

An Update from Washington

Presented by
The Franklin Partnership, LLC

September 2020



Your Team in Washington, D.C.



Lobbying Firm – The Franklin Partnership, LLC

- Bi-partisan Washington, D.C.-based government relations firm
- Representing manufacturing industry since 2002
- Clients include: manufacturing associations, defense contractors, hospitals, cities



Strategic Communications Firm – Policy Resolution Group at Bracewell

- Wash, D.C.-based public affairs & strategic communications consultants
- Promote NTMA and PMA in print, digital and other media
- Support Franklin Partnership government relations efforts by designing and implementing coordinated strategic communications strategy
- Representing metalworking industry since 2003

Nothing contained in here shall be deemed legal advice.

NTMA Government Guidance Documents

Workforce:

1. Apprenticeship State Contacts & Which States Have their own Apprenticeship Plans
2. E-Verify Program Overview
3. Metalworking Manufacturing Employment Statistics
4. Non-Violent Ex Offender Re-entry Guideline
5. Youth Workers in Manufacturing Regulations Overview
6. How to Use grants.gov Guidance

Regulatory Compliance

1. Conflict Minerals Sample Letter to Suppliers
2. Conflict Minerals Questionnaire Template
3. ITAR Guidance
4. REACH Guidance
5. RoHS Guidance
6. Proposition 65 Guidance
7. CyberSecurity 101 and DoD Requirements Guidance
8. Semi-Annual Federal Government Regulatory Agenda - Winter 2019/20

Promoting the Industry

1. Association Political Action Committees (PACs) 101
2. How to Schedule a Plant Tour Guide

General Business/Sales

1. Women Owned Business Certification
2. Exporting 101 - How to Get Started
3. NAFTA Automotive Provisions Summary

State of Washington – A Growing To-Do List

- Pelosi and Trump have not spoken since October 16, 2019
- COVID: Both sides playing political chicken while Americans wait, struggle
 - Does Trump benefit politically more from a big sweeping deal or by blaming Democrats?
 - White House Chief of Staff wants \$1 trillion package
 - Expansion of eligible costs likely under PPP1 and “Second Draw”
 - Revenue loss test almost certain – current proposal 35% drop over 1Q or 2Q 2019 vs. 2020 /8-week test possible
 - PPP Deduction of Expenses IRS Notice 2020-32 – Congress working to include a fix
 - Treasury still actively opposing reversing allowance of expensing deduction
 - House, Senate tax writers support including change, but will it pass by September 15...?
 - Fight continues over \$600 federal unemployment support, White House action led to \$400 total
 - States must contribute at least \$100 for person to be eligible
- Federal government funding expires October 1, 12:00 AM Eastern
 - Will the government shutdown during COVID? Who gets blamed?
 - Continuing resolution (extension of funding) until mid-December likely

COVID Phase 4 – Key September Dates

- September 1 – Payroll deferral could begin
- September 4 – August Jobs Report
- September 8 – U.S. Senate returns to Washington, D.C.
- September 14 – U.S. House of Representatives returns to Washington, D.C.
- September 15 – quarterly estimates impact PPP deduction of expenses
- September 18 – Jewish holidays – no Congressional action until Sept. 22
- September 27 – Section 1112 of CARES Act expires for SBA principal, interest payments
- September 29 – First Presidential debate
- September 30 – Federal government runs out of money after 11:59 PM Eastern (shutdown)

COVID Phase 4 – The PPP Provisions

- Changes to PPP are certain, Rubio and Senate Democrats working closely
- **GOP Proposal: PPP Will Continue (PPP1)**
 - Removes 24-week covered period; **choose between 8 weeks and up to Dec. 31, 2020**
 - Allows businesses to ask for increase in loan amount even if already awarded
 - Clarifies that employer-provided group insurance benefits are included in eligible payroll costs
 - Expands eligible uses to include covered operations expenditures (software, HR/accounting needs)
 - Expands eligible uses to include expenditures on PPE, worker protections
 - Expands eligible uses to include payments to suppliers with a contract in effect prior to Feb. 15, 2020
 - Yes, can use PPP funds for steel, raw materials from a supplier
 - Be careful: **DO NOT cross the 60/40 forgiveness threshold** – no more than 40% on non-payroll costs
- **GOP Proposal: Creates a Second PPP Draw up to \$2 million (Second Draw)**
 - Employers with fewer than 300 employees AND 35% revenue drop
 - Compare gross receipts in 1Q or 2Q 2020 to 2019
 - Can only secure no more than \$10 million total through SBA loans

COVID Phase 4 – The Other Lending Provisions

- Senate Small Business Committee Chairman Marco Rubio pushing long term loans
- Concerns over cost of new, expanded programs as price tag grows
- Rubio proposal expands SBA 7(a) loan program
 - Eligibility: fewer than 500 employees; 50% or more in lost revenues; and located in a low-income location (majority of receipts also from low income census tract)
 - Had also included small manufacturing (NAICS 31-33) regardless of locations but dropped due to cost concerns
 - SBA 100% guaranteed loans; 20-year maturity; 1% to the borrower
 - SOFR plus 300 basis points, SBA covers difference between the 1% borrower pays and total interest charged
 - Principal and interest payments delayed two years
 - Allowable uses include working capital, acquisition of fixed assets, and refinancing existing indebtedness
 - The credit elsewhere test is waived.
- Goal is use PPP for previous expenses, switch to 7(a) moving forward
- Some groups prefer Federal Reserve loan facility

Current State of Tariffs

- 25% tariffs on 7,000 imported Chinese goods remain (Lists 1, 2, 3)
- 15% tariffs on List 4A dropped to 7.5%
- China List 4B tariffs still pending

- 25% tariffs on imported steel
- 10% tariffs on imported aluminum
- 18% and 45% tariffs on washing machines and parts

- 25% tariffs on European Union imports under Boeing-Airbus 301 Investigation
- 25% tariff on \$1.3 billion of French goods take effect January 6, 2021
- Tariffs on EU under digital services tax 301 dispute threatened

U.S. received 52,746 requests from importers to not pay China tariffs – 13% approved

2020 Campaign: Who is More Pro (Anti) China

- Strategically, Biden needs to be more anti-China/appear stronger than Trump
- Both campaigns view China as a vulnerability for the other
- In 2016, Trump won Michigan, Pennsylvania, Wisconsin by being anti-trade (China)
- If Trump wins AZ, FL, NC, ME, Biden must win all three MI, PA, WI
- The campaigns are already running advertisements focusing on China:



A Second Trump Term – U.S.-China Relations

- Trump likely content to leave China tariffs in place for entire second term
- Tariffs are leverage and unless he secures a new large deal, no incentive to lift tariffs
- However, those around Trump want a fundamental realignment of supply chains
 - Trump will use executive action with congressional support to *incentivize* suppliers to leave China
 - Trump will use executive action with congressional support to *penalize* companies, China, if don't act
 - Supply chain pressure will start with medical devices, Rx drugs, then apply to other industries
 - Most suppliers will not onshore/reshore to U.S., will look to other Asian suppliers, which will become targets of Trump – Vietnam especially on trade action watch list, possibly Thailand afterwards
- Second Trump trade agenda will focus more on UK, India, EU, Japan, Kenya
- Deals are viewed as more achievable with others so expect more China confrontation

Second Trump Term Likely Outcomes

- Status quo with tariffs remaining in place at least through 2021 and likely up to 2022 election
- Major pressure on U.S. industry to “leave” China, realign supply chain
- Continued, escalating confrontation on technology

A Biden Administration – Trade

- Will seek to repair and restore relations with our allies, particularly Europe, Canada, Mexico
- Will likely seek to quickly undo 232 tariffs on steel and aluminum on allies; unlikely to use 232 national security law in same manner as Trump
- Very unlikely to see any new trade agreements, Biden trade team more likely to “put out fires”
- We do expect subsidies for U.S. businesses as part of industrial policy to *incentivize* leaving China
- China views Trump as erratic and believe Biden brings stability
- Biden will quickly work to build a global coalition to challenge China
- Tariffs on China likely remain throughout 2021 and very likely up to 2022 November election
- Could, however, see narrowing of tariff list to remove direct consumer goods
- Trump has little focus on human rights, Hong Kong; Biden will make HK, Taiwan top priorities
- Biden must also be tough on China to counter Trump campaign attack ads saying Biden is a puppet
- The politics of China is a long-term issue within both parties, trending towards more conflict
- Biden will be under pressure from Vice President Harris to stay tough on China so she can say she was tough on China to win the Midwest (MI, PA, WI) in 2024 (if Biden doesn't run)

A Biden Administration – Taxes

Remember, there are campaign promises and then the realities of governing

(Below is not from the campaign but based on conversations “around D.C.”)

The Process

- If GOP keeps Senate, very difficult to implement many Biden changes other than letting provisions lapse, which is very possible for provisions expiring, phasing out (163j)
- If Democrats control, House, Senate, White House, then only need 51 votes to make changes
 - Will use reconciliation as GOP did for TCJA when controlled all three

The Top Target Changes

- Will seek to raise C-Corp rate to 28%, good chance increases to 25%, roughly OECD avg.
- Raise to 39.6% top rate for higher earners, campaign says \$400k but could be \$1m joint
- Could see 163j business deduction narrowed but R&D fix has bipartisan support
- 199A – expect limitations on benefit for higher income and higher net worth individuals
- Other targets: Estate tax, Net Operating Loss, Last-in-First-Out, Capital Gains, cap on itemized

Road to the White House – A Pathway for Each

How Trump Wins

- Vaccine rolled out before election; economy rebounds; schools safely open
- A choice between liberal socialists and law and order
- Depress voter enthusiasm for Biden among Black voters
- Challenges for Democratic voters in certain urban areas of toss-up states
- Convince voters Biden is like “Crooked Hillary – Joe Biden’s son got rich on China

How Biden Wins

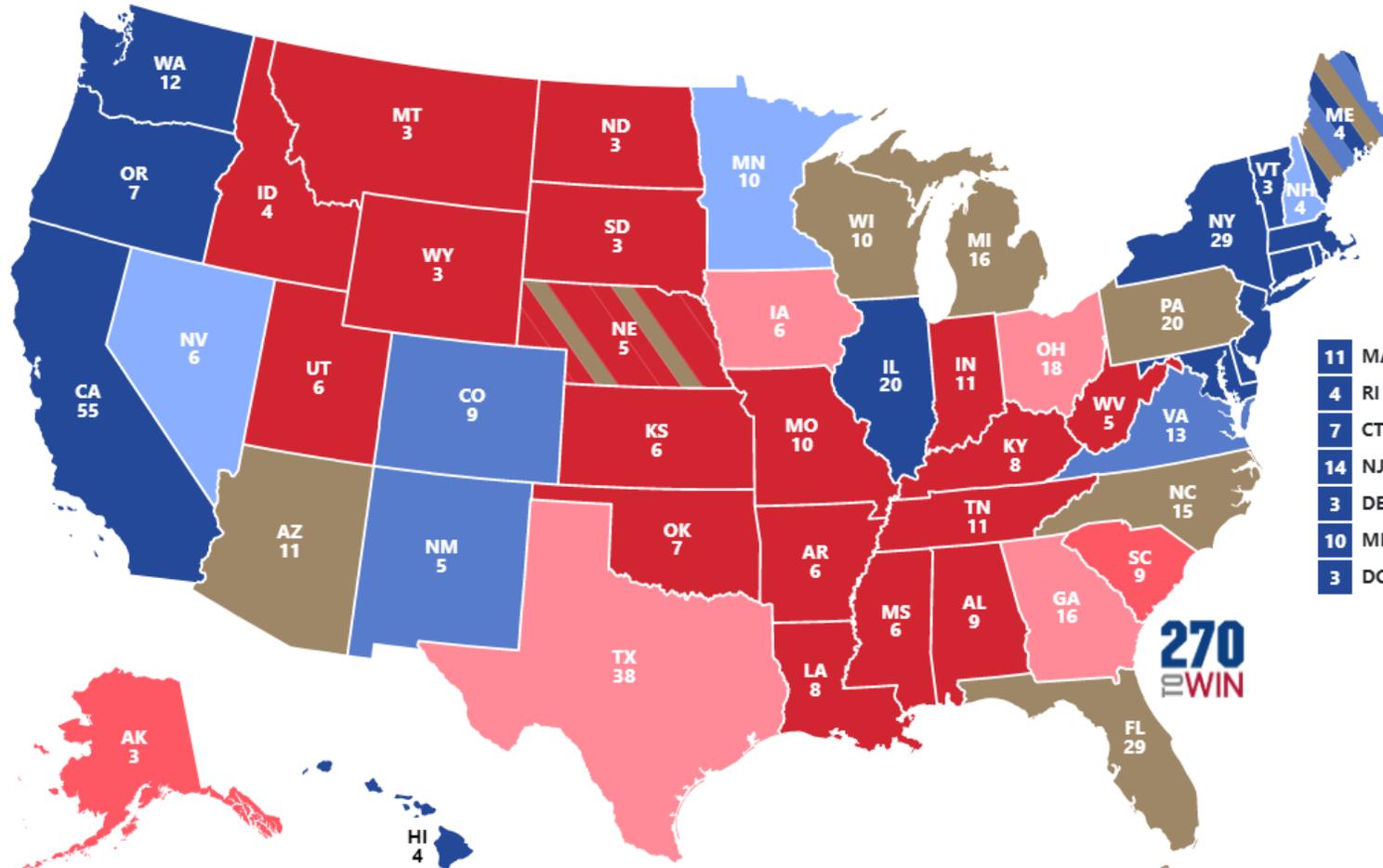
- Election is a referendum on Trump handling of COVID
- Economy does not recover, no vaccine in sight
- Additional disclosures of COVID response mismanagement
- Turn moderate “Romney Republicans”
- Generate energy among young voters, minorities, suburban women

Trump wants this to be a “choice” election Biden needs it to be a referendum on Trump

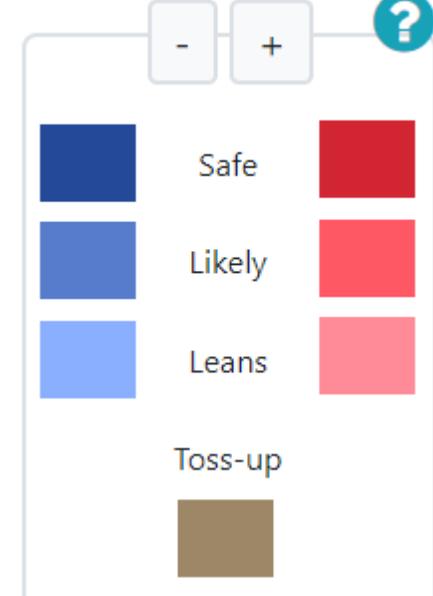
Where Will the Battle Be Won? The Toss-Ups

Democrat ▾ 232

203 Republican ▾



Map Color Palette



<https://www.270towin.com/>

Where Polls are the Closest 61 Days From Nov. 3

STATE	BIDEN	TRUMP	RCP AVERAGE ▾	FOUR YEARS AGO	2016	2012	2008
North Carolina (15)	46.4	47.0	Trump +0.6	Clinton +1.2	Trump +3.7	Romney +2.0	Obama +0.3
Georgia (16)	45.7	46.7	Trump +1.0	Trump +0.3	Trump +5.1	Romney +7.8	McCain +5.2
Iowa (6)	45.0	46.7	Trump +1.7	Tie	Trump +9.5	Obama +5.8	Obama +9.5
Arizona (11)	47.0	45.0	Biden +2.0	Trump +0.3	Trump +3.5	Romney +9.1	McCain +8.5
Ohio (18)	47.0	44.7	Biden +2.3	Clinton +3.3	Trump +8.1	Obama +3.0	Obama +4.6
Nevada (6)	48.3	44.3	Biden +4.0	Clinton +2.3	Clinton +2.4	Obama +6.7	Obama +12.5
Florida (29)	50.3	45.3	Biden +5.0	Clinton +4.0	Trump +1.2	Obama +0.9	Obama +2.8
Pennsylvania (20)	49.7	43.3	Biden +6.4	Clinton +8.7	Trump +0.7	Obama +5.4	Obama +10.3
Missouri (10)	43.3	49.7	Trump +6.4	Trump +3.6	Trump +18.5	Romney +9.4	McCain +0.1
Wisconsin (10)	50.0	43.5	Biden +6.5	Clinton +9.0	Trump +0.7	Obama +6.9	Obama +13.9
Michigan (16)	48.7	42.0	Biden +6.7	Clinton +8.5	Trump +0.3	Obama +9.5	Obama +16.4
New Hampshire (4)	51.0	41.7	Biden +9.3	Clinton +8.0	Clinton +0.3	Obama +5.6	Obama +9.6

Trump v Biden: Texas Polls

Polling Data						
Poll	Date	Sample	MoE	Trump (R)	Biden (D)	Spread
RCP Average	7/7 - 8/13	--	--	46.8	43.3	Trump +3.5
Rice Univ./YouGov*	8/4 - 8/13	846 RV	--	48	41	Trump +7
Trafalgar Group (R)*	8/1 - 8/5	1015 LV	3.0	49	43	Trump +6
Quinnipiac	7/16 - 7/20	880 RV	3.3	44	45	Biden +1
CBS News/YouGov	7/7 - 7/10	1212 RV	3.3	46	45	Trump +1
OAN/Gravis	7/7 - 7/7	591 LV	4.3	46	44	Trump +2
Dallas Morning News	6/29 - 7/7	1677 LV	2.4	43	48	Biden +5
University of Texas	6/19 - 6/29	1200 RV	2.8	48	44	Trump +4
FOX News	6/20 - 6/23	1001 RV	3.0	44	45	Biden +1
Quinnipiac	5/28 - 6/1	1166 RV	2.9	44	43	Trump +1
Emerson	5/8 - 5/10	800 RV	3.4	47	41	Trump +6
PPP (D)	4/27 - 4/28	1032 RV	--	46	47	Biden +1
Dallas Morning News	4/18 - 4/27	1183 RV	2.9	43	43	Tie
UT/Texas Tribune	4/10 - 4/19	1200 RV	2.8	49	44	Trump +5
NBC News/Marist	2/23 - 2/27	2409 RV	2.5	49	45	Trump +4
CNN	2/22 - 2/26	1003 RV	3.0	47	48	Biden +1
Dallas Morning News	2/17 - 2/26	1221 RV	2.8	45	44	Trump +1
UT/Texas Tribune	1/31 - 2/9	1200 RV	2.8	47	43	Trump +4
Dallas Morning News	1/21 - 1/30	915 LV	3.2	46	44	Trump +2

Texadus – The Retirements and Tough Races

Dallas/Ft. Worth suburbs: Grapevine, Irving
Dense suburban

R+9

OPEN (Marchant) (R)

Toss Up

Democrats:

- Candace Valenzuela, school board member (1)

Republicans:

- Beth Van Duyne, frm. Mayor of Irving (1)

Central: Austin and Ft. Worth suburbs
Rural-suburban mix

R+11

Roger Williams (R)

Likely R

Democrats:

- Julie Oliver, '18 nom. (1)

North Dallas and suburbs: Richardson
Dense suburban

R+5

Colin Allred (D)

Likely D

Republicans:

- Genevieve Collins, business executive (1)

South central: San Antonio and Austin suburbs
Dense suburban

R+10

Chip Roy (R)

Toss Up

Democrats:

- Wendy Davis, frm. st. Sen./'14 Gov. nom. (1)

Houston southwest suburbs: Sugar Land
Sparse suburban

R+10

OPEN (Olson) (R)

Toss Up

Democrats:

- Sri Preston Kulkarni, frm. foreign service officer/'18 nom. (1)

Republicans:

- Troy Nehls (1)

Texadus – The Retirements and Tough Races

West: San Antonio and El Paso suburbs <i>Rural-suburban mix</i>	R+1	OPEN (Hurd) (R)	Lean D
		<u>Democrats:</u> - Gina Ortiz Jones, Iraq veteran/'18 nom. (1)	◀▶
		<u>Republicans:</u> - Tony Gonzales, frm. Rubio aide, veteran (1) - Raul Reyes, home builder (1)	☰
Dallas north suburbs: Plano <i>Dense suburban</i>	R+13	Van Taylor (R)	Lean R
		<u>Democrats:</u> - Lulu Seikaly, attorney (1)	
Dallas suburbs: Arlington, Waxahachie <i>Dense suburban</i>	R+9	Ron Wright (R)	Likely R
		<u>Democrats:</u> - Stephen Daniel, attorney (1)	
Central: Oklahoma City and suburbs <i>Dense suburban</i>	R+10	Kendra Horn (D)	Toss Up
		<u>Republicans:</u> - Stephanie Bice, st. Sen. (1) - Terry Neese, businesswoman (1)	

OK-5: Most competitive House race in country; U.S. Chamber of Commerce endorsed Rep. Horn

U.S. Trade, Taxes, and Campaigns: Key Takeaways

- Make sure businesses don't react too quickly to COVID *proposals*
- Understand realities of proposals becoming law, manage expectations
- Know what a President can do, recognize when Congress may act
- More COVID relief likely, but when?

- Trump likely content with status quo on trade, tariffs, China after elections
- Do not expect much change toward China under Biden on tariffs
- Biden will quickly seek to address disputes with Europe, remove tariffs

- Even if Trump wins, he will need Democrats on 2021, 2022 expiring tax provisions
- Biden will be under tremendous pressure to undo TCJA, expect increase in some rates

- If voters see election as referendum on Trump, Biden likely wins

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ON**



Discussion Points

- What are you seeing in the industry?
- Are some customers doing better than others?
- Are new orders coming in?
- If you took a PPP loan, was it helpful?
- Will you apply for a second PPP loan if offered?
- What would your top priority be in the next COVID bill?
- Have you seen any of the bi-weekly One Voice COVID webinars?
- Anything we can do to help?

Questions?

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