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## State of Play: USMCA

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### OUR VIEW

Though impeachment dominates headlines and cable news, House Democrats and the Trump administration continue to make progress on a deal regarding the United States-Mexico-Canada Agreement (USMCA). Our view is that negotiations are in their final stretch and that a deal is likely to be reached by the end of the year, barring any unexpected consequences stemming from impeachment or government funding negotiations.

We consider the following as positive indicators:

- Yesterday’s meeting between Speaker Nancy Pelosi, Ways and Means Chairman Richard Neal, and Ambassador Robert Lighthizer
- This week’s meeting led by Speaker Pelosi with freshmen Democrats and AFL-CIO president Richard Trumka, followed by the statement released by Chairman Neal and Speaker Pelosi
- Last week’s meeting with Speaker Pelosi where several moderate Democrats and freshmen members spoke about the importance of USMCA in their districts
- A stated commitment by Speaker Pelosi and Chairman Neal that Democrats are on a path to “yes,” even after the announcement of the impeachment inquiry, with Pelosi declaring last week that a deal is “imminent”
- The continued work and negotiation between the USMCA Working Group, the administration, and key industry groups like organized labor
- Continued support from key Congressional Republicans
- Goodwill and trust built between Ambassador Lighthizer and Speaker Pelosi

### THE NEGOTIATIONS

Since USMCA negotiations began between the USMCA Working Group and the Trump administration, it has been clear that reaching a deal hinges on an agreement around several provisions. These provisions are:

- Access to medicine and preservation of Congress’ ability to legislate drug pricing
- Labor rules
- Environmental rules
- Enforcement of labor and environmental standards, plus a dispute settlement mechanism

The USMCA Working Group is led by Chairman Neal and is divided into four subgroups:

- Drug pricing led by Reps. Earl Blumenauer (D-OR) and Jan Schakowsky (D-IL)
- Labor led by Reps. Jimmy Gomez (D-CA) and Mike Thompson (D-CA)
- Environmental led by Reps. Suzanne Bonamici (D-OR) and John Larson (D-CT)
- Enforcement led by Reps. Terri Sewell (D-AL) and Rosa DeLauro (D-CT)

	<p>Major labor unions like the AFL-CIO and United Auto Workers have been vocal in pushing for stronger enforcement mechanisms for labor and environmental standards. Their concerns center around Mexico sufficiently funding the labor reforms it passed earlier this year, upholding standards to raise wages, and stopping U.S. companies from moving jobs across the southern border. Support from organized labor is critical to get a plurality of Democrats on board in what appears to be the final stretch of negotiations, with Democrats seeking to gain labor’s support or at least neutralize their opposition. All things considered, House Democratic leadership and the USMCA Working Group seem committed to getting to yes on an agreement.</p> <p>Republicans and business groups have been increasing their public pressure on the House to approve the trade deal. Lately, they have been joined by moderate freshman Democrats from battleground states, like Rep. Ben McAdams (D-UT), who are eager to demonstrate progress to their constituents back in their districts and focus on something other than impeachment. However, some progressive Democratic members like Reps. Bill Pascrell (D-NJ) and Janice Schakowsky (D-IL) have pushed back on ratifying USMCA, calling for even more changes.</p>
<p><b>THE PROCESS</b></p> <p>“We would be remiss to not mention the possibility that negotiations fall apart, no deal is agreed to, and USMCA is not ratified.”</p> <p>“President Trump has repeatedly threatened to withdraw the U.S. from NAFTA if the individual countries do not ratify USMCA as its replacement. This remains a possible outcome.”</p> <p>“...our view is that USMCA faces more obstacles than before in Canada but will ultimately be ratified by the Parliament.”</p>	<p>USMCA can be considered under “fast track” authority as authorized by the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, which was signed into law by former President Obama on June 29, 2015. Trade promotion authority (TPA) can be used for legislation to implement trade agreements reached before July 1, 2021.</p> <p>While not required, the statute is structured for mock markups to occur between the administration’s submission of the draft implementing bill and a Statement of Administrative Action and the introduction of the implementing bill in the House and Senate. Under TPA, there is no required timeline for the submission of the implementing legislation, which can be submitted on a day in which both the House and Senate are in session, where it is automatically introduced and referred to the committees of jurisdiction. Debate is limited to 20 hours and neither chamber can amend the actual implementing bill although USMCA could be part of a broader package considered in tandem.</p> <p>If Democrats and the administration strike a final deal, the White House will send the ratifying legislation to Congress. Lawmakers would then have up to 90 days to vote on approval, but we would expect the House to move expeditiously if a deal is reached.</p> <p>We would be remiss to not mention the possibility that negotiations fall apart, no deal is agreed to, and USMCA is not ratified. Though Democrats and Republicans seem committed to reaching an agreement, it is difficult to predict how the impeachment inquiry will ultimately unwind and how negotiations over other sensitive legislative priorities like government funding and US-China trade negotiations will affect progress on USMCA. If a deal is not reached by end of year, there is still time in Q1 2020 for a vote to occur. Notably, President Trump has repeatedly threatened to withdraw the U.S. from NAFTA if the individual countries do not ratify USMCA as its replacement. This remains a possible outcome.</p> <p>Mexico became the first country to ratify USMCA in June of this year by an overwhelming vote of 114-4 in the Mexican Senate. Like the United States, Canada has not yet ratified the agreement. Canadian federal elections in October delayed USMCA’s progress in the Canadian Parliament. With Justin Trudeau winning a second term as prime minister and the Liberal Party falling short of a majority in the House of Commons, our view is that USMCA faces more obstacles than before in Canada but will ultimately be ratified by the Parliament.</p>

**WHAT'S NEXT**

Here are the key decision points and markers to watch for going forward:

- Speaker Pelosi and Chairman Neal met with Ambassador Lighthizer yesterday following two meetings with the Democratic caucus and freshmen Democrats. While there were conflicting media reports about how the meeting went, we believe progress continues to be made and that our base case still stands.
- As Democrats close in on a potential deal with Ambassador Lighthizer, it will be important to watch labor. In a closed-door meeting earlier this week, AFL-CIO president Trumka acknowledged we are on the “seven-yard line.” The path to passing USMCA will narrow without some labor support.
- Congress is out of town until December 2<sup>nd</sup> and the dwindling number of legislative days left on the House and Senate calendars is a major constraint to a final agreement.
- There have been reports that Vice President Mike Pence could take over negotiations on behalf of the administration. We would view this as a negative development in the ultimate passage of USMCA.
- If a deal is not reached, President Trump will blame Speaker Pelosi and Democrats for scuttling one of his administration’s main priorities. Worth watching will be the president’s Twitter to see if he threatens to withdraw the U.S. from NAFTA or decides to go in a different direction.