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# Overview of Greenhouse Gas Mitigation Options

## Introduction

Over the next century, important shifts in the global economy would be required to address climate change. (See attachments 1 and 2). While many mitigation options exist, these policies entail costs, increases in energy prices, or have important budgetary implications. Taking no action also involves costs since global warming can adversely affect both humans and ecosystems. This paper lays out the broad policy options available for limiting emissions, but does not analyze the costs and benefits of particular options. The options fall into three general categories:

- Those that seek to increase the rate at which existing energy efficient technologies are deployed in the marketplace by overcoming information and other barriers to their use. The Administration's efforts in the Climate Change Action Plan were designed to use technology diffusion to reduce emissions to 1990 levels and may reduce as much as one-fourth of the amount of projected growth to the year 2010.

- Those that create new government requirements to internalize the costs of greenhouse gas emissions in the marketplace. These could take the form of additional standards and regulations, changes in other government policies that indirectly affect energy use, and/or an emissions trading program. Such programs typically involve government imposed limits on emissions that increase the costs of energy or restrict consumer choice.

- Research and Development (R&D). R&D can reduce costs in all periods. However, it is particularly important in the long term, since controlling warming ultimately requires adopting an energy system that does not rely primarily on fossil fuels. This would involve stepping up and refocusing the federal government's R&D program and reversing the long-term trend of declining government and private R&D expenditures.

## *Technology Diffusion Programs*

As noted by the National Academy of Sciences (NAS) and the Office of Technology Assessment, a wide range of energy saving technological options already exists, but is not being implemented. The NAS, for example, stated that the total diffusion of existing energy efficiency technologies in "reasonable applications" could reduce current carbon emissions by almost one-fourth.

For energy efficient technologies to be more fully employed, however, potential buyers of products need to know of the technology, as well as its performance and economic benefits. Service providers must have the expertise to appropriately design, install, and operate the technology. Yet, given the transaction costs associated with obtaining reliable information, potential users may not fully appreciate the potential long-term net benefits of more energy-efficient technologies.

A number of technology diffusion programs to address these problems are currently underway. The Administration's CCAP launched over 40 initiatives in 1993. Their goal was to return U.S. greenhouse gas emissions to 1990 levels by the year 2000. The Administration currently projects that if funding at current annual levels ($183 million) continues, these programs will eliminate as much as one-fourth of the total growth in emissions through the year 2010 and save over $35 billion in energy expenses in that year. The Administration proposed higher spending levels years ($305 million) for each of the past two years. However, Congress cut the requests by 40%.

The following illustrate the kinds of programs underway or that could be pursued in this category:

- Fully funding existing CCAP programs, adding initiatives to further reduce emissions beyond the year 2000.
- Establishing additional information and energy labeling programs for buildings (e.g., to redress the asymmetry of information between builders and occupants). This sector consumes one-third of the nation's energy.
- Should a domestic emissions trading system be created, setting aside a reserve of allowances or a portion of auction revenues to reward new R&D investment and the production of efficient and renewable technologies. Alternatively, a voluntary early banking program could be designed to encourage early action.
- Creating a secondary market for energy efficiency financing.
- Expanding sector-wide compacts in which entire industries could pledge improvements in emissions and benefit from shared information or R&D on technologies.
- Extending government procurement efforts for energy efficient technologies to state and local levels.
- Mandating through Executive Order the purchase of "green" power by federal facilities where available.

## *Standards and Regulations*

Limitations on greenhouse gas emissions could also take the form of standards and regulations. These would have to be imposed on a wide array of consumer goods and energy consuming equipment, involving many government actions in which the tradeoffs among costs, emission reductions, and other product attributes would be contested. The resulting level of emissions would have to be consistent with the targets established by international agreement. Since total national greenhouse gas emissions would not be capped, such compliance would have to be projected based on an analysis of the impacts of the standards program. Such standards could include:

- *Direct limits on greenhouse gases:* Standards could specify allowable greenhouse gas emission levels per unit of output (or some other factor). For example, methane from some landfills is already controlled due to limits on emissions of volatile organic compounds.
- *Minimum energy efficiency standards for energy consuming equipment:* Historically, these have targeted appliances and other residential and commercial equipment, as well as personal transportation (i.e., the Corporate Average Fuel Economy (CAFE) program). DOE estimates that the federal appliance standards implemented to date will reduce carbon emissions by 14 million tons in the year 2000. Further development of standards could result in additional reductions, although recent bipartisan attacks on implementing new standards under the 1992 Energy Policy Act have stalled recent efforts to make progress in the appliance standards area.

  Emissions of greenhouse gases from the transportation sector account for about one-third of total U.S. GHG emissions and are expected to grow by about 25% by 2010. The overall in-use fuel economy of the combined new light vehicle fleet (i.e., cars and light trucks such as minivans, sport utility vehicles, and pickup trucks) has begun to *decline*. In 1994, President Clinton convened a Federal Advisory Committee Policy Dialogue to assist in the development of measures to significantly reduce greenhouse gas emissions from personal motor vehicles ("CarTalk"). Although CarTalk ended without consensus among members of the Committee, the process did result in a number of proposed policies that could be pursued.

## Other Policies Relevant to Emissions

In addition to the standards it sets, government indirectly affects the levels of greenhouse gas emissions through its policies towards transportation and energy market regulation. These also offer opportunities to generate reductions in greenhouse gas emissions. Most prominent among these are:

*Electricity Restructuring:* States are currently adopting retail competition for the electricity industry. This trend could be accelerated with federal legislation. Retail competition is expected to lower the price of electricity by as much as 20-25% in certain regions and change the fuel mix of generation. Preliminary EPA and DOE analysis indicates that utility greenhouse gas emissions could rise by as much as 2-6% as a result. To mitigate the environmental impacts of competition and maintain the environmental benefits of current state level renewable and demand side management programs, a number of options have been adopted at the state level (for states that have already adopted competition) or are under consideration for the rest of the nation. These include:

- A "portfolio standard" for renewable energy or greenhouse gas emissions: This would require that all generators meet a specified level of renewable generation or greenhouse gas emission reduction either by undertaking such projects themselves or purchasing "credits" from others who have.

- A social benefit fund: Revenues from a charge on transmission service are used to subsidize energy efficiency projects, renewables, R&D, or low income consumers. California has adopted this approach.

- Information disclosure requirements: Generators could be required to disclose the emission profiles of their generation, facilitating the marketing of "green" electricity.

- Additional air pollutant requirements: Many states are hesitant to adopt retail competition because they perceive that differing regional environmental requirements put their electric industry at a competitive disadvantage and will result in more pollution being transported into their states. Thus, additional environmental provisions to "level the playing field" – which could include greenhouse gas emission reductions – are currently being debated.

*The Intermodal Surface Transportation Efficiency Act (ISTEA):* This Act establishes the rules for federal transportation funding to the states. In 1991, ISTEA authorized $140 billion in transportation projects over six years. The Act expires in 1997 and Congress is now considering options for its reauthorization. These could include provisions that would indirectly reduce greenhouse gas emissions. Examples include the following:

- Congestion Mitigation and Air Quality Improvement Program: Additional funds could be targeted to transportation projects that reduce air emissions and energy consumption on a long-term sustainable basis.

- Brownfields Restoration: Successful redevelopment of brownfields can help revive inner city areas and reduce sprawl, thereby reducing vehicle miles traveled. More funds could be made available for these projects.

- Incentive Funds: A new $500 million Fuel Efficiency Incentive Fund could be established to reward the ten states that are able to reduce fuel consumption, on a per capita basis, by the greatest amount over the next five years.

## Emissions Trading

Emissions trading is a tool for meeting a total quantity limit on emissions. It involves allocating or auctioning emissions allowances, and allowing the trading of allowances in a market with sufficient mechanisms to ensure compliance with targeted levels. Since emission trading involves the creation of new, marketable assets that can have substantial value, addressing distributional issues will be an important component of program design. Allocation rules or auction revenues offer the potential to redress unfair burdens resulting from the imposition of emission limitations.

Emission trading systems can offer both static and dynamic efficiency advantages over more traditional forms of regulation. The potential for static efficiency gains exists because emitters face different abatement costs. Emissions trading allows those with high abatement costs to purchase allowances from those whose costs are lower. Total costs would therefore be lower than through traditional regulations, which require all polluters to comply with a specific standard. However, it should be noted that such a program involves people and firms adjusting to higher energy prices.

Under traditional regulation, firms have little incentive to investigate ways of abating pollution by more than the minimum required to comply with regulatory requirements. Firms under-invest in pollution control R&D since they can capture neither the full market benefits from such spending (since others benefit from learning of their successes), nor the full value of any resulting environmental improvements. Here, trading offers efficiency gains because of the incentive to continuously improve pollution abatement technologies in order to create "surplus" allowances for sale.

Experience in the United States has shown that final compliance costs for the programs that have incorporated emissions trading have, in general, been lower than predicted – often dramatically lower. While emissions trading is not the sole cause of this phenomenon, it has contributed to lower abatement costs in the acid rain program, the phase-out of Chlorofluorocarbons (CFCs), the "criteria" air pollution program, and the phase-out of lead in gasoline.

An emissions trading program, like any program designed to limit greenhouse gases, must contain certain elements. First and foremost, an agreed upon emissions budget must be established. A central authority must be given the domestic responsibility for verifying compliance and must be provided sufficient information to do so. Finally, noncompliance with allowance limitations or reporting requirements must generate real consequences, such as penalties or subtraction of allowances.

A program would have to establish permit lifetimes, monitoring and enforcement provisions, as well as rules for permit banking, borrowing, and trading. Consideration should also be given to transaction costs, which should be kept as low as possible. However, particularly difficult issues involve determining what types of activities require a permit and how permits should be allocated. The decision for the former should consider the following:

- *Coverage:* While it may not be necessary to ensure that every ton of greenhouse gas is accounted for within an emission trading regime, the scope of coverage of the trading program should be sufficient to ensure compliance with targets set in accordance with an international agreement.
- *Administrative and compliance feasibility:* The number of sources involved in the trading program should be small enough to be administratively feasible and large enough to ensure market competition. In addition, monitoring and verification of permit compliance must be possible for those included in the program.
- *Potential to Diffuse Low Greenhouse Gas Technologies:* Alternative points of intervention should be evaluated for their ability to provide incentives for research, development, adoption and diffusion of low greenhouse gas technologies.
- *Market Impacts:* Any program that limits emissions will affect the bottom line of firms. The permit program will have economic impacts that vary depending on program design. For example, exempting certain sizes or categories of sources from permit requirements because of administrative or equity concerns (e.g., small boilers or home heating oil) has competitive implications within the energy market.

Since virtually all of the carbon contained in fossil fuel extracted from the ground (with the possible exception of certain feedstocks) is eventually released to the atmosphere, a trading program need not focus uniquely on direct emitters, but can be implemented through other points in the energy market. These include fuel imports, fuel extraction, processing, refining, distribution, and secondary conversion (e.g., coal to electricity). In addition, these points could vary by sector. For example, an emission trading program could focus on the point of final combustion for coal, but on refining for oil, or distribution for natural gas.

In an emission trading system, some mechanism must be provided for allocating permits to sources. This could be done on the basis of baseline/historical emissions (where permits are given to those currently emitting) or through an auction (where revenues accrue to the government). These two mechanisms might also be combined: some portion of permits could be allocated on the basis of historical emissions while the rest are auctioned. In any case, the value of these assets could be large depending on the permit price, which is determined by the emissions target and the costs of substitutes. Given that an auction could produce substantial revenues, some decision would have to be made with respect to what to do with the proceeds.

## Research and Development (R&D)

One of the key issues in developing a domestic climate change policy will be the emphasis placed on potentially expanding the Federal R&D effort into technologies that reduce future greenhouse gas emissions and/or lower the cost of achieving a given greenhouse gas reduction target. Achieving greenhouse gas emission reductions that would stabilize atmospheric concentrations at "safe" levels will require major advances in technology in virtually every sector of the economy. These goals will be difficult to achieve during a time of constrained federal spending and sharp reductions in long-term private sector R&D. Since 1978, federal investment in energy R&D has declined 75%. Investment by industry fell 33% from 1983 to 1993.

The President's Fiscal Year 1998 budget requests an increase of $200 to $300 million in relevant R&D over the current level of approximately $1.3 billion. Such an increase was rejected by Congress last year, and achieving it may require raising the issue to a higher level in budget negotiations. In the Fiscal Year 1999 budget and beyond, further increases will be needed, as will a more coordinated effort to target the R&D on the biggest opportunities for CO2 mitigation.

Achieving greenhouse gas levels that are not harmful to humans or the environment will require major advances in technology as can be seen from the following equation:

*Emissions = Population* x *Affluence* (GDP/capita) x *Technology* (Emissions/GDP)

From 1990 to 2060, we may well see global population double and affluence increase by a factor of four. At the same time, the world may ultimately need to *lower* emissions from 1990 levels, requiring the average emissions-related technology to improve by more than a factor of ten during the next few decades and be rapidly deployed throughout the world. The benefits could be enormous, in part because of these technologies serve a number of other national goals, including reducing the emission of the criteria air pollutants and decreasing dependence on foreign oil.

Because of the high risk nature of R&D, a number of pathways could be pursued simultaneously:

## Clean Power

- The next generation of natural gas technologies, including gas turbines and fuel cells, could achieve energy conversion efficiencies of 70% or more by 2005.

- The next generation of high efficiency coal-fueled power plants, such as integrated gasification combined cycle perhaps combined with a fuel cell, could achieve efficiency exceeding 55%, with half the CO2 emission of current plants.

- Renewable technologies—wind power, photovoltaics, biomass power, solar thermal, and geothermal—have seen sharp cost reductions in the past two decades, some by a factor of ten. Further R&D,-coupled with expanded deployment to achieve economies of scale and improvements in manufacturing, would likely make one of more these technologies competitive with fossil fuels in a large number of areas in the next two decades.

- Nuclear fission and fusion remain options that could benefit from further R&D, though these raise significant environmental issues regarding waste handling and disposal.

## Energy Efficiency

### *Transportation*

The Partnership for a New Generation of Vehicles (PNGV) is a public-private partnership to design and build a triple-efficiency clean car by 2004. Multiple technology paths are being pursued to build a hybrid vehicle that has both an advanced engine (such as a clean diesel, Stirling or gas turbine) and an energy storage device (such as a battery, fly-wheel or ultracapacitor). Supporting R&D includes lightweight, super-strong materials such as composites; high-temperature ceramics; regenerative breaking; and advanced power electronics. Proton-exchange membane (PEM) fuel cells have perhaps the greatest long-term potential for reducing transportation CO2.

Biofuels also lower transportation CO2. Continued R&D in bio-engineered organisms and fast-growing crops is expected to produce ethanol from waste paper, crop waste, and dedicated crops for under 70 cents a gallon by 2005, competitive with oil at $25 a barrel.

### *Industry*

The seven most energy-intensive industries—steel, aluminum, petroleum refining, chemicals, pulp and paper products, glass, and metal casting—account for about 80% of the energy consumed in U.S. manufacturing and more than 90% of the hazardous waste. They represent the largest opportunity for reducing industrial CO2 emissions, and the Energy Department is partnering with them because they significantly underinvest in R&D compared to the industry average. Key areas that would benefit from expanded R&D include advanced materials development; separation technology; catalysis; bioprocessing, biocatalysis, and renewable feedstocks; sensors and controls; and industrial cogeneration of electricity and heat, which can achieve overall efficiencies of more than 80% and ultimately utilize biomass.

### *Buildings*

The buildings sector consumes one-third of the nation's energy and two-thirds of its electricity. Key near-term R&D opportunities include improvements in lighting, windows, design software, high-efficiency applicances, gas heat pumps, insulation and duct systems, cooling including gas cooling, solar heating and cooling, daylighting, and urban heat island mitigation (reflective roofing and road materials). Longer term R&D needs include electrochromic glazings for windows, building-integrated PV systems, and PEM fuel cells.

### Capture and Sequestration

If major reductions in $CO_2$ emissions are necessary, and global reliance on fossil fuels continues beyond the middle of the next century, then some form of $CO_2$ sequestration (i.e. capture and disposal) will be needed. A long-term R&D strategy would include demonstration of a number of sequestration options and research into their possible environmental impacts; converting $CO_2$ into industrial chemical feedstocks; selectively permeable membranes for $CO_2$ capture; processes for converting fossil fuels and biomass into $CO_2$ and hydrogen; development of hydrogen infrastructure technology, including transportation and storage; and PEM fuel cells. Capture and sequestration has received only limited funding to date.

### Advanced Research

A number of areas of advanced research could prove crucial to responding to climate change, including photosynthetic mechanisms, biotechnology, fermentation microbiology, combustion research, polymer and ceramic science, process engineering, supercritical $CO_2$, new materials synthesis, and nanotechnology. One essential area for expanded basic and applied R&D is superconductivity, which offers the possibility of nearly loss-less energy storage and transmission and of highly efficient superconducting motors.

## Conclusion

A number of mitigation options exist for controlling greenhouse gas emissions. In considering which are most appropriate, it is useful to consider the time scale in which they operate. In the near term, priority could be placed on diffusing currently underutilized energy efficiency technologies. This could be best accomplished through programs to address current information and other market barriers. Both the programs of the current Climate Change Action Plan, current energy labeling programs, as well as DOE's appliance standards are targeted at this problem. In the medium term, new government interventions, either in the form of emissions trading and/or expanded regulatory programs could be put into place to limit greenhouse gas emissions. However, in the long run, it is only through the adoption of now, non-fossil technologies, that stabilization of atmospheric concentrations of greenhouse gases can be accomplished. Thus, it is important for any program to consider the incentives it provides for both private and government research and development.

## Attachment 1: Global Trends in Emissions and Concentrations

Growing emissions of greenhouse gases (GHGs) from industrial activity and land-use changes are rapidly raising the concentrations of these gases in the atmosphere, making some degree of climate change virtually certain. Although greenhouse gases come from many sources, carbon dioxide ($CO_2$) from fossil fuel use is the source of greatest concern because of its rapid historical and projected growth.[1] Atmospheric carbon concentrations are already over 30% higher than their pre-industrial levels and rising at about 4% per decade. The further potential for human activities to disrupt the natural balance is enormous because hundreds of years' worth of carbon (at current rates of use) are currently available in proved fossil fuel reserves that could be exploited under current economic and technological conditions – and even larger "ultimately recoverable" reserves. In the absence of controls, emissions are projected to grow quickly as the developing countries experience rapid population growth and industrial development. These trends are expected to lead to ongoing atmospheric accumulation and climate change into the indefinite future, with a doubling of atmospheric carbon concentrations sometime during the second half of the next century and a resulting long-run increase in average global temperatures by an estimated 1.5° to 4.5°C. Even stabilizing global emissions at 1990 levels *permanently* will lead to a near doubling of atmospheric carbon concentrations by the end of the next century.

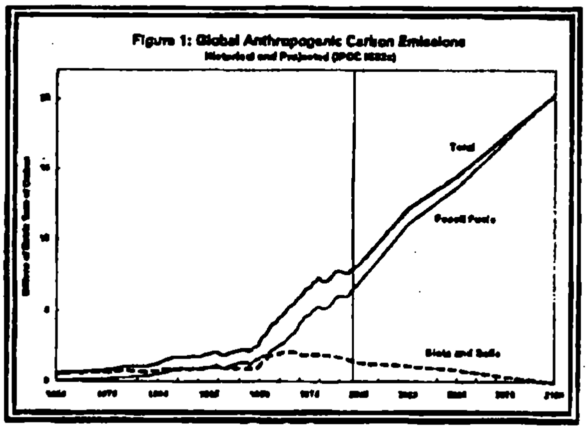

Figure 1: Global Anthropogenic Carbon Emissions

Climate change is truly a global problem in the sense that emissions from anywhere will affect everyone everywhere. As a consequence, concerted international action will be needed to induce all countries to cooperate in reducing emissions. Nevertheless, cooperation will be hampered by the uneven distribution of past and future emissions. Simply put, the developed industrial nations have relatively high levels of per capita emissions and are largely responsible for past emissions, while the developing nations, whose per capita emissions are currently very low, will be responsible for the

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[1] In total, human activities have already resulted in roughly 250 billion tons of carbon (gigatons of carbon or GtC) emissions from fossil fuel combustion and perhaps 200 GtC from net deforestation since 1700. In terms of carbon equivalent, cumulative anthropogenic greenhouse gas emissions since the beginning of the Industrial Revolution have been roughly 570 billion metric tons of carbon equivalent (GtCe), of which about 450 GtC have been carbon. (Deforestation and other changes in land use have reduced the amount of carbon stored in biota and soils by perhaps 275 GtC, or around 10%, since the beginning of agriculture.) More than 75% of all fossil emissions in history have occurred since 1945, and 50% have occurred since 1970. About 40% of total carbon emissions have accumulated in the atmosphere, raising the stock of atmospheric carbon by nearly 30% from 280 ppm (parts per million) to over 360 ppm. Somewhat less than half of current emissions are accumulating in the atmosphere, while the rest is absorbed in natural sinks (the oceans and biosphere) through processes that are as yet only poorly understood. Although most of the increased carbon will ultimately be absorbed by the oceans, the increased atmospheric concentrations of carbon dioxide and other greenhouse gases will affect the climate for centuries to come.

bulk of emissions in the future.[2] Since the developed countries have enjoyed high levels of emissions now and bear the greatest responsibility for current atmospheric concentrations, the developing countries have been reluctant to undertake any emissions reductions at all in the absence of significant emission controls on the part of the developed countries.

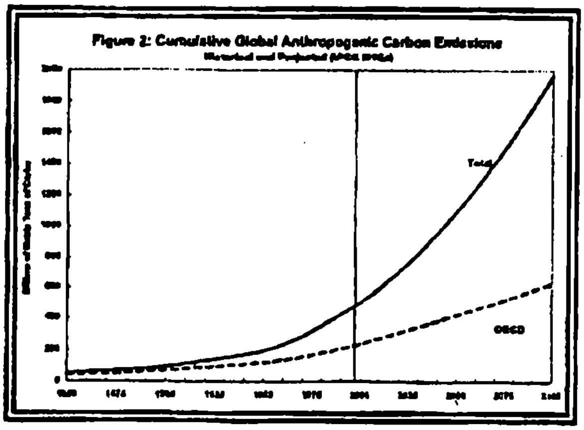


Figure 2: Cumulative Global Anthropogenic Carbon Emissions

Yet, actions taken by the developed countries alone are likely to have little effect on cumulative global emissions or on atmospheric concentrations. Based on the projections shown in Figures 1 and 2, stabilization of Annex I country[3] emissions at 1990 levels from 2000 through 2100 would reduce cumulative carbon emissions by around 8%, and would reduce atmospheric $CO_2$ concentrations in 2100 by less than 5%. In other words, Annex I emissions stabilization will still lead to well more than a doubling of atmospheric $CO_2$ concentrations by 2100. Even stabilizing total global emissions – which, given anticipated population growth, would require dramatic reductions in global per capita emissions – will not lead to stabilized concentrations. *Stabilization of concentrations requires global emissions to fall well below current levels, and ultimately to decline to near zero.*

**Table 1: Alternative Carbon Targets and Budgets**

| Target | Carbon Budget 1991-2100 (GtC) | Reduction from 1500 GtC |
|---|---|---|
| 450 ppm | 630 - 650 | -57% to -58% |
| 550 ppm | 870 - 990 | -34% to -42% |
| 650 ppm | 1030 - 1190 | -21% to -31% |
| 750 ppm | 1200 - 1300 | -13% to -20% |

Researchers have examined in some detail the annual emissions paths required to meet atmospheric carbon concentration targets of 450 to 750 ppm.[4] As shown in Table 1, all of these targets require significant reductions in cumulative

[2] Historically, fossil carbon emissions have come mainly from the U.S. (27% of the postwar total), the rest of the OECD (22%), and the former Soviet Bloc (24%). The rest of the world, with nearly 80% of the population, is responsible for a mere 27% of cumulative emissions. On a per capita basis, U.S. emissions are over 5 tons per person per year; the industrial nations of Western Europe and Japan emit about 2 to 2.5 tons per person; and the nations of the former Soviet Bloc, whose per capita emissions used to be very high due to the inefficiencies of central planning, have fallen to about 2.5 tons per person. At the other end of the spectrum, the developing countries of the Americas, Africa and Asia have emissions on the order of 0.2 to 0.6 tons per person.

Despite their relatively low emission levels, developing countries' emissions are growing very rapidly. (Developing county emissions grew by 21% between 1990 and 1995, and global fossil fuel emissions have been roughly stable during this period only because of the 30% reduction in former Soviet Bloc emissions associated with the collapse of the centrally planned economies.) Given current projections of population growth and economic activity, developing countries' share of annual global fossil emissions should surpass that of the developed countries during the second quarter of the next century. However, their share of *cumulative* fossil emissions will remain below that of the developed countries for many years to come, as will their per capita emissions.

[3] The OECD nations plus the former Soviet Bloc.

[4] The lower target would limit the projected average global temperature increase to roughly between 0.6°C to 1.75°C; the higher target would limit the increase to between 1.4°C to 3.5°C.

projected global carbon emissions; and as shown in Figures 3 and 4, all of them require dramatic reductions in annual emissions rates sometime during the next century. To achieve a 450 ppm target – which still represents a two-thirds increase in atmospheric

**Figure 3: Alternative Atmospheric Concentration Pathways**

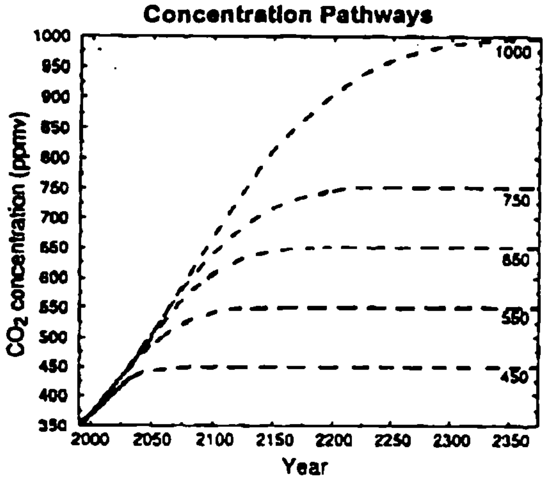
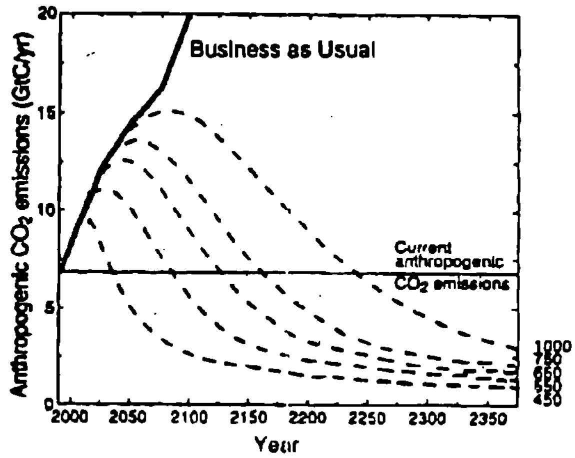



**Figure 4: Emission Scenarios to Meet Alternative Atmospheric Concentrations**




concentrations over preindustrial levels – annual emissions must begin declining steeply within the next quarter-century and must fall to less than half the current rate by 2100. To achieve a 550 ppm concentration target – which represents more than a doubling in atmospheric concentrations – annual emissions must begin declining steeply during the second quarter of the century. Furthermore, these budgets must be distributed both across countries and across time. And while emissions can increase in the near term, higher growth in emissions in the near term must be offset by increasingly dramatic reductions later on.

Why 1950?

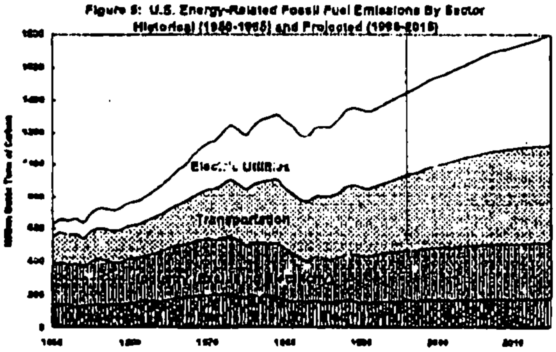
## Attachment 2: U.S. Emission Trends

Total U.S. greenhouse gas emissions in 1995 were about 1,557 MMTCe (million metric tons of carbon equivalent), with gross emissions of 1,674 MMTCe offset by 117 MMTC of carbon sequestered by the nation's forests. *This total represents an increase of 100 MMTCe, or nearly 7%, in just five years.* Of the total, methane accounted for 176 MMTCe, mainly from landfills and agricultural activities, nitrous oxides about 40 MMTCe, and the various halocarbons 37 MMTCe. The remaining bulk of U.S. emissions were carbon emissions from fossil fuel combustion and non-fossil industrial activities.

Annual U.S. fossil-related carbon emissions have grown from around 620 MMTC (million metric tons of carbon) in 1950 to about 1430 MMTC in 1996, and are projected to rise to around 1800 MMTC over the next twenty years. Coal's share of the total has fallen from 50% in 1950 to 35% in 1996; while oil's share has risen from 36% to 42% and natural gas' share has risen from 14% to 23%. These shares are expected to remain fairly steady over the next quarter century.

The electric utility sector's share has grown from 12% in 1950 to 35% in 1996 (500 MMTC), as the American economy has steadily increased its use of electricity. Over 85% of electric utility sector carbon emissions come from burning coal. Similarly, the transportation sector's share of fossil-related carbon emissions has grown from 28% in 1950 to 33% in 1996 (470 MMTC), with oil accounting for practically all of the fuel use in the transportation sector. Thus, the transportation and utility sectors together currently account for 68% of U.S. fossil-related carbon emissions.

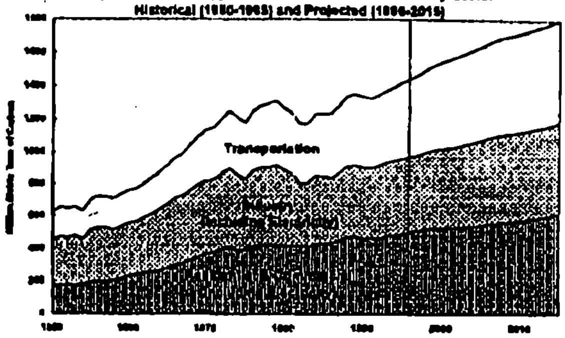
Figure 5: U.S. Energy-Related Fossil Fuel Emissions By Sector Historical (1950-1996) and Projected (1996-2015)




In contrast, carbon emissions from the residential and commercial sectors' direct energy use have fallen from 22% of the total in 1950 to 12% in 1996; while emissions from industrial direct energy use have fallen from 38% to 20%. However, if electricity-related carbon emissions are attributed to the sectors that consume the electricity (rather than to the utility sector which produces it), the residential and commercial sectors' share has risen from 28% in 1950 to 35% in 1996. In contrast, the industrial sector's share has fallen from 44% in 1950 to 32% in 1996, as industry's share of economic activity has declined and services' share has risen.

Attributing electricity-related emissions to end-use sectors, then, 35% of carbon emissions are related to households and commercial businesses; 33% are related to transportation, and 32% are related to industry. These shares are projected to remain fairly constant over the next twenty to twenty-five years, although transportation's share of carbon emissions will increase slightly, while electricity generation will account for a slightly increasing share of primary energy consumption.

Figure 8: U.S. Energy-Related Fossil Fuel Emissions By Sector
Historical (1960-1995) and Projected (1996-2015)



**PRIVATE MEETING:** w / Vice - President
**RICH TRUMKA**
**SECRETARY TREASURER, AFL-CIO**

[*______]
3:50 pm - 4:05 pm, Tuesday, February 18, 1997

Meeting requested by David Strauss
Briefing prepared by Michael Burton

## EVENT

- ~~You~~ VP will be meeting with Richard Trumka, past-president of the United Mine Workers and current Secretary-Treasurer of the AFL-CIO, to discuss his strong concerns about the Administration's position on climate change.

## YOUR ROLE AND CONTRIBUTION

- ~~You~~ VP will have the opportunity to let Rich know that you are ready to listen to his concerns that you intend to ensure his full participation in the decision-making process.

## BACKGROUND

- Trumka has been a strong critic of our climate change policies. In the past year, he has met with Katie McGinty, Tim Wirth, and other administration officials, to voice his concerns. He has not found these meetings to be satisfactory and believes that he has not been sufficiently consulted about a policy that he takes to be detrimental to his core constituency.

- As you know, the UMW has drafted a climate change resolution for submission to the AFL-CIO Executive Council. (A recent version is attached.) The resolution is sharply critical of the Administration's policies, focusing on "the exclusion of new commitments for developing countries under the Berlin Mandate." The resolution calls on the Administration to "renegotiate the Berlin Mandate" and to "refrain.... U.S. jobs."

- Trumka believes he has the votes to pass the resolution.

- In the past week, the environmental community has been working hard with several unions in the AFL-CIO to make sure the resolution is not adopted. These groups report good conversations with the Steelworkers, service unions, and others. In addition, Tim Wirth spoke this week with Bob Wages, head of Oil, Chemical and Atomic Workers, who has responsibility for this resolution within the Executive Council.

- CEQ is concerned that, if the AFL-CIO gets too far out in front, that our opponents on the Hill will form an alliance with the unions on this issue.

- Trumka has said that the resolution we have seen was not finalized, that it was not directed at you personally, and that he had no intention of overstating its importance before the Executive Committee. He was very much concerned that you or others would try to dissuade him from introducing the resolution.

- Some of Trumka's concerns can be assuaged by making clear that we want to make him an integral part of the decision-making process.

- There are at least three points in the process where Trumka can be helpful, including the following decision-making events: (1) Preparation for an international meeting early-March in Bonn, (2) preparation for mid-April submission of additional text, and (3) preparation for the Third Conference of Parties of the Climate Change Convention in Kyoto this December.

- As you may know, Dirk Forister has been named as Chair of the White House Climate Change Task Force. He will work with closely with Katie McGinty and Dan Tarullo.

TALKING POINTS

- I know you are concerned about our climate change policies. I wanted to meet with you today to hear those concerns in more detail.

- President Clinton and I are deeply committed to pursuing policies that protect the environment and promote economic growth. I simply do not accept that policies to protect us from global warming must hurt U.S. competitiveness.

- We need to work together closely in the next year, and beyond, to make sure our policies serve all our goals -- on the environment and on jobs. If it means seeking assistance for the families that are affected by whatever climate change policy we formulate, that is what we do.

- It's critical that we listen to your concerns. I want you to be an active participant in the decision-making process this year -- as we preparation for an international meeting early-March in Bonn, (2) as we prepare for mid-April submission of additional text, and (3) as we prepare for the Third Conference of Parties of the Climate Change Convention in Kyoto this December.

- We don't want to just listen to you; we want you to help us craft the Agreement.

- Next week you will get a phone call from Dirk Forister, Chair, White House Climate Change Task Force.

- Also, I'm going to ask Dirk Forister, who will chair the White House efforts on the Climate Change plan to give you a call this week.

- If you don't think you're being heard, please let me know.

2/16/97

# Climate Change

## Background

An international scientific consensus has emerged that hūman activities have had a "discernible impact" on climate. The Administration has accepted that consensus as the basis for developing a proposal for international action to stabilize, and ultimately reduce, greenhouse gas emissions (primarily carbon dioxide from fossil fuel combustion). If left unaddressed, continuing increases in greenhouse gas emissions could produce significant economic and environmental harm, although there is considerable uncertainty regarding the distribution and timing of those effects.

In the 1992 Framework Convention on Climate Change, the major industrialized nations agreed to an international treaty calling for returning greenhouse gas emissions to 1990 levels in the year 2000. The President's Climate Change Action Plan, announced in 1993, was based largely on voluntary energy savings measures. In July 1996, however, the State Department announced the Administration's conclusions that the 1990 goals would not be met, and that voluntary targets would not be sufficient to assure dependable progress toward stabilizing the atmosphere. Accordingly, the U.S. has proposed a new approach:

- **Binding targets and timetables:** Emission-reduction targets should be binding. Timetables for reaching the targets should be *realistic and achievable.*

- **Flexible implementation measures:** Countries will design their own policies for achieving the targets; the U.S. has rejected proposals for uniform international strategies for reducing emissions. In recent submissions to the Climate Change Secretariat, the USG has suggested several ways to maximize efficiency and flexibility:

  -- An international emissions-trading regime among developed countries;
  -- Multi-year emissions "budgets," with borrowing permitted between periods.
  -- Opportunity for developed countries to earn credits through "joint implementation" projects, i.e., assisting developing countries in reducing their emissions.

- **Developing-country obligations:** Developing countries must commit to measurable progress in limiting their emissions as they develop. Over time, they should "graduate" to full participation in the developed-country framework

These elements are the foundation of the U.S. position in treaty negotiations that are to be concluded in a December, 1997 meeting in Kyoto, Japan. The Administration anticipates that whatever agreement it signs in Kyoto will be submitted to the U.S. Senate for treaty ratification.

**Status**

During his recent visit to Australia, the President emphasized the need for international action on the climate change issue.

An NEC/CEQ-led deputies group has begun discussing the options for appropriate targets and timetables, and will be reviewing domestic policy options for achieving those goals.

**AFL-CIO**

The United Mine Workers (coal miners), the Oil, Chemical and Atomic Workers (refinery workers), and possibly the United Auto Workers are likely to be the most concerned about the outcome of the Administration's climate change activities. The UMW recently announced a joint effort with coal companies to oppose action on climate change, fearing that the likely outcome of any agreement will be new restrictions against the use of coal.

**Talking Points**

- The Administration has accepted the international scientific consensus that human activities are generating measurable, climate-affecting accumulations of greenhouse gases. If no action is taken, we believe there may be severe economic and environmental consequences.

- The Administration believes that the voluntary approach to reducing greenhouse gas emissions has been tried, and it failed.

- We are committed, however, to avoiding the economic consequences of acting precipitously. For that reason, we want to design a flexible, long-term approach, which provides plenty of opportunity for reassessment and non-disruptive economic adjustment.

- Timetables have not been proposed, but when they are, they will be realistic and achievable.

- We will not support policies that put U.S. industries at a competitive disadvantage.

- We will demand that developing countries carry their fair share of the burden of reducing worldwide emissions.

- We are committing to working with industry to:

    -- design cost-effective approaches;

- -- address competitiveness issues;
- -- identify and develop promising new emissions-reducing technologies and policies.

- We want substantive consultation and interaction with industry. The Administration is developing the analytical tools, including computer models, to inform our decision-making. We intend to make those tools fully open to scrutiny by unions and other interested parties.

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—SINCE 1827—
VOL. 411 - NO. 28,899 WEDNESDAY, JANUARY 29, 1997 $1.50 ACO

# Mexican trucks gain US access

BY TIM SHORROCK
& CHRIS ISIDORE
JOURNAL OF COMMERCE STAFF

WASHINGTON — The Clinton administration has decided to open U.S. border states to Mexican trucking companies and is expected to make a formal announcement within a week, labor and trucking industry officials said Tuesday.

The long-awaited decision will allow Mexican-owned trucking companies carrying international freight to serve U.S. points outside the narrow commercial strip along the border. It's a major defeat for labor and consumer groups that successfully fought to stop the opening originally set for December 1995.

The border opening was a key element of the North American Free Trade Agreement and was intended to improve the free flow of goods between the United States and Mexico.

"It certainly looks like Clinton is about to end the delay, and we're disappointed," said Steve Trossman, a spokesman for the Teamsters union.

"This will hurt highway safety and put U.S. trucking companies in the position where they can exploit the low wages of Mexican truck drivers," Mr. Trossman added.

Officials with the American Trucking Associations said they have not been given a date for an announcement but they believe prospects are good.

"We have been working on this day in and day out," said Thomas Donohue, president of the ATA. "We are very much encouraged that there is a philosophy in the White House and Department of Transportation that this border opening should happen."

Some DOT officials said they expect a border-opening announcement any day, but the department's official position was more evasive.

U.S. and Mexican government officials "continue to have discussions about the issues," said Bill Shultz, a DOT spokesman.

Under the Nafta, the U.S. and Mexican governments agreed to allow Mexican truckers to apply for U.S. trucking licenses by Dec. 19, 1995. The pact allows U.S. and Mexican truckers to move freely throughout each country by 2000.

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*Michele Kayal in Washington contributed to this report.*

# American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C 20006
(202) 637-5000



## MEMORANDUM

February 4, 1997

TO: Lael Brainard

FROM: Gerry Shea

FYI--our comments on the truck/bus border issue.

attachment
GS/kc
opeiu 2, afl-cio

# American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C 20006
(202) 637-5000



February 3, 1997

Erskine B. Bowles
Chief of Staff to the President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D. C.

Dear Mr. Bowles:

One year ago the Administration postponed the land transportation provisions of NAFTA. That decision was rooted in your serious concerns about the adequacy of mechanisms to insure the enforcement of safety, security and other vital standards. Recently, we have met with your staff to discuss the pending decision to implement the provision. Based on what we have learned in those meetings, those matters which you correctly identified as crucial, if implementation was to go forward, have not yet fully been addressed. In this light, I strongly urge that the postponement be continued.

Even if agreement is someday reached with the Mexican government on the broad elements of the transportation program outlined to us--roadside vehicle inspection capability, data exchange, and safety management oversight--it appears that adequate implementation of an agreement will take the investment of considerable resources and years to accomplish.

Major problems that remain unaddressed include:

- **Hazardous Materials**

  In general, less than 2 percent of all Mexican trucks crossing the border are inspected, regardless of what they are carrying. Depending on the border crossing, approximately 25 percent of all Mexican trucks carry hazardous material. When a random inspection does happen to be conducted, less than one in 14 of the trucks carrying hazardous material are property placarded. Up to 90 percent of inspected shipments of hazardous material don't coincide with shipping papers carried by the driver. Put simply, the flow of hazardous material from Mexico is so substantial and unregulated that you could increase the number of enforcement personnel at the border tenfold and not even make a dent in solving the problem.

- **Accessibility of Data**

  The driving and criminal records of U.S. drivers are computerized and readily available to law enforcement officers in the U.S. Mexico isn't even close to having this information computerized and available to U.S. law enforcement officials.

- **U.S. Wage and Hour Laws**

  Even Administration officials admit that resources do not exist to insure that Mexican drivers are protected by appropriate U.S. laws and regulations. With the proposed border opening, a Mexican driver could work-full time in this country, yet not even receive the U.S. minimum wage. NAFTA's impact on workers' wages is already severe, but under this circumstance would have the effect of undermining legally mandated wages.

- **Insurance Coverage**

  Studies by the National Association of Independent Insurers and others have shown that Mexican carriers are chronically under insured. The legitimacy of insurance papers are also questionable. Insurance forms are often altered or duplicated. Inadequate or illegitimate policies can often be purchased for $50 or less at many border crossing locations.

- **Hours of Service**

  Mexico currently has no hours of service regulations. Even if hours of service regulations were adopted, there is absolutely no track record for enforcing such regulations. The entire burden would fall on U.S. officials with no credible enforcement program in place.

- **Inspection Capacity**

  Texas alone had 1.9 million total Mexican truck crossings in 1995 at 15 different border crossing sites. Official figures for 1996 are expected to increase. The current level of enforcement personnel allows for the inspection of only one-half of one percent of all these trucks. When you add Arizona, California and New Mexico into this mix, it is clear that adequate enforcement programs do not exist and cannot be developed at the border.

- **Market Access**

  Reciprocal market access for scheduled bus service has not been achieved. Mexico continues to restrict service to multiple destinations and prohibits bus terminal ownership and operation by non-Mexican companies, thereby effectively denying market access to U.S. carriers.

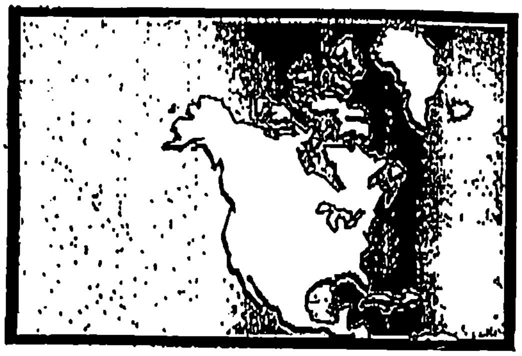
Other unresolved issues include differential air emission guidelines, the inability to enforce existing prohibitions against cabotage, the ability of Mexican trucking companies to interfere with U.S. industrial relations disputes, and differential drug and alcohol testing programs.

Laws and regulations addressing minimum employment standards, hours of work, job and highway safety, and environmental quality are enacted by governmental authorities to enhance and protect the quality of life for the citizens of this country. It is a serious mistake to believe that any presumed benefit from premature market opening outweighs the public good. Current policy should be maintained and implementation of the land transportation provisions of NAFTA be suspended indefinitely.

Sincerely,

John J. Sweeney

John J. Sweeney
President



*U.S. DEPARTMENT OF TRANSPORTATION*

*OFFICE OF INTERNATIONAL TRANSPORTATION AND TRADE*

*MARITIME AND SURFACE DIVISION P-24*

# *FAX SHEET*

*December 17, 1996*

*FROM:* *Susan Gorsky*
*International Policy Analyst*
*tel: 202-366-9532*
*fax: 202-366-7417*

*TO:* *Lael Brainard, NEC*
*fax: 395-6853*

*PAGES:* *12 (including cover)*

*Here is a revised paper on implementation of NAFTA's transportation provisions for tomorrow's NEC meeting. It is much more detailed than the paper we provided for the Monday meeting.*

*I understand that you had suggested that the paper address safety issues that were raised through the NEC last December when the decision was made to delay implementation. If issues were raised that are not addressed in the paper, please call me or Dave DeCarme so that we can include them before tomorrow.*

*Thank you for all your assistance on this issue.*

# Issues Related to Implementation of NAFTA's Truck and Bus Transportation Provisions

## Background

NAFTA created a timetable for the phased removal of barriers to the provision of motor carrier service among the NAFTA countries for the carriage of passengers and international cargo. All limits on access will be phased out by January 1, 2000; limits on investment in motor carriers established in the NAFTA countries will be gone by January 1, 2004.

## Cargo Implementation Delay

- A major implementation milestone was to have occurred on December 18, 1995, the date by which the United States and Mexico agreed to permit access to each other's border states for motor carriers of the other country for the delivery and backhaul of cargo. By this date, NAFTA also obligated the United States to remove restrictions on Mexican investment in motor carriers established in the United States for the transportation of international cargo.

- On December 18, 1995, Secretary Peña announced a delay in the NAFTA implementation schedule. Because of safety and security concerns, DOT has been accepting applications from Mexican trucking companies for operations in the U.S. border states, but final disposition of pending applications is being held until consultations with Mexico to resolve safety concerns are completed. Implementation of the investment provision has also been delayed.

## Progress in Resolving Safety Concerns

Since last December, the Department of Transportation has been working to resolve our safety concerns on a number of levels, enhancing federal enforcement efforts, for example, and working with the states to upgrade state enforcement programs. All of the issues raised by labor organizations and safety advocacy groups and by members of Congress in connection with the operations of Mexican trucks in the United States are addressed below.

- **Truck Requirements.** The three NAFTA countries have adopted a basic commercial vehicle safety standard as the minimum level of mechanical fitness to be sustained by all commercial motor vehicles operating in international commerce. This standard is based on regulations currently in effect in the United States and Canada.

- **Driver Age and Language Requirements.** The three NAFTA countries have agreed to require that drivers operating in international commerce be at least 21 years old and be able to communicate in the language of the country in which they are operating. Thus, even though Mexico permits drivers to obtain a commercial license at age 18, only drivers who are at least 21 years old will be permitted to operate across the border into the United States. Moreover, those drivers will have to have at least a basic understanding of English.

- **Hazardous Materials Requirements.** Mexico requires drivers of trucks carrying hazardous materials to obtain an endorsement to their drivers licenses indicating that they have received specialized training for handling shipments of hazardous cargo, for driving tank trucks containing bulk shipments of hazardous materials, and for emergency response. Moreover, Mexico has promulgated regulations applicable to hazardous materials transportation that are based on the UN recommendations on the Transport of Dangerous Goods, which is the international consensus standard. Mexico has deployed 280 trained inspectors who are conducting inspections of individual hazardous materials trucks. In addition, the three NAFTA countries have published a North American Emergency Response Guidebook in English, Spanish, and French.

- **Hours-of-Service and Driver Logs.** The United States, Canada, and Mexico have agreed to assure that the duty time of drivers engaged in cross-border transportation will be recorded and accounted for. Mexico has already begun to take the steps necessary to implement a logbook requirement for hazardous materials and bus drivers.

-- The three countries are developing a North American logbook that will be modeled on logbooks currently used in the United States and Canada. We believe that the three countries will agree on a North American logbook by early January 1997.

-- Mexico has asked that we assist in completing regulations on hours-of-service for commercial drivers that Mexico would implement for domestic and cross-border motor carrier operations. Mexico has said that it would like to promulgate an hours-of-service regulation in the first quarter of 1997.

- **Federal Actions to Enhance Enforcement.** Over the past three years, DOT has devoted substantial resources to addressing safety issues related to implementation of NAFTA's transportation provisions. Since last December, DOT has focussed increased attention on the Southwest border in preparation for NAFTA. Our safety enforcement activities are ongoing; however, over the last year we have:

-- Hired 13 Federal inspectors who are conducting inspection activities within the U.S. Customs import lots at all the major commercial crossings and assigned 7 inspectors to the border area who are engaged in outreach and compliance review activities. In sum, over the last year, DOT has moved 20 FTEs to the border to work on NAFTA safety issues.

-- Included checks on the validity of commercial drivers licenses as part of the roadside inspection process. Inspection personnel can access to federal and state databases in the United States and Mexico during the inspection to assure that the driver's license is valid.

-- Blitzed the border with safety brochures and Public Service Announcement messages regarding DOT requirements to operate a truck or bus in the United States. For example, over 1,400 posters and 5,000 brochures have been distributed on the southern border regarding drug and alcohol requirements this past year. In addition, border inspectors continue to disseminate other safety brochures and information on a regular basis to Mexican drivers entering the United States.

- **Drug and Alcohol Testing.** The final draft of an agreement between the United States and Mexico on drug and alcohol testing for commercial drivers is now being reviewed by the State Department.

- **Mexico's Actions to Enhance Safety Enforcement.** Mexico has also taken steps domestically to address the safety problems that led to our decision to postpone implementation of the December 18, 1995, access liberalization provisions of NAFTA.

-- Mexico is working with DOT to train and deploy truck inspectors throughout Mexico and particularly along the U.S.-Mexico border.

-- Mexico believes that the training of the Mexican Federal Highway Police will provide a stable and continual presence upon which to build a permanent compliance and enforcement presence along the U.S.-Mexico border. Mexico is completing a detailed training and implementation plan that will include information on where and when Mexico will begin to conduct commercial vehicle inspection along the border. DOT has agreed to continue to provide Mexico with the help it needs once this plan is finalized.

-- Further, Mexico has developed a driver information exchange system that has the ability to interface with the U.S. driver license data base. Mexico plans to expand this system to include all Mexican drivers. In addition, Mexico plans to develop a motor carrier data base that will include information on a company's safety and compliance record.

- **State Enforcement Programs.** The border states have taken steps to upgrade their enforcement programs in anticipation of increased traffic from Mexico once NAFTA is implemented.

-- The four border states received nearly $1 million in extra Motor Carrier Safety Assistance Program (MCSAP) grant funds in FY 1995 and $1.1 million in FY 1996 for enhanced enforcement activities. In FY 1997, DOT will provide an additional $1.5 million to the border states in MCSAP funds. The states are using these grants to fund initiatives that will provide a more sustained enforcement presence along the border, improve the compliance level of Mexican operations with U.S. requirements, and use technology to facilitate the inspection process and improve the quality of the inspection data.

-- Specific state enforcement activities funded by MCSAP include: (1) use of local officers to increase the level of enforcement of Mexican commercial vehicles; (2) strike force operations to focus on brake and hours-of-service violations; (3) Spanish language training for inspection officers; (4) training and education activities; (5) purchase of roller brake dynamometer systems to improve the efficiency of the inspection process; and (6) purchase of laptop computers for roadside inspectors to improve access to state and federal data bases.

— In FY 1996, the four border states were given priority in the allocation of Drug Interdiction Assistance Program funds. MCSAP fully funded three border states' drug interdiction assistance program (DIAP) proposals totaling $255,032.

— The State of Texas is hiring additional enforcement personnel, and expects to add a total of 150 new officers. A total of 82 officers have already been hired; Texas plans to add 16 more by January 1997 and another 11 by June 1997. The remainder are officials that have been hired by local governments. The state also plans to construct several new weigh stations throughout the state.

— The State of California has made a major commitment to enforce federal and state motor carrier safety and operating requirements as NAFTA is implemented, supporting its commitment with substantial investments in infrastructure and personnel. One example are the new dedicated inspection facilities that California has installed at its busiest border crossings, Otay Mesa and Calexico.

— The State of Arizona has assigned two full time officers to NAFTA outreach. Since December 1995, these officers have trained 781 Mexicans in U.S. commercial motor vehicle safety requirements. Training has been conducted in Spanish in Mexico.

— The State of New Mexico has installed new inspection facilities at Anthony on I-10, just north of El Paso, Texas.

**Economic Implications**

- **Border Congestion.** Implementation of NAFTA's liberalized access provisions could significantly reduce congestion at major U.S.-Mexico border crossings. Most of these crossings experience serious traffic backups that are often the result of archaic drayage and customs broker practices that have grown under the existing access restrictions. Since Mexican trucks may not access the United States beyond the limited border commercial zones, and U.S. trucks are virtually excluded from entering Mexico, cargoes must be transferred to carriers who do have broader access on either side of the border. This practice should gradually be reduced once trucks can carry their cargoes directly across the border to their destinations in the border states, thus eliminating the multiple transfers of cargo and the delays they cause.

- **Labor Issues.** Implementing the NAFTA provisions applicable to cross-border transportation of cargo should not displace U.S. commercial drivers.

-- First, Mexican companies will not be permitted to transport domestic cargo in the United States, so none of those jobs is at risk.

-- Second, because most shipper decisions on carrier choice depend largely on customer service factors rather than rate factors, it appears likely that U.S. carriers will carry a fair percentage of cross-border cargo. Truck rates are very high in Mexico and the service offered is not on the level of that provided by U.S. trucking companies. For example, total transit time, reliability of on-time pick-up and delivery, response in emergency situations, ability to handle expedited shipments, and carrier financial stability give U.S. companies a material advantage.

- **Applicant Information.** It is important to note that implementation of the NAFTA access liberalization provisions will probably not result in large numbers of Mexican trucks operating in the four border states. Based on our information, we estimate that the 160 Mexican applicants for authority to operate in the U.S. border states have about 1,100 power units among them.

-- By comparison, at Laredo alone approximately 1,000 power units now cross the border between the United States and Mexico each day. There are primarily drayage operations performing multiple operations on a daily basis.

-- Although the physical characteristics among power units are similar, the age and operational characteristics of the units that will operate into the interior of the border states should make it more likely that they will meet U.S. safety and operating standards. Actual compliance with the standards will be accomplished through exchange of information, vehicle inspections, and on-site inspections of carriers' terminal facilities as appropriate.

**Results of Enhanced Federal and State Programs**

- For a full year, we have been working to enhance safety enforcement activities directed at the U.S.-Mexico border area by all levels of government. The out-of service rate for Mexican vehicles inspected in the commercial zones has decreased from a high of 59 percent to 43 percent. It should be noted that these statistics relate solely to drayage operations in the commercial zones and are not necessarily reflective of equipment used on long-haul operations.

- For several reasons, however, it is difficult to use these statistics to compare the situation from last December to the situation of today. First, the inspections on which the statistics are based are not random; rather, inspectors target for inspection those vehicles and drivers that appear to have safety deficiencies. Second, we have moved from a relatively small universe of vehicles and drivers inspected to a relatively large universe of inspections performed over the past 12 months. Thus, the statistics are somewhat skewed.

- However, we have seen that the condition of vehicles crossing the border from Mexico has improved since we increased our enforcement activities. For example, inspectors report that most vehicles now have better tires, new lug nuts, and other new vehicle components. Inspectors report that drivers are even returning to show inspectors their improved vehicles. Inspectors also report a decrease in the numbers of underage or non-licensed drivers crossing the border.

- In El Paso, Texas, one large hazardous materials carrier retrofitted its entire fleet of tank trucks after border safety inspectors discovered a design problem in one of its vehicle's manholes.

- We have also seen significant changes in truckers' attitudes and behavior. Carriers and drivers are now more knowledgeable and concerned about safety. Moreover, there has been a marked increase in the number of companies, drivers, and even mechanics requesting safety training and participating in our grassroots, outreach meetings.

- Through the Land Transport Standards Subcommittee, we have reached an important milestone in the following policy area:

**Safety Assessment Process.** The United States believes that we must have a process in place by which safety officials can evaluate the safety performance of Mexican applicants to operate in the United States in advance of their receiving operating authority.

-- The United States, Mexico, and Canada are currently discussing development of a safety assessment process that could be applied to new applicants for authority to operate in international commerce pursuant to NAFTA's transportation provisions. These discussions are taking place in the Land Transport Standards Subcommittee, which was established by NAFTA to address development of compatible safety and operating standards for truck, bus, and rail transportation and for the transportation of hazardous materials.

-- Our discussions have resulted in an agreement among the three countries on critical safety areas that would be reviewed and approved by each country's authorities before a carrier could begin cross-border operations, including: (1) safety management systems, (2) driver qualifications, (3) hours of service compliance, (4) drug and alcohol testing, (5) condition of vehicles, (6) accident monitoring programs, and (7) compliance with regulations governing the transportation of hazardous materials.

-- In addition, we have agreed on several elements that are essential to implementation of a successful cooperative and coordinated compliance and enforcement program, such as clear communications between governments and with motor carriers; development of electronic data bases and exchange of safety information for companies, drivers, and vehicles; and involvement of state and local officials.

-- We are now considering how to implement a safety assessment system based on these principles. The next step in this process is for the U.S. and Mexican governments to exchange data on specific motor carriers as a test to ascertain whether sufficient information is available on individual carriers to enable government officials to expedite granting of operating authority. This information exchange test is currently scheduled to begin in mid-January 1997.

-- The three countries also have agreed to develop a procedure to exchange information on carrier-applicants and approved carriers (once it is decided to process applications). The procedure will be based on our assessment of the data exchange test program. As a longer-range project, the data base experts in each country are planning a meeting in mid-February to begin to consider development of an electronic data exchange program.

- **Mexican Government Safety Program.** Before the United States can begin to process applications from Mexican motor carriers to operate in the border states pursuant to NAFTA, there must be a system in place to independently verify the safety compliance of these carriers. Thus, Mexico must implement three basic compliance/enforcement program elements for motor carriers granted authority to operate in the United States and for those carriers who transit the United States on the way to Canada :

-- Mexico must deploy roadside commercial vehicle inspectors trained in accordance with established North American procedures in its northern states and document these inspections as part of an overall safety oversight process. Roadside enforcement is key to an effective and visible enforcement program.

-- Mexico must develop a method for gathering safety information from individual motor carriers and providing that information to the United States. Adequate and accurate information on motor carrier applicants is essential to the process of assessing a carrier's safety performance during the application process.

-- Mexico must implement a motor carrier safety management oversight system for those carriers with U.S. operating authority, either on its own or in conjunction with U.S. safety officials. Such a program is important to establishment of a permanent monitoring and enforcement program in Mexico; further, it is paramount to the development of an effective North American motor carrier safety program.

**Progress in Resolving Security Concerns**

The U.S. Customs Service has been engaged in an intensive process to improve the methods by which it polices the country's borders against drug traffickers. Customs has had to work smarter by wedding new technologies with conventional investigative techniques. Its workload along the southwest border is staggering. For example, last fiscal year, 3.5 million trucks, 74 million cars, and 254 million people crossed the U.S.-Mexico border. Following are details of the Customs Service programs.

- Operation HARD LINE, launched two years ago, is designed to permanently harden the southwest ports of entry against drug smugglers. Since its implementation, the number of vehicles speeding through border crossings without stopping, known as port running, has decreased over 56 percent.

- Under Operation HARD LINE, nearly 165 experienced special agents and intelligence analysts have been reassigned to the southwest border. In FY 1997, an additional 650 positions and $65 million will be allocated to Operation HARD LINE efforts on the southwest border and the southern tier of the United States.

- Port infrastructure has been fortified and inspectors have been equipped with better tools to perform more intensive narcotics examinations. Customs plans to deploy new truck x-ray systems by October 1997 at El Paso and Pharr in Texas and at Calexico, California. Customs has also increased overtime paid, purchased over 1,700 sets of body armor, funded integrity training, deployed 126 new vehicles, and purchased radios and other equipment.

- Under the Land Border Carrier Initiative Program, Customs has also received pledges from more than 836 trucking companies on the southwest border to better police their vehicles and warehouses in order to prevent the exploitation of legitimate carriers by drug traffickers.

- Drug seizures on the southwest border increased substantially in FY 1996. Narcotics seizures are up by 29 percent by total number of incidents and 24 percent by total weight over FY 1995. Additionally, the total weight of narcotics seizures in commercial cargo on the U.S.-Mexico border increased over 153 percent in FY 1996 compared to FY 1995. This increase resulted from an increased in the number of intensified inspections conducted by Customs personnel and from improved tactical intelligence gathered as part of Operation HARD LINE.

**Investment Provisions**

- There is no safety justification for our failure to implement the NAFTA provision concerning investment by Mexican citizens in U.S.-based trucking companies.

-- These companies, while Mexican-owned, would be established in the United States and required to operate as U.S. companies, meeting all U.S. safety, insurance, driver qualification, and other standards.

-- Such companies would be permitted to transport only international cargo. No Mexican-owned company would be permitted to carry domestic cargo in the United States. Moreover, where the transportation of international cargo involved its movement from one point in the United States to another point in the United States, these companies would be legally bound to employ U.S. drivers and, thus, would provide additional job opportunities for U.S. citizens.

**Bus Provisions**

- NAFTA obligates the United States and Mexico to lift restrictions on the provision of regular route, cross-border scheduled bus services by January 1, 1997. Interagency approval of a DOT recommendation that the President take the actions necessary to implement this provision has not been forthcoming.

- Based on a contracted study and on an internal review of Mexican bus operations, we have concluded that there is no safety justification for delaying the NAFTA provisions applicable to regular-route buses as there was for the action we took concerning Mexican trucks last December. Mexican charter and tour buses have been operating throughout the United States since January 1994, and we have found no indications of safety problems with these operations. It is likely that these carriers will also offer regular-route service into the United States once this provision is implemented.

- Gaining access to the United States for its bus industry was a major goal for Mexico during the NAFTA negotiations; if a decision is made not to go forward to implement the bus provisions at this time, there may be serious consequences for other outstanding bilateral transportation issues with Mexico. Moreover, since Mexico tends to link NAFTA-related issues from one sector to another, government retaliation could take the form of an adverse action in another sector, such as agriculture or telecommunications.

**Moratorium Modifications**

- The United States enforces its current restrictions on the operations of Mexican cargo and passenger motor carriers through a moratorium on grants of operating authority to Mexican-owned or -controlled companies.

- In 1982, the Congress imposed a two-year moratorium on new grants of U.S. operating authority by the Interstate Commerce Commission to Mexican and Canadian motor carriers in retaliation for restrictions in those countries on the operations of U.S. motor carriers.

-- Shortly thereafter, the United States and Canada reached a bilateral understanding on cross-border motor carrier operations that permitted the President to lift the moratorium as it applied to Canadian motor carriers.

-- Mexico continued to prohibit U.S. motor carriers from operating across the border. As a result, in 1984, the Congress added two additional years to the original moratorium and required that all Mexican carriers obtain a certificate of registration from the Interstate Commerce Commission limiting their operations to border commercial zones. The United States extended the moratorium in 1986, 1988, 1990, 1992, and 1994.

-- The last extension of the moratorium expired on September 16, 1996.

- If the moratorium is not extended in 1996, then Mexican carriers could legally apply for authority to operate anywhere in the United States, and the Department of Transportation would have no legal basis for denying their applications.

- In order to implement the NAFTA transportation provisions governing access to the United States by Mexican cargo and passenger carriers and investment in motor carriers domiciled in the United States, it is necessary to modify the moratorium selectively.

-- Thus, before the December 1995 access and investment liberalizations can be implemented, the moratorium must be modified to reflect that Mexican motor carriers of freight would be permitted to operate in the U.S. border states and that Mexicans would be permitted to own motor carriers domiciled in the United States to carry international cargo.

-- Similarly, in order to implement the January 1997 NAFTA provisions, the moratorium must be modified to permit Mexican bus companies to provide cross-border regular-route service into the United States.

**DOT Proposal**

- We propose that the NEC recommend the following to the President:

(1) That the moratorium on new grants of operating authority to Mexican motor carriers be extended for two years. This action maintains the status quo and places the United States in a stronger legal position with respect to our delay in processing current applications from Mexican trucking companies.

(2) That the moratorium be modified to permit Mexican bus companies to provide cross-border regular-route service into the United States. This action brings the United States into compliance with its next obligation under NAFTA and, given our significant analysis of the Mexican bus industry (outlined above), can be taken knowing that it will not compromise highway safety.

(3) That the moratorium be modified to permit Mexican nationals to own motor carriers domiciled in the United States to carry international cargo. This action brings the United States into compliance with a previous NAFTA obligation and also poses no safety threat since these companies, while Mexican owned, would be required to operate as U.S. companies, meeting all U.S. safety standards.

- We propose that these moratorium actions be enacted as a package and that this be done as quickly as possible so that the bus provisions can be implemented as close to January 1, 1997, as possible.

- We further propose that the NEC recommend that the President authorize the Secretary of Transportation to negotiate with the Mexican Transport Secretary a date certain by which the NAFTA cross-border trucking provisions would be implemented. The date chosen would signal the start of the processing of applications leading to an eventual approval or denial of each application based on its individual merits. Only those carriers receiving approval would be permitted to operate beyond the commercial zones.

  Agreement on an implementation date would be contingent on resolution of the following specific safety concerns:

  (1) Implementation of a roadside vehicle inspection program, consistent with established North American procedures, in the northern Mexican states, with a particular focus on the U.S.-Mexico border area;

  (2) Provision by the Mexican Government of specific data and information on the Mexican motor carriers and drivers seeking U.S. grants of operating authority and those drivers and carriers that transit the United States on the way to Canada; and

  (3) Implementation in Mexico of a safety management oversight program for those carriers granted authority to operate in the United States and for those carriers who transit the United States on the way to Canada.

- The negotiations would also depend on resolution of other outstanding bilateral transportation issues, including Mexico's treatment of U.S.-owned small package companies, Schneider Trucking's investment restructuring, and access in Mexico for 53 ft. trailers.

December 17, 1996

DRAFT

Lael- This looks good. It seems to answer all the ?'s you asked Monday. -Beth

**Talking Points - NAFTA Provision on Motor Carrier Access**

A number of improvements have and still are being implemented by U.S. Customs along the U.S.-Mexico border since the decision last December to delay the NAFTA provision which would have allowed U.S. and Mexican trucks access to the other country's border states to transport goods transborder. These improvements include:

- o <u>Better Interagency Cooperation</u> - Department of Transportation safety inspectors, state police and safety officials, and Customs have mounted continuing safety inspections along the entire border. Safety inspections are conducted regularly and without problem.

- o <u>Increased Enforcement Personnel</u> - 165 experienced agents have been reassigned to the SW border plus 100 inspector positions have been filled in FY 96 on the border. The FY 97 budget for Operation Hard Line provided for 657 new positions to enhance narcotics enforcement on the SW border and these are being hired and trained now and will be in place by October 1997. Department of Defense has funded an additional 145 National Guardsmen to assist Customs along the border in FY 97.

- o <u>Enhanced Border Facilities</u> - Virtually every Customs border inspection station has been modernized over the past 5 years. Most recently, a new facility was opened at Calexico, CA, and the Colombia Bridge commercial facility is providing a state-of-the-art inspection area for the Laredo, TX, area.

- o <u>Technology Improvements</u> - Four new large truck x-ray systems will be installed in this year (Calexico 2/97, El Paso/Ysleta 6/97, El Paso/BOTA 9/97, Pharr, TX, 10/97) plus three more are planned for next year (Nogales, AZ, plus Laredo and Los Tomates, TX). These are in addition to the existing truck x-ray in San Diego and the mobile truck x-ray now being deployed in the Laredo area.

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- <u>Enhanced Partnerships with Industry</u> - Customs introduced the Land Border Carrier Initiative in January 1996 to gain the voluntary support of Mexican and U.S. trucking companies to improve their security procedures against narcotics from being hidden on their conveyances. To date, 836 trucking companies have applied for the program and 760 have been approved. Customs is also working with the Border Trade Alliance and major U.S. importers to build a Business Anti-smuggling Coalition which is also focused on enhanced security procedures.

- <u>Increased Truck/Container Exams</u> - Customs has increased enforcement and commercial examinations of full trucks by 45 percent and empty trucks by 53 percent in FY 96 and Customs anticipates a continuing increase in the inspection rates in FY 97.

- <u>Increased Seizures of Narcotics</u> - FY 96 seizures along the SW border have substantially increased over FY 95: total narcotics seizures increased 29 percent (6,956) and 24 percent by total weight (273 tons of marijuana, 16.6 tons of cocaine, 460 pounds of heroin). Narcotics seizures in commercial cargo were also up 153 percent (56 seizures weighing 20 tons).

Although Customs and the other agencies have improved upon border safety and security, it must be recognized that Mexico remains the greatest threat in terms of cocaine entering the United States and that the volume of trade and motor vehicle traffic continues to grow. However, in light of the improvements, U.S. Customs offers no objections to the approval of the NAFTA provision on truck access.

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## GENERAL TRADE FACTOIDS
(Based on Jan-Nov Trade Data)

### THE DEFICIT:
- The annualized 1996 **Goods and Services** deficit increased by 4.3% to an estimated $109.6 billion. This represents approximately 1.4% of GDP, nearly 60% lower than the previous 1987 peak deficit of 3.3%. Much of the pressure on the U.S. trade deficit has arisen from a sharp rise in oil import prices (up 18.5% relative to the first 11 months of 1995). The goods and services trade deficit excluding petroleum dropped by an estimated 10% from 1995.
- The annualized 1996 **Goods** deficit also increased by 5.7% to an estimated $183.3 billion, and represented 2.4% of GDP, nearly one-third lower than the previous peak in 1987 of 3.4%. The goods trade deficit excluding petroleum dropped by 0.5% from 1995.

### EXPORTS
- **Goods and services exports** are up 6.3% ($49.6 billion) to an annualized record of $836.1 billion in 1996. The growth rate of **U.S. goods and services imports**, at 6.0%, was slower than that of exports.
- **Goods exports** are up by 6.3% ($36.3 billion) to an annualized record of $612.2 billion in 1996. The growth rate of **U.S. goods imports**, at 6.2%, was slightly slower than that of exports.
- **Manufactured exports** are up over 7% to a level of $521 billion in 1996. **Exports of advanced technology products** (a sub part of manufactured exports) are growing even faster, up nearly 13% to $156 billion in 1996. The U.S. enjoyed a trade surplus of $13.6 billion in advanced technology products during 1995, and the surplus is up 95% this year to an annualized level of $26 billion in 1996.
- **U.S. agricultural exports** are up by 9% to $61.5 billion in 1996.
- **Services exports** are up by 6.3% to an annualized level of $223.8 billion. The U.S. had a services surplus of $68 billion in 1995, and this surplus is up 8% this year to an annualized level of $73.8 billion.

### JOBS SUPPORTED BY EXPORTS
- **U.S. jobs supported by goods and services** exports are estimated to rise by 269,000 in 1996 to 11.3 million (based on first 11 months). Since the beginning of the Administration, jobs supported by exports have risen by 1.5 million, based on a 35% increase in U.S. exports of goods and services since 1992.
- Jobs supported by Goods exports to **NAFTA** countries are estimated to be 2.3 million in 1996 (1.56 million with **Canada** and 743 thousand with **Mexico**). This is an increase of 312,000 export supported jobs since 1993 (pre-NAFTA).
- Jobs supported by Goods exports to **other countries/regions** (based on 9 months data): to **Japan** are estimated to be nearly 890 thousand in 1996; **China**: 160 thousand jobs; **Latin America (excluding Mexico)**: 585 thousand jobs; **EC12**: 1.2 million jobs; **Hong Kong**: 165 thousand jobs; and **Taiwan**: 210 thousand jobs.
- **Jobs supported by goods exports pay 13% to 16%** higher than the national average.

### JAPAN TRADE
- The 1996 **deficit with Japan is down 22%** in 1996. Exports are up 6.3% and imports down by 7.5%. On an annualized basis, the 1996 deficit with Japan is estimated to be $46.1 billion, 30% lower than its peak in 1994 of $66 billion. U.S. exports to Japan are estimated to be $68 billion in 1996.
- U.S. exports of **autos and autoparts** are up 1% from a year earlier, imports are down by 10%, and the trade deficit is down by 11.5%.

### MEXICO TRADE
- **With Mexico,** suffering from recession and international liquidity problems, the U.S. goods trade balance moved from a 1994 surplus of $1.4 billion to a 1995 deficit of $15 billion, more than accounting for the entire deterioration of the U.S. goods trade balance in 1995. Exports fell by 9.0% --a decline whose size was limited by Mexico's NAFTA obligations. In 1981-83, the period of the previous peso crisis, U.S. exports fell by 50%. The Mexican economy has stabilized in 1996 and the U.S. export decline has come to an end. Through the first 11 months of 1996, U.S. exports to Mexico were 21% higher than a year earlier, and 35% higher than the same period in 1993 (pre-NAFTA).

### CHINA TRADE
- **With China**, the U.S. goods trade deficit was $33.8 billion in 1995. The deficit in 1996 is 16% higher than the same period in 1995. Exports increased by 27% to $11.8 billion in 1995. Exports in 1996 are up by 0.5%.
- U.S. exports to China are heavily weighted toward higher-valued capital goods. In 1995, 43% of U.S. exports to China were capital goods including aircraft. Industrial supplies made up an additional 37%. U.S. imports from China are dominated by consumer goods (71% of total) such as apparel, toys, and some consumer electronics.

Goods Trade Balance
$ Billions

| | Total | Petrol | Nonpetrol |
|---|---|---|---|
| 89 | -109.4 | -44.7 | -64.7 |
| 90 | -101.0 | -54.5 | -46.5 |
| 91 | -66.3 | -44.2 | -22.1 |
| 92 | -84.5 | -44.0 | -40.5 |
| 93 | -115.6 | -44.0 | -71.6 |
| 94 | -150.6 | -44.3 | -106.3 |
| 95 | -158.7 | -47.0 | -111.7 |
| 96 | -164.2 | -57.7 | -106.5 |
| 96/95 | 3.5% | 22.8% | -4.7% |
| 96/92 | 94.3% | 31.2% | 162.9% |

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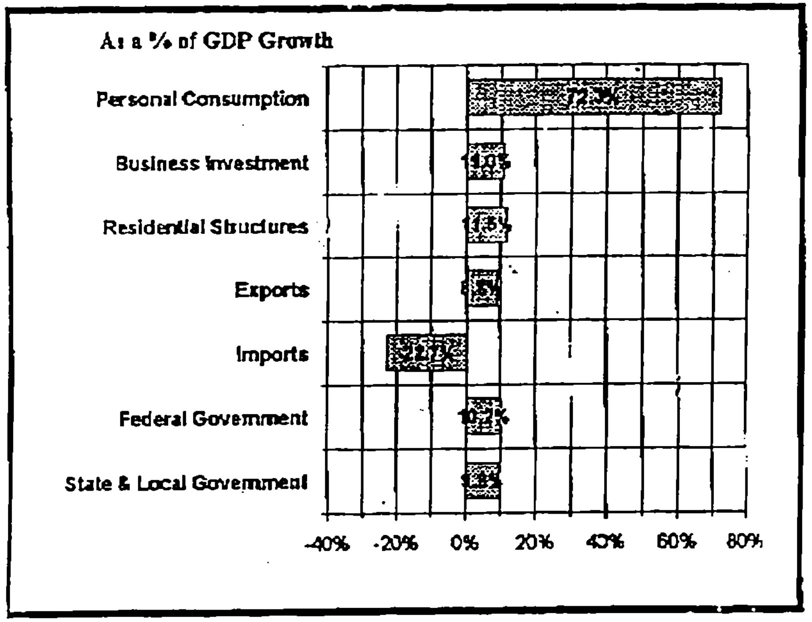
# TWO RECOVERIES COMPARED:

## FIVE YEAR PERIOD 1982-1987




Business Investment & Exports contributed 19.8% of GDP growth

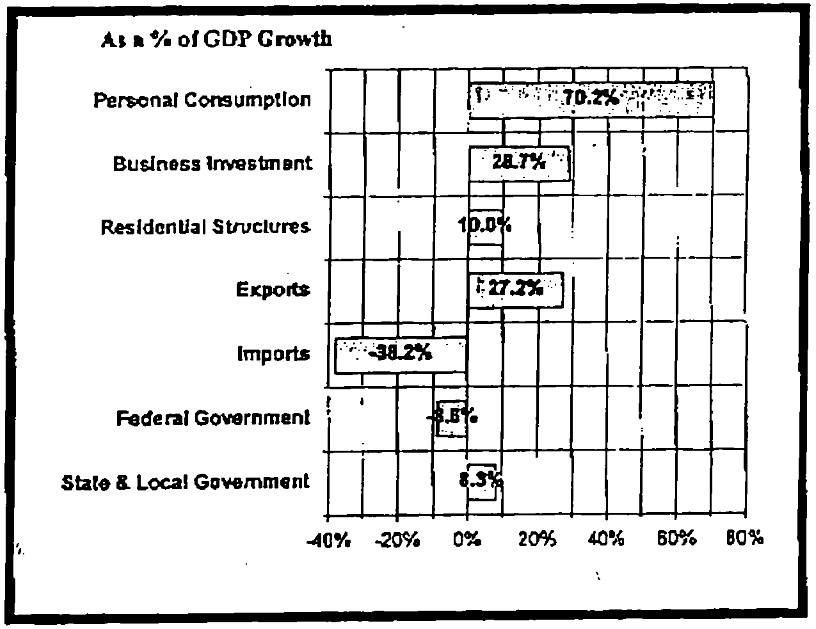
Federal Government contributed 10.2% of GDP growth

| | Share of Nominal GDP |
|---|---|
| Federal Deficit | 4.7% |
| Trade Balance | -2.6% |

Unemployment Rate (5th Year)........................ 6.2%

Non-Agrictultural Employment Growth........ +12.4 million
Real GDP Growth.............................................. 22.2%
Real Industrial Production Growth................ 22.1%

## FIVE YEAR PERIOD 1991-1996




Business Investment & Exports contributed 55.9% of GDP Growth

Federal Government contributed negative 8.6% of GDP growth

| | Share of Nominal GDP |
|---|---|
| Federal Deficit | 3.0% |
| Trade Balance | -1.1% |

Unemployment Rate (5th Year)...................... 5.4%

Non-Agricultural Employment Growth....... +11.3 million
Real GDP Growth........................................... 13.8%
Real Industrial Production Growth............. 18.8%

CHILE/LATIN AMERICA VISITS

# THEMES FOR FREI VISIT/LATIN AMERICA TRIPS

**1. Rising to the Challenge of History**. Fifty years ago, America made the commitments and created the institutions that produced victory in the Cold War and built a growing world economy. Now we face another moment of change and choice -- to adapt old institutions to new demands, old ideas to new times. Nowhere are the opportunities greater than in the Americas, where a foundation of democracy and free markets finally is in place. If we build on that foundation -- increasing economic integration and trade, locking in the gains of democracy, finding common solutions to shared problems -- we can complete the historic journey of the Americas from dictatorship, war and command economies to democracy, cooperation and free markets. And the Americas can become a cornerstone for another fifty years of security and prosperity.

**2. Building a Community of Free Market Democracies in the Americas**. Three years ago in Miami, President Clinton set out a blueprint for integrating our hemisphere around democratic governments, open markets, and cooperation to resolve common problems. Now, our challenge is to build on that blueprint by putting in place the institutions and understandings that will consolidate democracy, extend the reach of open markets, and deepen our cooperation. That's the concrete agenda President Clinton will advance during the Frei visit, his two trips to Latin America, and the Santiago Summit.

**3. Making a Difference for Americans and for the Americas**. The community of free market democracies President Clinton wants to build will bring real benefits to the American people -- and to all the people of the Americas. It will help people throughout this hemisphere enjoy the fruits of freedom -- human rights, worker rights, the rule of law and civilian government. It will allow goods and services to be traded more freely and fairly -- fueling growth and spreading prosperity. It will give the United States new partners to find common solutions to shared problems like drug trafficking, organized crime, immigration, environmental degradation.

There are two other ideas we should consider weaving in to this thematic mix.

First, we face a choice: to lead -- or be left behind. The Americas and the world are drawing closer together economically and politically. The issue is not whether integration will continue -- but whether the United States will continue to lead in shaping it to our benefit. If we fail to act, our neighbors will find their future with other nations. But if the United States continues to lead, we can consolidate the gains of democracy, open more markets to our products, and deepen cooperation throughout the Americas to meet common challenges like narcotics and immigration.

Second, we have a strategic stake in the success of free market democracies around the world. If we expect the Bosnias of this world to believe in the benefits of peace and democracy... if we want dynamic economies in Asia to fully embrace open markets, then we need to show them that this vision works in our own region. The Americas can be a model for the rest of the world -- provided we make sure that democracy delivers for the people of the Americas. That means helping their governments be more responsive and just... improve education and business opportunities... crack down on corruption... reduce the gap between the rich and the poor etc...

NSC 13 Feb 1997

# Withdrawal/Redaction Marker
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| DOCUMENT NO. AND TYPE | SUBJECT/TITLE | DATE | RESTRICTION |
|---|---|---|---|
| 001. memo | re: US Objectives for President Frei's visit (3 pages) | 01/24/1997 | P1/b(1) |

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P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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**American Agriculture Needs a Free Trade Agreement with Chile**

A number of U.S. agricultural exports are at a significant competitive disadvantage in Chile. Prohibitive tariff levels and other trade barriers exclude a number of otherwise highly competitive agricultural commodities from this important market altogether.

The discrimination against U.S. agricultural commodities is a direct result of the lack of a free trade agreement between the United States and Chile. While other countries in this hemisphere have negotiated free trade pacts with Chile, the United States government has been bogged down in a lengthy debate over the terms of fast track legislation, which provides special treatment for implementing legislation in Congress. In the meantime, however, Canada, Mexico and numerous Latin American countries have concluded trade agreements that give preferential treatment to their exports. For example:

> U.S. phosphate exports from Florida are subject to an 11 percent tariff on arrival in Chile. Phosphate fertilizer from Mexico, however, is given duty-free treatment under a bilateral free trade agreement.
>
> Chile's farmers consume about 200,000 metric tons of prilled urea a year. U.S. urea is also subject to the blanket 11 percent tariff on fertilizer imports, while urea from Venezuela enters Chile duty-free. The current disparity imposes a price disadvantage on U.S. fertilzer of approximately $24 a ton.
>
> Chile imposes the same 11 percent duty on imports of U.S. citric acid. Under a separate agreement, imports of citric acid from Colombia are duty-free. This creates a $200 per ton price disadvantage for U.S. product on an average CIF price of $1800 a ton. Chile consumes approximately 4,000 tons of citric acid per year, largely in candy and soft drinks.

There is no reason that Chile cannot eliminate the blanket 11 percent tariff on these commodities immediately upon concluding a trade agreement with the United States, as there is no domestic production of these commodities in Chile. Besides creating a level playing field for U.S. agricultural exports, immediate elimination of the duty will result in lower prices in Chile for these commodities, assisting farmers and consumers alike.

In addition, Chile imposes nontariff barriers on agricultural imports. Sanitary and phytosanitary restrictions serve as a significant trade barrier to poultry imports and imports of off-season fruit, for example. More recently, however, Chile has imposed a standard for the importation of wheat that is more stringent than most other Latin countries. Where most countries accept the declaration that imported wheat is "from areas where Karnal Bunt (a fungus) is not known to occur," Chile requires that imported wheat be "free from Karnal Bunt."

Thus far, Chile has had little incentive to negotiate over such sanitary/phytosanitary disputes. It is understandable that trade and agriculture officials there would be disinclined to give up potential leverage in overall free trade talks, if and when they do occur.

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# One Year After the Summit of the Americas

Remember the Summit of the Americas where President Clinton and the leaders of 33 other nations from the Western Hemisphere committed themselves to the creation of a Free Trade Area of the Americas by the year 2005? More than a year has passed since the ringing declarations of that summit, and it's time to take stock of what has been achieved.

The follow-up process is going well with the government doing what governments do best: create myriad working groups committed to discussing, recommending, drafting and revising recommendations related to each of the Summit's 23 goals—the centerpiece being a hemispheric trade agreement.

## The Americas

By G. Philip Hughes

As sheer process, this is wonderful stuff. But when it comes to the straightforward and modest step of bringing Chile into the North American Free Trade Agreement, thereby expanding our liberal trade pacts with Latin America beyond Mexico, the president and Congress are unable to come to terms.

No one disputes the fact that Chile's economic reforms make it the most qualified Latin American candidate to date to join Nafta. Chile has come a long way since the Pinochet dictatorship. With economic growth rates averaging more than 6% from 1990 to 1994, the Chileans have vanquished inflation, maintained a stable currency, privatized most state-owned enterprises, and brought about a number of necessary market-opening reforms. In fact, because of these advances—and with very few economic sectors directly competitive with domestic U.S. industries—many thought that Chile had a better case for Nafta membership than Mexico.

So why the delay? It seems that interest group politics and presidential electioneering are mainly responsible for derailing the Free Trade Area of the Americas agenda. And both Congress and the president are at fault.

The Clinton administration, in seeking congressional approval for "fast track" negotiating authority, has insisted that it be empowered to include agreements on labor and environmental standards—backed up by the possibility of trade sanctions—in any agreement. Congress would then have only an "up or down" vote. On Capitol Hill, the Republican majority in Congress has been unwilling to further solidify the precedent that trade agreements should be vehicles for imposing U.S. social agendas on other friendly, democratic nations.

For the Clinton administration, insisting on a linkage between future trade agreements with Chile—or any other country—and sanctions on labor and environmental standards, pleases its core labor and environmental constituencies. And if the administration's insistence on these conditions held up any agreement during the presidential election year, these same constituencies probably wouldn't mind.

Many Republicans, too, feel they have little to lose if the trade agreement with Chile should go by the wayside. Failing to reach agreement with the Clinton administration could keep the divisive issue of trade liberalization—one which pits protectionist populist conservatives against free-market conservatives—off the campaign trail, as well as deny President Clinton a trade "victory" in an election year. That may explain why Bob Dole, the Senate majority leader and a presidential contender, said last week that fast track authority for Chile joining Nafta is "not going to happen . . . I don't think it's a good idea."

Campaign politics at both ends of Pennsylvania Avenue is not the only reason for the stalemate. In the wake of Mexico's peso crisis, it is understandable that last year's enthusiasm for free trade expansion in the Americas has weakened. No one can watch the currency of one of our largest trading partners plummet over 60% in value in a year without being sobered.

Given the peso crisis and the political posturing, it is easy to lose sight of what is at stake for the U.S. in the effort to build a Free Trade Area of the Americas. In a region that has periodically nationalized, restricted, or otherwise tried to limit U.S. business penetration of many of its markets, the opportunity for a real, enduring opening is at hand.

> *When it comes to the straightforward and modest step of bringing Chile into Nafta, the president and Congress are unable to come to terms.*

Throughout Latin America, countries that once pursued closed economic systems are turning away from their old models and embracing policies of privatization and openness to foreign investment and trade. In fact, as free trade has been found to bring lower prices, job creation, greater consumer satisfaction, innovation and growth, our southern neighbors are actively liberalizing their trading arrangements with each other. Mercosur—a customs union of Argentina, Brazil, Paraguay and Uruguay—is presently negotiating with Chile and Bolivia to liberalize market access, and just signed a framework agreement with the European Union.

Thus our European competitors could

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summit

easily attain free access to the entire South American market before we and our Nafta partners are willing and able to do so. We simply cannot afford to be left behind. The cost to our economy would be tremendous. As Commerce Secretary Ron Brown recently pointed out, "The U.S. alone stands to create two million more jobs as Latin American incomes continue to climb and U.S. exports increase over the next eight years."

A number of sectors of the U.S. economy, moreover, will benefit from closer economic ties with our southern neighbors. U.S. telecommunications equipment exports to the region, for example, topped $2.7 billion in 1994, up nearly 50% in just one year. In fact, the Latin American market represents close to one-quarter of the world market for U.S. equipment. The market for services—including long distance, wireless and data transmission—and telecommunications equipment will continue to bloom only if we remain committed to freer trade in the region.

With the stalemate on free trade negotiations with Chile, the momentum of the Miami Summit of the Americas is being lost. With it, we risk losing the historic opportunity to replace generations-old suspicions about U.S. business interests in Latin America with a climate of openness and partnership. Equally important, we risk losing the resulting economic growth potential for all the societies of this hemisphere.

Our leaders in Congress and the White House should not allow this to happen. They need to quickly work out a compromise on fast track legislation and bring Chile into Nafta. It's time to get the Free Trade Area of the Americas initiative back on track.

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*Mr. Hughes, a former ambassador to Barbados, is managing director of the Council of the Americas.*

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The New York Times





January 6, 1997

# Free Trade Goes South With and Without U.S.

**Related Articles**

- Nafta's Impact on Jobs Has Been Slight, Study Shows (Dec. 19)

By LARRY ROHTER

MIAMI -- Just over two years ago, President Clinton emerged from a meeting with 33 Western Hemisphere leaders and made an ambitious pledge. By 2005, he promised, a "Free Trade Area of the Americas would stretch from Alaska to Argentina" and "will be the world's largest market."

Since then, barriers to trade and investment have indeed begun to topple, thanks to the dozens of agreements that Latin American and Caribbean countries are signing with one another.

For its part, though, the United States has mostly been sitting on the sidelines, hobbled by what Latin American officials and trade experts describe as a lack of will, leadership and commitment.

"What we are seeing is the consequences of two years of drift," said Robert A. Pastor, director of the Latin America and Caribbean programs at the Carter Center in Atlanta. "Every previous administration was hungry for an opportunity like this, but Latin America wasn't ripe for it. Now that Latin America is genuinely interested, the United States has been out of focus."

The resulting vacuum, largely the product of American electoral politics and the Mexican financial crisis, has quickly been filled by countries like Brazil and Argentina.

Putting aside their historic rivalry, South America's two giants have aggressively taken the lead by forging a four-nation market called Mercosur -- a Spanish contraction of Common Market of the South -- with more than 240 million people, a total annual output of $1 trillion and a definition of free trade somewhat different from Washington's.

Already the world's fourth-largest unified market, Mercosur is deep in negotiations with the European Union and with neighboring groups in Latin America.

In addition, the Prime Ministers of Japan and China and the President of South Korea have all made state visits to Latin America in the last few months, looking for opportunities in an area they long viewed as a United States preserve. Taiwan's Prime Minister is scheduled to do the same soon.

"What is in fact in the making is a South American Free Trade Area," said Marcos Rodríguez Mendoza, a Venezuelan economist who is the chief trade adviser to the Organization of American States. Economic integration is becoming a "reality," he said, with or without Washington.

In Central America and the Caribbean, a similar process is under way, driven largely by the

Clinton Administration's failure to keep its promise to extend to those regions the benefits enjoyed by Mexico and Canada, Washington's partners in the North American Free Trade Agreement.

As a result of Washington's inaction, the regional groups to which those small countries belong are now seeking agreements of their own with Canada and Mexico, as well as with Mercosur, the European Union and East Asia.

"I think everybody in the hemisphere is keeping all options open," said Richard Bernal, Jamaica's Ambassador to the United States and chairman of the working group for small nations set up at the Miami meeting. "While the United States is the main trade partner, if Nafta does not look like it's going to permit accession in the foreseeable future, then countries have to keep other countries in mind, including relations outside the hemisphere."

Even a cursory glance at trade figures reveals that Washington's economic stake in Latin American and the Caribbean, the fastest-growing market for American exports, is enormous. United States trade within the Western Hemisphere is not only much larger than trade with Europe or Asia, but consistently registers a surplus that helps offset large deficits elsewhere.

An American trade official who deals with Latin America said the Clinton Administration viewed the spread of regional agreements that excluded Washington not as a challenge to American leadership but as something that "can be very helpful to the Free Trade Area of the Americas process."

When Latin American nations link up among themselves, he added, "it makes it easier for them to go the last step," when the time comes to deal with the United States.

"Frankly," the official continued, "we would be doing that ourselves if we had the authority. We are not as far along in the process as we would like to have been."

Chile, which has emerged from military dictatorship to have the fastest-growing economy in Latin America, provides perhaps the best example of United States disengagement and the resulting shifts in economic strategy.

At the 1994 Summit of the Americas meeting here in Miami, the leaders of the three Nafta countries announced plans to expand their group to include Chile through a "fast track" process, with that country's President, Eduardo Frei Ruiz-Tagle, looking on.

"We have been the Three Amigos," Prime Minister Jean Chrétien of Canada proclaimed. "Now we will be the Four Amigos."

But a week later, the Mexican peso collapsed. That forced the United States into a controversial bailout of its Nafta partner and made fast-track membership for Chile politically unpalatable. Then the American election cycle began, killing any chance for bold measures on trade.

In response to what it perceived as America's lack of interest, Chile has negotiated a free trade agreement with Mercosur and revived its ties with the five-member Andean Pact, which this fall began separate talks with Mercosur. Chile recently signed a free trade agreement with Canada to supplement a similar accord it has with Mexico, which had already reached free trade agreements with Colombia and Venezuela.

"The Chileans have been kept standing at the church, waiting for the groom to arrive," said Bernard W. Aronson, who was Assistant Secretary of State for Inter-American Affairs during the Bush Administration. "After a while, to maintain your own dignity, you take off the wedding dress and go find another boyfriend."

With Mr. Clinton about to begin a second term, the next few months will be crucial to bringing the United States back into the process, government officials and economists throughout the hemisphere said. "We can no longer postpone taking decisions on certain important things," said Ambassador Bernal of Jamaica.

Latin American and Caribbean countries will be looking, their leaders make clear, for evidence of American commitment to reviving the fast-track process, either in the President's State of the Union Address or when President Frei visits the United States in late February.

"If you say no to Chile, you have said no to free trade," said the Foreign Minister of one medium-sized Latin American country. "It is a litmus test." The 2005 deadline remains attainable, the official added, "that is, if you are still interested."

At a conference in Miami on Thursday, Thomas F. McLarty, the former White House chief of staff who is Mr. Clinton's point man on Latin American issues, said the Administration remained committed to free trade and would "continue to lay the legal and economic framework for Chile's accession to Nafta, including fast-track."

If the hemisphere fails to build on the principles of the Miami conference, he said, "we may lose this moment forever."

But Foreign Minister José Miguel Insulza of Chile said membership in Nafta no longer "has either the urgency or the importance it had in 1994." Over the last two years, he added, "our country's position has consolidated internationally and we have signed agreements of great scope."

As a result, government officials and trade analysts say, it is more likely that negotiations will take place between two or more blocs or regions than that Latin American countries will come hat in hand, one after another, asking permission to join Nafta.

One indication of Latin America's growing confidence came recently when President Carlos Saúl Menem of Argentina jokingly said before heading off for a visit to Washington that if the United States and its Nafta partners wished to join Mercosur, they would be welcome to do so.

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1ST STORY of Level 1 printed in FULL format.


The New York Times

December 25, 1996, Wednesday, Late Edition - Final

SECTION: Section B; Page 7; Column 1; National Desk

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HEADLINE: Business Gains With Democrats

BYLINE: By JEFF GERTH

DATELINE: WASHINGTON, Dec. 24

BODY:

Last year George Kourpias, leader of the machinists union, used the opportunity of a Labor Day celebration to talk to President Clinton about one of his union's major concerns.

Mr. Kourpias told the President that he thought United States jobs and technology were threatened by the growing tendency of American companies wanting to do business abroad to make concessions to foreign governments or customers, especially in Asia.

Mr. Kourpias says the President told him that he, too, was concerned about this problem. As a result, White House and union officials say, the Clinton Administration promptly began reviewing the issue, focusing on concessions made by the aerospace industry, the crown jewel of American exporters and a major employer of machinists.

But by this year, unknown to union officials, the review was folded into an Administration report that, at the urging of aerospace industry lobbyists, adopted industry positions on the matter. The report also dropped recommendations the union had favored, like a requirement that companies make public disclosures about the concessions they gave.

The story of this report is one example of how business interests have gained influence with Democrats, at the expense of the Democrats' traditional allies like organized labor. At the same time, business donations to Democrats have vastly increased.

"The Clinton Administration cultivated the defense and aerospace industry, and in turn they fertilized the Democratic Party with campaign contributions," said Thomas Ferguson, a campaign finance expert and a political science professor at the University of Massachusetts, at Boston.

The aerospace industry sees it differently.

"The Clinton Administration has decided to let the market be the market," said Joel Johnson, vice president of the Aerospace Industries Association, an organization that represents manufacturers of civilian and military aircraft.

Although large corporations continue to contribute large sums to the Republicans, corporate donations to the Democratic National Committee have more than doubled in four years, while union donations have stayed the same. For every dollar labor gave to the Democrats in 1991-1992, when Mr. Clinton was first elected, business gave four, but by 1995-1996, business donations exceeded labor by a ratio of more than 9 to 1, according to an analysis of election records by Common Cause, a nonpartisan group that favors public financing of elections.

In 1992, the Democratic Business Council of large donors had only 200 members. By 1994, it had 800; today it has 1,900.

And aerospace and defense companies, like the Boeing Company and United Technologies Corporation, have donated hundreds of thousands of dollars to the Democratic committee in the most recent election cycle, much more than they gave before Mr. Clinton's first election.

"Unfortunately, what has happened is that money has taken over what's going on in America," said Mr. Kourpias, whose union contributes to the Democratic committee, but far less than the industry. He said he was upset that his plea to Mr. Clinton about concessions in the aerospace industry fizzled while the Administration responds to companies, "who've given even more money."

Laura D'Andrea Tyson, chairwoman of the President's National Economic Council, said the Administration disagreed with union arguments that concessions to foreign governments or customers had adversely affected United States jobs over all. But she said that "the situation merits close watching."

The Administration stepped into the middle of this policy thicket last summer when 19 agencies, led by the Commerce Department, prepared an annual export policy report for Congress. One section of that report dealt with offsets, which is a broad term covering a variety of trade practices in which companies make concessions in order to win sales or gain access to foreign markets. Last May, in a Congressionally mandated survey, 83 percent of businesses, mostly subcontractors, told the Commerce Department they had been adversely affected by offsets. Often offsets involve shifting some production or technology overseas.

Industry officials were critical of the survey's focus on job losses from offsets instead of on jobs created by export sales. And they were concerned about what the report would say about offsets.

When aerospace lobbyists obtained early drafts of the report, they were not pleased. One draft recommended efforts to limit commercial offsets but with little industry input, while another draft recommended new reporting standards for commercial offsets, industry and Administration officials said.

The reporting standards, one industry official said, were "the worst of all worlds for us, because the better it looks to your customer, the worse it looks to your unions."

The industry weighed in quickly and successfully. The final report released two months ago, in its section on offsets, focused only on military sales. Commercial offsets were mentioned in a brief footnote, which said the issue would be fully analyzed in next year's report.

On military offsets, the report took a cautious approach. It called for talks with industry, labor and trading partners leading to possible bilateral negotiations or changes in government policy, if warranted.

"We don't have enough data about commercial offsets," said William A. Reinsch, the under secretary of commerce for export administration. He added that "the Administration is trying to do a better job" by having a White House task force study the issue, referring to the task force prompted by Mr. Kourpias's chat with Mr. Clinton.

But that task force folded into the Commerce Department-led export policy report.

"We didn't do a report per se, we produced some draft reports, our own internal analysis and then all of this was superseded by the fact that there was going to be a chapter" on offsets in the export policy report, Ms. Tyson said.

And when the Administration, as part of the annual export policy report, debated whether to do something about commercial offsets, the White House came down on the side of industry in opposition to the measures, according to industry and government officials.

The measures were dropped, Ms. Tyson said, because officials "were not compelled by the evidence they had at their disposal."

All of this was unknown to union officials.

"We weren't aware of what was going on in the export report," Mr. Kourpias said. "That's not the way to play the game."

Ms. Tyson acknowledged that the White House only recently informed the union about the status of its study, long after the report was released. But the union may not have been following the issue as closely as when Mr. Kourpias first raised it with Mr. Clinton, White House officials said. Since then, the machinists have completed contract negotiations with companies like Boeing, the largest aerospace manufacturer.

"In the name of increased sales, companies do things they might not do otherwise" such as "shipping technology overseas, some of it taxpayer-funded technology, to companies who couldn't capture the market but who will wind up taking our own work away from us," said Lee Pearson, aerospace coordinator and vice president of the machinist union.

Companies say they are reluctant to give away too much expertise for fear of creating a competitor and point out that aircraft, America's biggest export, are still mostly made in America. But companies also say that to win new business and maintain their work force, they must make concessions. And so the percentage of foreign-made components in United States jetliners is steadily increasing, as is the percentage of foreign sales.

"You have to meet the customer's demand, you have to do what it takes to compete or you're not in business at all and you haven't done your worker any good," said Mr. Johnson of the aerospace association.

Mr. Reinsch said that industry officials privately acknowledged that offsets distorted a market economy but that they also feared that unilateral United States action, like the 1977 Federal law banning foreign bribes, would leave them unable to compete.

"They recognize they have to play by the existing rules or lack of rules until somebody changes them," he said, but "they don't want to call for an end to offsets because it will be seen as offending the Chinese."

GRAPHIC: Graph: "DOLLARS AND CENTS: The Money Factor" tracks total "soft money" (money given to the political parties' national committees) donations by business and labor of $10,000 or more per election to the Democratic National Committee, from '91-'92 through '95-June '96. Also tracked is membership in the Democratic Business Council, 1992, 1994, and 1996. (Sources: Common Cause analysis of election records; Democratic National Committee)

LANGUAGE: ENGLISH

LOAD-DATE: December 25, 1996

# Regional Jets Take Spotlight in American Air Dispute

By SCOTT MCCARTNEY
And SUSAN CAREY
*Staff Reporters of* THE WALL STREET JOURNAL

Regional jets should be the rage of the skies.

The sleek new breed of 50- to 70-seat planes are fast, economical and comfortable, with no middle seats and ample leg room. They can fly nonstop halfway across the country, and travelers don't fear them the way they do turboprop commuter planes.

Airlines like them, too. "The regional jet can fly places you can't fly today at economical costs," says Greg Brenneman, president of Continental Airlines, which plans to use them to service smaller U.S. cities and new international markets.

But the so-called "RJs" have hit turbulence, especially at AMR Corp.'s American Airlines, the nation's second-largest carrier. There, pilots are threatening to strike Saturday unless they — not less well-paid commuter pilots — are given contractual rights to fly the smaller planes. Higher pay for flying any planes is also an issue in the dispute, but that issue appears to be easier to negotiate.

"If there is a strike, it will be an RJ strike," says PaineWebber Inc. analyst Sam Buttrick.

The Allied Pilots Association, which represents American pilots, wants to secure thousands of cockpit jobs created by the new jets. Otherwise, the union argues, the company could "outsource" member pilots' jobs by shifting its routes to its American Eagle commuter subsidiaries.

"If managers don't have outsourcing in their hearts, then why can't they sign our deal?" asks American pilot Ivan Rivera.

Company officials say they would lose money flying regional jets with higher cockpit costs, but that not having the jets would cost American passengers. Indeed, union consultants reached substantially the same conclusion last fall, finding that American pilots would benefit from increased traffic through American hubs. Still, says American President Donald Carty, "regional jets have become an emotional issue for some of our pilots."

When commuter carriers began deploying regional jets in force in the early 1990s, the biggest concern was whether the planes, which cost $13 million to $27 million each, would draw enough extra traffic to be profitable.

Bread-and-butter commuter routes of up to 200 miles turned out to be too short to use the jets efficiently, but longer, less-traditional routes — from Cleveland, say, to Providence, R.I. — work well, airline executives say. The planes are even beginning to foster a return to more direct flights between smaller cities, allowing some travelers to avoid hub connections. "In almost every market where it's been deployed, the regional jet has actually stimulated the market," says Alex. Brown & Sons analyst Will Wrightson. "People just prefer jets to turboprops."

The leading plane in this new generation of regional jets is Bombardier Inc.'s

## Regionals Take Off

Commuter carriers feeding big airlines are flocking to the new-generation regional jets

| AIRLINE | NO. OF REGIONAL JETS | FIRM ORDERS | OPTIONS TO ORDER |
|---|---|---|---|
| Delta | 52 | 38 | 95 |
| United | 15 | 12 | 36 |
| Alaska | 12 | 0 | 0 |
| Continental | 4 | 21 | 175 |
| Northwest | 0 | 12 | 24 |

Note: Regional jets are operated by various commuter carriers affiliated with the major airlines.
Source: Regional Airline Association

Canadair RJ, which is based on one of the firm's corporate jets. The Canadair is most hotly challenged by the Brazilian Embraer 145, which was just recently certified to fly in the U.S.

The new planes are creating all kinds of new opportunities. Independent commuter carrier Mesa Air Group will soon open an all-regional-jet hub at close-in Meacham Field in Fort Worth, Texas, challenging American's giant hub at nearby Dallas-Fort Worth International Airport.

Comair Holdings Inc., a Cincinnati-based commuter line that feeds Delta Air Lines, became the fastest-growing U.S. commuter carrier after it started flying regional jets in 1994.

Comair first used its regional jets to reach cities that were beyond the range of turboprops from Cincinnati, bringing new traffic into the hub that might have gone through Chicago, St. Louis or Detroit. After opening those new markets, Comair began using the planes to replace larger Delta airplanes at off-peak times. That allowed Delta to move some of its bigger planes to bigger markets, and recently Comair has begun using new RJs to phase out its turboprops.

Houston-based Continental expects to have 25 regional jets in service by June 1998 and has options on 175 more of the 50-seat aircraft. Before deciding to purchase them, the carrier calculated a "turboprop avoidance factor" for different routes, figuring that on some, just replacing a turboprop with a regional jet would increase traffic 20%.

At distances of 500 to 1,000 miles, Continental's regional jets cost about as much to operate as turboprops, and in fact have about the same unit costs as conventional small jets like the Boeing 737, the airline says.

The regional jets fly as fast and as high as 737s, and will replace the larger planes on some routes. That will allow Continental to offer twice the number of flights with the same number of seats in some markets, a move designed to attract business travelers, who typically prefer high-frequency service.

Beginning April 6, Continental will replace its regular airline service between its

*Please Turn to Page B8, Column 5*

*Continued From Page B1*

Cleveland hub and cities like Minneapolis and St. Louis with the regional jets. As additional planes are delivered, Continental plans to serve new cities in Mexico and Canada, while also building a special RJ terminal in Cleveland. "It's going to be huge," says David Siegel, president of Continental Express, the airline's commuter subsidiary, which is considering moving to an all-jet fleet.

But while neither Continental nor any of the other carriers plan to eliminate any big-airline jobs with regional jets, the American showdown has prompted other carriers' unions to take a closer look at the issue.

Last October, the head of the pilots' union at United Airlines warned members in a briefing paper that "the RJs are here and arriving in force." The union said Comair has been siphoning passengers to Cincinnati away from Atlantic Coast Airlines, United's commuter partner at Washington's Dulles Airport. But the pilots group has yet to take a position on the 12 regional jets ordered last month by Atlantic Coast.

Northwest Airlines has tried to avoid labor trouble in connection with the introduction of 12 regional jets at its 30%-owned commuter affiliate, Minneapolis-based Mesaba Holdings Inc.

Because Northwest pilots are contractually guaranteed to fly any jets within the Northwest system with 70 or more seats, the Mesaba planes will be configured to carry 69 passengers. Moreover, although the Mesaba jets will take over some routes now flown by Northwest's oldest and smallest DC-9s, the DC-9 pilots will move up to bigger planes.

The pilots union hasn't taken any action to oppose the moves, which it concedes were legal. Still, its members aren't pleased, says Paul Omodt, a spokesman for the Air Line Pilots Association at Northwest. "They took $300 million that Northwest employees earned and went out and invested in a separate company," he says.

THE WALL STREET JOURNAL
WEDNESDAY, FEBRUARY 12, 1997

# Little Progress Seen in Talks With Pilots

## 'Confusing' Negotiations Cited by American Air

By ADAM BRYANT

WASHINGTON, Feb. 13 — The Allied Pilots Association, the union that has pushed American Airlines to the brink of a strike, is in many ways a misnomer. From its founding in 1963 through recent weeks, its members and leaders have made disunity their hallmark.

Those fissures within the union, by many accounts, are now proving an obstacle to progress in labor talks and may end up stranding tens of thousands passengers and shutting down the airline Saturday morning. At the same time, the pilots' negotiating posture has reinforced long-standing tensions between them and such lower-paid American employees as flight attendants and baggage handlers.

Despite encouragement from the Clinton Administration to use mediation to settle differences between American's management and the pilots, there was little movement toward common ground today.

Robert L. Crandall, the chairman of American's parent, the AMR Corporation, urged President Clinton today to intervene to avert a strike by forcing the two sides into binding arbitration. James Sovich, the union's president, submitted a new contract proposal to the company late today; the details were not disclosed.

American Airlines executives have expressed frustration all week with the lack of responsiveness from the pilots. The latest round of talks was supposed to begin in earnest on Monday, but the pilots' 18-member board did not arrive here until Tuesday night, and talks did not resume until Wednesday afternoon, after the board met with union negotiators.

Donald J. Carty, president of American Airlines, has described the talks as "very unproductive and even confusing." After the union signaled that it wanted higher wages instead of stock options, the airline responded by adjusting its proposal. The union then dismissed the offer as a step back rather than an improvement.

"This is a very frustrating and disappointing situation," Mr. Carty said today in a recorded message for employees. "We want an agreement, but we need to have someone to have an agreement with."

Continued on Page D3

Continued From First Business Page

Wallace J. Pitts, a spokesman for the Allied Pilots, said that union leaders had been clear on their demands for weeks, and that any appearance of disharmony was a result of "healthy democratic debate."

But it has often been difficult to discern what union officers and the 9,000 members really think. Union leaders, for example, approved a tentative agreement by a close vote last fall and sent it on to members for ratification with a recommendation to approve it.

But a group of pilots organized an intensive lobbying effort to vote it down. The "APA Pilots Defending the Profession," as they called themselves, set up a sophisticated site on the World Wide Web, and used electronic mail to get their message out. Their efforts were helped to some degree by some union officers who sent letters to members suggesting that a better deal could be negotiated with little risk.

Although it is not clear how many votes they swayed, their efforts certainly appeared to have succeeded after the pilots voted down the tentative agreement by almost a 2-to-1 margin.

With a strike nearing, some pilots said that if a vote were taken again today, the original agreement would be approved.

"We would pass that contract in a heartbeat if we had a second chance," said Walter Brown, a pilot who has been flying for American for eight years and voted in favor of the tentative agreement. Mr. Brown said he would like to sue some of his colleagues who organized the Defending the Profession group for representing themselves as would-be union leaders.

"There is a lot of dissension within the A.P.A," he added.

Even among other employees at American, most of whom will be laid off in the event of a strike, there has

**Among an airline's employees, there is little sympathy for higher-paid pilots.**

been little broad support or sympathy for the pilots, who earn an average of $120,000 a year.

In one sarcastic barb, many employees at American recently circulated a "Help Feed the Pilots" sign-up sheet that noted "thousands of pilots in our very own country are living at or just below the six-figure salary line." Employees were told they could sponsor a pilot in the event of a strike for $300 a day, which could mean the difference between "a vacation fishing in Florida or a Mediterranean cruise."

A second sheet was circulated showing the paycheck stub of an American pilot who made more than $160,000 last year, over the words, "I'm a pilot and I don't make enough." Some American employees who are not members of the pilots' union also wore buttons recently bearing the acronym S.P.O.I.L.E.D., for Spoiled Pilots' Objective Is Leaving Employees Destitute.

Such tensions, though, are not new for the pilots. In 1963, a group of American pilots, who at the time were members of the Air Line Pilots Association, fomented distrust of the national union and won enough support to form American's own union. But after the split, many pilots felt strongly that all pilots should maintain a unified industrywide union, and resented the move to break ranks with the Air Line Pilots Association, which represents pilots at most major airlines today.

"That union was founded in a bloody boil of dissension," said George E. Hopkins, a professor of history at Western Illinois University, who has written three books on the history of pilot unionization.

Twenty years later, the Allied Pilots Association made one of the most controversial decisions in airline labor history by signing an agreement that created a second, lower tier of wages for new pilots. The plan was intended to help American expand its fleet and market share, and pilot leaders signed the deal at a time of uncertainty and turmoil in the industry following deregulation in 1978.

In the years since, the so-called B-scale has fostered considerable resentment among the lower-paid pilots, and union leaders are now trying to close the gap quickly.

The pilots have also been divided on how best to negotiate with the company. In January 1994, Richard LaVoy, the pilots' union president at the time, agreed with Mr. Crandall to what they called a "fresh approach" to negotiations.

The approach called for the two sides to use binding arbitration to resolve any issues that could not be settled in negotiations. Such a guarantee would have prevented any strike at the airline. But the union's board scrubbed the idea, and four months later the pilots voted in Mr. Sovich, the current president.

The New York Times

FRIDAY, FEBRUARY 14, 1997

SISTER AIRLINE

# In American Eagle, Union Sees a Threat

## Commuter Line Continues to Expand

By ALLEN R. MYERSON

The New York Times
FRIDAY, FEBRUARY 14, 1997

DALLAS, Feb. 13 — They may earn only a third to a half as much as the $120,000 a year that pilots average at American Airlines. But pilots at American Eagle, the company's commuter line, will put up with no second-guessing of their abilities.

"Their dispute with management has generated some irresponsible rhetoric concerning our qualifications," Homer Pugh, the American Eagle pilot who leads the commuter line's union, said in a statement. "American Eagle pilots' qualifications, skill and professionalism are on a par with any group of professional airmen."

But as the 9,000 American Airlines pilots — in pay and prestige among the princes of the industry — define the threats to their jobs, they point to more than just the company's managers. And rather than seeing American Eagle, already the nation's largest commuter airline, as a way to funnel more passengers to their airline, the American pilots see the 2,000 pilots at American Eagle bearing down on them.

The AMR Corporation, the parent company to both airlines, wants to accelerate American Eagle's already rapid growth by adding as many as 67 medium-sized jets to the current fleet of 205 turboprops. The American pilots say that these pilots and jets, able to link New York and Dallas, will take over many more of their routes.

"The primary issue is the outsourcing of jobs," said David U. Johnson, an American pilot based in Dallas. "If we allow American Eagle to get the jets, upper management will then attempt to take additional flying time away from us, which will end up taking away jobs."

The American Airlines pilots also threatened to strike five years ago over management plans to add jets to the American Eagle fleet.

In 1992 and 1993, the American Airlines pilot's union said, the company furloughed about 550 of its members and turned their routes over to American Eagle and its cramped, noisy, low-flying turboprops. Now, the union says, the company wants to expand American Eagle to take over that much more of the American Airlines system.

Passengers who fly on American Eagle will be shortchanged, the American pilots say. "When they go buy a ticket on American Airlines, they know they're getting an American-trained pilot and an American Airlines jet," Mr. Johnson said. But Mr. Pugh, the American Eagle pilot, said that American Eagle pilots were trained to the same standards as American pilots.

Underneath the technicalities lie the same issues of job security and cost cuts that have split many other industries. AMR says that if American pilots flew the jets for American Eagle, their higher salaries would make the routes uncompetitive. Commuter airlines controlled by rivals already have the jets, which are far quieter, roomier and more popular with passengers than turboprops.

Today, the company rejected a union proposal to have American pilots fly any American Eagle jets, but at salaries that would keep those flights competitive with other commuter airlines.

Stephen A. Frederick, a former American Eagle pilot, said the company was playing the pilots' groups against each other. "The rivalry gets pretty intense," he said. Mr. Frederick said he was dismissed in 1995 for complaining about airplane safety after the 1994 crash of an American Eagle flight in Indiana that killed 68 people.

What many American Eagle pilots want most is to jump to American Airlines, where senior pilots can earn $200,000. But the addition of regional jets to the American Eagle fleet would still probably increase the pay of pilots who flew them, and allow many other pilots to step up in pay and seniority as well.

American's parent company built American Eagle through acquisitions beginning in 1988. With hubs in Dallas, Miami, Los Angeles, Chicago, New York and San Juan, Puerto Rico, it serves 127 destinations including Canada and the Caribbean.

As at other airlines, American's commuter network has provided essential spokes for the hubs. More than 60 percent of American Eagle's 12 million passengers connect with American flights.

But the American Airlines pilots see American Eagle's growth as predatory. They list the many routes — among them Dallas to Amarillo, Tex., Chicago to Cleveland and Cincinnati, New York to Pittsburgh and Providence, R.I. — that they say have gone from American Airline jet service to American Eagle turboprops.

**Job security and cost cutting are the primary issues raised by American's pilots.**

Several industry analysts said that in their mistrust of Robert L. Crandall, the company's chief executive, pilots failed to see how much they have to gain from American Eagle's expansion and the increased American Airlines traffic that would result.

"If American doesn't get the regional jets, the pilots will lose over time," said Glenn D. Engel an analyst with Goldman, Sachs. "I wonder whether the demonization of Crandall is the real issue."

The American Airlines pilots union agrees that its own study demonstrates the need for their company to use the regional jets to remain competitive. While they say that American Airlines could operate these jets at an added cost of about $30 million over five years, the company puts the cost at hundreds of millions. American Airlines flight attendants, machinists and other employees also earn much more than those at American Eagle.

The American Airlines pilots belong to the Allied Pilots Association, an independent union. American Eagle pilots belong instead to the Air Line Pilots Association, the nation's dominant pilots union, which also represents pilots at Delta, United and many other airlines.

The company even considered continuing to operate American Eagle during a strike, but concluded against it.

International Association of Machinists and Aerospace Workers

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OFFICE OF THE INTERNATIONAL PRESIDENT

GL-2 International

January 28, 1997

Subj: Offsets

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear President Clinton:

As you may recall, I accompanied you on part of your Labor Day trip through California in 1995. During our time together, we discussed the devastating impact that "offsets" were having on union membership in the aerospace industry. "Offsets" are a marketing tool used by industry to obtain sales abroad by promising that a portion of manufacturing will take place in those countries that commit to purchases. It is a practice that results in the transfer of technology overseas and threatens the high-skilled jobs in the aerospace industry that you and your Administration have fought so hard to keep in the United States.

I was gratified by your response to my concerns -- soon after our meeting you established an interagency task force headed by the National Economic Council. However, while some progress has been made, I am troubled that consideration of this issue is moving far too slowly.

The issue of offsets is touched upon in a report issued by another interagency body, but that discussion is limited to military offsets. More troubling is the fact that although language in this report reaffirms the serious impact that military offsets are having and will continue to have on the U.S. labor market, its recommendations are so benign that it is hard to imagine that they will be taken seriously or have any effect at all.

Offsets continue to plague the American economy and threaten worker security. We cannot wait any longer for a serious review of this matter. Accordingly, among other things, I urge you to consider taking the following action:

- Formalize and empower the interagency task force that initially took responsibility for examining this issue and make it a permanent fixture charged with the mission of promoting U.S. aerospace production and employment.

- Ensure that non-governmental entities, like representatives from the International Association of Machinists and Aerospace Workers and the aerospace industry, be invited to participate in task force deliberations and decisions.

- Begin discussions with other countries for the purpose of obtaining trade agreements that prohibit aerospace companies (whether they are foreign or domestic) from using the export of jobs and technologies as a marketing tool.

Offsets are a serious problem threatening the nation's ability to retain the high wage, high skill jobs that this nation desperately needs to retain. It must be resolved now. The process that you initiated to address this problem after our discussion on Labor Day more than a year ago must be restarted with the dedication, leadership, and commitment that will effectively resolve the many problems that offsets have created in the aerospace industry.

As always, I look forward to working with you and members of your Administration to address this matter. Thank you for your consideration.

Sincerely,

George J. Kourpias
INTERNATIONAL PRESIDENT

GJK/sfd

cc: Executive Council
Sweeney
Yokich
Becker

February 16, 1997

MEMORANDUM FOR: GENE SPERLING

FROM: PETER ORSZAG

SUBJECT: Economics of unions

In preparation for your trip to the AFL-CIO meeting, you requested an update on the economics of unions. This memorandum focuses on four questions:

- What effect do unions have on wages?
- What effect do unions have on productivity and profits?
- Why has union membership declined?
- What effect has the decline in union membership had on earnings inequality?

**The union wage premium**

In 1996, the median full-time unionized worker earned $615 per week -- 33 percent more than the median full-time non-unionized worker, who earned $462 per week. But this 33 percent figure does not control for differences between the typical union worker and the typical non-union worker, and is therefore not viewed by economists as the most precise measure of the pure union wage premium. For example, union members tend to work disproportionately in larger firms, in cities, and in the manufacturing and public utilities industries -- all of which are associated with higher wages. Studies that control for the worker's education, age, region of residence, metropolitan status, industry of employment, and occupation tend to find a union wage premium of about 10 to 15 percent.

Economists worry that even the 10 to 15 percent range may be misleading, since unions may skim workers with better unmeasured attributes (like innate ability) from their applicant pools. Studies that attempt to control for this selection bias by using sophisticated econometric techniques have not been particularly successful in obtaining reliable results (Greg Duncan and Duane Leigh, *Industrial and Labor Relations Review*, October 1980; Chris Robinson and Nigel Tomes, *Journal of Labor Economics*, January 1984). But studies that control for the bias by studying the same worker over time -- on the theory that unmeasured characteristics like innate ability don't change very much over time -- have produced generally similar estimates to the traditional ones, although the longitudinal estimates do tend to be slightly smaller (Richard Freeman, *Journal of Labor Economics*, January 1984; George Jakubson, *Review of Economic Studies*, October 1991). While even these longitudinal studies can be criticized, the 10 to 15 percent range is the most credible one within the economics community (as is implicit in the attached article from the Weekly Economic Briefing).

The union wage premium varies substantially over time and across industries and occupations. The attached Figure 1, taken from George Borjas's new *Labor Economics* textbook (McGraw Hill, 1996) shows the variation in the premium over time. John Pencavel and Catherine Hartsog (*Journal of Labor Economics*, April 1984) conclude that the wage premium is countercyclical -- that is, it widens when unemployment is high and narrows when unemployment is low. The countercyclical nature of the premium is not surprising: relative to non-union workers, union workers' wages are protected during recessions -- so the wage premium grows during such periods.

The wage premium also varies along other dimensions. It is higher for low-wage workers than high-wage workers. It is also higher in the construction, transportation, telecommunications, and utilities industries than in other industries. Indeed, the union wage premium is approximately zero in mining and finance (David Card, *NBER Working Paper 4195*, October 1992). The union wage premium in the public sector is on the order of 5 to 10 percent (Robert Valleta, *Journal of Labor Economics*, July 1993; Janet Currie and Sheena McConnell, *American Economic Review*, September 1991).

**What do unions do?**

The traditional view of economists is that the 10 to 15 percent union wage premium represents an inefficiency: just as monopolists are inefficient because they charge super-normal prices and restrict output, unions are inefficient because they charge super-normal wages and restrict employment. More specifically, the traditional view is that unions artificially restrict employment in their industries -- thereby reducing national output. According to this view, the union wage premium results from "spill-over" effects: workers who can't obtain jobs in the unionized industries "spill over" into the non-unionized ones, bidding down wages there. In an often-cited study, Albert Rees concluded that wage differentials between otherwise comparable union and non-union workers reduced GNP by 0.3 percent (*Journal of Law and Economics*, October 1963).

In a seminal 1984 book (*What Do Unions Do?)*, Richard Freeman and James Medoff argued that this traditional view was wrong. Freeman and Medoff argued that unions provide workers with a direct means of voicing their discontent, and thus reduce voluntary turnover; that unions facilitate cooperation between labor and management; and that unions improve worker morale, motivation, and effort. All three of these mechanisms, Freeman and Medoff emphasize, raise productivity. They conclude that unions improve efficiency, and that the union wage premium primarily reflects the impact of unions' providing "voice" to their workers (and thus is a benefit for aggregate productivity), rather than the impact of unions' restrictions on employment (which would reduce aggregate productivity).

Although the question continues to be controversial, the empirical evidence seems to suggest that unions do indeed raise productivity. The attached Figure 2 (taken from Ronald Ehrenberg and Robert Smith, *Modern Labor Economics*) gives estimates of the effect of unions on productivity in different industries. Some of the studies suggest that unions raise productivity more than wages, suggesting that *profitability* may also be higher in unionized firms. But most studies suggest the opposite (that unions reduce profitability). For example, Kim Clark (*American Economic Review,* December 1984) concluded that unions reduce the rate of return to the firm's capital by 19 percent. Another study found that stock prices fall following the filing of a union petition with the NLRB, and following certification of a union as a bargaining agent (Richard Ruback and Martin Zimmerman, *Journal of Political Economy*, December 1984).

**The decline in union membership**

As the attached article from the Weekly Economic Briefing notes, union membership in the private sector has declined from 16.5 percent in 1983 to 10.2 percent in 1996. Union membership in the public sector, however, has remained about 37 percent since the early 1980's.

The decline in union membership in the private sector is attributed to several causes. About a third of the decline can be explained by shifts in the structure of the economy away from high-union areas and toward low-union areas: from blue-collar industries to white-collar industries; from the Northern and Eastern regions to the South and West; and from male workers to female workers (William Dickens and Jonathan Leonard, *Industrial and Labor Relations Review*, April 1985; Henry Farber, *Science*, November 1987; Henry Farber and Alan Krueger, *NBER Working Paper 4216*, November 1992).

The other cause of declining union membership is apparently a lower demand for unionization by workers. In 1955, unions won more than 66 percent of the elections held by the NLRB to determine certification as a collective bargaining unit. By 1990, unions won only 47 percent of the elections (Borjas, *Labor Economics*, 1996). The lower union success rate may itself be caused by more aggressive anti-union efforts by management (Richard Freeman and Morris Kleiner, *Industrial and Labor Relations Review*, April 1990). Borjas argues that by hiring a consultant for only 10 days, management reduces the probability that a union will win the NLRB election by 7 percentage points (Borjas, *Labor Economics*, 1996).

**Effects of lower union membership on inequality**

The wage distribution among union workers is much more equal than the wage distribution for other workers: The evidence suggests that the dispersion of wages in union firms is about 25 percent lower than the dispersion in non-union firms (Richard Freeman, *Industrial and Labor Relations Review*, October 1980; David Card, *NBER Working Paper 4195*, October 1992). Since unionized wage inequality is lower than aggregate wage inequality, unionization tends to reduce wage dispersion in the aggregate economy. The ongoing decline in unionization may therefore have contributed to the increase in inequality in the U.S. since the early 1970's. *The State of Working America* cites three studies showing that 21 percent of the increase in male wage inequality during the 1970's and 1980's was due to deunionization (see attached Figure 3). This year's *Economic Report of the President* also notes that the decline in union membership has played some role -- although a small one -- in increased earnings inequality.

 Figure 1

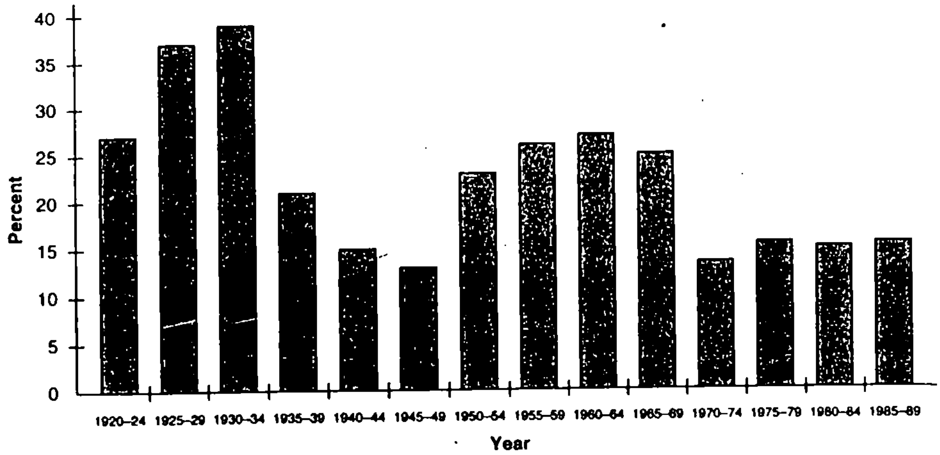



**FIGURE 11-12** **Wage Gap Between Union and Nonunion Workers, 1920–1989**
(*Sources:* The 1920–1969 data are drawn from John Pencavel and Catherine E. Hartsog, "A Reconsideration of the Effects of Unionism on Relative Wages and Employment in the United States, 1920–1980," *Journal of Labor Economics* 2, April 1984: 193–232. The data for the 1970s are drawn from H. Gregg Lewis, *Union Relative Wage Effects: A Survey.* Chicago: University of Chicago Press, 1986. The data for the 1980s are drawn from Peter D. Linneman, Michael L. Wachter, and William H. Carter, "Evaluating the Evidence on Union Employment and Wages," *Industrial and Labor Relations Review* 44, October 1990: 34–53.)

terpreted as a measure of the union wage gain $\Delta$? In other words, does the fact that the typical union worker earns 15 percent more than the typical nonunion worker imply that if *we* became unionized we would also earn 15 percent more? The answer is no!

Suppose that a union contract forces the firm to pay its workers 15 percent more than the competitive wage. Typically, the collective bargaining agreement also makes it difficult for the firm to fire or lay off workers. Because of the very high cost of labor and because the firm is stuck with workers they hire, the firm will want to screen job applicants very carefully. Moreover, the 15 percent wage premium encourages many workers to apply for jobs at the unionized firm. As a result, the firm can choose only the most productive workers from the applicant pool. Over time, therefore, the firm's work force will be composed mostly of workers who are relatively more productive than workers in nonunion firms.

The union wage gap is typically estimated by comparing workers in union and nonunion jobs who have the same socioeconomic background. Because these observable measures of skills do not completely account for skill differentials among workers, the typical worker in a union job will be more productive than a seemingly comparable worker in a nonunion job. The union wage gap, therefore, overestimates the union wage gain. In other words, part of the union wage gap is attributable to the fact that unionized firms "skim" the most productive workers from the applicant pool. As a result, estimates of the union wage gap cannot be used to predict how much a randomly chosen worker in the economy would gain if his or her firm suddenly became unionized.

Figure 2



**TABLE 12.8 Estimates of the Impact of Unionism on Productivity in U.S. Industries**

| *Industry/Year of Data* | *Estimated Impact of Unions on Productivity (percent)* |
|---|---|
| (a) All U.S. manufacturing, 1972 | 20 to 25 |
| (b) Wooden household furniture, 1972 | 15 |
| (c) Cement, 1953–76 | 6 to 8 |
| (d) Underground bituminous coal, 1965 | 25 to 30 |
| (e) Underground bituminous coal, 1975 | −20 to −25 |
| (f) Construction, 1972 | 17 to 22 |
| (g) Commercial office buildings, 1973–74 | 30 |

SOURCES OF ESTIMATES: (a) Charles Brown and James Medoff, "Trade Unions in the Production Process," *Journal of Political Economy* 86(June 1978):355–78. (b) John Frantz, "The Impact of Trade Unions on Productivity in the Wood Household Furniture Industry" (Honors Thesis, Harvard University, 1976). (c) Kim Clark, "The Impact of Unionization on Productivity: A Case Study," *Industrial and Labor Relations Review* 33(July 1980):451–69. (d)–(e) Richard Freeman, James Medoff, and Marie Connerton, "Industrial Relations and Productivity: A Case Study of the U.S. Bituminous Coal Industry" (mimeographed, Harvard University, 1979). (f) Steven Allen, "Unionized Construction Workers Are More Productive," *Quarterly Journal of Economics* 99(May 1984): 251–74. (g) Steven Allen, "Unionization and Productivity in Office Building and School Construction," *Industrial and Labor Relations Review* 39(January 1986):187–201.

Indeed, in 1975 unionized workers were estimated to be 20 to 25 percent *less* productive than nonunion workers in the industry. This decline in relative productivity has been attributed to the well-known breakdown of the United Mine Workers' (UMW) national leadership that occurred in the late 1960s and early 1970s, which resulted in deteriorating industrial relations practices, including increased occurrence of *wildcat* (unauthorized) strikes over local issues.[67] These results emphasize that the effects of unions on productivity are neither constant nor always positive; they vary across industries and time periods as industrial relations practices vary.

The two Allen studies cited in Table 12.8 find surprisingly large union productivity differentials in construction—surprising because in the construction industry unions were widely thought to have adverse effects on productivity owing to their restrictive work rules (limits on apprentice/journeymen ratios, limits on the jobs members of each craft can do, etc.).[68] He attributes the differential, however, to better training in union apprenticeship programs, changes in the occupational mix induced by unions (e.g.,

[67] Richard Freeman, James Medoff, and Marie Connerton, "Industrial Relations and Productivity: A Case Study of the U.S. Bituminous Coal Industry" (mimeographed, Harvard University, 1979).

[68] Steven Allen, "Unionized Construction Workers Are More Productive," *Quarterly Journal of Economics* 99(May 1984):251–74, and Allen, "Unionization and Productivity in Office Building and School Construction," *Industrial and Labor Relations Review* 39(January 1986):187–201.

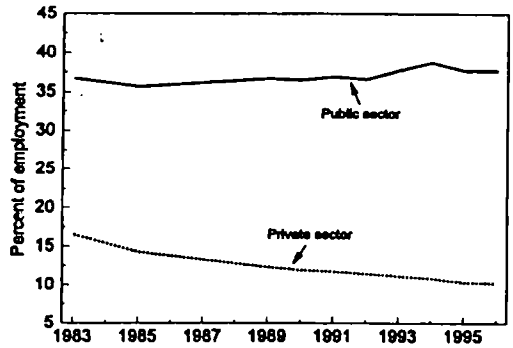
EYES ONLY

CURRENT DEVELOPMENT

## Trends in Union Membership and Earnings

At least three aspects of trends in union membership and earnings are noteworthy.

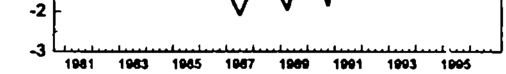
Union Membership




**Membership trends.** The overall decline in membership has been concentrated in the private sector (see upper chart). While the share of private sector workers who are union members fell from 16.5 percent in 1983 to 10.2 percent in 1996, the share of public sector workers has remained roughly constant at about 37 percent.

**Compensation trends.** Compensation has often changed at different rates in the unionized and non-unionized sectors of the economy (see lower chart). During much of the 1980s, for example, compensation grew more slowly in the unionized sector than in the rest of the economy, and more slowly than inflation. More recently, the trends have been similar in both sectors.

Real Compensation Growth by Union Status




**Wage premium.** Weekly earnings for the typical unionized worker were about a third higher than those of the typical non-unionized worker in 1996. Part of this difference reflects the fact that unionized workers tend to be concentrated in higher paying jobs (in larger firms, urban areas, and manufacturing and public utilities industries). Unionized firms faced with higher wages may also have the ability to screen for and select workers with better-than-average skills and training from the queue of workers seeking union-wage jobs. Nevertheless, econometric studies that try to control for these other factors suggest that working in a unionized firm raises a worker's earnings by 10 to 15 percent. In short, being in a union matters, even after taking other factors into account.

for these groups is largest—increasing the average wage from 4.9% to 6.6%. Unionization declined more among low-wage than high-wage workers from 1973 to 1987, with unionization actually increasing among the top fifth. The wage impact of changes in unionization was to increase the wage gap between high- and low-wage workers. For instance, an increase in union representation lifted the wages of the top-fifth by 0.8%, but deunionization lowered the wages in the bottom fifth by 4.3%, creating a roughly five percentage point divergence between high and low-wage earners.

The data in **Table 3.41** report the results of three studies of the effect of the drop in unionization on overall male wage inequality. These data show that there was sizeable growth in wage inequality between the 1970s and the late 1980s. Remarkably, all three studies found that lower unionization can account for the same proportion of overall higher wage inequality—21%—even though they employ radically different methodologies. Unfortunately, these studies do not examine women's wages. Another study, discussed below (Table 3.47), shows deunionization playing a smaller role among women than men.

Figure 3

**TABLE 3.41**

## Effect of Deunionization on Male Wage Inequality

| Item | Wage Inequality | | |
|---|---|---|---|
| | 1973-87* | 1978-88** | 1979-88*** |
| Early Year | .227 | .235 | n.a. |
| Later Year | .284 | .269 | n.a. |
| Change in Inequality | .057 | .034 | .066 |
| Change Due to Lower Unionization | .012 | .007 | .014 |
| Deunionization Contribution to Total Rise in Inequality | 21% | 21% | 21% |

* Change in variance of log earnings among men age 25-64.
** Change in variance of log earnings among men age 25-65.
*** Change in standard deviation of log earnings among men age 25-65

Sources: Card (1991), Dinardo, Fortin, and Lemieux (1994); Freeman (1991).

## SOCIAL SECURITY

The basic union position has been to support the existing system, with particular emphasis on the following elements:

- The social contract, in which all workers participate and all workers benefit[1], with proportionately greater benefits for lower-wage workers
- The defined benefit (rather than defined contribution) nature of the system
- Eligibility for early retirement at 62
- Annual COLAs
- Survivor and disability provisions

Through Gerry Shea, the AFL-CIO was represented on the Advisory Council, and was a strong member of the Ball faction. The Ball faction was willing to make the following changes:

- Beginning with new hires, expand Social Security to state and local government workers not now covered.
- Tax Social Security benefits like other annuity benefits, i.e., the excess of what is received over what was paid would be taxable.
- Redirect some Social Security tax revenues now going to the Medicare Trust Fund to the Social Security Trust Fund.
- Adjust the CPI, but only as BLS suggests.
- Slightly reduce benefits by increasing from 35 to 38 years the time over which wages are averaged to determine benefits or increase the payroll tax by 0.15% for workers and employers.

Retirement Savings Commission

Last year, Senators Bradley and Jeffords and Congressman Pomeroy attempted to get legislation attached to reconciliation that would have established a Retirement Savings Commission, which would have looked into retirement income issues, supposedly entirely from the private pension perspective. The AFL-CIO **strongly opposed** the legislation because of concern that it would spill over into Social Security, saying at the end of the session that killing it was one of their top five priorities. We also voiced our objections to the legislation and it stayed out of any bills. Pomeroy and Jeffords want to bring it up again this year, but so far have not done so.

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[1] Note, however, that 3.7 million state and local government employees who are union members do not participate, as state and local governments have an option whether to belong. These workers are covered by defined benefit pension plans that are fairly generous, particularly for long-service workers.

## PENSIONS

**ACCOMPLISHMENTS:** From the start of the Administration, we've been working to protect people's pensions, and getting results.

- o **Won enactment of the Retirement Protection Act in 1994** to protect the benefits of more than 40 million American workers and retirees in traditional pension plans. Pension underfunding has declined dramatically for the first time in a decade, and many plans are funding up even more quickly than required by the law. This means that the pension promises to both current and future retirees under traditional pension plans will be kept.

- o **Vetoed the Republican budget that would have allowed corporations to raid $15 billion from pension funds,** affecting almost 4 million workers and retirees. In the 1980s, corporations took over $20 billion from pension funds.

- o **Recovered nearly $20 million in savings for workers and retirees** as a result of the Labor Department's ongoing nationwide enforcement effort to protect retirement savings in defined contribution -- 401(k) -- plans.

  - o **The minimum wage bill just signed into law contains important pension coverage, portability, and security reforms, many of which we had proposed:**

    - o **Simplifies laws and regulations for <u>all</u> pension plans;**

    - o **Reduces from 10 years to 5 the vesting period for multiemployer plans**, meaning more people will be covered more quickly under these traditional pension plans;

    - o **Discourages 1-year wait:** Encourages employers to allow employees to start saving for retirement from the first day on the job by changing the law that encouraged waiting periods; and

    - o **Creates a new small business 401(k) plan** which can be started with a simple one-page form. Up to 10 million small business workers without a pension could be eligible for a pension under this new plan

- o **In January, Treasury auctioned the first US government inflation-protection bonds,** providing a totally safe investment for retirement or education that will not lose value due to inflation.

**REMAINING AGENDA:**

- o **Quickly get out all the forms, regulations and guidance needed to make certain the benefits of last year's legislation are quickly felt by all.** Both Treasury and DOL have made major progress already.

- o **Enact the remainder of the President's Retirement Savings and Security Act, including the multiemployer provisions** doubling the guarantee, granting relief from the compensation limit for benefits (415), loosening the full funding limit and requiring a plan asset valuation only every three years (rather than annually).

- o **Enact our Audit Bill to increase pension security** by requiring (i) full-scale audits of large pension plans and (ii) administrators to report promptly any serious misuse of pension funds.

- o **Continue and expand the on-going retirement savings campaign** begun in 1995 by the Labor Department and 150 private co-sponsors, <u>including the AFL-CIO</u>. In 1996, DOL launched a special addition to the program focusing on women's particular pension needs.

- o **Expand coverage and portability by enacting our IRA proposal** which doubles the income limits and allows penalty-free withdrawals for education, first homes, major medical expenses, and long-term unemployment.

# President Clinton Announces New Family-Friendly Workplace Proposals

✓ **Expanded Family & Medical Leave**

✓ **Employee-Choice Flex-Time**

June 24, 1996

*Nashville Family Reunion Conference Hosted By Vice President Al Gore*

**PRESIDENT CLINTON ANNOUNCES NEW FAMILY-FRIENDLY WORKPLACE PROPOSALS:**

- **EXPANDED FAMILY & MEDICAL LEAVE**
- **EMPLOYEE-CHOICE FLEX-TIME**

**NEW EXPANSION OF FAMILY AND MEDICAL LEAVE:** *President Clinton's new proposal would deepen and expand Family Leave by allowing a worker to take unpaid hours off -- with a maximum of 24 hours a year -- for child education, older relatives' health needs, and routine family medical purposes.*

**Current Family and Medical Leave Law.** The FMLA helps families only with a medical crisis or special limited care-giving needs, such as a birth or adoption. But working families often have to care for children or parents in circumstances for which they cannot use Family and Medical Leave.

**New Family And Medical Leave Procedures.** FMLA expansion would be limited to 24 hours a year for the following specific purposes:

- **SCHOOL ACTIVITIES.** Participating in school activities directly related to the educational advancement of your child, such as parent-teacher conferences or interviewing for a new school;
- **ROUTINE FAMILY MEDICAL PURPOSES.** Accompanying your child to routine dental or medical appointments, such as annual checkups or vaccinations;
- **OLDER RELATIVES' HEALTH NEEDS.** Accompanying an elderly relative to routine medical appointments or other professional services related to the care of the elderly relative, such as interviewing nursing homes or group homes.

**NEW EMPLOYEE-CHOICE FLEX-TIME:** *President Clinton's new proposal would offer American workers more choice and flexibility in finding ways both to earn the wages they need to support their families and still find the time they need to be with them. The President's proposal would:*

- **EMPLOYEE CHOICE.** Allows employees to agree with their employers to work overtime in exchange for paid time-off -- flex-time -- with a limit of up to 80 hours. An hour of overtime could thus be used for 1-and-1/2-hours of overtime pay or 1-and-1/2 hours of flex-time.
- **FLEX-TIME FOR ANY PURPOSE WITH 2 WEEKS NOTICE.** Workers could use their earned flex-time for any reason -- as long as they give their employers 2 weeks notice.
- **EMPLOYEES CAN ALWAYS CHOOSE PAY OVER FLEX-TIME.** Workers would maintain the right to choose overtime pay, and even if they choose flex-time, they could still cash out any portion of their flex-time pay with two weeks notice.
- **FLEX-TIME FOR FAMILY LEAVE.** Employees can use their accumulated family flex-time for family leave purposes at any time.

**OPPOSE ATTEMPTS TO REDUCE WORKER CHOICE:** *In announcing these new family-workplace proposals, President Clinton made clear that he would oppose any bill that allows for coercion and uses phrases like "comp-time" as a cover for giving workers less choice in the workplace.*

**PRESIDENT CLINTON ANNOUNCES NEW FAMILY-FRIENDLY WORKPLACE PROPOSALS:**

- **EXPANDED FAMILY & MEDICAL LEAVE**
- **EMPLOYEE-CHOICE FLEX-TIME**

# BACKGROUND MATERIALS

# EXPANDING THE FAMILY AND MEDICAL LEAVE ACT --
# TO HELP FAMILIES BALANCE WORK AND FAMILY RESPONSIBILITIES

June 24, 1996

*"Family and medical leave is a matter of pure common sense and a matter of common decency. It will provide Americans what they need most: peace of mind. Never again will parents have to fear losing their jobs because of their families."*

-- President Clinton at the signing of the Family and Medical Leave Act, February 5, 1993

**PRESIDENT CLINTON DELIVERED ON HIS PROMISE TO PROVIDE FAMILY LEAVE:** In his first month in office, President Clinton delivered on his promise and signed the Family and Medical Leave Act of 1993 into law. The law allows workers at businesses with 50 or more employees to take up to 12 weeks of unpaid, job-protected leave to care for a newborn or adopted child, to attend to their own serious health needs, or to care for a seriously ill parent, child or spouse.

**NEW BIPARTISAN REPORT SHOWS THE LAW IS WORKING:** The recent report on the impact of the law by the bipartisan Commission on Leave -- chaired by Senators Dodd and Craig -- shows that the law is working:

- **67 million Americans -- over half of workers -- are guaranteed they can take leave** from their job to care for a sick relative or a newborn child without fear of losing their job or their health insurance.
- **More than 12 million eligible workers have taken leave since its enactment.**
- **40% of all workers think they will need to take leave for a covered reason** at some time in the next 5 years. The leading reason is to care for a seriously ill parent.
- **Despite opponents' claims, compliance is easy and costs low for most employers:**
  - 9 in 10 employers find the law "very" or "somewhat" easy to administer
  - Compliance entails either little or no costs for 89%-99% of businesses
  - Smaller covered worksites found it easier to comply than the larger sites.
- **Some businesses have reported reduced employee turnover, enhanced productivity** and improved morale which they attribute to the Act.

**NOW IT IS TIME TO EXPAND THE LAW TO BETTER HELP WORKERS CARE FOR THEIR CHILDREN AND PARENTS.** While the law is a major step forward, it does not cover many situations facing working families. Today, President Clinton proposed expanding the law to cover more family obligations to better help working families care for their children and elderly relatives without sacrificing their work obligations. Under the proposed expansion, workers could take up to 24 hours of leave each year to meet additional specified family obligations, including routine doctors appointments and parent-teacher conferences. Leave could be taken for the following purposes:

- **Participating in school activities** directly related to the educational advancement of your child, such as parent-teacher conferences or interviewing for a new school;

- **Accompanying your child to routine dental or medical appointments,** such as annual checkups or vaccinations;

- **Accompanying an elderly relative to routine medical appointments or other professional services** related to their care, such as interviewing nursing homes or group homes.

# PRESIDENT CLINTON'S NEW EMPLOYEE-CHOICE FLEX-TIME PROPOSAL

**TODAY, PRESIDENT CLINTON ANNOUNCES A NEW EMPLOYEE-CHOICE FLEX-TIME PROPOSAL.** President Clinton's employee-choice flex-time proposal would help to make workplaces more family friendly by ensuring worker flexibility while guarding against abuses by coercive or unstable businesses -- with explicit protections against coercion. President Clinton's proposal would allow more Americans to have the time they need to fulfill their responsibilities as both workers and as parents or grown children of elderly relatives.

- **Workers could agree with their employers to receive extra paid time-off -- "flex-time" -- instead of working overtime for cash pay.** Consistent with existing law, workers would get time-and-a-half in flex-time -- extra paid time-off -- for each hour of overtime. There would be a limit of 80 hours that a worker could accumulate in flex-time. And all additional overtime work -- beyond the limit -- would have to be paid in cash.

- **Employees can choose to use their flex-time for family and medical leave purposes whenever they need it.** At any time, workers can use their flex-time for family and medical leave purposes -- to care for a new born or adopted child, to attend to their own serious health needs, or to care for a seriously ill child, parent, spouse.

- **Workers maintain ultimate control of when to use flex-time, as long as they provide two weeks notice to their employers.** Employees can use flex-time for any purpose as long as the worker gives at least two weeks of notice to his or her employer, or with less notice if the employer's operations are not unduly disrupted. Private-sector employees may elect to cash out their flex-time for cash due as long as two weeks of notice is given to their employer.

- **To protect against abuses by coercive or unstable businesses, the employee-choice flex-time proposal includes explicit protections against coercion.**

    - **Employees and employers would have a written flex-time agreement.** President Clinton's employee-choice flex-time proposal would also require employees and employers to agree in writing that the worker will receive flex-time -- instead of cash pay -- before the worker performed any overtime work.

    - **Private-sector workers can get cash for their accumulated flex-time within two weeks of notice.** With two or more weeks of notice, a worker in the private sector can cash out their flex-time for cash due.

    - **Protecting workers from businesses that go bankrupt.** To ensure workers receive their accumulated flex-time when their employers seek bankruptcy protections, unpaid flex-time would receive special protection -- the same as given to other wages -- in bankruptcy proceedings. For employees in thinly capitalized businesses, additional protections will be included.

- **Additional protections to ensure that worker protections:**
  - President Clinton's employee-choice flex-time proposal would not allow unused flex-time to deprive a worker of unemployment compensation that he or she has earned.
  - To ensure protections against coercion, part-time, seasonal, and temporary workers would exempted from this proposal. The Secretary of Labor would also be able to make recommendations to exclude low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse.
- **Ability to collect from violators of overtime laws are improved.** President Clinton's employee-choice flex-time proposal improves the Labor Department's ability to collect fines due from violators of overtime laws, including double damages for certain egregious violations. This proposal also imposes civil money penalties for violations of flex-time and for willful or repeated recordkeeping violations.

**PRESIDENT CLINTON WILL STRONGLY OPPOSE ANY BILL THAT REDUCES WORKER CHOICE IN THE WORKPLACE.** President Clinton will strongly oppose any bill that allows employers to coerce their employees fails to protect true worker choice and fails to guarantee that workers will receive the compensation they are due.

## Comparison of President Clinton's Employee-Choice Flex-Time Proposal and Representative Ballenger's Comp-Time Proposal

| | President Clinton's Employee-Choice Flex-time Proposal | Representative Ballenger's Comp-time Proposal |
|---|---|---|
| **Written Agreement** | • To provide true employee choice, employees and employers must agree in writing that compensation will be provided as flex-time rather than as overtime wages. | • No written agreement is necessary -- only an understanding. |
| **Flex-time For Family and Medical Leave Purposes** | • Employees may use flex-time for family and medical leave whenever they need it. | • No comparable provision. |
| **Use of Flex-time** | • Employees maintain ultimate control of when to use flex-time, as long as they provide two weeks notice to their employers. Workers can use flex-time for any other purpose as long as they provide two or more weeks of notice. They receive flex-time with less notice, but only if the employer is not unduly disrupted. | • Employers maintain ultimate control of when to grant their workers flex-time. Regardless of the amount of notice the worker provides, employers can deny use of comp-time if the firm claims they would be "unduly disrupted." |
| **Payout of Flex-time** | • Private-sector employees may elect to cash out their flex-time for cash due with at least two weeks of notice to their employer. | • Rather than ensuring payout within two weeks as the President's proposal, private-sector employers would have up to 30 days to payout the cash due for accumulated flex-time. |
| **Flex-time Bank** | • Private-sector workers can accumulate flex-time for overtime worked (at a rate of time and a half) in a "Flex-time Bank." There would be a limit of 80 hours that a worker could accumulate in flex-time. All additional overtime work must be compensated in cash. | • Employees can accumulate up to 240 hours of comp-time. |

| | | |
|---|---|---|
| **Bankruptcy Protection** | • To ensure workers receive their flex-time when firms enter into bankruptcy, unpaid flex-time would receive special protection -- the same as given to wages -- in bankruptcy proceedings. For employees in thinly capitalized businesses, additional protections will be included. | • No comparable provisions. |
| **Enforcement Provisions** | • Improves remedies against violators, including double damages for overtime that an employee would have earned, but was not permitted to work because the worker wanted to earn pay rather than flex-time. Civil money penalties for violations of flex-time and for willful or repeated recordkeeping violations. | • Double damages only for willful violations of anti-coercion provisions. Civil money penalties only for willful violations. |
| **Treatment of Flex-time As Wages and Hours Worked** | • Unused flex-time cannot be used to deprive a worker of unemployment compensation that he or she has earned. Flex-time pay-outs are treated as wages for health and pension benefit plans. Flex-time used is also treated as hours worked for overtime accrual purposes. | • No comparable provisions on unemployment compensation or benefit plans. Comp-time used is not treated as hours worked. |
| **Exemptions for Vulnerable Sectors** | • To ensure protections against coercion, part-time, seasonal, and temporary workers would exempted from this proposal. The Secretary of Labor would also be able to make recommendations to exclude low-wage workers who are vulnerable to coercion or certain occupations and industries that show a pattern of abuse. | • No comparable provisions. |
| **Sunset** | • Flex-time provision expires in four years. Bipartisan Commission will study and report to the Secretary of Labor and Congress prior to sunset. | • No comparable provision. |

# HOW THE PRESIDENT'S FAMILY-FRIENDLY PROPOSALS WOULD AFFECT TYPICAL FAMILIES

NOTE: These hypothetical examples illustrate how the President's proposal compares with current law and the Ballenger bill to create "comp-time." All of these examples assume the adoption of some proposal allowing the accumulation of flex-time or "comp-time" in lieu of time-and-one-half pay for overtime.

1. **Expanded Family And Medical Leave For Child Education Purposes.** Jane Smith works for XYZ Inc. She has a conference scheduled with her daughter's teacher for three weeks from today and needs four hours of time off to travel to and from the school and meet with the teacher. Jane is willing to take unpaid leave.

   ✓ Under the President's proposal, Jane can take unpaid leave to attend the parent-teacher conference.

   ⊠ Under current law, Jane is not assured she can take unpaid leave to attend the parent-teacher conference.

   ⊠ Under the Ballenger bill, Jane is not assured she can take unpaid leave to attend the parent-teacher conference.

2. **Expanded Family And Medical Leave For Caring For Older Relative.** While Jane Smith is tending to her daughter's educational needs, Jane's husband John needs to help move his grandfather from one nursing home to another. John will need 4 hours time-off in order to do this. Because he is very involved with his family, John has not worked any overtime this year and does not have any accumulated flex-time. Thus, he would like to use unpaid family and medical leave to take his grandfather to the doctor.

   ✓ Under the President's proposal, John can take unpaid family and medical leave to move his grandfather from one nursing home to another.

   ⊠ Under current law, John cannot use family and medical leave to help move his grandfather from one nursing home to another.

   ⊠ Under the Ballenger bill, John cannot use family and medical leave to help move his grandfather from one nursing home to another.

3. **Employer-Imposed "Comp-Time."** Bill Johnson and his family live on a very tight budget. The time-and-one-half pay Bill receives for the 10 hours of overtime he works each month provides just enough money to pay the mortgage on his family's house. In his latest paycheck, Bill's employer inexplicably did not include any pay for his overtime work. When Bill complains, his boss explains that this is the new "comp-time" program and from now on Bill will get extra time off in return for his overtime. Bill fears he will not be able to make ends meet. He doesn't remember agreeing to accept "comp-time."

✓ Under the President's proposal, Bill and his employer would have to had agreed <u>in writing prior to the overtime</u> that he would accept flex-time instead of time-and-one-half pay. Otherwise, Bill must be paid his time-and-one-half in cash.

✓ Under current law, Bill would have to be paid time-and-one-half in cash for the overtime he worked.

☒ Under the Ballenger bill, the employer could say that he had a <u>verbal agreement</u> with Bill to give him "comp-time." That makes it Bill's word against his employer's word.

4. **Flex-Time For Planned Family Needs.** Ann's husband Bill has a heart condition and will require heart surgery within the next few weeks. Ann wants to spend time with Bill after the surgery to help care for him. Her family's growing financial worries make it vital that Ann be able to use her accumulated flex-time to be with her husband without losing a day's pay. Ann and Bill scheduled the surgery three weeks in advance and Ann gave her employer two-weeks notice. Two days before the surgery, Ann's employer ZYX Co. decides to change their production schedule. In their view, Ann's absence will "unduly disrupt" the workplace operations.

✓ Under the President's proposal, Ann can use her accumulated flextime to be with her husband without losing pay -- as long as she gives two-weeks notice.

☒ Under current law, Ann is assured only of unpaid family and medical leave time.

☒ Under the Ballenger bill, Ann cannot use her accumulated "comp time" if it will "unduly disrupt" her employer's operations. ZYX Co. can force her to take unpaid leave to be with her husband in the hospital.

5. **Protection of Unemployment Benefits.** Al Jones is a construction worker who got laid off from Builders Inc. after it finished its latest project. He worked enough overtime to accumulate 80 hours of accrued flex-time. Now, he wants to collect the unemployment benefits he usually gets when his employer lays him off. This time, however, Builders Inc. challenged Al's eligibility for unemployment insurance on the grounds that he is still "working" because he is getting paid for his accumulated flextime.

- ✓ Under the President's proposal, Al is explicitly protected from this type of challenge. If he's otherwise eligible, Al should get his unemployment insurance.

- ☒ Under the Ballenger bill, Al is not explicitly protected from this challenge to his unemployment insurance eligibility.

# HIGHLIGHTS OF THE PRESIDENT'S INITIATIVES TO MAINTAIN AND EXPAND WORKERS' COVERAGE

Because most Americans have employment-based health insurance, health care coverage is often jeopardized for workers who change jobs. In fact, over 50 percent of the uninsured lost their health insurance due to a job change. Many of these uninsured Americans are the spouses and children of workers. The President's initiative will provide temporary premium assistance to families with workers who are in-between jobs. For millions of these workers and their families this assistance could make it possible for them to maintain their health care coverage while looking for another job. This initiative is fully paid for within the President's FY 1998 balanced budget plan. In addition, to assist small businesses -- which often have more difficulty providing and maintaining health care coverage for their workers -- the President has proposed to help States create voluntary purchasing cooperatives.

**Funding**

Invests $9.8 billion over the budget window and is paid for in the President's FY1998 balanced budget.

**Eligibility**

Helps an estimated 3.3 million Americans in 1998, including about 700,000 children.

-- A full subsidy would be provided up to 100% of the poverty level for and would be phased out at 240% of the poverty level.

-- To assure that limited federal dollars are cost-effectively targeted, individuals who are eligible for Medicare, Medicaid or who have an employed spouse with coverage, are not eligible for this program.

-- While low-income workers would certainly be helped by this benefit, over half of participants would come from families who previously had incomes over $30,000, for a family of four.

**Coverage for Families of Workers Who Are In-Between Jobs**

Helps to assure that Kassebaum-Kennedy protections against pre-existing conditions are not placed at risk because of breaks in insurance coverage. It achieves this goal by helping working families retain their health coverage through premium assistance during a time in which they lose much of their income.

Gives States the flexibility to provide coverage in ways that best meets the needs of their populations. States would have flexibility to administer their own programs, (e.g., COBRA, a private insurance product, Medicaid, or an alternative means of coverage).

**Voluntary Purchasing Cooperatives**

Small businesses have more difficulty providing health care coverage for their workers because they have higher per capita costs due to increased risk and because of extraordinarily high administrative costs.

The President's budget will make it easier for small businesses to provide health care coverage for their employees, by allowing them to band together to reduce their risks, lower administrative costs, and improve their purchasing power with insurance companies.

His budget proposes to empower small businesses to access and purchase more affordable health insurance through the use of voluntary health purchasing cooperatives. This will be accomplished by providing $25 million a year in grants that States can use for technical assistance, by setting up voluntary purchasing cooperatives, and by allowing these purchasing cooperatives to access to Federal Employees Health Benefit Plans.

For information: Deborah Dion 202/637-5036

Statement by AFL-CIO John J. Sweeney on the Nomination of Alexis Herman to be U.S. Secretary of Labor

Alexis Herman is a wonderful choice for secretary of labor. She knows and understands working families' concerns, and we look forward to working closely with her to put their interests at the top of the national agenda. At a time when so many working men and women are struggling against declining pay and growing disrespect from corporate America, we believe Alexis' experience -- growing up in the rural South, advancing the interests of working women and minorities, and dealing with the issues of a changing workforce -- will be a tremendous asset. Few are as skilled at organizing public support for the causes she champions. Over the years, she has had an excellent relationship with me and other union leaders. In recent weeks, I have met and talked with her a number of times, and I know she is committed to putting together a strong team to fight for good jobs, justice and dignity for America's working families.

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July 31, 1996
For Immediate Release

For Information: David Saltz 202-637-5318

## Statement by AFL-CIO President John J. Sweeney

**on**

# President Clinton's Veto of the so-called Team Act

The AFL-CIO commends the president for his wise veto of the so-called Team Act. Under the guise of "cooperation," this damaging and unnecessary piece of legislation would have given management the say-so over who speaks for workers on issues such as wages, hours and other terms and conditions of employment -- an unfair infringement on employee rights. There is no need for the so-called Team Act because current law is clear and allows real labor- management cooperation, which can only take place when employees have the right to choose their own representatives.

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FOR IMMEDIATE RELEASE
June 19, 1996

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# Statement by John J. Sweeney
# President, AFL-CIO

## On a hearing on the so-called Workers Right to Know Act by the House Economic and Educational Opportunities Subcommittee on Employer-Employee Relations

Today, the House Republican leaders are doing what they always do when they find themselves out of step with the voters - - holding harassment hearings as a smokescreen to keep the truth from billowing out.

These hearings were not called to examine the right of union members to spend part of their dues money on issue-based political education. They were called as part of an orchestrated assault on America's unions in retaliation for our new vigilance and vitality on behalf of U.S. working families.

Working families are hurting as never before: they've seen their incomes decline 15 percent in the last 20 years, while productivity, profits, executive salaries and the stock market increased. America's unions are responding as never before with a legislative and political education program to elect men and women who will stand up for working families and then hold them accountable once they're in office.

That's why right-wing politicians and lobbying groups are conducting a vicious campaign against the AFL-CIO and its 13.1 million members: we're exposing the voting records of elected officials who support the transfer of wages and wealth from working families to the wealthy and big corporations.

Earlier this year, when we announced our plan to wage an unprecedented education campaign to expose the attacks of this Congress on working families, the Republican House leaders instructed the Chamber of Commerce to form a new facade called the **Center for a 21st Century Workplace,** to combat our efforts through paid and free media.

When we purchased television and radio adds to tell working families how their elected officials voted against their interests, the House Republican leaders tried to intimidate stations running our ads. Exaggerated reports to the contrary, they failed: 107 stations decided the commercials were fair and accurate, five stations took them off -- including two stations with blanket policies against any sort of advocacy advertising.

When it was obvious our efforts were beginning to have an effect, the head of the Republican Party launched an aggressive fundraising campaign by advancing the **big lie** that the AFL-CIO has spent $40 million on ads since last August. How big? The actual amount is one-tenth of that.

We are committed to ethical campaign contribution practices. Not one of the 13.1 million men and women whose unions are affiliated with the AFL-CIO is required to allow his or her dues money to be spent on political education or legislative action. Workers who join unions are already protected by more financial disclosure requirements than are members of any other organizations or corporation, including members of the American Medical Association, the American Bar Association, the Chamber of Commerce or stockholders in corporations.

Instead of hosting a hearing on a **workers' right to know** bill, Mr. Gingrich should draft and present legislation giving doctors, lawyers, businessmen and shareholders the right to **say no.**

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For Immediate Release
April 11, 1996

For Additional Information Contact:
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**Statement by John J. Sweeney**
**President of the AFL-CIO**

# On President Clinton's Retirement Savings And Security Act

President Clinton's Retirement Savings and Security Act is a positive step toward making the promise of retirement income security a reality for all Americans. If enacted, this proposal would help stop the erosion of private pension coverage in America and would improve the retirement prospects of millions of working families.

One of the most pressing concerns for working Americans today is income security during their retirement years. Unfortunately, the same forces that have caused falling real-wage levels for most Americans during their working years increasingly threaten the retirement security they deserve and have earned.

The decrease in private pensions -- along with the erosion of health care coverage -- is one of the biggest problems in the worsening economic situation of America's working families. Coupled with reckless proposals now being advanced to radically restructure and privatize Social Security, the erosion of pensions threatens to destroy retirement security for tens of millions of working Americans.

We need to halt the erosion of pensions and health coverage, as well as the decline in real wages, before we can reverse what's happening in America now and make the economy work for working families again. A country can't grow rich by making its people poor. If work is to become valued once more in America, we must re-establish our social compact -- by which working families receive affordable health coverage, secure and adequate pensions, and incomes that rise when the economy is successful.

Historically, in America, such a social compact has been made essentially by employers and workers. But, government clearly has a positive role to play and must use its ability to create the climate and legal structures to encourage and make these goals possible.

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AFL-CIO Executive Council Statement
December 16, 1996, Washington, D.C.

## BLOCK GRANTING ECONOMIC SECURITY PROGRAMS

The Great Depression of the 1930s proved that only the federal government can provide national economic stability. Unrestrained private-sector economic activity had resulted in the Great Depression, and private charities and state and local governments were overwhelmed by the unemployment and the poor. Since then, the nation has constructed an economic security _safety net_ which has helped individuals in need and reduced wide swings between deep recession and rapid economic growth. All Americans have benefited from increased economic stability. That safety net is now under attack.

In fact, the recently-passed welfare law (TANF) has already ended one of the original economic security programs, Aid to Families with Dependent Children, thus making it all the more important that we retain and strengthen the others: unemployment insurance benefits and employment services for workers who lose their jobs; Medicaid health benefits for poor and unemployed families; and food stamp assistance for the poor and unemployed. Further, TANF is silent with regard to whether welfare-to-work participants will receive at least the minimum wage or coverage under workers_ compensation, health and safety, anti-discrimination, collective bargaining, and other employment laws. In addition, TANF does not adequately protect unfilled union jobs from being converted into workfare slots or protect against partial displacement of the current workforce through reductions in hours and wages.

Additional proposals have been advanced that would weaken or destroy key features of the Medicaid, food stamps, unemployment insurance and employment services programs. By limiting how much money the federal government could spend in the form of fixed _block grants,_ these proposals would destroy their crucial counter-cyclical features and their ability to stabilize the American economy. They would lead to a reduction in the number of people receiving those benefits and the value of the benefits. In addition, these devolution plans would allow the states to turn the public administration of these programs over to private organizations, triggering contract bidding wars of unprecedented magnitude. Crucial accountability mechanisms, such as requirements for merit-based personnel systems which have protected these programs from political corruption would be lost.

THEREFORE BE IT RESOLVED: That the AFL-CIO strongly opposes any attempts to devolve and privatize the Medicaid, food stamp, unemployment insurance and employment service programs;

That the AFL-CIO will work to ensure that public employees continue to administer welfare programs so that the programs remain impartial and accountable to the public.

That the AFL-CIO secure pledges from non-profit organizations to which it contributes or promotes that they will agree to participate only in welfare-to-work programs that treat the participants fairly and do not reduce their current workforce;
The AFL-CIO also resolves to work for passage of legislation which guarantees that welfare recipients are entitled to all the same rights and protections as other workers, thereby maintaining the integrity of our labor laws.

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AFL-CIO Executive Council Statement
December 16, 1996, Washington, D.C.

STOP THE RAIL INDUSTRY RAID ON WORKERS_ PENSIONS

Because of the hazardous nature and uniqueness of work in the rail industry, Congress amended the Railroad Retirement Act of 1946 to provide occupational disability protection for career industry workers who may become sick or injured.
Section 2(a)(2) of the Railroad Retirement Act provides that the Railroad Retirement Board _with the cooperation of employers and employees_ shall secure the establishment of standards for determining the conditions that would disable industry workers for various railroad occupations. The Act further provides that _the Board, employers, and employees shall cooperate_ in the promotion of uniform standards.
The rail unions have been working in good faith since 1979 to develop the disability standards that the law requires and in fact supported the standards developed by the Board_s technical staff in 1988. Unfortunately, the American Association of Railroads (AAR) refused to agree to these standards thus preventing an agreement from being implemented.
The AAR has instead hired an outside contractor to develop a set of standards designed to their specifications. These standards purposely create a costly and time-consuming process by which sick and disabled employees are evaluated for disability.
The Management Member of the Board has convinced the Chairman to set an arbitrary deadline for the joint task force that was formed to conduct the legally-required review of disability standards. This is a blatant attempt by rail management to circumvent their good-faith agreement to work with rail labor towards developing a complete and uniform set of standards.
The Board has indicated that it is ready to impose the AAR standards that were designed to make it more difficult for sick and injured rail workers to qualify for a disability pension.
The railroad industry_s termination of the ongoing negotiations and its attempt to unilaterally impose the AAR standards is a direct attack on rail workers. It amounts to a raid on the pension system that they depend on. This action is unfair, corrupts the negotiating process and is contrary to a long-standing law. This threat to the health and welfare of rail workers cannot and will not go unchallenged.
The AFL-CIO supports the political and economic efforts of the labor organizations that represent rail workers to persuade the rail industry and the Railroad Retirement Board that the unilateral course of action they are pursuing is unfair, unwise and illegal.
The AFL-CIO will support the members of our rail affiliates as they work to protect the health and welfare of rail workers and to end this misguided effort to undermine occupational

disability standards and the railroad retirement system.

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