

News from Washington: February 5-9

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Cotton, Dairy Provisions Slide into Budget Deal

It may have taken about three years, but a lobbying campaign by the cotton and dairy industries to increase their subsidies may just pay off.

The budget and disaster-aid package worked out by congressional leaders on Wednesday would make seed cotton eligible for Price Loss Coverage, which makes payments to growers when crop prices drop below certain levels, starting with the 2018 crop year. It would also eliminate a \$20 million cap on crop insurance for livestock producers, allowing new policies tailored to dairy farmers to be developed, and bolster the Margin Protection Program for those farmers.

Helping in a rough year: The inclusion of those provisions is a win for cotton and dairy producers, who for years have told Congress that 2014 farm bill programs aren't providing enough help during the four-year downturn in the agricultural economy. And 2018 is forecast to be a bad year for farm profits, too.

The price tag: Allowing seed cotton to be eligible for commodity supports would cost about \$3 billion over a decade, but that spending is largely offset in the budget deal by the elimination of other farm bill programs that specifically benefit cotton growers. Increasing assistance for dairy producers -- such as significantly reducing Margin Protection Program premiums for small and mid-size farmers and allowing the program to send out payments each month instead of bi-monthly -- would total about \$1.1 billion. Those costs would not be paid for, however.

Ad hoc disaster spending: Senate Appropriations Chairman Thad Cochran said late Wednesday that the spending package includes \$2.36 billion in disaster assistance to aid farmers and ranchers from California to Florida who suffered losses from hurricanes and wildfires. Several USDA disaster programs also would be expanded, including the Livestock Indemnity Program and Emergency Assistance for Livestock, Honey Bees and Farm-Raised Fish, with the changes being retroactive to January 2017.

What's in the broader agreement: The budget deal, H.R. 1892 (115), is expected to increase defense and domestic spending by roughly \$300 billion over two years and also provides tens of billions in disaster aid. If passed, it would put an end to a series of short-term spending bills and shutdown fights that have defined Washington the past few months. The Senate is expected to pass it easily on Thursday, but House approval will be harder.

House GOP leaders announced a slate of nearly \$100 billion in offsets, saying that this would pay for much of the increases in nondefense spending. The package isn't without controversy, however. Taxpayer groups have already blasted it because it lifts strict spending caps without offsetting the majority of those costs. Already, the country is facing a \$1 trillion deficit this year. Farm bill relief: If the House and Senate pass a budget deal with the ag provisions, it will make the next farm bill - due by Sept. 30 - an easier lift. The proposed changes to cotton and dairy policies would boost the long-term spending baseline for the next farm bill, giving agriculture lawmakers additional money for the legislation - while getting two of the more controversial issues resolved before formal negotiations begin.

Sec. Perdue Briefs House Agriculture Committee on State of Rural Economy

The House Agriculture Committee hosted U.S. Secretary of Agriculture Sonny Perdue as he briefed members on the current state of the rural economy and the agency's recently released farm bill priorities. Following the hearing, **Chairman K. Michael Conaway (TX-11)** made the below remarks:

"We are writing this farm bill under dramatically different circumstances than we were four years ago, when prices were high and rural America was thriving. Today, a host of factors—including natural disasters and high foreign subsidies, tariff and non-tariff barriers—have all contributed to chronically depressed prices. Sec. Perdue and his team understand the hard times facing farmers and ranchers across this country and will be helpful allies in getting this bill across the finish line. I thank Sec. Perdue for coming before the committee today and look forward to continuing to work together to move legislation that restores certainty to all of rural America."

Written testimony provided by the witness from today's hearing is linked below. Click [here](#) for more information, including Chairman Conaway's [opening statement](#) and the [archived webcast](#).

[Source: House Agriculture Committee](#)

Still Awaiting Fix to Ag Co-op Tax Break

House Ways and Means Chairman Kevin Brady said Monday that it was not certain if a temporary government funding package that Congress must pass this week would include a fix to the co-op deduction in the new tax code.

Lawmakers worked on negotiating how to revise that provision in the new tax law, H.R. 1 (115), during the GOP retreat in West Virginia over the weekend, Brady said.

"Clearly, the language in the final conference has a serious flaw, so it needs to be corrected soon," Brady said. "I think the House version was the right approach, but we are trying to find a solution."

Roberts working on it: Sen. Pat Roberts (R-Kan.) is discussing the issue with Senate Finance Chairman Orrin Hatch (R-Utah). "We hope to get a resolution," Roberts said, adding that he hoped a fix would make it into the continuing resolution this week.

Ross Reneges on Trump Vow to Eliminate Trade Deficit

The Trump administration is giving up on a campaign promise to eliminate the trade deficit in two years, according to Commerce Secretary Wilbur Ross. The white flag comes the same day that Commerce Department figures showed the trade deficit rose to its highest level since 2008.

"The trade deficit ultimately will be reduced through a combination of enforcement actions, renegotiation of some existing agreements and negotiation of new agreements," Ross said in a statement. "Strenuous effort is underway, but it is not practical to set an exact deadline." That counters comments from White House trade adviser Peter Navarro during the 2016 campaign, when he said eliminating the trade deficit "within a year or two" is "very doable with good deals."

Economists are skeptical the Trump administration can actually eliminate the trade deficit without changing U.S. spending and savings habits. Ross shied away from using the word 'eliminate' in his statement Tuesday, talking instead about steps the administration is taking to reduce the trade gap, which increased 12 percent in 2017 to \$566 billion, the highest since the final year of the George W. Bush administration. The Trump administration is taking actions on

several trade fronts, including slapping 'tariffs on solar panels and washers, renegotiating bad trade deals, a pro-growth economic agenda and a ramping up of AD/CVD investigations,' Ross said.

But both sides of the trade deficit debate say none of those actions helped, as tariffs on those items account for a tiny fraction of overall U.S. imports, and Trump arguably made the problem worse by signing the GOP's tax law that will add \$1 trillion to the U.S. budget deficit over the next decade.

Those tariffs on solar panels and washers don't seem to be helping the U.S.' trade relationships either. Agriculture Secretary Sonny Perdue today warned the administration against "action-reaction" situations with trade partners because "agriculture is the tip of the spear when it comes to retaliatory measures." He cited the sharp drop in sorghum prices since China announced on Sunday an investigation into imports of the U.S. crop as "an example of how fragile the agricultural economy and commodity prices are to trade disruptions." "We need to be careful as we take actions," he told the House Agriculture Committee.

TRUMP Wants \$90M To Implement Tax Law in Next CR

As Republicans again scramble to avoid another shutdown, President Donald Trump is asking that the IRS get \$90 million in the next short-term spending bill to help it implement the GOP's tax code overhaul.

"The additional funding would cover the initial cost of information technology systems development, including program management, program integration, business scenarios and impact analysis, architecture development, and domain support," said Trump's funding request, which was included in a list of so-called anomalies for a continuing resolution through March. The Treasury Department has estimated that implementing the bill will cost \$397 million, including \$291 million for IT costs in the IRS operations support account for fiscal year 2018.

Perdue Urges Caution in Response to China's Sorghum Trade Probe

Agriculture Secretary Sonny Perdue said Tuesday that the Trump administration must be careful not to create an "action-reaction" situation with its trading partners, pointing to the sharp drop in sorghum prices since China announced on Sunday an investigation into imports of the U.S. crop.

"This is an example of how fragile the agricultural economy and commodity prices are to trade disruptions," Perdue told the House Agriculture Committee during a Tuesday hearing. "We need to be careful as we take actions."

The decision by China's Commerce Ministry to open an anti-dumping and countervailing duty investigation into U.S. sorghum imports was announced less than two weeks after the Trump administration imposed tariffs on imports of solar panels and washing machines.

The U.S. actions were applied to imports from around the world — with the exception of certain developing countries and Canadian washing machines. But the solar action, in particular, hit back at China, whose companies dominate the market. President Donald Trump's twin trade moves were also seen as a prelude to expected future actions that could further antagonize Beijing, including an upcoming decision related to China's intellectual property practices.

The Chinese government has denied that its sorghum investigation was a reaction to U.S. import restrictions on solar panels and washing machines.

But the simmering trade dispute between the world's two largest economies highlights U.S. agriculture's fear that it could be collateral damage if Trump's quest to bolster the nation's manufacturing sector leads trading partners to retaliate. Farmers, ranchers and agribusinesses continually note that their products often are the first target of retaliatory trade moves — something Perdue acknowledged.

Perdue said the United States can't be held responsible for China's actions, but that the Trump administration was prepared to handle retaliatory measures. He also said he believes the situation will be resolved.

"I think the sorghum issue will mollify over time," Perdue said.

Trump's Stock Market Miscalculation

"Trump is learning a basic and painful lesson of Wall Street: Stocks also go down. A global market sell-off that began Friday continued into [today] with the Dow Jones Industrial Average dropping more than 1,500 in afternoon trading. The big slide comes alongside growing concern that an economy juiced by a massive corporate tax cut, and already at full employment, could overheat and require forceful action from a new and untested Federal Reserve chairman — installed by Trump — to cool things down. On top of concerns about rising inflation, the tax cuts are already increasing the federal government's need to borrow and accelerating the date by which Congress must raise the federal debt limit. And as of [today], there was still no plan in Washington to raise the limit and avoid a catastrophic default. The result is that a president who tossed aside traditional presidential caution in cheerleading the stock market now stands poised to take the blame for any correction."

"Jerome Powell, the new Fed chair installed by Trump and sworn in [today], is not expected to deviate sharply from [former Chair Janet] Yellen's gentle approach to raising interest rates. But he is a lesser-known figure on Wall Street. And if the recent jump in hourly wages gets pushed up even more by corporations handing out bonuses and pay bumps in the wake of the tax bill, the Fed may be forced to move faster to fight inflation — offsetting the economic benefits of the tax cuts.

Interest rates are already rising as the government discloses it will have to ramp up borrowing in 2018 to make up for revenue lost to the tax-cut bill, H.R. 1 (115). Higher rates on government bonds make stocks look less appealing. They also can make it harder for businesses and consumers to borrow and spend, possibly slowing the economy."

Perdue Predicts NAFTA Deal by Year's End

Agriculture Secretary Sonny Perdue predicted Tuesday that the United States, Canada and Mexico will reach a deal to revise NAFTA by December.

"Once we get Mexican politics out of the way, I think we'll have a deal," Perdue, referring to Mexico's presidential election in July, told the House Agriculture Committee during a hearing on the rural economy.

Trade officials from all three countries have kept their predictions relatively vague as to when they expect negotiations will wrap up. They had initially set an informal deadline of closing out talks by the end of 2017, before deciding in October to extend that timeline by three months, to the end of March.

After that, the negotiating climate would become far more complicated, as political developments heat up in Mexico ahead of the July 1 presidential election and in the U.S., with control of Congress up for grabs in the midterm elections in November. Provincial elections are also slated to be held in Canada later this year, but they are generally seen as less of a potential roadblock.

The tight negotiating window has increasingly led some business leaders and lobbyists to expect that the talks could easily extend into 2019, given the various tough policy issues that still must be resolved.

Perdue said he is "more hopeful" about the fate of NAFTA 2.0 than he has been in the past, in part because of how negotiations are going with Mexico.

"We've probably seen more movement on Mexico's side than with Canada," Perdue said. "But I believe we'll get a better deal from both of them and preserve the benefits for all three countries."

Trade negotiators from the three countries are set to meet in Mexico City from Feb. 26 to March 6 for the seventh round of talks.

State AGs File First Legal Challenge to WOTUS Delay

Attorneys general from 11 states, led by New York AG Eric Schneiderman, filed a legal challenge today to the Trump administration's delay of the Waters of the U.S. rule.

The lawsuit, filed in U.S. District Court for the Southern District of New York, is the first challenge to EPA's move to stop the Obama WOTUS rule from taking effect. It argues that EPA and the Army violated the Administrative Procedures Act by delaying the rule's effective date, limiting public comment on the delay and not taking into account the goals of the Clean Water Act in promulgating the rule.

In the suit, the states dispute EPA's contention that water regulations are best left to the states, arguing that many states are downstream from pollution sources and are harmed by upstream actions that they cannot control.

"The States rely on the [Clean Water] Act and its uniform nationwide floor of pollution controls as the primary mechanisms for protecting them from the effects of out-of-state pollution. The Suspension Rule injures the States' waters by replacing the Clean Water Rule, which protected them from pollution occurring in upstream states, with the inadequate and ambiguous 1980s regulations," the suit argues.

Joining Schneiderman in the suit are the attorneys general of California, Connecticut, Maryland, Massachusetts, New Jersey, Oregon, Rhode Island, Vermont, Washington, and the District of Columbia.

Details on FDA's Nutrition Plan to Be Unveiled in Coming Weeks

FDA Commissioner Scott Gottlieb said today that he would lay out the FDA's nutrition policy plans in a speech in the coming weeks.

"I don't want to steal my own thunder," Gottlieb said during an Alliance for a Stronger FDA event, when asked about the agency's forthcoming nutrition work. The commissioner said he would deliver a speech in "a month or two" that would provide much more detail.

"It's going to be a more comprehensive plan about how we can use different aspects, with a particular focus on labeling and labeling for food ingredients, as a way to try to leverage diet to help reduce the burden of disease," Gottlieb said.

"We think it's important that if we're going to maximize the opportunity to improve public health ... that we have the ability to go out and educate consumers about how to use the label," he added.

Gottlieb also announced that the FDA had found \$3 million to spend to educate consumers about the new Nutrition Facts labels. The commissioner said he believed that the agency would work with contractors to inform the public about the effort.

More Flexibility on State ACA Waivers Coming

HHS and the Treasury Department will soon release new guidance allowing states more flexibility to revamp their health insurance markets through an Affordable Care Act waiver program, according to four people familiar with the agencies' plans. Individuals who have seen the forthcoming guidance say that it preserves many elements of the Obama administration's strict guidelines on state innovation waivers while eliminating some frustrations raised by states seeking federal permission for changes.

For instance, under current rules, states must demonstrate that their proposals to waive some ACA requirements will offer coverage that is at least as comprehensive and affordable as existing coverage and does not increase the federal deficit. The new guidance will outline less stringent requirements for states to prove the waiver's impact and provide more flexibility on budget constraints. The new guidance would also streamline the process for states seeking ACA waivers as well as Medicaid demonstration waivers.

Pacelle Out at HSUS After Sexual Harassment Storm

Wayne Pacelle resigned from his post as president and CEO of the Humane Society of the United States on Friday, in the wake of reports from The Washington Post and POLITICO about allegations of sexual harassment at the animal welfare organization.

In the days after the allegations were published, Pacelle had sought to hang on to his post. At first, the board of directors cut the investigation short on Thursday and cleared Pacelle of wrongdoing. Some board members defended Pacelle and one made insensitive comments about sexual harassment to media outlets. Six board members resigned Thursday after the board decided there wasn't enough evidence to fire Pacelle. But facing a staff revolt and fleeing donors, Pacelle stepped down late Friday.

Other problems at the group: The organization was also under pressure after six women detailed a pattern of troubling behavior by another former top manager, Paul Shapiro.

Inside the turmoil at HSUS: Tensions at the nonprofit ran high last week as the board debated the course of action. About 100 staff members had joined an informal group as of Thursday afternoon calling for Pacelle's ouster. A change.org petition calling for Pacelle's resignation received more than 1,000 signatures by Thursday afternoon.