 in May, continuing a slight decline from a 16-year high in March. The survey reflects consumer perceptions and outlook on income levels, job availability and business conditions. The survey shows fewer consumers believe business conditions will improve and fewer consumers are optimistic about job availability over the next six months. Both younger and higher-income consumers are more optimistic in outlook than both older and lower-income consumers.

[View the full graphic here](#) and more from DataPoint on Pro.