

Hardwood Federation Update USMCA: The Other Trade Issue

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As we go to press, and while we anxiously await the conclusion of trade negotiations with China, the Trump Administration is ramping up lobbying efforts on Capitol Hill to recruit support for the U.S. Mexico Canada Agreement (**USMCA**) - the 'other' trade issue.

The new Democrat majority in the House has made the fate of this agreement far from certain, as was made evident in a House Ways and Means Trade Subcommittee hearing in late March. It was the first hearing of this subcommittee in the new Congress, and several concerns were raised about aspects of the agreement. Concerns generally fell into three baskets:

- On the **labor** front, there is concern that wages for workers in Mexico are artificially low and have served to not only depress wages for workers across North America, but have led to manufacturers moving operations south of the border. To address this, House Democrats have articulated a desire to have the agreement incorporate union organizing provisions.
- **Pharmaceutical pricing** has taken center stage. The issue is around a class of drugs known as biologics. There is language in the agreement that allows biologics manufacturers a 10 year extension on their patents. The effect of this is that generic drugs would not be able to enter the market over that time period, thereby increasing costs for consumers. (Drug pricing has been a hot topic on Capitol Hill over the last year or so, and this provision will certainly attract more scrutiny in the coming weeks.)
- The issue of **enforcement** was a point of emphasis. Mexico's legislature is poised to approve a comprehensive set of labor reforms that the country committed to during USMCA negotiations. This will be critical for building support for the deal in the House. Meanwhile, Senators Ron Wyden (D-OR) and Sherrod Brown (D-OH) are drafting legislation that would allow U.S. and Mexican government officials to audit and inspect facilities that are suspected of breaking new Mexican labor laws.

Complicating the situation

Section 232 tariffs on steel and aluminum. Senate Finance Committee Chairman Chuck Grassley (R-IA) has said repeatedly that the deal would not move forward in his committee while these tariffs are still in place. Adding more complexity is the fact that Canada holds national elections in October. It is difficult to envision a scenario where Canadian lawmakers approve the agreement while the tariffs remain. Thus far, President Trump has not yielded to pressure to remove the 232 tariffs on aluminum and steel.

In terms of process, the Administration has not yet submitted USMCA implementing legislation to Congress. Once the legislation is submitted, its consideration must begin in the House, first with the House Ways & Means Committee, and then the full chamber. Only a

simple majority is needed to pass each chamber. However, securing the 218 votes necessary in the House will require Democrat support.

U.S. Trade Representative Bob Lighthizer and National Economic Council Director Larry Kudlow have been aggressively working House Democrats to build support for the proposal. Hardwood Federation attended a recent event for Rep. Stephanie Murphy (D-FL), a second term Blue Dog Democrat on the Ways & Means Committee. She walked through many of the concerns that Democrats have with the proposal, but was fairly optimistic that implementing legislation would get a vote before the August recess.

That timeline is the "make or break" for USMCA. If consideration slips beyond August, Washington will be consumed with the 2020 Presidential election, and the requisite posturing by the many candidates that have entered the race, making meaningful consideration doubtful.

As always, we will continue to monitor this, and all other ongoing trade issues, and do our best to keep you informed about the potential impacts on the Hardwood industry.