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NEWS

FOR IMMEDIATE RELEASE
February 9, 1997

CONTACT: Ari Fleischer or Scott Brenner
(202) 225-8933

Congressional Leaders Urge President to Submit Tax Simplification Proposal

Cite $4 Billion IRS Computer Failure as Why Tax System Must Be Reformed

Washington - Citing a just-revealed $4 billion failed effort by the Internal Revenue Service to construct a new computer system as a repercussion of a complicated tax code, Congressional leaders today asked President Clinton to submit a proposal to fundamentally reform the nation's tax system.

In a letter to the President, the Congressional leaders wrote, "The IRS' failure to efficiently manage and realize its computer modernization objectives has a direct correlation to the abysmal quality of the agency's service to the nation's taxpayers. IRS' management failures must be viewed in the context of a tax code which has grown so horribly complex that many Americans despair that only someone with advanced degrees can even hope to figure it out."

The letter was signed by Speaker Newt Gingrich, Senate Majority Leader Trent Lott, House Majority Leader Dick Armey, Senate Majority Whip Don Nickles, House Ways and Means Committee Chairman Bill Archer, and Senate Finance Committee Chairman Bill Roth.

The leaders asked the President to submit a proposal that would make the tax code, simpler, fairer and less intrusive into the daily lives of Americans.

"We believe there is no single more important action that you can take in your second term to build a strong bridge into the 21st Century, and we stand ready to work with the Administration on a bipartisan basis to achieve this vital goal," the leaders wrote.

They urged the President to submit the proposal by May 1, 1997.

(Text of Letter Attached)

-30-

Congress of the United States
Washington, DC 20515

February 9, 1997

The Honorable William J. Clinton
President
The White House
Washington, D.C. 20500

Dear Mr. President:

After spending over four billion taxpayer dollars, the Internal Revenue Service (IRS) last week acknowledged that its much heralded Tax Systems Modernization (TSM) effort "doesn't work in the real world" and has been a dismal failure. Examples of mismanagement and wasteful spending pervade the modernization effort.

- Hundreds of millions have been spent developing the Integrated Case Processing System (ICP), a key information system designed to allow IRS customer service representatives to quickly access in one step all the data needed to answer taxpayer questions or resolve problems. To date, ICP's promise remains unfulfilled and IRS service representatives may still have to access up to nine separate computer systems to answer taxpayer inquiries.

- IRS' efforts to move toward electronic capture of data in lieu of the current labor-intensive tax return processing system, which relies on thousands of employees to transcribe data from paper returns to a system, has been plagued with problems. The Service Center Recognition/Image Processing System (SCRIPS), the first of what was to be two document imaging and scanning systems, has seriously underperformed, has cost more than originally estimated, and has not resulted in any significant labor cost savings.

- After spending almost $1 billion to develop the second document imaging system which was to replace SCRIPS, the IRS announced last fall that it was terminating the Document Processing System, with nothing to show for its investment.

The IRS' failure to efficiently manage and realize its computer modernization objectives has a direct correlation to the abysmal quality of the agency's service to the nation's taxpayers. In a recent survey by the American Society for Quality Control, the IRS ranked dead last in customer satisfaction among 200 companies and government agencies. Last year, almost 75 percent of the taxpayers who tried to call the IRS for assistance failed to get through.

Even worse, IRS business operations are now totally dependent on the continued functioning of legacy computer systems installed in the 1960s — systems which themselves are at serious risk with the coming century change and the need to reprogram their millions of lines of obsolete computer software code.

IRS' management failures must be viewed in the context of a tax code which has grown so horribly complex that many Americans despair that only someone with advanced degrees can even hope to figure it out. Today, the Internal Revenue Code and regulations come in at one million words and 5000 pages. On average, the code is "reformed" once every 1.3 years. Just since the Tax Reform Act of 1986, several thousand sections have been added. According to 1995 IRS estimates, businesses will spend about 3.4 billion hours and individuals will spend about 1.7 billion hours embroiled in tax-related paperwork. As the Kemp Commission noted last year, that means nearly three million people — more than all those serving in the U.S. armed forces — work full time all year just to comply with the tax laws, at a cost of some $200 billion a year. This translates into a tremendous productivity loss for our nation.

As you well know, the U.S. economy is extraordinarily dynamic. Innovation and flexibility are its hallmarks, and nowhere has innovation proceeded more rapidly than in financial markets. Unfortunately, under our current tax system, much of the ingenuity of Wall Street is directed toward obtaining the best tax results in connection with any particular economic activity, rather than expanding economic growth. Clearly, the inflexibility of our current tax system and the agency which administers it impede the nation's potential for economic expansion.

We believe that the factors we have cited present a dramatically compelling case for fundamental reform of our nation's tax system. If the Federal government continues along the road it is traveling, the IRS' demonstrated inability to keep pace with the rapid changes in information technology and the ever-growing complexity of our tax laws are soon headed for a critical convergence — where IRS' systems will simply no longer be up to the challenge of supporting IRS' core responsibilities.

For that reason, we urge you to propose to the Congress by May 1, 1997, a proposal to fundamentally reform our nation's tax system. We believe that fundamental tax reform should achieve the following objectives:

- a tax system that is fundamentally fairer than the current income tax, that contains no loopholes or special treatment for favored interests;
- a tax system that is vastly simpler;
- a tax system that is capable of enforcement in a far less intrusive manner, both in terms of the reducing the burdens placed on taxpayers to comply with the system, and eliminating the need for an intrusive agency to administer it;
- a tax system that enhances, rather than impedes, savings and investment, economic growth and advances U.S. living standards;
- a tax system which can respond more flexibly to rapid changes in information technology.

We believe there is no single more important action that you can take in your second term to build a strong bridge into the 21st Century, and we stand ready to work with the Administration on a bipartisan basis to achieve this vital goal.

Sincerely,

Newt Gingrich
Speaker of the House

Trent Lott
Senate Majority Leader

Dick Armey
House Majority Leader

Don Nickles
Senate Majority Whip

Bill Archer
Chairman
Committee on Ways and Means

William Roth
Chairman
Committee on Finance

In Modernization; Urges Contract Plan

New York Times Jan. 31, 1997

By DAVID CAY JOHNSTON

WASHINGTON, Jan. 30 — The Internal Revenue Service conceded today that it had spent $4 billion developing modern computer systems that a top official said "do not work in the real world," and proposed contracting out the processing of paper tax returns filed by individuals. That would allow non-Government workers to see confidential information about the incomes of individual Americans.

Arthur Gross, an Assistant Commissioner of Internal Revenue who was appointed 10 months ago to rescue the agency's efforts, said customer service representatives must use as many as nine different computer terminals, each of which connects to several different data bases, to resolve problems.

"Dysfunctional as some of these systems may be today," Mr. Gross said, the I.R.S. "is wholly dependent on them" to bring in the $1.4 billion of taxes that finance the Government. He expressed doubt that the agency was capable of developing modern computer systems, saying it lacked the "intellectual capital" for the job.

The proposal to contract out the processing of paper tax returns would save little money, as it costs only $34 million for clerks to extract information from 200 million paper tax returns and enter into I.R.S. computers. But such a move is sure to arouse protests from taxpayers concerned about who can see how much money they make and how much they pay in income taxes.

The Government Accounting Office has sharply criticized the I.R.S. administration of the modernization project, and the agency has previously acknowledged problems with the effort. But Mr. Gross's comments marked the first time that it said it would have to scrap the project altogether and start over.

Mr. Gross's admission that the Tax Systems Modernization effort has failed came in testimony before the National Commission on Restructuring the I.R.S., a bipartisan panel created by Congress to examine the agency's operations. The panel is expected to press for a different approach to developing modern computer systems and to recommend innovative ways to persuade more Americans to file their tax returns electronically.

Mr Gross said the I.R.S. had already killed one modernization project, a plan to turn paper tax returns into electronic images, after paying $284 million to Lockheed Martin, the nation's largest defense contractor.

A spokesman for the commission said the cost of shutting down the project "will be astronomical." He said 12 other systems were under review to determine if they should also be killed.

The I.R.S. said it did not have an estimate of what it might cost to cancel those projects.

"We are making a systematic effort to review every major system under development to determine if it is worthwhile," Mr. Gross said. "And if it is not, in our judgment, a prudent investment, we will recognize that and stop development."

The failure of the modernization effort will mean years of frustration for taxpayers who get into a dispute with the I.R.S., especially one that involves records kept on two or more of its computer systems.

Mr. Gross said that for the foreseeable future the I.R.S. must continue to work with dozens of antiquated computer systems that cannot trade information with one another.

As the I.R.S. starts over, Mr. Gross said, it must abandon the "big bang" theory of integrating all of its computers at once, and instead improve operations piecemeal. "We have to move and build off what exists today," he said in an interview.

The proposal to have private contractors process individual income tax returns, as New York State does, drew sharp questioning from Robert Tobias, president of the National Treasury Employees Union. He said that at a cost of $34 million, there was not much savings in the plan.

John Dalyrymple, the I.R.S. official who made the proposal, said that just setting up a pilot program would take the agency at least four and a half years, and added, "We are fully cognizant of the risk inherent in turning such a critical system over to an outside processor."

Several witnesses criticized the I.R.S. for not actively marketing the filing of tax returns electronically. Last year only 180,000 people filed their returns through intermediaries after preparing them with software on personal computers, and overall only 10 percent of tax returns were filed electronically or by telephone. In Australia 70 percent of tax returns are filed electronically.

Tax returns prepared with commercial software and then filed electronically are virtually error-free, the commission was told. In contrast, when I.R.S. clerks extract data from paper tax returns and enter the information into the agency's computers, the error rate is 22 percent, with the clerks causing half the errors.

The I.R.S., worried that hackers will get into its computers, requires that all electronic returns be filed through approved intermediaries, who charge as much as $25 per return for the service.

The policy on intermediaries discourages low-income taxpayers from using the service and favors software companies that develop tax preparation programs, said Joseph F. Lane, a tax preparer in Menlo Park, Calif., who represented the National Association of Enrolled Agents, a preparer organization.

GOP Urges White House to Accelerate Consideration of Tax-Reform Matters

By GREG HITT 2/3/97
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Republican leaders tried to breathe new life into the debate on tax reform, asking President Clinton to submit by May 1 a blueprint for overhauling the way the government collects revenues.

But the White House said not so fast.

GOP leaders pointedly described tax reform as a far-off goal when the 105th Congress convened last month with Republicans preparing for action on sweeping legislation to balance the budget by 2002. But in a letter sent to the White House, Speaker Newt Gingrich (R., Ga.) and Senate Majority Leader Trent Lott (R., Miss.) – joined by the chairmen of the congressional tax-writing committees – suggested the issue of tax reform should receive accelerated consideration.

"Clearly, the inflexibility of our current tax system and the agency which administers it impede the nation's potential for economic expansion," the leaders wrote. "We believe the factors we have cited present a dramatically compelling case for fundamental reform of our nation's tax system."

The overture comes amid growing concern on Capitol Hill about management of the Internal Revenue Service and as some Republicans, notably House Ways and Means Chairman Bill Archer of Texas, have begun suggesting tax reform could help strengthen the financing of federal benefit programs.

"Today, we have sent a letter to the president urging him to submit a tax proposal to us that will be simpler, that will be fairer, that will create economic growth, and that will reduce the intrusion of the IRS into our lives," Rep. Archer said on CBS's "Face the Nation." "It's not just the IRS, it's the system that's got to be changed, and we hope he'll accommodate that."

Though several tax-reform plans have been floated on Capitol Hill, the Clinton administration has to date stayed out of the debate. Rep. Archer favors replacing the income tax with a broad-based tax on consumption, while House Majority Leader Richard Armey (R., Texas) is advocating a so-called flat income tax with few or no loopholes.

"We'd like for the president to have a plan, so that we can work together," Rep. Archer said.

But at the White House, spokesman Barry Toiv said that "between now and spring, we expect to focus on balancing the budget and providing tax relief for working families." Mr. Toiv said the White House will listen to any Republican proposal but feels that it already has taken a number of steps to simplify the tax system.

In their letter to the president, the Republican leaders said, "We believe there is no single more important action that you can take in your second term to build a strong bridge into the 21st Century, and we stand ready to work with the administration on a bipartisan basis to achieve this vital goal."

In the near-term, Rep. Archer emphasized that the GOP Congress is ready to compromise with the White House on budget and tax-relief legislation. He said he hopes the White House will agree to higher tax cuts than the $100 billion package proposed by the president, but "I'm not locked in."

And Frank Raines, the White House budget chief, said on CBS that the administration, too, is open to compromise, specifically on a reduction in the tax on capital gains. "What we could be in favor of really depends a lot on what it costs," Mr. Raines said. "We are indeed willing to listen."

Republicans Urge Tax Reform Plan

2-10-97 WP

Republican leaders said yesterday that they want President Clinton to propose a sweeping reform of the U.S. tax system by May 1.

The leaders released a letter they sent to Clinton citing a $4 billion effort by the Internal Revenue Service to build a new computer system that they said was a failure as a major reason why Clinton should propose a complete overhaul of U.S. tax laws.

House Speaker Newt Gingrich, Senate Majority Leader Trent Lott, House Majority Leader Dick Armey, Senate Majority Whip Don Nickles, House Ways and Means Committee Chairman Bill Archer and Senate Finance Committee Chairman William Roth sent the letter to Clinton.

The tax system should be simpler, they said, "eliminating the need for an intrusive agency to administer it" and enhancing savings and investment.

White House spokesman Barry Toiv said the administration already has taken a number of steps to simply and reform the tax system. He cited efforts to simplify pension plans for small businesses and to allow taxpayers to file by telephone or electronically.

Reuters North American Wire

February 9, 1997, Sunday, BC cycle

LENGTH: 349 words

HEADLINE: Republicans call on Clinton to reform tax system

DATELINE: WASHINGTON

BODY:

Republican leaders said Sunday they want President Clinton to propose a sweeping reform of the U.S. tax system by May 1.

They released a letter to Clinton citing a $ 4 billion effort by the Internal Revenue Service to build a new computer system that they said was a failure as a major reason why Clinton should propose a complete overhaul of U.S. tax laws.

House Speaker Newt Gingrich, Senate Majority Leader Trent Lott, House Majority Leader Dick Armey, Senate Majority Whip Don Nickles, House Ways and Means Committee Chairman Bill Archer and Senate Finance Committee Chairman William Roth sent the letter to the White House.

They said Clinton should propose fundamental tax reform that would contain "no loopholes or special treatment for favored interests."

The tax system should be vastly simpler, they said, "eliminating the need for an intrusive agency to administer it" and enhancing savings and investment.

"We believe there is no single more important action that you can take in your second-term to build a strong bridge into the 21st century and we stand ready to work with the administration on a bipartisan basis to achieve this vital goal," the Republican leaders wrote.

They cited estimates that 3 million Americans work full time all year to help taxpayers comply with the tax laws at a cost of some $ 200 billion a year.

"This translates into a tremendous productivity loss for our nation," they wrote.

White House spokesman Barry Toiv said the administration has already taken a number of steps to simply and reform the tax system. He cited efforts to simplify pension plans for small businesses and to allow taxpayers to file by telephone or electronically

He said President Clinton has already made his tax proposals, which include a $ 1,500 education tax credit and $ 10,000 education tax deduction.

"If the Republican leadership has other ideas, then we are obviously ready to listen to them," Toiv said "Between now and early spring we expect to be focusing on the enactment of a balanced budget that provides tax relief to

working families

PM-Tax Changes,590

Republicans press Clinton for tax overhaul plan

By JIM ABRAMS=

Associated Press Writer=

WASHINGTON (AP) Republican leaders are pressing President Clinton to come up with a plan to overhaul a tax system they say is so complicated it has even baffled the IRS' new multibillion-dollar computer system.

Failures in the Internal Revenue Service's computer modernization program have ``a direct correlation to the abysmal quality of the agency's service to the nation's taxpayers," six members of the GOP congressional leadership said Sunday.

In a letter, they urged Clinton to submit by May 1 a proposal to ``fundamentally reform our nation's tax system." The new system should be fairer, simpler, less intrusive, pro-growth and flexible to technological changes, they said.

The letter was signed by Senate Majority Leader Trent Lott, Senate Majority Whip Don Nickles, House Speaker Newt Gingrich, House Majority Leader Dick Armey, Senate Finance Committee Chairman William Roth and House Ways and Means Committee Chairman Bill Archer.

Clinton has agreed that the tax system needs to be changed to make it simpler and to eliminate loopholes. But he has opposed more drastic proposals by Republicans for a flat tax, in which almost everyone pays the same rate regardless of income, or replace the income tax with a national sales tax.

White House spokesman Barry Toiv said Sunday that Clinton looks to ease tax burdens through such means as electronic or telephone filing of returns, simplifying pensions for small businesses and tax breaks targeted to families with children. ``If the Republican leadership has other ideas, we're certainly prepared to listen," he said.

The IRS has spent some $4 billion on a computer modernization program that has been plagued by problems such as databases unable to communicate with each other.

Speaking Sunday on CBS' ``Face the Nation," Archer, R-Texas, said ``the big part of the problem is that the tax code is so complex that it defies implementation. ... It's not just the IRS, it's the system that's got to be changed."

Republicans will be pushing for more tax relief as they open negotiations this week with the White House on the administration's plan to balance the budget by 2002, said Archer. ``The bigger the number the better," he said, adding, ``I'm not locked into a magic number."

Clinton's 1998 budget allows for $98 billion in tax cuts through 2002, concentrating on breaks for college students and a $500-a-child tax credit. Republicans want twice that much, with a far broader cut in capital gains taxes.

Senate Budget Committee Chairman Pete Domenici, R-N.M., said the Clinton budget was lacking in steps to define the future of Medicare and other benefit programs. He said Republicans were unhappy that 75 percent of the savings needed to balance the budget are to be achieved in the last two years of the five-year plan.

Domenici and other Republicans were sharply critical of the president's budget when it was released last week, with Lott saying he was ``gravely depressed."

But with Clinton scheduled to meet with congressional leaders on Tuesday to get negotiations rolling, both sides were professing optimism.

``The chances are still good that within a reasonable time we can get a bipartisan presidential congressional budget," Domenici said on CNN's ``Late Edition."

Sen. Christopher Dodd, D-Conn., appearing with Domenici, said: ``This is the most optimistic I've been for a budget agreement in more than a decade."

owner to the FASIT, and regulations should clarify the tax consequences if a person other than the owner sells property to a FASIT in exchange for a regular interest, the report said.

The rules also should clarify that regular interests can be issued on the startup day of a FASIT as well as after, and that the interests can have a principal amount that increases as the holder makes new investments and can provide for passthrough of customary prepayment penalties on underlying assets, the report said.

The association also made recommendations in connection with debt instruments, total return swaps, and other holdings by FASITs.□

Tax Reform

GOP Leaders Call On President Clinton To Propose Comprehensive Tax Overhaul

House and Senate Republican leaders and top tax lawmakers Feb. 9 called on President Clinton to come forward with a plan for overhauling the income tax code, in light of the Internal Revenue Service's failure to properly manage collection and enforcement of the current system.

"We urge you to propose to the Congress by May 1, 1997, a proposal to fundamentally reform our nation's tax system" that is fairer and simpler than the current system, that enhances savings and investment, and that can adapt to changes in information technology, the leaders said in a letter to Clinton.

The letter was signed by House Speaker Newt Gingrich (R-Ga), House Majority Leader Richard Armey (R-Texas), House Ways and Means Committee Chairman Bill Archer (R-Texas), Senate Majority Leader Trent Lott (R-Miss), Senate Majority Whip Don Nickles (R-Okla), and Senate Finance Committee Chairman William Roth (R-Del).

The six lawmakers said in their letter their concern was prompted by IRS' mention during the week of Jan. 27 that the tax systems modernization program has been a failure. IRS Chief Information Officer Arthur Gross discussed TSM's failure at a meeting of the National Commission on Restructuring IRS Jan. 30. While TSM's systemic problems have long been acknowledged by Treasury, Gross' testimony focused new attention on those problems (22 DTR, G-5, 1/31/97).

IRS Failure Blamed On Complex Tax Code

"IRS' management failure must be viewed in the context of a tax code which has grown so horribly complex that many Americans despair that only someone with advanced degrees can even hope to figure it out," according to the letter.

Archer, appearing Feb. 9 on the CBS program "Face the Nation," said Clinton needs to understand that "it's not just the IRS; it's the system that has got to be changed. And we hope that he'll accommodate that." Clinton should offer his own plan "so that we can work together and overhaul [the tax code]," Archer said.

Clinton administration officials have said repeatedly that they do not want to throw out the current system of a progressive income tax, but would rather make proposals for improving it. Toward that end, Clinton in his fiscal 1998 budget plan released Feb. 6 said the administration would soon send Congress a package of simplification proposals (26 DTR G-4, 2/7/97).

White House spokesman Mike McCurry said Feb. 10 that while the administration "is very interested in tax relief or tax reform," the president continues to define "reform" as meaning simplification and improvement of the current system.

The administration, in fact, believes "we've done a lot with respect to that subject already," including easing tax filing procedures, McCurry said.

What Congress and the White House need to focus on now are the tax relief measures in the president's budget, McCurry said, though he added, "we'd welcome the opportunity to see if Chairman Archer or others have additional ideas."□

— *By Joan Pryde*

U.S. Budget

Senators Say Children's Health To Be Major Democratic Issue In Budget Talks

The well-being of the nation's children will be a major Democratic issue in upcoming budget negotiations, Sens. John D. Rockefeller (D-WVa) and Paul Wellstone (D-Minn) emphasized Feb. 10.

"Democrats are determined to make coverage for those kids who don't have health insurance a flat-out priority," Rockefeller told reporters at a Capitol Hill briefing. "Expect Democrats to be massively aggressive on children's health care."

Rockefeller has announced plans to add a bill of his own to a growing number of Democratic proposals to improve health insurance for children, including a plan by Senate Minority Leader Thomas A. Daschle (D-SD) to provide tax subsidies for such insurance (7 DTR G-7, 1/10/97).

A Rockefeller legislative aide told BNA Feb. 10 that the senator plans to introduce his own legislation soon. The West Virginia senator's proposal is likely to include a combination of "some very targeted tax credits" for children's health insurance and improvements and expansions to Medicaid, the aide said.

Despite the imminence of budget talks, the aide told BNA, it is premature to discuss Rockefeller's proposal in more specific detail because the senator is trying to work with Republicans to craft the plan before it is introduced.

'Kids Are Going To Be A Huge Issue'

Rockefeller and Wellstone met with reporters simply "to make sure that everyone knows that when we start these budget negotiations, kids are going to be a

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THE WHITE HOUSE

WASHINGTON

January 19, 1997

TO: MICHAEL WARREN

FROM: MARK MAZUR

SUBJECT: COMMERCE REPORT ON PRICING OUTLOOK

You asked whether Gene Sperling should see the memo from Secretary Kantor on the Commerce Working Group on the Pricing Outlook. I think it would be helpful for Gene to review this information as the Secretary sends it over because it provides a shorthand description of potential price level problems. While inflation is quiet now, this report could be extremely useful if price pressures increase. Moreover, it might give advance warning for upcoming price increases in specific industries.

It is not necessary for Gene to review the entire report. Rather, the front page plus a summary should suffice. The summary should list in two columns those industries with upward price pressure and those with stable or declining prices and include a sentence on labor costs. For this month's report, the summary would look like:

Industries with Upward Price Pressure	**Industries with Stable or Declining Prices**
Steel	Automobiles
Aluminum	Aerospace
Zinc	Medical devices and instruments
Petroleum products	Semiconductors
(e.g., heating oil, gasoline)	Computer equipment
Natural gas	Textiles and apparel
	Chemicals
	Copper
	Coal
	Electricity

Labor Costs: Labor costs are beginning to increase for non-farm business as a whole, but labor costs in manufacturing are still declining.

NEC STAFFING MEMORANDUM

Date: 1/17 ~~Action~~/Concurrence/Comment Due By: 1/21

Subject: November Report of the Commerce Working Group on the Industry-Level Pricing Outlook

	ACTION	FYI		ACTION	FYI
Gene Sperling	☐	☐	Elaine Mitsler	☐	☐
Dan Tarullo	☐	☐	Kristen Panerali	☐	☐
Tom O'Donnell	☐	☐	Dorothy Robyn	☐	☐
Pauline Abernathy	☐	☐	Ellen Seidman	☐	☐
Lael Brainard	☐	☐	Kevin Varney	☐	☐
Paul Dimond	☐	☐	Helen Walsh	☐	☐
Chris Dorval	☐	☐	Michael Warren	☐	☐
Wendy Einhellig	☐	☐	Dena Weinstein	☐	☐
Melissa Green	☐	☐			
Jason Goldberg	☐	☐			
Elgie Holstein	☐	☐	______	☐	☐
Gay Joshlyn	☐	☐	______	☐	☐
Tom Kalil	☐	☐	______	☐	☐
Bob Kyle	☐	☐	______	☐	☐
Malcolm Lee	☐	☐	______	☐	☐
Sonyia Matthews	☐	☐	______	☐	☐
Mark Mazur	☑	☐			

Remarks: Does Gene need to see? Please advise

Response: ______

Michael Warren
456-5807

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

JAN 7 1997

MEMORANDUM FOR THE HONORABLE LAURA TYSON
ASSISTANT TO THE PRESIDENT
FOR ECONOMIC POLICY

FROM: Michael Kantor

SUBJECT: November Report of the Commerce Working Group on the Industry-Level Pricing Outlook

At the November 15 meeting of the Commerce Working Group on the Pricing Outlook, industry experts reported that inflationary pressures remained minimal. Industries with stable to declining prices include: autos, aerospace, medical devices and instrumentation, semiconductors, computer equipment, textiles and apparel, chemicals, copper, coal, and electricity. These industries account for nearly 60 percent of overall private industry output and continue to far outweigh those experiencing upward price pressure.

Industry analysts expect steel, aluminum, and zinc prices to experience some upward pressure in the near future. In addition, heating oil, natural gas, oil, and gasoline could experience at least some temporary price pressure. Some raw materials used in fabrics for home furnishings are also beginning to see some upward price movement as supplies tighten.

Unit labor costs (which adjust increases in compensation for productivity improvements) are beginning to increase for non-farm business, as a whole, but those for the manufacturing sector continue to decline.

Enclosure

cc: Jared Bernstein
Joseph Minarik
Alicia Munnell
Joseph Stiglitz

INDUSTRY-LEVEL PRICING OUTLOOK

November 1996

U.S. Department of Commerce
Economics and Statistics Administration
International Trade Administration
Washington, D.C. 20230
Contact: (202) 482-0096 or (202) 482-2056

At the November 15 meeting of the Commerce Working Group on the Pricing Outlook, industry experts reported that inflationary pressures remained minimal (Tables 1 and 2).[1] Industries with stable to declining prices include: autos, aerospace, medical devices and instrumentation, semiconductors, computer equipment, textiles and apparel, chemicals, copper, coal, and electricity. These industries account for nearly 60 percent of overall private industry output and continue to far outweigh those experiencing upward price pressure (Figures 1 and 2, and Table 3).

Industry analysts expect steel, aluminum, and zinc prices to experience some upward pressure in the near future. In addition, heating oil, natural gas, oil, and gasoline could experience at least some temporary price pressure. Some raw materials used in fabrics for home furnishings are also beginning to see some upward price movement as supplies tighten.

Figures 3 and 4, incorporating data through the third quarter of 1996, show unit labor costs (which adjust increases in compensation for productivity improvements) beginning to increase for non-farm business, as a whole, but those for the manufacturing sector continue to decline.

INDUSTRIES

Autos

Industry experts expect little or no upward price pressures as strong competition continues throughout the vehicle market. The weakening of the yen has given the Japanese increased flexibility to maintain or reduce prices in the U.S. to maintain or even increase market share. The only pressure for price increases will come from suppliers that are increasingly operating at

The Commerce Working Group on the Pricing Outlook consists primarily of DOC industry specialists and experts from other agencies, who provide judgments on the pricing outlook in the industries they monitor. This report reflects the Department's judgment that developments at the industry level, including dynamic new management, continuing cost cutting, on-going deregulation, new technologies, increasing competition, and globalization affect the pricing outlook, productivity, and prospects for economic growth. Moreover, this report is designed to be prospective and supports the conventional price indexes, which are retrospective.

capacity. Even if suppliers increase prices, however, auto manufacturers probably will not be able to pass these through to consumers.

Aerospace

Commerce experts noted a sharp rebound in sales and orders in the civilian transport market, but competition from Airbus and continuing excess capacity should hold price increases down. The military market is flat.

Medical devices and instrumentation

Industry experts foresee no price increases in the medical devices industry. The U.S. industry is operating at below full capacity, with some consolidation of companies. Cost-consciousness among primary and secondary consumers of medical products will continue to restrain prices.

Downward pressure on pricing for instrumentation should continue according to industry experts. Heavy discounting reflects industry consolidation, declining demand, excess capacity, and demand for products with fewer options and features.

Semiconductors

Industry analysts expect prices to continue to decline moderately through the end of the year. Prices for dynamic random access memory chips (DRAMS) tumbled at the end of October and early November, following a brief uptick due to demand by PC manufacturers gearing up for the holiday buying season. Commerce experts do not anticipate a major shortage of DRAMs or a long-term price increase because of large investment in new capacity.

Computer equipment

Industry experts report price declines of 20 to 26 percent in personal computers due to lower component costs and fierce competition for market share from Japanese producers entering the market for desktop personal computers. Prices for microprocessors have declined 20 percent since April and DRAMs prices have been cut 50 percent since last year.

Textiles and apparel

Costs for textile raw materials have been declining for the past few months. Recently, however, supply is tightening for many types of fabric and prices have begun to firm up for some textile mill products, especially fabrics used for home furnishings. Apparel manufacturers expect continued consumer resistance and soft consumer demand to continue to restrain prices and profit margins in 1997.

Chemicals

Industry analysts expect little pressure on chemical prices because of a strong dollar, a slowing U.S. economy, weak export growth, and global competition. Prices of some chemical products including industrial gases, plastic resins, and man-made fibers have risen recently and could rise further because of raw material price increases already in the pipeline. Several basic industrial organic chemicals appear to be weak and could decrease from current levels over the next few months.

Energy

Oil industry experts expect world oil prices to decline in the near term because of increased production. However, in the very short-term, the next several months, prices could remain relatively high and stable. Heating oil prices have increased recently, however, because early cold weather curtailed normal inventory accumulations. After January 1997, prices should begin to decline. Natural gas prices are also up over last year due to low autumn inventories and early winter weather. Assuming a normal winter, prices should begin to decline in February 1997. Competition and deregulation should hold coal and electricity prices in check over the next year. Industry experts expect gasoline prices to increase again over the winter as crude oil prices remain high. There could be a repeat of last year's gasoline price spike next spring if stocks are low coming out of the winter.

Metals

Copper prices are rebounding following a plunge related to the Sumitomo trading scandal. Price increases will be kept in check in the coming year, however, by an expected supply glut. Increasing demand and high, but shrinking global inventories should boost aluminum prices. Zinc supply shortages could decrease inventories to a level that will force prices up about 10 percent on average from 1996 to 1997. Future lead prices depend on global climate conditions; a cold winter would result in higher prices for lead as demand for replacement batteries for automobiles increases.

Large integrated steel mills are implementing price hikes for flat rolled steel beginning in the fourth quarter 1996. This has spurred a surge in imports in recent months, especially from Europe. In the coming year, the ability of U.S. mills to make price hikes stick hinges on European economic recovery.

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1. The consumer price index for all urban consumers (seasonally adjusted CPI-U) rose 0.3 percent in October 1996, the same as in September. Food prices increased, specifically prices of dairy products and fresh fruits and vegetables. In addition, energy prices also rose. In November, the producer price index for finished goods (seasonally adjusted PPI) rose 0.4 percent, following increases of 0.2 percent in September and 0.3 percent in August. The manufacturing PPI increased 0.5 percent in October, after minimal increases in September and August. The increase resulted from the rise in prices for transportation equipment, petroleum refining, and furniture and fixtures.

Table 1. Percent Changes in Consumer Price Index (CPI) For All Urban Consumers

Expenditure category	Changes from preceding month (Seasonally adjusted) Aug-96	Sep-96	Oct-96
ALL ITEMS	0.1	0.3	0.3
Food & beverages	0.3	0.5	0.6
Housing	0.2	0.2	0.3
Shelter	0.1	0.2	0.3
Apparel & upkeep	-1.4	0.5	0.5
Transportation	-0.2	0.5	0.1
New vehicles	0.1	0.6	-0.2
Medical care	0.2	0.2	0.2
Entertainment	0.2	0.1	0.1
Other goods & services	0.3	0.0	0.4
COMMODITIES & SERVICES			
All items	0.1	0.3	0.3
Commodities	-0.1	0.4	0.4
Durable goods	0.1	0.3	-0.1
Services	0.2	0.2	0.3

Source: Bureau of Labor Statistics.

Table 2. Percent Changes in the Producer Price Index (PPI) For Selected Commodity Groups

Expenditure category	Changes from preceding month (Seasonally adjusted) Aug-96	Sep-96	Oct-96
FINISHED GOODS			
Women's apparel 1/	-0.2	0.1	0.3
Men's & boys apparel	-0.2	0.0	0.2
Gasoline	0.9	0.9	5.5
Newspaper circulation	0.3	-0.2	1.0
Household furniture 1/	0.0	0.1	0.1
Household appliances 1/	0.1	-0.1	-0.2
Passenger cars	-0.2	1.2	-1.6
Capital equipment	-0.1	0.3	-0.4
INTERMEDIATE GOODS			
Synthetic fibers 1/	0.0	0.3	-1.5
Industrial chemicals 1/	0.5	0.4	-0.1
Plastic resins & materials 1/	1.6	1.8	0.9
Plywood 1/	2.0	5.7	-3.8
Woodpulp 1/	2.3	-0.3	0.3
Paper 1/	-0.3	-1.2	-0.8
Paperboard 1/	-0.1	-0.1	-1.0
Materials & components for construction	0.3	0.4	-0.3
Softwood lumber 1/	4.3	2.7	-5.1
Cement	0.2	0.4	0.3
Concrete products	0.0	0.4	0.1
Gypsum products 1/	3.7	1.1	1.8
Steel mill products 1/	0.6	0.3	-0.1
Primary nonferrous metals 1/	-9.9	-0.5	-1.6
Motor vehicle parts 1/	0.0	0.0	0.1
Aircraft parts & aux. equip., nec. 1/	0.0	0.1	0.1
CRUDE GOODS			
Raw cotton	6.5	-2.9	1.2
Cattle hides	5.1	-3.6	12.1
Natural gas (to pipelines) 1/	-1.2	-6.4	-3.2
Crude petroleum 1/	3.2	7.3	8.5
Logs, timber, etc. 1/	1.6	0.8	1.7
Wastepaper 1/	2.7	2.9	8.6
Iron & steel scrap 1/	0.0	0.4	-4.3
Copper base scrap 1/	-4.1	-1.3	0.1
Aluminum base scrap	0.6	1.7	-1.5
Construction sand, gravel, & crushed stone	0.1	0.0	0.1

1/ Not seasonally adjusted.

Source: Bureau of Labor Statistics.

Table 3.
A Recent History of Inflation Pressure By Industry Sector

(1)	(2)	(3)	(4)	(5)	(6)
Date	Sectors added	Percent of pvt. industry	Sectors dropped	Percent of pvt. industry	Cum. net total*
Dec 95	Sectors described below**				14.7
Jan 96	Hotels, lodging	0.9			
	Oil & gas extraction	1.2			16.8
Feb 96	Non-metallic minerals	0.1			
	Television and radio	0.7			17.6
Mar 96	Petroleum	0.5			18.1
Apr 96	Legal Services	1.5			19.6
May 96	Tobacco	0.4	Printing	-1.4	
			Personal care serv.	-0.4	18.2
Jun 96	Air transportation	0.9	Medical care serv.	-6.7	
	Lumber	0.5			12.9
Jul 96			Oil & gas extraction	-1.2	11.7
Aug 96			Non-metallic minerals	0.1	
			Entertainment serv.	- 1.3	10.3
Oct 96			Petroleum	-0.5	
			Legal Services	-1.5	
			Farm products	-1.5	6.8

*For each month, previous cumulative net total plus sum of column (3) minus sum of column (5).

**As of December 1995, these sectors showed inflationary pressures (defined as price inflation above 3.5 percent at an annual rate over the previous six months): medical care services and insurance, education, printing, auto insurance, miscellaneous repair services, food and farm products, personal care services, and entertainment services.

Notes:

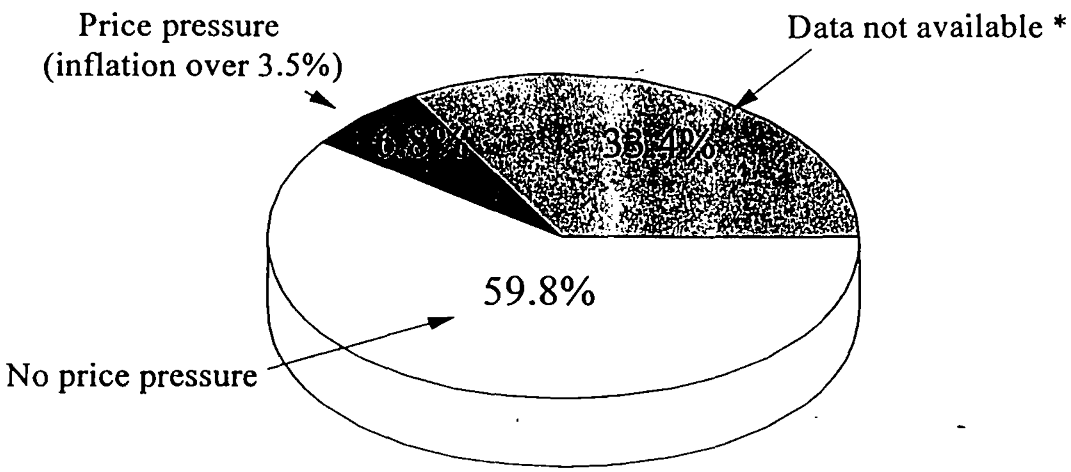
The third and fifth columns of the table indicate the weight that each sector has in total private industry, while the sixth column shows the cumulative total of such sectors in a given month. Total does not include sectors for which data is unavailable: wholesale, retail, finance, and business and miscellaneous services sectors.

Remaining on list, end of October 1996: education, food, television and radio, hotels and lodging, auto insurance, air transportation, lumber, tobacco, and miscellaneous repair services.

Caution: Because small changes in inflationary pressure can cause large sectors to be added or subtracted from the list in any given month, monthly movements in the sector total may overstate the actual changes in monthly pressures.

Figure 1.
Percentage of Private Industry Output Experiencing Price Pressure Over the Last 6 Months (Apr. '96 to Oct. '96)

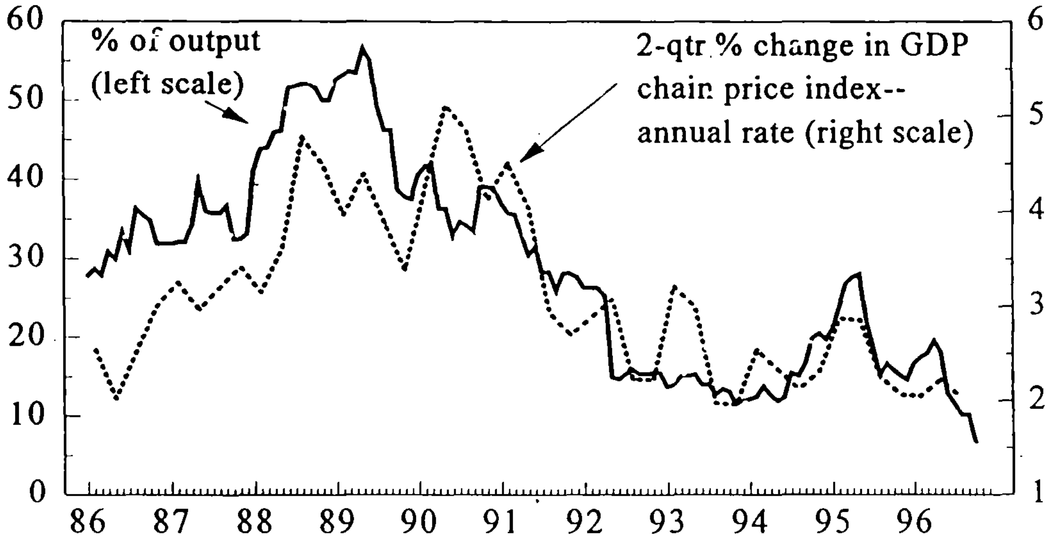
Based on 1994 output share



* Data unavailable for the wholesale, retail, finance, and business and misc. services sectors.

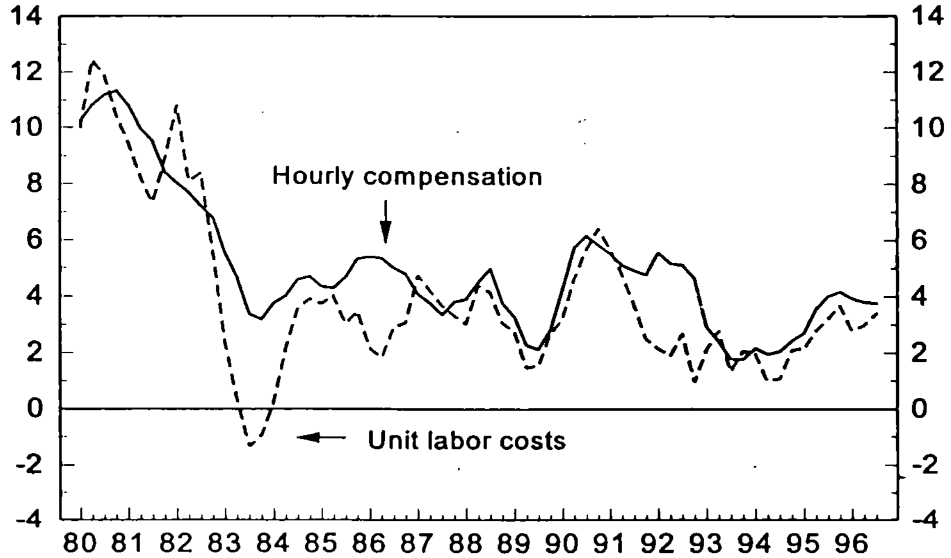
Data sources are producer and consumer price indexes from the Bureau of Labor Statistics, plus a few national income account price deflators and trade association price series. Sector weights are determined by the gross product originating share of that sector in total private industry. GPO share data is from the Bureau of Economic Analysis.

Figure 2.
Share of Private Industry Output Experiencing Price Pressure*



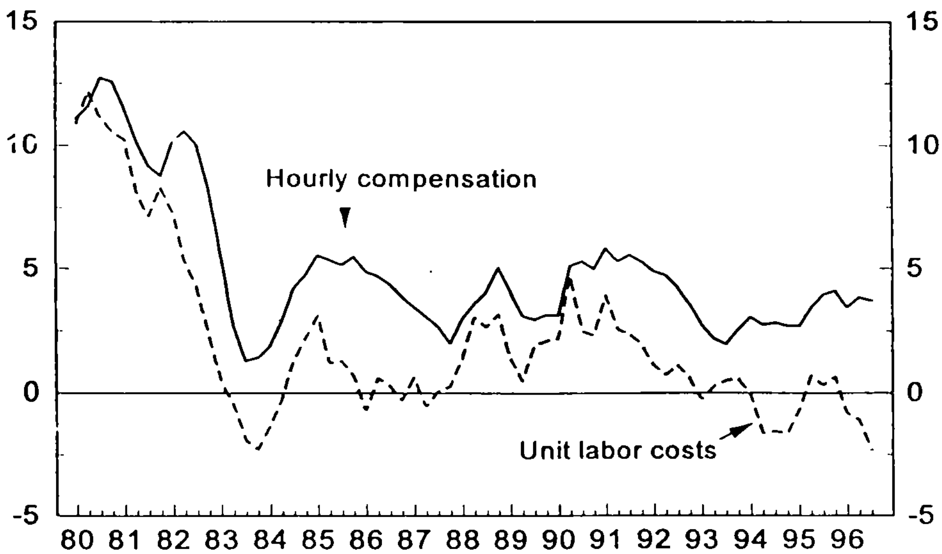
* "Price pressure" is defined as an annual inflation rate in that sector of more than 3.5 percent over the previous 6 months.

Figure 3.
Compensation and Unit Labor Costs in Non-farm Business
4 quarter percent change



Source: Bureau of Labor Statistics.

Figure 4.
Compensation and Unit Labor Costs in Manufacturing
4 quarter percent change



Source: Bureau of Labor Statistics.

DRAFT

February 13, 1997

MEMORANDUM FOR **ERSKINE BOWLES**

FROM: **GENE SPERLING**

SUBJECT: **"Choice" No-Fault Auto Insurance**

Both you asked me to look into whether the "choice" no-fault auto insurance plan devised by Jeffrey O'Connell and Michael Horowitz, supported by Senator Dole in last year's election, and now proposed for implementation in New Jersey by Governor Whitman might be something we would think a good idea as a matter of policy. My preliminary response is that the Administration should not reject the plan out of hand -- it has positive features, including some that go beyond auto insurance premium reduction, that suggest a closer policy look is appropriate. During the 1970s, the Carter Administration supported national no-fault. There is still staff at Commerce and DOT who were part of that effort and have some expertise in the field. Before deciding to pursue any form of no-fault, we should bring these agencies into the process.

One preliminary question is what "support" for a "choice" no-fault plan might mean. It could be as little as using the bully pulpit to say this is a good idea and states should look into it. Or as much as supporting federal legislation to require states to adopt choice plans. A lesser alternative would be to provide federal incentives, such as increased highway safety or medicare funds, for states that adopt choice plans (presumably ones that meet certain statutory standards). Simply authorizing states to adopt such plans is a legally meaningless act, since they can do so already. These degrees of support implicate issues of federal preemption of state tort law as well as questions related purely to no-fault.

<u>What is no-fault?</u>

No-fault auto insurance is essentially first party coverage: if you're injured in an auto accident, your carrier pays for your injuries[1] and your right to sue the other party (if there is one) is either non-existent ("pure" no-fault) or circumscribed. Almost all no-fault policies get their savings from the fact that only economic damages are covered -- no pain and suffering. No state has pure no fault. Depending on how you count, about 13 states and Puerto Rico have some form of no-fault. In New York and Michigan, which require extremely serious and objectively verifiable

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[1] Much auto property damage (to the auto) is covered by collision insurance. Some states have experimented with broader no-fault for property damage, but it was neither very effective nor very efficient. It is generally not an issue in the debate.

injuries to get into court, it is reasonably effective in holding down costs and keeping cases out of court (although New York premiums are high for other reasons). In other states, which have weak verbal or dollar thresholds, or a right to choose to litigate after an accident, it has been less effective.

"Choice" no-fault is a system under which drivers would be given the option of choosing either a pure no-fault policy with fairly high policy limits (e.g., $250,000) but no access to court or a more expensive policy which allowed court access but in which the policy-holder's insurance company would pay, no matter who was at fault -- as is the case with uninsured motorist coverage today. Governor Whitman has proposed a variation of this system. There would be four policies: pure no-fault at the $250,000 level (which would have a premium reduction of 20-25%); pure no-fault with an ability to collect for pain and suffering on a first party basis (which would result in a premium reduction of about 8%); no-fault but with access to court with a high verbal threshhold (reduction unstated but should be some); and the traditional second-party liability system with unfettered access to court.

Problems and opportunities

The usual rationale for moving to no-fault is that it drives down insurance premiums, and the usual response is that it unfairly keeps injured parties from exercising their constitutional right to access to court. A collateral argument is that first party systems "punish" both good drivers and bad drivers who get into accidents, whereas the current system places the burden on the bad driver. This set of arguments does not tell the whole story.

Flaws in the Argument in Favor

Theoretically, no-fault should reduce automobile insurance premiums. A 1996 study by the Rand Institute for Civil Justice concluded that pure no-fault would reduce personal injury premiums by about 60%, and total premiums -- after taking into account the 50% of the typical premium that is for property coverage -- by about 30%. There are several reasons this has not been borne out in practice in the states that have adopted no-fault, and some additional reasons why certain states are likely to benefit less in any event.

- As noted above, no state has pure no-fault. Where there are weak verbal threshholds or dollar thresholds, not only do cases continue to get to court, but there is pressure to inflate medical expenses to exceed the threshold.
- While legal costs are a significant part of the premium dollar, other costs are also important in determining how fast premiums go up, such as the rate of increase in medical costs (leaving aside any impact of no-fault on these costs). Moreover, automobile insurance is a competitive business in most states and insurance companies regularly cycle through periods of declining and rising premiums.
- In states with a very high proportion of single-car accidents -- i.e., most rural states -- no-fault does not change the complexion of the payout system, and therefore should not have much effect on premiums, which are usually fairly low

in the first place. Rand claims that the proportion of uninsured motorists doesn't matter much, but admits they don't really know.

- Even Rand, generally supportive of no-fault, admits that the most seriously injured individuals will probably get less compensation than under the current system. (The least seriously injured will cease being overcompensated.)

Additional benefits from no-fault

Even if there were no premium reduction, however, no-fault might have other benefits:

- As a medical matter, people who are injured who receive high quality medical and rehabilitative treatment quickly are more likely to recover fully. By keeping cases out of court, no-fault reduces the temptation to keep the plaintiff injured for the jury. Moreover, it provides the money to get the rehabilitation that's needed.
- This was important in the 1970s, but probably has gotten even more important since because:
  - Fewer people have medical insurance today; and
  - Seatbelts and airbags save lives, but those saved are often severely injured.
- High verbal threshold no-fault probably reduces fraud in the medical care system, and should reduce volume pressures on the civil justice system.

Flaws in the Opposition

The part of the argument in opposition that is stated in constitutional terms is basically unanswerable, except to note that in general not everyone has access to the civil justice system because of the cost and time involved in using the system. (The efforts of Republicans to get rid of contingency fees and institute loser pays would, of course, exacerbate this problem, and undoubtedly no-fault's opponents will lump any support on our part with these changes we oppose.) Portions of their argument relating to the lack of reduction in premiums in no-fault states or the fact that many rural states have much lower premiums than no-fault states ignore the different economics of the states and/or the problems related to low threshholds, but clearly need to be taken into account in determining the practical real-life impact of adopting no-fault.

Summary

No-fault generates significant public interest at the state and local level when auto insurance premiums are increasing rapidly (which appears not to be the case today), and may have real policy benefits. However, there are serious questions about the extent of the benefits and the appropriateness and efficacy of dealing with the issue at the federal level. If we have any thought of pursuing this issue, I suggest bringing together an NEC interagency team, including Justice, Commerce and DOT, to further investigate existing information and develop options and recommendations.

THE WHITE HOUSE

WASHINGTON

February 18, 1997

MEMORANDUM FOR GENE SPERLING

FROM: ELGIE HOLSTEIN EH

RE: **Children's Environmental Health Executive Order**

Attached are two copies of a the most recent draft of the children's environmental health EO. The first is a clean copy. The second, showing suggested edits from some agencies, will give you a glimpse of some of the concerns that have been raised. Section 5 is key.

Agency Concerns

- **Litigation Risks:** Agencies are concerned that nothing in the EO give interested parties a basis on which to sue an agency for being insufficiently protective of children in the formulation of their rules. The EO explicitly addresses the issue, but agencies are still wary.

- **Damned If They Do -- Regulatory Burden:** Agencies worry that by elevating consideration of children's health in their rulemakings they will be forced to demand extensive new data from industry and to impose economically burdensome standards that are disproportionate to the actual risks posed to children

- **Damned If They Don't -- Image:** If agencies choose not to adopt a standard fully protective of children's health, they fear they will be criticized by outside groups who will complain that they are defying the President's wishes and ignoring the needs of children.

- **Jurisdiction:** Agencies, such as the CPSC, feel they already look after children's health in the course of their rulemakings and are nervous about the creation of a new, unfamiliar set of requirements. They believe that such requirements could cause conflicts with their current procedures/missions. Other agencies want to be exempted entirely. For example, OSHA argues that since workplaces do not normally have children present, they need not be covered by an EO on this subject.

Next Steps

Interagency discussions are continuing. Bruce Reed had suggested that this EO might be appropriate for the upcoming WH conference on infant development. I anticipate making a recommendation to you later this week regarding the need for an NEC principals meeting.

DISCUSSION DRAFT -- DO NOT CITE OR RELEASE

PROTECTION OF CHILDREN IN FEDERAL ENVIRONMENTAL, HEALTH, AND SAFETY ACTIONS

America's children are this country's future. Preparing our children for the 21st century is among our most important national priorities. To fulfill this task we must recognize that America's children face significant and unique threats from an array of hazards. A growing body of scientific knowledge demonstrates that children are particularly at risk from environmental hazards:

- Children's neurological, immunological, digestive and other bodily systems are still developing, making them more susceptible to toxic pollutants and other environmental hazards;

- Children eat more food, drink more fluids, and breathe more air in proportion to their body weight than adults, and spend more time outside in play, so they may be more exposed to toxic pollutants and other environmental hazards;

- Children are less able than adults to recognize and to protect themselves from exposure to toxic pollutants and other environmental hazards;

- Children face potential exposures to toxic pollutants over their entire lifetime, with the possibility of more significant health impacts; and

- Children may be at increased risk due to differences in exposure pathways (e.g., greater hand-to-mouth contact, more frequent ingestion of non-food items).

Our experience tells us that children have different needs when we act to protect health and safety:

- Children's size and weight can affect how well they are protected by safety features;
- Children have activity patterns that are different from those of adults, which may increase their exposure to health and safety risks; and
- Children are less able to protect themselves from risk, and are less responsive to warning regimes.

While Federal agencies typically consider the effect of their work on children, existing standards were derived in many instances principally from data on adults. We need to enhance our understanding of how environmental, health, and safety risks to children differ from the risks to adults. The array and complexity of environmental, health, and safety threats facing children today, and potential inadequacy of existing standards established principally to protect adults, pose a significant challenge to our ability to protect our children's health and safety.

The Federal government is responding vigorously to this challenge, acting to address threats to children's environmental health in the new Food Quality Protection Act, accounting for children in the development of new standards for passive restraints in cars, and taking administrative action to protect children from tobacco use, lead, food-borne illness, and other hazards. But we should do more.

The Federal government must establish a national policy to protect the health of American children from environmental, health, and safety hazards, and apply its resources, including its scientific research capabilities, in a coordinated and efficient manner to address these threats to children. A coordinated approach is necessary to avoid duplication, to ensure efficient assignment of tasks among agencies, and to promote decisions based on full information about the costs and benefits of particular agency actions.

Only by tailoring governmental actions, including the setting of environmental, health, and safety standards, to recognize and address the often greater impact that environmental pollutants and other health and safety hazards have upon the health and well-being of our children, can we ensure both more effective governance and more healthy and productive futures for our children. The task before us is large -- developing the basic scientific knowledge of how toxic chemicals and other environmental, health, and safety hazards may differentially affect children may take years. But the need to act, and to act promptly, to protect the future of our nation cannot be disregarded.

NOW, THEREFORE, to establish a coordinated federal strategy for the protection of children from the risks environmental, health, and safety hazards, and by the authority vested in me as President by the Constitution and laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy.

1-101. Each Federal agency shall make it a high priority to identify and assess environmental, health, and safety risks that may disproportionately affect children.

1-102. Each Federal agency shall ensure that it considers, and that its policies, programs, activities, and standards appropriately address, disproportionate risks to children that result from environmental, health, or safety hazards, to the fullest extent consistent with the agency's mission and applicable law.

Section 2. Definitions. The following definitions shall apply to this order.

2-201. Federal agency means any authority of the United States that is an agency under 44 U.S.C. 3502(1), other than those considered to be independent regulatory agencies as defined in 44 U.S.C. 3502(10). Agencies not subject to this Executive order are encouraged to participate in its implementation and to conform their programs and activities to its provisions. For purposes of this order, military departments, as defined in 5 U.S.C. 102, are covered under the auspices of the Department of Defense.

2-202. Covered regulatory action means any substantive regulatory action initiated after the date of this Executive order that is likely to result in a rule that may:

(a) Have an annual effect on the economy of $100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities; and

(b) Concern an environmental, health, or safety hazard or risk that may disproportionately affect children.

Section 3. Children's Health IWG.

3-301. Within 60 days of the date of this order, there shall be established an interagency working group (IWG) on Children's Health, which shall implement and promote the purposes of this section.

3-302. The IWG shall be composed of representatives of Federal agencies and White House offices with responsibility for the regulation of risks from environmental, health, or safety hazards, or whose activities may substantially affect such hazards, or which conducts scientific or medical research related to such risks or hazards. Member agencies shall include, but are not limited to, the Consumer Product Safety Commission (CPSC); the Council on Environmental Quality (CEQ); the Department of Agriculture (USDA); the Department of Energy (DOE), Department of Health and Human Services (HHS), including, the Centers for

Disease Control and Prevention (CDC), the Food and Drug Administration (FDA), and the National Institutes of Health (NIH); the Department of Housing and Urban Development (HUD); the Department of Justice (DOJ); the Department of Transportation; the Domestic Policy Council (DPC); the Environmental Protection Agency (EPA); the Office of Management and Budget (OMB); and the Office of Science and Technology Policy (OSTP).

3-303. The IWG shall develop a coordinated Federal strategy for Children's Health and Safety, to include at least the following elements:

(a) Statements of principles, general policy, and targeted annual priorities that will guide the Federal approach to achieving the goals of this order.

(b) A coordinated research agenda for the Federal government, including steps to implement the plan for the consolidated research database developed pursuant to section 4 of this order, and for a cross-cutting budget to accomplish this research.

(c) Recommendations for appropriate partnerships among Federal, State, and local governments and the private, academic, and non-profit sectors.

(d) Proposals to enhance public outreach and communication to assist families in evaluating risks to infants and children and in making informed consumer choices;

(e) An identification of high-priority initiatives for the Federal government to undertake in advancing protection of children's health and safety.

(f) A statement regarding the desirability of new legislation to fulfill or promote the purposes of this Executive Order.

3-304. The IWG shall annually prepare a report on research, data, or other information that would enhance our ability to understand, analyze, and respond to environmental, health, and safety risks to children. For purposes of this report, every Federal agency shall identify and specifically describe for the IWG all data needs that have arisen in the course of the agency's programs and activities, including regulatory and enforcement actions. The IWG shall incorporate agency submissions into its report and ensure that this report is publicly available and widely disseminated. The White House Office of Science and Technology Policy and the National Science and Technology Committee shall ensure that this report is fully considered in establishing research priorities.

3-305. The IWG shall be composed of the Secretary or head of each of the member agencies, or their designees at the Assistant Secretary level or its equivalent.

3-306. The Administrator of the Environmental Protection Agency shall serve as interim chair of the IWG, with responsibility for arranging the first meeting. At the first meeting, the IWG shall elect a permanent chair, who will serve for a period of one year. Subsequent chairs shall be elected by the IWG to serve for one-year terms, with no one member agency holding the chairmanship of the IWG for more than two consecutive one-year periods.

3-307. The IWG shall exist for a period of four years. At least six months prior to the expiration of that period, the member agencies shall assess the need for continuation of the IWG or its functions, and make appropriate recommendations to the President.

Section 4. Research Coordination and Integration

4-401. Within six months of the date of this order, the White House Office of Science and Technology Policy and the National Science and Technology Committee shall present to the IWG a proposed plan for establishing, maintaining, and keeping current a consolidated research data base that lists and describes all research conducted or funded by the Federal government that is related to adverse health effects in children and infants resulting from exposure to environmental, health, or safety hazards. This plan shall include recommendations to ensure that the activities of the IWG and other requirements of this

Executive order are fully integrated with, and not duplicative of, other current or planned initiatives with respect to children's health and safety.

4-402. The proposed plan shall promote the submission of information on academic and other private research for inclusion in the data base.

4-403. The plan shall include provisions to ensure that the consolidated research data base is available to the public, to the scientific and academic communities, and to all Federal agencies.

Section 5. Agency environmental, health, or safety regulations.

5-501. For each covered regulatory action submitted to the Office of Information and Regulatory Affairs (OIRA) for review, the agency shall provide to OIRA the following information developed as part of the agency's decisionmaking process (unless prohibited by law):

(a) An evaluation of the effects of the covered regulatory action on children;

(b) An assessment of potentially effective and reasonably feasible alternatives to the covered regulatory action that have been identified by the agency or the public and that may be more protective of children; and

(c) An explanation of why the covered regulatory action is preferable to the identified potential alternative(s).

5-502. In emergency situations or when an agency is obligated by law to act more quickly than normal review procedures allow, the agency shall comply with the provisions of this section to the extent practicable. For those regulatory actions that are governed by a court-imposed or statutory deadline, the agency shall, the extent practicable, schedule rulemaking proceedings so as to permit sufficient time for completing the analysis required by this section.

5-503. The analysis required by this section shall be made part of the administrative record for the covered regulatory action or otherwise made available to the public.

Section 6. General Provisions.

6-601. This order is intended only for internal management of the Executive Branch. This order is not intended, and should not be construed to create any right, benefit, or trust responsibility, substantive or procedural, enforceable at law or equity by a party against the United States, its agencies, its officers, or its employees. This order shall not be construed to create any right to judicial review involving the compliance or noncompliance with this order by the United States, its agencies, its officers, or any other person.

6-602. Federal agencies should implement this order consistent with, and to the extent permitted by, existing law.

6-603. This order shall be effective immediately and shall continue to be in effect until revoked.

The White House

___________ __, 1997

first 2 pages are press release language which should not be in the EO
EOs should not contain extraneous language that are subject to current or future challenge. The preamble should contain only the legal citations, and a clear brief justification for issuing the order.

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- Children's neurological, immunological, digestive and other bodily systems are still developing, making them more susceptible to toxic pollutants and other environmental hazards;

- Children eat more food, drink more fluids, and breathe more air in proportion to their body weight than adults, and spend more time outside in play, so they may be more exposed to toxic pollutants and other environmental hazards;

- Children are less able than adults to recognize and to protect themselves from exposure to toxic pollutants and other environmental hazards;

- Children face potential exposures to toxic pollutants over their entire lifetime, with the possibility of more significant health impacts; and

- Children may be at increased risk due to differences in exposure pathways (e.g., greater hand-to-mouth contact; more frequent ingestion of non-food items).

- Because children travel as passengers, pedestrians & byciclists, injury and death due to transportation related accidents are a principal source of concern

Our experience tells us that children have different needs when we act to protect health and safety:

- Children's size and weight can affect how well they are protected by safety features;

- Children have activity patterns that are different from those of adults, which may increase their exposure to health and safety risks; and

- Children are less able to protect themselves from risk, and are less responsive to warning regimes.

move to 3rd bullet

While Federal agencies typically consider the effect of their ~~work~~ actions on children, existing standards were derived in many instances principally from data on adults. We need to enhance our understanding of how environmental, health, and safety risks to children differ from the risks to adults. The array and complexity of environmental, health, and safety threats facing children today, and potential inadequacy of scientific data & information ~~of existing standards~~ established principally with reference to ~~to protect~~ adults, pose a significant challenge to our ability to protect our children's health and safety.

delete phrase - why say current standards are inadequate

The Federal government is responding vigorously to this challenge, acting to address threats to children's environmental health in the new Food Quality Protection Act, considering ~~accounting for~~ children in the development of new standards for airbags ~~passive restraints~~ in cars, and taking administrative action to protect children from tobacco use, lead poisoning, food-borne illness, and other hazards. But we should do more.

The Federal government must establish a national policy to protect the health of American children from environmental, health, and safety hazards, and apply its resources, including its scientific research capabilities, in a coordinated and efficient manner to address these threats to children. A coordinated approach is necessary to avoid duplication, to ensure efficient assignment of tasks among agencies, and to promote decisions based on fuller information about the costs and benefits of particular agency actions.

Only by tailoring governmental actions, including the setting of environmental, health, and safety standards, to recognize and address the often ~~greater~~ disproportionate impact that environmental pollutants and other health and safety hazards have upon the health and well-being of our children, can we ensure both more effective governance and more healthy and productive futures for our children. ~~The task before us is large — developing the basic~~ complete ~~scientific knowledge of how toxic chemicals and other environmental, health, and safety hazards may differentially affect children may take years.~~ But the need to act, and to act promptly, to protect the future of our nation cannot be disregarded. this statement may hurt agencies in ongoing rulemakings

~~NOW, THEREFORE~~ And in order, to establish a coordinated federal strategy for the protection of children from the ~~risks~~ risks posed by environmental, health, and safety hazards, and by the authority vested in me as President by the Constitution and laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy.

1-101. Each Federal agency shall make it a high priority to identify and assess environmental, health, and safety risks that may disproportionately affect children.

1-102. Each Federal agency shall ensure that it considers, and that its policies, programs, activities, and standards ~~appropriately~~ address, disproportionate risks to children that result from environmental, health, or safety hazards, to the fullest extent appropriate, consistent with the agency's mission and applicable law.

DOE suggests → 1-103 Each independent regulatory agency should participate in the implementation of this Executive Order and should comply with its provisions

Section 2. Definitions. The following definitions shall apply to this order.

2-201. Federal agency means any authority of the United States that is an agency

DOE suggestion

→ under 44 U.S.C. 3502(1), other than ~~those considered to be~~ an independent regulatory agency ~~agencies as~~

→ ~~defined in 44 U.S.C. 3502(10)~~ (5). ~~Agencies not subject to this Executive order are encouraged to participate in its implementation and to conform their programs and activities to its provisions.~~ For purposes of this order, military departments, as defined in 5 U.S.C. 102, are covered under ~~the auspices of~~ the Department of Defense.

DoE → what does this mean? Why here?

DOE 2-202 Independent regulatory agency means any agency included 44 U.S.C. 3502 (10)

2-202 3 Covered regulatory action means any substantive regulatory action ~~initiated~~ for which a notice of proposed rulemaking is required by law & is published after the date of this Executive order that is likely to ~~result in a rule that may:~~ overbroad?

(a) Have an annual effect on the economy of $100 million or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, the environment, public health or safety, or State, local, or tribal governments or communities; and

(b) Concern an environmental, health, or safety hazard or risk that ~~may~~ is expected to disproportionately affect children.

Section 3. Children's Health IWG.

HHS suggests IWG have a more limited charter, at least for openers, e.g. coordination of a program initiative & development of a research agenda - rather than being sent into the regulatory arena as well

3-301. Within 60 days of the date of this order, there shall be established ~~an interagency working group (IWG)~~ (OSTP) a Task Force on Children's Health and safety which shall implement this section and promote the purposes of this section.

3-302. The ~~IWG~~ TF shall be composed of representatives of Federal agencies and White House offices with responsibility for ~~the regulation of risks from environmental, health, or safety hazards~~ ensuring the health, safety, & well being of children, or whose activities may substantially affect such hazards, or ~~which conducts~~ related scientific or medical research ~~related to such risks or hazards~~. Member agencies shall include, but are not limited to, the Consumer Product Safety Commission (CPSC); the Council on Environmental Quality (CEQ); the Department of Agriculture (USDA); the Department of Energy (DOE), Department of Health and Human Services (HHS), including, the ~~Centers for~~

just list HHS as a member agency & remove listing HHS Operating Divisions (NIH, FDA, CDC)

~~Disease Control and Prevention~~ (CDC), the ~~Food and Drug Administration (FDA)~~, and the ~~National Institutes of Health (NIH)~~; the Department of Housing and Urban Development (HUD); the Department of Justice (DOJ); the Department of Transportation; the Domestic Policy Council (DPC); the Environmental Protection Agency (EPA); the Office of Management and Budget (OMB); and the Office of Science and Technology Policy (OSTP). the Nuclear Regulatory Commission
National Science Foundation (NSF), Dept. of Ed., DoD

3-303. The ~~IWG~~ TF shall develop a coordinated Federal strategy for Children's Health and Safety, and ~~to~~ include at least the following elements:
to implement the policies and principles of the Executive Order

(a) Statements of more detailed principles, and policies concerning ~~general policy, and targeted annual priorities that will guide~~ the Federal approach to achieving the goals of this order.

b) specific regulatory actions pertaining to environmental, health & safety hazards.

(c) A coordinated children's research agenda for the Federal government, including ~~steps~~ recommendations to implement the plan for ~~the consolidated~~ a research database developed pursuant to section 4 of this order, and for a cross-cutting budget to accomplish this research. → OMB responsibility
DOT objects if the intent is to impose IWG priorities on agencies.

(d) Recommendations for appropriate partnerships among Federal, State, and local governments and the private, academic, and non-profit sectors.

(e) Proposals to enhance public outreach and communication to assist families in evaluating risks to infants and children and in making informed consumer choices;

(f) An identification of high-priority ~~initiatives~~ options identified by Federal agencies ~~for the Federal government~~ to be undertaken in advancing protection of children's health and safety, including potential new legislation that would accomplish this goal.

~~(g) A statement regarding the desirability of new legislation to fulfill or promote the purposes of this Executive Order.~~

(DOT)- should be biennial

3-304. The IWG shall annually prepare a report on research, data, or other information that would enhance our ability to understand, analyze, and respond to environmental, health, and safety risks to children. For purposes of this report, ~~every~~ member Federal ~~agency~~ agencies shall identify and specifically describe for the IWG ~~all~~ data needs that have arisen in the course of the agency's programs and activities, including regulatory and enforcement related to environmental, health, & safety risks to children. actions. The IWG shall incorporate agency submissions into its report and ensure that this report is publicly available and widely disseminated. The White House Office of Science and Technology Policy and the National Science and Technology Committee shall ensure that this report is fully considered in establishing research priorities.

3-305. The IWG shall be composed of the Secretary or head of each of the member agencies, or their designees at the Assistant Secretary level or its equivalent.

3-306. The Administrator of the Environmental Protection Agency and the Secretary of the Department of Health & Human Services shall serve as interim chair of the IWG, with responsibility for arranging the first meeting. At the first meeting, the IWG shall elect a permanent chair, who will serve for a period of one year. Subsequent chairs shall be elected by the IWG to serve for one-year terms, with no one member agency holding the chairmanship of the IWG for more than two consecutive one-year periods.

insert

3-307 The White House Domestic Policy Council will facilitate decision making w/in the Administration on recommendations of the IWG

3-30~~7~~8. The IWG shall exist for a period of four years. At least six months prior to the expiration of that period, the member agencies shall assess the need for continuation of the IWG or its functions, and make appropriate recommendations to the President.

Section 4. Research Coordination and Integration

4-401. Within six months of the date of this order, the White House Office of Science and Technology Policy and the National Science and Technology Committee shall present to the IWG a proposed plan for establishing, maintaining, and keeping current a consolidated research data base that lists and describes all research conducted or funded by the Federal government that is related to adverse health effects in children and infants resulting from exposure to environmental, health, or safety hazards. This plan shall include recommendations to ensure that the activities of the IWG and other requirements of this

delete throughout always "children"

Executive order are fully integrated with, and not duplicative of, other current or planned initiatives with respect to children's health and safety.

4-402. The proposed plan shall promote the submission of information on academic and other private research for inclusion in the data base.

4-403. The plan shall include provisions to ensure that the consolidated research data base is available to the public, to the scientific and academic communities, and to all Federal agencies. privacy issues? confidentiality

Section 5. Agency environmental, health, or safety regulations.

5-501. For each covered regulatory action submitted to the Office of Information and Regulatory Affairs (OIRA) for review, the federal agency shall provide to OIRA the following information developed as part of the agency's decisionmaking process (unless prohibited by law):

(a) An evaluation of the ~~effects of~~ extent to which the covered regulatory action would create or mitigate a disproportionate hazard or risk on children;
(DOT) If the action is expected to dispropotionately affect children, the agency shall also provide;

(b) An assessment of potentially effective and reasonably feasible alternatives to the covered regulatory action that have been identified by the agency or the public and that ~~may be more protective of~~ may more effectively mitigate disproportionate effects of a hazard or risk on children; and

(c) An explanation of why the covered regulatory action is preferable to the identified potential alternative(s).

5-502. In emergency situations or when an agency is obligated by law to act more quickly than normal review procedures allow, the agency shall comply with the provisions of this section to the extent practicable. For those covered regulatory actions that are governed by a court-imposed or statutory deadline, the agency shall, to the extent practicable, schedule rulemaking proceedings so as to permit sufficient time for completing the analysis required by this section.

may be included as part of another required analysis and

5-503. The analysis required by this section shall be made part of the administrative public record for the covered regulatory action or otherwise made available to the public.

Section 6. General Provisions.

6-601. This order is intended only for internal management of the Executive Branch. This order is not intended, and should not be construed to create any right, benefit, or trust responsibility, substantive or procedural, enforceable at law or equity by a party against the United States, its agencies, its officers, or its employees. This order shall not be construed to create any right to judicial review involving the compliance or noncompliance with this order by the United States, its agencies, its officers, or any other person.

6-602. Federal agencies should implement this order consistent with, and to the extent permitted by, existing law.

6-603 Executive Order No. 12606 of September 2, 1987 is revoked

6-604. This order shall be effective immediately and ~~shall continue to be in effect until revoked.~~

The White House

_____________, 1997

THE WHITE HOUSE

WASHINGTON

February 18, 1997

MEMORANDUM FOR GENE SPERLING

FROM: ELGIE HOLSTEIN (NEC) EH

SUBJECT: **Nuclear Waste**

This memo provides some background on the status of the nuclear waste issue. Attached are some additional papers to provide "texture."

Background

The Department of Energy has an ongoing program to "characterize," or study, Yucca Mountain, Nevada as a potential repository site for the permanent geologic disposal of spent nuclear fuel (from powerplants) and high-level radioactive waste (primarily from the weapons program). By law, Yucca Mountain, located one hundred miles north of Las Vegas, is the only site DOE may examine as a potential repository site. The law also prohibits the construction of an interim storage facility until a permanent repository has been approved by the Nuclear Regulatory Commission (NRC), but now Congress and the industry want to locate an *interim* storage facility there as well. To pay for the government's program, utilities pay into the (on-budget) Nuclear Waste Fund at the rate of one mil per kilowatt of nuclear-generated electricity. Current spending on the program is approximately $300 million annually.

One thousand feet below the surface of Yucca Mountain, DOE is finishing construction of the Experimental Studies Facility (ESF), a long tunnel in which work is underway to determine if the Mountain will be able to isolate waste for ten thousand years. The ESF, which is due to be completed later this year, will be the main repository passageway if the facility is ultimately licensed by the NRC as a repository. In late 1998, the President must make a "preliminary site viability determination" regarding the chances that Yucca Mountain can be successfully licensed as a permanent repository once all the scientific studies are completed.

Congress does not want to wait for a permanent repository, which, even at Yucca Mountain, would not be available until about 2010. Pressured by utility constituents, many Members want to name Yucca Mountain as the site of an *interim* storage facility, to provide a place for the nation's nuclear utilities to send their spent fuel as soon as possible. Currently, that material is stored in large holding ponds, and, increasingly, in dry storage casks on concrete pads. Importantly, the NRC and the independent Nuclear Waste Technical Review Board (of blue-ribbon scientists) have found that these waste storage operations will remain totally safe for decades to come. Congressional supporters of the utilities' position argue that since Yucca Mountain is likely to be the site of the permanent repository, an interim storage facility should go there as well.

They also argue that the Administration has a contractual obligation to take the waste soon. Previous Administrations have signed contracts with utilities obligating DOE to dispose of the utilities's spent fuel beginning in 1998. Last year, a federal court in Arizona ruled that DOE does have an obligation to take spent fuel, reciprocal to the utilities' payment of the fees. The court did not, however, say that DOE is required to take the material if it has no place to put it. Furthermore, it said that DOE will not actually be in breech of its contracts until 1998, so no remedy was ordered.

Notwithstanding the court decision against DOE, the President has insisted that no decision on where, when, or whether to build an interim storage facility will be made until after he has made his preliminary site viability determination in late 1998. His principal arguments are:

- Announcing support for early interim storage at Yucca Mountain will pre-judge the science. It will put additional institutional pressure on scientists to declare Yucca Mountain safe for the permanent repository, since no one will want to move the waste twice: once from the reactors to the Mountain, and again from Nevada to another repository site.

- Spending money on interim storage will only divert resources from the development of a permanent geologic repository, which should remain the centerpiece of the nation's nuclear waste management program -- not an interim solution.

- An interim storage site will create a de facto permanent site. Once the waste is moved off utility property and into the government's hands, support for a permanent disposal repository will evaporate. If Yucca Mountain does not prove out, no one will bother to search for a new potential repository site.

In addition, the Administration has opposed Congressional proposals that would short-cut environmental, health and safety regulations applicable to the Yucca Mountain project.

Nevada Politics

The State of Nevada has consistently opposed both the repository and an interim storage facility. Nevada's Governor Bob Miller, and Senators Reid and Bryan, have discussed this issue directly with the President and Vice President on more than one occasion. The President has not agreed to cancel the program, as the Nevadans clearly would prefer, but he has pledged to oppose Congressional efforts to force DOE to construct an interim storage facility at Yucca Mountain -- at least until after his 1998 preliminary site viability determination.

For Nevadans, nuclear waste is a voting issue. In his successful bid for the governorship, Dick Bryan ran against DOE and the repository. Later, Bryan ran for the Senate charging that Sen. Chic Hecht had failed to prevent the Congress in 1987 from singling out Nevada as the nation's nuclear waste "dumping ground." (Nevada does not have any nuclear powerplants, but it does have a lot of open space -- most of which is owned by the federal government, and a small Congressional delegation that has been consistently outvoted on this issue.) Like his predecessor, Governor Miller featured his opposition to nuclear waste disposal in Nevada when he ran for office.

Status

The Senate Energy Committee is planning soon to report out a bill to force DOE to move forward with interim storage at Yucca Mountain immediately. The Administration has repeated the President's veto threat. Chairman Murkowski's dissatisfaction with reported comments in last week's leadership meeting at the White House were the primary reason for delaying a Committee vote on the Pena nomination until after the President's Day recess. It would not surprise me if some Senators tried to forge a clearer link between confirmation and the Administration's response to the waste bill.

The White House strategy team on this issue consists of staff from OMB, NEC, CEQ, and Leg Affairs. Among the issues we are currently considering is how to respond to the court's decision while adhering to the President's position.

HIGH-LEVEL NUCLEAR WASTE (S. 104)

What You're For

- **Permanent geologic disposal** of the waste, which is the consensus solution of the scientific community. A viability assessment of Yucca Mountain will be completed in 1998. We have made more progress on the scientific assessment of Yucca Mountain than any previous Administration, but will only select a repository site if it is consistent with good science and protection of health, safety, and the environment. Construction of an interim storage facility is prohibited prior to the licensing of a permanent facility.

What to Guard Against

- **Suggestions that you should negotiate your position** to avoid the Senate Energy Committee's markup of the bill on Wednesday. They may not have the votes and you have the veto pen.

- **Suggestions that the utility lawsuit proves the need for legislation**. The court only has ruled that the government is generally bound by its contracts with the utilities to provide waste disposal in return for fees it collected. The court has not ruled that the government must dispose of the waste in 1998 if there is no safe place for it, and it could determine that no remedy is appropriate since the delay was unavoidable.

- **Suggestions that failure to begin interim storage puts communities near reactors at risk.** Both the Nuclear Regulatory Commission and the independent, congressionally-mandated, Nuclear Waste Technical Review Board agree that the waste can continue to be safely stored at reactors for many years while a permanent repository site is determined. In fact, the Technical Review Board suggested that transporting the waste now may raise safety concerns.

What You're Definitely Against

- Any proposal to site or construct interim storage before the viability assessment for Yucca Mountain is complete, or any activity that undermines work towards a permanent solution. S. 104 sites an interim storage facility near Yucca Mountain prior to the viability assessment (which will be completed in 1998) and waives various environmental requirements. Your Administration threatened to veto an identical bill last Congress and has threatened a veto of S. 104. Last year's bill passed the Senate without a veto-proof majority, derailing it in the House.

Results Desired From Meeting

- Their understanding of your firm commitment to the Administration's policy. Also, Congress should fund your FY 98 budget of $380 million to keep the viability assessment on track.

- An understanding that you recognize the seriousness of this issue and welcome dialogue. Pena has committed to meeting with the utilities after his confirmation to explore possible solutions consistent with the principles of sound science and environmental protection.

- A mutual agreement to avoid scare tactics with the public. Alarming the public about storage of waste at reactor sites could alarm people about nuclear power generally.

2/12/97

Q. We understand the Vice President told the Congressional meeting on Tuesday that the Administration would be opposed to any interim storage of high level nuclear waste. Is that a change in the Administration policy?

A. The Administration's policy has not changed, and we did not announce any new policy yesterday. Our policy has consistently been that we favor permanent geologic storage of the waste as the long-term solution, as does virtually all of the scientific community. We have made more progress than any other Administration toward the scientific characterization Yucca Mountain for that purpose. For that reason, we oppose the interim storage proposal in S. 104 because it undermines the ongoing work on a permanent repository by siphoning off resources. We also oppose this bill because, by effectively siting interim storage in Nevada near Yucca Mountain, it destroys the credibility of the Nation's nuclear waste disposal program by prejudicing the permanent repository decision and siting interim storage before the Yucca Mountain viability assessment has been made.

As we have always said, we believe that choosing a site for any storage of this waste must be based on objective, science-based criteria and be protective of public health and safety and the environment. That policy has not changed. S. 104 does not achieve that objective.

I would also note that both the Nuclear Regulatory Commission and the Nuclear Waste Technical Review Board have clearly indicated that the storage of this waste at its current locations is safe, and that there is no safety reason to move this waste before we have the scientific information we need about alternate storage sites.

Q. What did the Vice President say yesterday?

A. He intended no more than to restate our current policy. The only interim storage proposal currently under discussion in S. 104, and we oppose that. We also oppose any mandated siting for interim storage before the viability assessment at Yucca Mountain is completed.

THE WHITE HOUSE

WASHINGTON

April 8, 1994

MEMORANDUM FOR THE VICE PRESIDENT

FROM: ELGIE HOLSTEIN (NEC)

SUBJECT: **The Background and Politics of The Nuclear Waste Issue In Nevada**

A continuing source of controversy in Nevada is the Department of Energy's program to investigate Yucca Mountain, Nevada as a potential site for the nation's first permanent, high-level radioactive waste repository. Yucca Mountain is located approximately 100 miles north of Las Vegas, on the southwestern edge of the Nevada Test Site.

The purpose of this memo is to provide you with a brief update about the project, and to acquaint you with its political dimensions in Nevada.

Background

By 1987, the federal high-level radioactive waste management program had earned a reputation for secrecy, questionable science, and political manipulation. The resulting loss of public, industry, and congressional confidence had thoroughly undermined the waste program's credibility, both as an important national program and as a serious scientific endeavor.

In addition, congressional and utility concerns about program delays, mounting costs, and accumulating spent fuel inventories at nuclear powerplants contributed to the passage of the Nuclear Waste Policy Amendments Act of 1987.

The "Amendments Act," as it is known, eliminated potential repository sites in Washington State and Texas, and designated Yucca Mountain, Nevada as the only site to be "characterized," or scientifically evaluated, for suitability as a waste repository. That legislation is widely referred to in Nevada as the "Screw Nevada bill."

The bill also required that the repository be licensed by the NRC, using radiological protection standards developed by EPA.

Regarding interim, temporary storage of spent fuel, Congress authorized construction of a monitored retrievable storage (MRS) facility, but prohibited construction until the NRC grants a construction license for a repository.

Repository Program Status

In the view of most scientists, the surface-based work that has been done so far at Yucca Mountain has produced no scientific reason to halt work or disqualify the site. The State of Nevada disagrees, and this past week it filed another in a series of (so far unsuccessful) lawsuits against DOE to try to stop the project.

Major tunnel boring work is set to begin this summer at Yucca Mountain, which will permit extensive underground scientific testing. Waste program deadlines, which already have slipped several times, are: 1998 for acceptance by DOE of utilities' spent nuclear fuel (for interim storage in an MRS); and 2010 for beginning repository operations.

There is growing skepticism about DOE's ability to meet those deadlines without compromising the necessary scientific work. There is also some concern that the program is "deadline-driven." DOE, however, believes that with the higher funding levels proposed in the Administration's FY95 budget, it will be able to make more rapid progress.

Secretary O'Leary has been praised by the scientific community for creating a chief scientist position for the program. She also has stressed the importance of the Department's outreach to affected parties. Two weeks ago, however, she stirred concern in Nevada by commenting: "I will throw my body in front of the White House or anybody who tries to stop site characterization."

She correctly explained that the law requires her to continue site characterization, and she continues to stress that Yucca Mountain is being evaluated -- not yet chosen -- as a potential repository.

Nuclear Waste Politics

The residents of Nevada are far from unanimous in their opposition to the repository program, but the State's poltical leadership has been consistently opposed.

Gov. Miller and Sen. Bryan are the most outspoken in their opposition to the project, and the rest of the State's congressional delegation -- including Rep. Bilbray -- is officially opposed as well.

Some constituencies, however, are less hostile, if not supportive, of the repository program. Organized labor, strong supporters of Rep. Bilbray, support the program because almost all of the Test Site and Yucca Mountain workers are unionized. Many of the union workers who have been laid off from the Test Site because of the testing moratorium have gotten jobs on the repository project. Since the majority of them live in Rep. Bilbray's district, his opposition to the project has been low-key.

The entertainment and recreation businesses, including the casinos, are somewhat wary of potential negative impacts on tourism and convention business resulting from public fears about a nuclear waste repository and, particularly, the possibility of associated waste transportation in the Las Vegas area. Forty years of nuclear weapons explosions at the Test Site, however, have produced no tangible impacts on business, so the industry has not been particularly outspoken against the project. Obviously, they will be much more interested in talking to you about a casino tax.

Suggested Responses to Repository Questions

If asked, you cannot agree to halt site characterization work at Yucca Mountain. In the absence of compelling scientific evidence that the site is unsafe, the law requires that work continue. But you can say:

- that the Administration is committed to ensuring safety and sound science; if Yucca Mountain is proven unsafe, the repository will not be built there.

- that the State's concerns will be evaluated fairly and objectively;

- that the Administration is committed to an "open book" about DOE's work -- no data will be hidden, no flaws hushed up.

The main theme is: public health and safety protection first, waste disposal second.