

## Washington Update

September 1, 2023

### This Week In Washington

**Senate** – The Senate was in recess.

**House** – The House was in recess.

**Biden Administration** – On August 31, the President announced that he is allocating an additional \$450 million to the Unity Agenda to combat overdosing. As described in a White House [Fact Sheet](#), the money will specifically be used to crack down on illicit drug trafficking and to strengthen prevention, harm reduction, treatment, and recovery support services.

### Next Week In Washington

**Senate** – The Senate will reconvene on September 5 and will focus on appropriations bills as well as resume considering nominations.

**House** – The House will reconvene on September 12.

## TAX

### **IRS Issues Proposed Regulations Requiring Brokers to Report the Sale and Exchange of Digital Assets**

#### *Key Points:*

- *Proposed regulations released by the Department of Treasury and IRS would require brokers to report the sale and exchange of digital assets on a new 1099-DA form.*
- *The proposed regulations would impact sales and exchanges of digital assets taking place on or after January 1, 2025.*
- *House Financial Services Committee Chairman McHenry (R-NC) criticized the proposed regulations as an “attack on the digital asset ecosystem.”*

Last week, the Department of Treasury and the Internal Revenue Service (IRS) [issued](#) a Notice of Proposed Rulemaking on digital asset reporting requirements, as required by the Infrastructure Investment and Jobs Act of 2021 (IIJA). The proposed regulations, which would apply to digital asset transactions taking place on or after January 1, 2025, require brokers to report the sale and exchange of digital assets on a newly developed 1099-DA form.

IRS Commissioner Werfel stated the proposed regulations will help to ensure digital assets are not used by high earners to hide taxable income, lowering their federal tax burden.

House Financial Services Committee Chairman McHenry (R-NC) criticized the proposed rulemaking as, “another front in the Biden Administration’s ongoing attack on the digital asset ecosystem.” He promoted his bill, the Keep Innovation in America Act ([H.R. 1414](#)), which he asserted would provide a “bipartisan solution to fix the poorly constructed digital asset reporting provisions” in the IIJA.

Members of the public have until October 30, 2023, to submit written comments regarding the proposed regulations. A public hearing has been scheduled for November 7, 2023.

## Department of Treasury Releases Prevailing Wage and Apprenticeship Guidance for Energy Tax Credits in the IRA

### Key Points:

- *On August 29, the Department of Treasury and IRS released proposed regulations detailing the prevailing wage and apprenticeship requirements to receive increased energy credit or deduction amounts outlined in the IRA.*
- *Taxpayers who comply with prevailing wage and apprenticeship guidelines will see their IRA tax credit increased by five times.*
- *Written comments on the proposed regulations must be received by October 30, 2023. A public hearing will be held on November 21, 2023.*

On August 29, the Department of Treasury and the Internal Revenue Service (IRS) [issued](#) a Notice of Proposed Rulemaking clarifying the prevailing wage and apprenticeship requirements taxpayers must meet to be eligible for increased tax credit or deduction amounts under the Inflation Reduction Act of 2022 (IRA). The proposed regulations apply to 10 sections of the IRA including but not limited to the Energy Efficient Commercial Buildings Deduction (section 179D), the Advanced Energy Project Credit (section 48C), and the Clean Electricity Investment Credit (section 48E).

If taxpayers comply with the prevailing wage and apprenticeship guidelines outlined in the proposed regulations, they will be eligible for a fivefold increase in certain IRA tax credits. For example, section 48C provides a tax credit with a base rate of 6 percent of qualified investments, however, if prevailing wage and apprenticeship requirements are met, this rate increases to 30 percent.

The Department of Treasury also noted the number of hours apprentices are required to work, clarifying apprentices must perform 12.5 percent of the total labor hours for facilities beginning construction in 2023 and 15 percent for facilities beginning construction in 2024 or later.

Members of the public have until October 30, 2023, to submit written comments regarding the proposed regulations. A public hearing has been scheduled for November 21, 2023, at 10:00 a.m.

## IRS Sanctioned Over Penalty Backdating

### Key Points:

- *The IRS was sanctioned in court after the agency backdated penalty approvals in a conservation easement case.*
- *The opinion overturned a previous judgment asserting the IRS had complied with proper penalty procedures.*
- *Congressional critics of the IRS may cite this case as a reason why the agency should not see increased funding, as was provided by the IRA.*

This week, the Internal Revenue Service (IRS) was sanctioned in Tax Court after the agency backdated penalty approvals in a conservation easement case. In his opinion, Tax Court Judge Weiler said the IRS' lawyers acted in bad faith after claiming a document signing off on \$35 million in penalty approvals was approved in July 2016, despite this not occurring until February 2017.

Judge Weiler's opinion overturned a previous court judgment asserting the IRS had complied with proper penalty procedures.

Critics of the IRS in Congress may cite this case as support for why the IRS should not see increased funding. Some members have claimed the IRS will use the \$80 billion received from the Inflation Reduction Act of 2022 (IRA) to wrongfully audit middle-class taxpayers, increasing their tax burden, and using unfair tactics in audits.

*For more information about tax issues, you may [email](#) or call Christopher Hatcher at 202-659-8201. Logan Mazer contributed to this section.*

## **FINANCIAL SERVICES**

### **Federal Bank Regulators Issue Proposed Guidance for Resolution Plans and Proposed Long-Term Debt Requirements**

On August 29, the Federal Deposit Insurance Corporation (FDIC) and Federal Reserve Board [proposed guidance](#) for certain large bank holding companies to "further develop their Dodd-Frank Act Title I resolution plans." It would apply to those with more than \$250 billion in total assets but that are not the largest banks, which are already subject to guidance. The [press release](#) explains that the "guidance is organized around key areas of

potential vulnerability, such as capital, liquidity, and operational capabilities that could be needed in resolution.”

The federal banking regulators also issued a [proposed rule](#) that would require banks with total assets of \$100 billion or more to maintain a layer of long-term debt. The proposed rule would “provide a three-year phase-in period and allow certain outstanding long-term debt to count toward the minimum requirements to provide banks with a reasonable period to transition to the required characteristics of eligible long-term debt instruments.” Comments on the proposal are due by November 30, 2023.

The FDIC also issued a [proposal](#) that would amend the current rule that requires submission of resolution plans by insured depository institutions (IDIs) with \$50 billion more in assets. It would require IDIs with total assets between \$50 billion and \$100 billion to submit information filings, while those with \$100 billion or more in total assets submit full resolution plans. Comments on the proposal are due by November 30, 2023.

House Financial Services Chairman Patrick McHenry (R-NC) expressed concern about the actions taken at the meeting, saying:

“Under Chair Gruenberg’s leadership the FDIC is more focused on exploiting recent bank failures to push pre-determined outcomes than preventing future turmoil in our banking system. Nothing considered by the FDIC today would prevent bank failures like SVB. With a credit crunch looming, Biden’s regulators appear to be busy developing onerous and overly complex rules to the detriment of consumers and our financial system at large. The lack of transparency and meaningful interaction with Congress while attempting to rewrite regulations for financial institutions is even more concerning.”

## **Securities and Exchange Commission Holds Open Meeting to Adopt Two Final Rules**

On August 23, the Securities and Exchange Commission (SEC or Commission) held an [open meeting](#) to discuss and vote on two matters: (1) final rules regarding Exemption for Certain Exchange Members and (2) final rules regarding Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews.

During the meeting, the SEC adopted [rule amendments](#) by a vote of 3-2, with Commissioners Hester Peirce and Mark Uyeda voting no, that narrow the exemption from Section 15(b)(8) of the Securities Exchange Act of 1934, which requires any broker or dealer registered with the Commission to become a member of a national securities association unless the broker or dealer effects transactions in securities solely on an

exchange of which it is a member. Chair Gary Gensler expressed support for the adoption of the final rules and argued that the rules will modernize the rule to allow cross-market and trading off-exchange oversight for some of the most active participants in the capital markets. Commissioner Hester Peirce opposed the rules because she argued that the rules reject the “common sense approach” that regulatory framework that is generally consistent across similarly situated firms is an objective that should inform the rulemaking process. Additional information can be found in the SEC [Fact Sheet](#).

The SEC also adopted [rule amendments](#) by a vote of 3-2 that “require private fund advisers registered with the Commission to provide investors with quarterly statements detailing certain information regarding fund fees, expenses, and performance.” The final rules will “require a private fund adviser registered with the Commission to obtain and distribute to investors an annual financial statement audit of each private fund it advises and, in connection with an adviser-led secondary transaction, a fairness opinion or valuation opinion.” Chair Gary Gensler expressed support for the adoption of the final rules and argued that the rules will enhance advisors’ transparency and integrity which will promote greater competition and efficiency in the market. Commissioner Hester Peirce called the rules “ahistorical, unjustified, unlawful, impractical, confusing, and harmful.” She argued that while the final rules are “better” than the proposed rules, the “uniformity of the disclosures required, the breadth and ambiguity of the rule’s defined terms, the operational difficulties of providing advance notice of any preferential treatment related to material economic terms, the process for obtaining investor consent, the chilling of communications between advisers and investors, and the brevity of the compliance period, are among the many issues that remain in this final rule.” Additionally, she emphasized that the rules lack a statutory basis and predicted that they will harm investors, advisors, and the economy. Additional information can be found in the [Fact Sheet](#)

House Financial Services Committee Chairman Patrick McHenry (R-NC) expressed concern about the vote to approve the final rules, saying:

“Once again, Chair Gensler’s SEC is exceeding its statutory authority to impose onerous and costly mandates—this time on private funds. By applying a framework designed for retail funds used by everyday investors to private funds, this rule fails to acknowledge the differences between these markets. Instead of pursuing this one-size-fits-all approach, the SEC should be working to strengthen our public markets and create new opportunities for all investors to save and build wealth through our private markets—just like Republicans have done with our capital formation agenda. I urge the SEC to rescind this ill-advised rule, which is a thinly veiled attempt to dictate private fund management.”

Senate Banking Committee Chairman Sherrod Brown (D-OH) expressed support for the vote to approve the final rules, saying:

"I applaud the SEC's action today. These rules will help protect workers' pensions and create a more transparent and accountable private funds market."

## Upcoming Hearings and Meetings

### **September 6**

**SEC Open Meeting:** The Securities and Exchange Commission will hold an [open meeting](#) to consider "Joint Industry Plan: Amendment to the National Market System Plan Governing the Consolidated Audit Trail."

### **September 7**

**Property Insurance:** The Senate Banking Committee will hold a hearing entitled, "Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers."

### **September 12**

**Securities and Exchange Commission:** The Senate Banking Committee will hold a hearing entitled, "Oversight of the U.S. Securities and Exchange Commission", with SEC Chair Gary Gensler testifying.

**Housing Supply:** The Senate Banking Committee's Subcommittee on Housing, Transportation, and Community Development will hold a hearing on "Housing Supply and Innovation."

### **September 13**

**CFIUS:** The House Financial Services Committee may hold a hearing on the Committee on Foreign Investment in the U.S. (CFIUS).

### **September 14**

**Basel III:** The House Financial Services Committee's Subcommittee on National Security, Illicit Finance, and International Financial Institutions may hold a hearing on Basel III.

**Central Bank Digital Currencies:** The House Financial Services Committee's Subcommittee on Digital Assets, Financial Technology, and Inclusion may hold a hearing on central bank digital currencies (CBDCs).

**September 19**

**SEC's Division of Investment Management:** The House Financial Services Committee's Subcommittee on Capital Markets may hold a hearing with SEC Division of Investment Management Director Birdthistle testifying.

**Bank Stress Tests:** The House Financial Services Committee's Subcommittee on Financial Institutions and Monetary Policy may hold a hearing on bank stress tests.

**September 27**

**SEC Oversight:** The House Financial Services Committee may hold a hearing with SEC Chair Gensler testifying.

*For more information about financial services issues you may email [Joel Oswald](#) or [Mahlet Makonnen](#). Nicholas May contributed to this section.*

**ENERGY & ENVIRONMENT****Upcoming Hearings and Events****September 7**

**Artificial Intelligence:** The Senate Energy and Natural Resources Committee will hold a [hearing](#) "to examine recent advances in artificial intelligence and the Department of Energy's role in ensuring U.S. competitiveness and security in emerging technologies."

**Drinking Water and Wastewater Infrastructure:** The Senate Environment and Public Works Committee will hold a [hearing](#) titled "Implementing IIJA: Perspectives on The Drinking Water and Wastewater Infrastructure Act, Part II".

**September 21**

**FERC Meeting:** The Federal Energy Regulatory Commission (FERC) will hold its September [open meeting](#).

**October 10-11**

**Energy Bar Association:** The Energy Bar Association will hold its [Mid-Year Energy Forum](#).

**October 31-November 1**

**Pipeline Safety R&D:** The Pipeline and Hazardous Materials Safety Administration (PHMSA) will hold the "[Pipeline Safety Research and Development Forum 2023](#)". The event is



intended “to help generate a national research agenda that identifies technical challenges and fosters solutions to improve pipeline safety and protect the environment.”

### **November/December**

***Distribution Gas Pipeline Leak Detection and Class Location Rulemakings:*** PHMSA’s Gas Pipeline Advisory Committee (GPAC) plans to meet to consider the [Notice of Proposed Rulemaking \(NPRM\)](#) titled “Pipeline Safety: Gas Pipeline Leak Detection and Repair” during the week of November 27. Section 113 of the “Protecting our Infrastructure of Pipelines and Enhancing Safety (PIPES) Act of 2020” directed PHMSA to promulgate regulations that update leak detection and repair requirements for natural gas pipelines to incorporate advanced leak detection technologies and procedures. The GPAC also plans to discuss the [NPRM](#) titled “Pipeline Safety: Class Location Change Requirements”.

*For more information about energy and environment issues you may [email](#) or call Frank Vlossak at 202-659-8201. Updates on energy and environment issues are also available on [twitter](#).*

## **HEALTH**

### **CMS Announces Drugs Selected for Negotiations**

#### *Key Points:*

- *AstraZeneca and Boehringer Ingelheim have joined the list of companies and groups suing the government to halt the drug negotiation program passed as part of the Inflation Reduction Act.*
- *The Centers for Medicare and Medicaid Services published the 10 drugs selected for negotiation on August 29. The negotiated prices will be published in 2024 and will go into effect in 2026.*
- *The House Energy and Commerce Committee will reportedly investigate the implementation of the Inflation Reduction Act this fall.*

On August 29, the Centers for Medicare and Medicaid Services (CMS) released the first 10 Medicare Part D drugs selected for negotiation under the Inflation Reduction Act’s (IRA) provisions. In a briefing, the White House emphasized that the drug negotiation program is voluntary. Drugmakers have until October 1, 2023, to sign negotiation agreements. The manufacturers of selected drugs could face financial penalties or have to withdraw their drugs from the Medicare program if they decline to negotiate prices, [according](#) to the Kaiser Family Foundation.

The negotiated prices will be published by September 1, 2024 and will become effective on January 1, 2026. CMS will select 15 more drugs for negotiation in 2024 and 2025, respectively. Starting in 2025, Part B drugs will also be selected for negotiation. Each year after that, the agency will select 20 drugs for negotiation. In a [statement](#), the White House said the negotiated drug prices will reduce costs for up to nine million seniors and save taxpayers \$160 million. Medicare currently [spends](#) about \$50.5 billion a year on the selected drugs.

Drug manufacturers and pharmaceutical industry trade groups are continuing to challenge drug pricing provisions in the IRA. AstraZeneca and Boehringer Ingelheim (BI) are the latest companies to file a lawsuit attempting to block the provision. Both cases argue that the CMS violated the Administrative Procedures Act. BI's case also argues that the provision violates the First, Fifth, and Eighth Amendments. Janssen Pharmaceuticals, Astellas, Bristol Myers Squibb, the National Infusion Center Association (NICA) and other groups, the Dayton Area Chamber of Commerce, and Merck previously filed lawsuits. Other manufacturers whose drugs have been selected for negotiations are reportedly also preparing to file lawsuits. A litigation tracker is linked [here](#).

The government filed a motion to dismiss NICA's lawsuit, which was filed in Texas. The government noted that NICA's co-plaintiffs lack standing to sue in Texas and that NICA has not proven the drug pricing provisions harm its members. The Department of Health and Human Services [previously](#) filed a motion to dismiss the Chamber of Commerce's case.

The House Ways and Means Committee and Energy and Commerce Committee [plan](#) to investigate the implementation of the IRA. Energy and Commerce Committee Chairwoman Cathy McMorris Rodgers (R-WA) said "the incentives created by the new drug price setting regime may lead to higher initial list prices, potentially wiping out any savings to patients." A fact sheet detailing the impact of the drug pricing provisions was released by the Energy and Commerce Committee, the Ways and Means Committee, and Senate Finance Committee Ranking Member Mike Crapo (R-ID). It is linked [here](#).

A list of selected drugs can be found [here](#).

## Medicare Guidance on Prescription Drug Payment Plan

### Key Points:

- *The Centers for Medicare and Medicaid Services published draft guidance on the Medicare Prescription Payment Plan. This provision is a part of the Inflation Reduction Act and would allow patients to pay out-of-pocket costs monthly starting in 2025.*

- *The comment period for this guidance will be open for 30 days. Comments received by September 20, 2023, will be considered for the final guidance.*

On August 21, the Centers for Medicare and Medicaid Services (CMS) issued draft guidance on the Medicare Prescription Payment Plan. This provision in the Biden Administration's Inflation Reduction Act (IRA) will offer Medicare Part D beneficiaries the option to pay out-of-pocket costs in monthly installments throughout the year starting in 2025.

The draft guidance provides information to plan sponsors and pharmacies such as identifying Medicare Part D enrollees likely to benefit from the program, the opt-in process for Part D enrollees, program participant protections, and the data needed to evaluate the program. The comment period for this guidance will be open for 30 days, and comments received by September 20 will be considered for the final version.

CMS will release the second part of the draft guidance in early 2024. This second half will cover Medicare Part D enrollee outreach and education, Medicare Part D bid information, and monitoring and compliance.

Read a fact sheet [here](#) and the full draft guidance [here](#).

## **Upcoming Hearings and Meetings**

### **September 7-8**

**MedPAC:** The Medicare Payment Advisory Commission will hold a public meeting.

*For more information about health care issues you may [email](#) or call Nicole Ruzinski Bertsch at 202-659-8201. Chris Affambi and Windsor Warlick contributed to this section.*

## **CYBERSECURITY, PRIVACY, AND ARTIFICIAL INTELLIGENCE**

### **Department of Energy (DOE) Launches Contest for Rural Utilities to Access \$8.9 Million in Cyber Defense Aid**

#### *Key Points:*

- *The DOE is set to award \$7.25 million in cash prizes and \$1.71 million in technical assistance to rural utilities to enhance cyber defenses.*

The DOE launched the Rural and Municipal Utility Advanced Cybersecurity Grant and Technical Assistance Program to aid utilities with limited resources develop cybersecurity

defenses and training. Winning utilities will show “commitment to serving their communities.” The [contest](#) has several stages. The Advanced Cybersecurity Technology (ACT) prize program is set to award \$1.71 million in technical assistance and \$7.25 million in cash prizes. The second stage makes companies compete to identify solutions to cybersecurity risks. This third stage regards implementation of solutions from the second stage.

## European Union (EU) Calls for AI Regulation, Aiming to Set Global Standard

### Key Points:

- *The EU is in the process of passing the first AI-regulating act in the world, which could set the global standard for future AI regulation.*

The EU is [preparing](#) to start the negotiation process for the Artificial Intelligence Act, which would be the first comprehensive regulation of AI technology. This process follows amendments adopted by the European Parliament in June. The European Parliament, the Council of the European Union, and the European Commission make up the bodies that will negotiate and determine an acceptable provisional agreement. To date, there have been several points of disagreements that could threaten negotiations, including the definition of AI, prohibited AI systems, requirements for high-risk AI systems, requirements for foundation models, and enforcement of the act. The final Act is expected to be adopted in early 2024.

## Tech Leaders Set to Participate in Washington Listening Sessions

### Key Points:

- *Heads of Tesla, Google, OpenAI, and Microsoft will participate in a series of closed-doors AI insight forums to discuss the spread of disinformation, threat of AI on jobs, and intellectual property theft among other items.*

The Office of Senate Majority Leader Chuck Schumer (D-NY) teased earlier this summer about future “AI insight forums” to explore the AI regulation landscape. On August 28, a number of media outlets, including AXIOS, reported tech leaders are set to convene in Washington on September 13, 2023, for the long-awaited AI insight forums in which lawmakers will hear from tech leaders such as Elon Musk (Tesla), Sundar Pichai (Google), Sam Altman (OpenAI), and Satya Nadella (Microsoft). Civil Rights leaders and labor groups will also be present. This comes as the White House [announced](#) in July that Microsoft, OpenAI, Anthropic, Google, and Meta agreed to voluntary safeguards surrounding their use of AI technology.

## **Nancy Mace (R-SC) Introduces Bill to Require Federal Contractors to Adopt Cyber Disclosure Policies**

### *Key Points:*

- *Representative Nancy Mace introduced legislation requiring directors of the executive branch and other federal agencies to ensure federal contractors implement cyber vulnerability disclosure policies.*

On August 22, Representative Nancy Mace introduced the Federal Cybersecurity Vulnerability Reduction Act of 2023 ([H.R. 5255](#)). The bill would require the White House Office of Management and Budget (OMB), the Director of the Cybersecurity Infrastructure Security Agency (CISA), the National Cyber Director, the Director of the National Institute of Standards and Technology (NIST), and other executive department heads to “review the Federal Acquisition Regulation contract requirements and language for contractor vulnerability disclosure programs and recommend updates to such requirements and language to the Federal Acquisition Regulation Council.” The bill also notes: “The recommendations shall include updates to such requirements designed to ensure that covered contractors implement a vulnerability disclosure policy consistent with NIST guidelines for contractors as required under section 5 of the IoT Cybersecurity Improvement Act of 2020.”

*For more information about cybersecurity issues you may email [Mahlet Makonnen](#) or [Frank Vlossak](#). Joe Maalouf contributed to this section.*

## **TRADE**

### **Former President Trump Proposes Universal 10% Tariff Rate on all U.S. Imports**

#### *Key Points:*

- *The former President has outlined his plan to establish new trade practices.*
- *If elected, Trump plans to establish a universal 10 percent tariff rate for imports.*
- *Recent analysis for a nonpartisan think tank has indicated the plan would result in job losses and GDP cuts.*
- *The Biden Administration has argued that the proposed tariffs would increase economic pressure on middle-class citizens.*

Former President Trump, a candidate for the office in 2024, has outlined his plan to enact a 10% universal baseline tariff rate on all foreign goods in 2025. The policy proposal, which Trump announced during an [interview](#) on Fox Business Network, aims to exert additional control over U.S. imports. With a universal baseline tariff rate, former President Trump hopes to deter dumping practices in the U.S. market. Details on the proposal are slim beyond the brief mention by the former President, but it would seem to suggest a baseline 10% tariff on all imports including the majority which have lower rates under either general preferential bound (sometimes referred to as MFN) rates or special rates under various trade agreements like USMCA or CAFTA or any number of bilateral trade deals. Imposing tariffs in violation of those agreements would almost certainly trigger retaliation from a broad range of countries.

An [editorial](#) published by the Tax Foundation has concluded that the tariff would impose a GDP loss of 0.7% and would result in the loss of 550,000 domestic jobs. In turn, additional retaliatory tariffs imposed by other countries may exacerbate the issue, with the Tax Foundation estimating they could incur an additional loss of 0.4% of GDP and 322,000 U.S. jobs. Further, the editorial claims that the economic impact of the baseline tariffs would result in “a tax increase rivaling the ones proposed by President Biden.” The Trump campaign maintains that the Section 232 tariffs on aluminum and steel under the Trump Administration curbed inflation. Trump campaign spokesman Steven Cheung said that the analysis by the Tax Foundation was “opposed to President Trump’s pro-worker, pro-American trade agenda.”

President Biden’s Deputy Press Secretary Bates criticized the trade policy plan outlined by the Trump campaign, stating that “combining a sweeping tariff tax on the middle class with more trickle-down tax welfare for rich special interests would stifle economic growth and fuel inflation.”

## **Secretary Raimondo Visits Beijing to Discuss Export Controls, AI, Regulatory Concerns**

### *Key Points:*

- *Commerce Secretary Raimondo met with PRC officials to discuss U.S.-China economic relations.*
- *The two countries have launched an information exchange on U.S. export control policies and compliance.*
- *The exchange follows calls from House Republicans to limit Chinese influence on U.S. export control policy.*
- *In addition, the two countries have promised to establish a commercial issues working group and continue discussions on AI policies and safety measures.*

On August 28, 2023, U.S. Commerce Secretary Raimondo met with People's Republic of China (PRC) officials to discuss U.S.-China economic relations. Amidst the talks, Secretary Raimondo announced that the two countries would coordinate to "start to resolve trade-secret issues" through discussions between experts in both governments.

During the trip, Secretary Raimondo and Chinese Minister of Commerce Wentao launched the export enforcement information exchange. According to Sec. Raimondo, the exchange will "serve as a platform to reduce misunderstanding of U.S. national security policies." Sec. Raimondo later clarified that the arrangement would not be used to negotiate trade policy between the two countries, stating that "that's not a working group on export controls to seek concessions." Rather, she highlighted the exchange's "opportunity to share information and increase transparency." She also made it clear she would listen but not negotiate on any concerns from the PRC on recent U.S. export controls and the planned outbound investment regime, suggesting national security was nonnegotiable.

The information exchange comes after House Republicans urged the Commerce Secretary to avoid negotiating export control policy with PRC officials. The [letter](#), drafted by House Foreign Affairs Committee Chairman McCaul (R-TX), calls for "U.S. officials to accept that China has no intention of abandoning its policies that lead to expanded U.S. export controls in the first place." The letter also affirms the importance of Congressional involvement in trade policy, stating that "decisions on the nature and scope of U.S. export controls should be taken in Washington, not Beijing."

In addition to the export controls information exchange, Sec. Raimondo's trip to Beijing included substantive discussions between the two countries on safety and regulatory actions toward artificial intelligence technologies. Likewise, the two countries agreed to establish a commercial issues working group to discuss how regulatory hurdles harm American investment in the Chinese economy. Sec. Raimondo noted that the lack of "consistent communication on commercial issues" has produced an unpredictable regulatory environment in the Chinese market. She expressed hope that the new working group would increase communication between U.S. businesses and China and increase regulatory transparency.

## **U.S. Agrees to Develop Supply Chain Warning Pilot with South Korea and Japan**

### *Key Points:*

- *President Biden met with the Japanese Prime Minister and South Korean President to discuss supply chain resiliency efforts.*

- *The three countries agreed on trilateral action to research critical supply chain areas and increase information-sharing.*

On August 18, 2023, President Biden announced in a [press conference](#) that the three U.S. would coordinate with Japan and South Korea to develop a “supply chain early warning system pilot.” Biden, Japanese Prime Minister Kishida, and South Korean President Yeol said that the pilot will “alert our nations to disruptions of certain products and materials, like critical minerals or batteries.” According to a [joint statement](#) between the three leaders, the pilot will allow them to “prepare us to confront and overcome economic coercion.”

A White House [fact sheet](#) outlined that the trilateral agreement will serve to identify products involved in critical mineral supply chains and increase information-sharing processes between the three countries. The countries also identified trade priorities and collaborative actions worth pursuing, including the Technology Standards Cooperation and Trilateral Development Finance Cooperation. Within a [statement](#) released after the meeting, the three countries will continue developing the Partnership for Resilient and Inclusive Supply-Chain Enhancement for Prosperity. The partnership was initially announced during a G7 meeting in May.

*For more information about trade issues you may [email](#) or call Christopher Hatcher at 202-659-8201. Noah Hawkins contributed to this section.*