Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: 3

POTUS NOTES ON POSSIBLE POLICY ANNOUNCEMENTS RELATED TO LABOR ISSUES

pg 5:

"I am for (a) and (b)--we need to discuss (c)--need some standards or guidance--also could give guidance to solve interpretation problems with (b) but on merit (b) is the strongest of all.

pg 7:

"Too strong"

pg 9:

What's the rec?--~~Take~~ I'd be willing ____ to do 2 or 3 years ~~of work on the~~ if we do more above. Can't promise to veto a good bill because its not better. Use Senate filibuster for this

pg 10:

we certainly can make tax credits contingent on this and using welfare credits should require or ____ paying above minimum wage

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **4**

DRAFT:February 17, 1997; 2:11PM

Talking Points
Vice President Al Gore

AFL-CIO Annual Meeting
Los Angeles, CA
February 18, 1997

Opening--Thank yous

- Let me begin by congratulating you and the entire labor movement. Thanks to your hard work -- mobilizing your members, educating voters, turning out voters -- you made history in the 1996 elections. You helped re-elect the first Democratic Vice President in 60 years . . . and, oh yes, the first Democratic President in 60 years, too.

- Seriously, we couldn't have done it without you. And from the bottom of my heart, I thank you. Turn-out in the 96 elections was somewhat low, but the percentage of voters from union households actually increased. In fact, nearly one out of every four voters came from a union household. Thank you. You made a real difference.

- But the labor movement's performance in 1996 was extraordinary for other reasons, too. You faced the most anti-worker Congress in history -- a band of members intent on ripping apart the whole fabric of worker protections and worker rights. And not only did you beat them back -- you made incredible progress. A higher minimum wage. Portable health insurance. Strengthened environmental protection. Pension reform. And a new commitment to education and job training. All this in Newt Gingrich's Congress. Truly amazing. You've turned that old football adage on its head. You've shown that sometimes the best defense is a good offense.

Reiteration of Past Pledges

- This year, we'll work to hold our gains -- and then to make new ones. As I pledged to you last year, President Clinton will veto any legislation that guts OSHA or MSHA -- or that undermines health and safety protections for

American workers. Our commitment to safe workplaces for all working men and women is not negotiable.

- President Clinton also will veto any bill that authorizes company unions or sham unions. Last year, we pledged to veto TEAM Act. This year, our principles are the same. The President will veto any bill that undermines the collective bargaining process or permits company unions filled with employers' hand-picked representatives, this President will ink up his veto pen.

- President Clinton also will veto any attempts to repeal Davis-Bacon or the Service Contract Act.

- And, of course, we'll continue to protect Medicaid and Medicare. We'll continue to invest in education and job training so that every woman and man has the chance to succeed in this economy.

- And, yes, we'll continue to oppose a balanced budget amendment. We don't need to rewrite the Constitution. And we sure don't need judges holding up Social Security checks. Let me take a moment to recognize all of organized labor, but especially my friend Jerry McEntee, for all you've done to lead the fight on this. A lot of people thought this issue would sail through Congress -- and that right now we'd be fighting in state legislatures. But once again, as he has done time and again on the big fights, Jerry revved up his troops and made a stand. Because of Jerry's leadership, and again, the AFL-CIO, we have a real fighting chance to defeat this bad idea again. And I want to thank Jerry and each of you for your tremendous efforts.

- That's our defensive strategy. And it's important. The President and I understand that with this Congress, the White House is the last line of defense for working people and the unions that represent them.

<u>New pledges</u>

- But, as I mentioned, we've learned from you that sometimes the very best defense is a strong offense. So here's some of our offensive strategy for the coming year. And I'm happy to make these announcements for the very first time before you this morning.

- First, we're going to send a message to companies that want to do business with the federal government: how you treat your employees and how you treat unions counts with us. If you want to do business with the federal government, you'd better get your house in order, you'd better clean up your act, and you'd better not bust unions. Because we're going to start changing the rules to make it clear that part of having the kind of integrity and business ethics and performance capability that we expect of a federal contractor is having a satisfactory record of labor relations and employment practices and policies. That means following the law. This is important for all working people, and we mean it. stress

- Believe it or not, under past practices, federal contractors can even get reimbursed for the costs of trying to persuade employees not to join unions, and for the cost of fighting unfair labor practices allegations. But we're going to start changing those rules because they're just plain wrong. The larger principle is clear: the right to organize and the right to strike are fundamental rights -- and nobody's tax dollars to be spent undermining these rights.

- This is extremely important. Just before I came to this meeting, I met with a group of workers who have been trying to organize. Their stories were incredible. There is simply not a level playing field out there. And government ought to be doing whatever it can to level that playing field and give workers a real-life right to organize.

- The second piece of our offensive strategy concerns flex-time: We believe strongly that there should be a link between expanding Family and Medical Leave Act and any flextime legislation Congress considers. And any flextime proposals must address our principles of choice for employees, real protection against employer abuse, and preservation of basic worker rights. And President Clinton will veto any comptime bill that does not meet these flextime principles. In other words, President Clinton will not sign any -- repeat any -- legislation that obliterates the principle of time-and-a-half for overtime or that destroys the 40-hour workweek. If you work overtime, you should get to decide whether you want extra time or extra money.

- Third, we support campaign finance reform. And we welcome your help in cleaning up this crazy system. But we oppose -- and we will fight -- any effort that targets labor unions and their members, or that denies workers the right to be involved in the political process. That is why the President will veto any legislation that would prevent labor from communicating its views on candidates and legislative issues that are important to its members and their families.

- Fourth, President Clinton will issue an executive order that encourages federal agencies to consider using project labor agreements for any construction contracts they manage. Many agencies don't know they have this authority, so we're going to inform them directly -- because project labor agreements have proven to be good for workers, good for management, and good for taxpayers.

Close

- Finally, let me turn another adage on its head. It's been said that what matters are not words, but deeds. And that's partly true. That's why I wanted to underscore my commitment to the trade union movement with the specific deeds I just mentioned. But sometimes words matter as much as deeds. And there's one word you'll be hearing me say a lot in the future: union.

- Unions matter -- perhaps more than at any time in our history. And unions are critical if we are to reverse the inequality our country has suffered the last 20 years. Unions are essential to making sure that every worker has the opportunity to build a decent life. We need to let people know what you and I already know: that workers who are in unions earn more, get better health care and pension benefits, are safer on the job, and can be more productive than workers who aren't unionized. And the advantages of being in a union are even greater for women and minorities. I've said it before and I'll say it again: the state of our Union depends on the strength of our unions.

- So I pledge to you this morning that I will help you spread that message. I will be your partner in the fight for higher wages. And I will work with the President's team to spread the word -- or actually those two words . . . Union, yes!

- You're on the brink of making history. John Sweeney's lean, mean recruiting machine will power labor back. And as you organize, organize, and organize some more, I want you to know that I am on your side.

- Thank you again for all you've done.

###

1420 words

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: 5

Clinton Presidential Records
Digital Records Marker

Divider Title: 6

ECONOMIC PROGRESS IN CALIFORNIA UNDER PRESIDENT CLINTON

President Clinton's strategy to strengthen the economy is based on reducing the federal budget deficit, lowering trade barriers, and empowering workers, families, businesses and communities to succeed. Here are some of the results for California after 47 months of the Clinton Administration:

Improved Economic Conditions in California:

- The unemployment rate has dropped from 9.7% to 6.8% in 47 months.
- 808,000 new jobs added in 47 months -- after 57,900 lost during the previous 4 years combined.
- 762,700 new private-sector jobs added in 47 months -- after 167,100 lost during the previous 4 years combined.
- 94,600 construction jobs added in 47 months -- after 110,700 lost during the previous 4 years combined.
- New business incorporations have increased 5% **per year** -- after decreasing 11% during the previous 4 years.
- The Help Wanted Index has increased 19%.
- Bank lending has increased by $15.6 billion -- after declining by $14.4 billion during the previous 4 years.
- Consumer confidence has increased 73%.
- Business failures have declined 4% **per year** -- after increasing 21% **per year** during the previous 4 years.

What President Clinton's Accomplishments Have Achieved for the People of California:

$15,000 OF REDUCED FEDERAL DEBT FOR EVERY FAMILY OF FOUR IN CALIFORNIA: The national debt will be **more than $1 trillion** lower than was projected before the passage of the President's economic plan. That's about $15,000 of reduced federal debt for each family of four in California.

10 TIMES MORE CALIFORNIA FAMILIES RECEIVE A TAX CUT THAN A TAX INCREASE: As a result of the expanded Earned Income Tax Credit, 2,146,915 working families in California will receive a tax cut. This compares to an increase in the income tax rate for only the 218,777 wealthiest taxpayers in California.

TAX CUT FOR 178,917 SMALL BUSINESSES IN CALIFORNIA: The President helped entrepreneurs, proprietors, and other small businessmen and women by expanding the annual expensing allowance from $10,000 to $17,500. About 178,917 small businesses in California are likely to benefit from the expansion of the expensing allowance this year alone *and many more will benefit over the coming years.*

4,959,000 CALIFORNIA WORKERS PROTECTED BY FAMILY AND MEDICAL LEAVE ACT: The Family and Medical Leave Act allows workers to take up to 12 weeks of unpaid leave for the birth of a child, to care for a sick family member, or if they become too sick to work. This law covers about 4,959,089 workers in California, and protects the jobs of 297,914 workers in California who are likely to use unpaid leave this year alone.

1.65 MILLION STUDENTS AND FORMER STUDENTS IN CALIFORNIA WILL BE ABLE TO BENEFIT FROM STUDENT LOAN REFORMS: Approximately 1.65 million California borrowers -- 1.16 million current borrowers and 490,000 new borrowers in the next few years -- can take advantage of the new direct student loan program by participating directly in the program or by consolidating guaranteed loans into direct loans. Some will benefit from lower interest rates, and all will benefit from more repayment options, including income contingent repayment.

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: 7

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: 8

American Federation of Labor and Congress of Industrial Organizations

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

** NOTICE **

Memorandum

TO: Political Directors

FROM: Steve Rosenthal, Director
Political Department

DATE: February 13, 1997

RE: Los Angeles Meetings

Please find attached an updated agenda for our political meeting and the full agenda for the Executive Council.

If you have comments or questions please call Marta David at 637-5104.

I look forward to seeing you in Los Angeles.

hw/

AFL-CIO EXECUTIVE COUNCIL
February 17 - 20, 1997
Biltmore Hotel
Los Angeles, California

Sunday, February 16

3:00 Working Women Committee Meeting: Imperial B

3:30 Economic Policy Committee Meeting: Imperial A

4:00 Los Angeles Labor Council "Welcome to LA" Party, Union Station

Monday, February 17

7:30 Article XX/XXI Review Committee Meeting: Imperial A

8:15 Safety and Health Committee Meeting: Imperial B

9:30 Council Convenes: Crystal Ballroom

Review and Adoption of the Agenda

Minutes of December Council Meeting

Welcome: Miguel Contreras, Executive Secretary-Treasurer,
Los Angeles Federation of Labor

Welcome: Art Pulaski, Executive Secretary-Treasurer,
California Federation of Labor

Session I: Building a Movement for American Workers

Overview of Organizing Activities in 1996

Review of AFL-CIO Membership

Significant Organizing Campaigns in 1996

Overview of 1997 AFL-CIO Organizing Program

Organizing Committee Report:
- Vice President Arthur Coia

Richard Bensinger, AFL-CIO Director of Organizing
- Changing to Organize Program
  - Elected Leader Taskforce Meetings
  - Organizing Conferences
- Right to Organize Project
- Organizer Recruitment and Training
- Strategic Research for Organizing Campaigns
- Industry Campaigns
- Geographic Campaigns
- Union Summer '97
- Constituency Groups Organizing Projects

Working Women Organize Project: Karen Nussbaum, Director, AFL-CIO Working Women Department

Major 1997 Campaigns

- Organizing Las Vegas Building Trades Workers:
  - Vice President Robert Georgine

- Organizing Workfare Workers:
  - Vice President Morty Bahr
  - Vice President Jerry McEntee
  - Vice President Andy Stern

12:30	Recess Press Conference: Tiffany Room
	Balanced Budget Committee Meeting: Imperial A
	Trade Committee Meeting: Imperial B
2:00	Council Reconvenes
	Organizing California Strawberry Workers: Vice President Arturo Rodriguez Executive Vice President Linda Chavez-Thompson
2:30	Gray Davis, Lt-Governor, California
3:00	Representative Maxine Waters (D-CA)
4:00	Recess
	International Affairs Committee Meeting: Imperial A
5:00	Finance Committee Meeting: Corinthian
6:00	National Council of Senior Citizens Reception
7:00	National Council of Senior Citizens Dinner

12:30	Recess
	Press Conference: Tiffany Room
	Union Privilege Board Meeting
2:00	Council Reconvenes
	Albert Gore, Jr, Vice President of the United States
4:00	Recess
	Union Pension Funds Committee Meeting: Imperial B Civil and Human Rights Committee Meeting: Imperial A
5:30	AFL-CIO Reception in Honor of Vice President Al Gore Tiffany Room

Wednesday, February 19

7:30 Full Participation Committee Meeting: Imperial B
Public Affairs Committee Meeting: Imperial A

9:00 Council Reconvenes

Session III: Providing a New Voice for Workers in a Changing Global Economy

Report of the International Affairs Committee:
Vice President George Kourpias

Update on International Affairs Department: Barbara Shailor, AFL-CIO International Affairs Director
- American Center for International Labor Solidarity
- Meeting with International Trade Secretariats
- Update on Singapore Trade Meetings

Neal Kearney, Chair, Council of International Trade Secretariats

Report of the Trade Committee, Vice President Jay Mazur

Recent Contract Victories

Update on Corporate Affairs Programs: Ron Blackwell, Director, AFL-CIO Department of Corporate Affairs

Economic Education for Working Families Update: Bill Fletcher, AFL-CIO Education Director

Report of Committee on Union Pension Funds:
Secretary-Treasurer Richard Trumka

Capital Strategies Program: Bill Patterson, Director, AFL-CIO Office of Investment

Report of Committee on Workplace Democracy:
Vice President Morty Bahr

Report of the Strategic Approaches Committee:
Secretary-Treasurer Richard Trumka

Frontier Hotel Strike Update

12:30 Recess

Press Conference: Tiffany Room

AFL-CIO Building Investment Trust Board Meeting

2:00 Council Reconvenes

Report of Committee 2000

Report on AFL-CIO Headquarters Renovation

Article XX/XXI Review Committee Report

Steve Coyle, AFL-CIO Building Investment Trust

Update on Field Reorganization: Marilyn Sneiderman, AFL-CIO Field Mobilization Director

Administrative and Financial Matters

Report on Union Privilege Program

4:30 Recess

March and Demonstration in Support of New Otani Hotel Workers

5:30 Reception in Honor of Congressman Dick Gephardt
Tiffany Room

Thursday, February 20

7:30 Committee 2000 Meeting: Corinthian

9:00 Council Reconvenes

Report of the Finance Committee: Secretary-Treasurer Richard Trumka

Report of Full Participation Committee:
Executive Vice President Linda Chavez-Thompson

Session IV: Providing a New Voice for Workers in Our Communities

Public Affairs Committee Report: Vice President Doug Dority

Union Cities Report: Marilyn Sneiderman
Miguel Contreras, Los Angeles Labor Council
Amy Dean, South Bay, California Central Labor Council
Ernie Grecco, Baltimore, Maryland, Central Labor Council
Dan Radford, Cincinnati, Ohio Labor Council

State and Local Central Bodies Committee Report:
Vice President Wayne Glenn

Education Committee Report: Vice President Al Shanker

Energy Subcommittee Report: Vice President Robert Wages

Safety and Health Committee Report: Vice President Lenore Miller

Civil and Human Rights Committee Report: Vice President Steve Yokich

Working Women Committee Report: Vice President Gloria Johnson

Labor and the Environment Workgroup Report:
Vice President William Lucy and Vice President Robert Wages

12:30 Working Lunch

Continuation of Reports

Adjourn

Tuesday, February 18

7:30 — Workplace Democracy Committee Meeting: Imperial A
Committee on State and Local Central Bodies Meeting: Imperial B
Economic Policy Subcommittee on Energy Policy Meeting: Imperial C

9:00 — Council Reconvenes: Crystal Ballroom

Session II: Building a New Political Voice for Working Families

Senator Tom Daschle

Representative Dick Gephardt

Update on Clinton Administration Appointments: Gerry Shea, Assistant to the President for Government Affairs

Legislative Committee Report: Vice President Ron Carey

Legislative Report: Peggy Taylor, AFL-CIO Legislative Director

Representative Xavier Becerra (D-CA)

Recommendations for the AFL-CIO Political Program:
Vice President Gerald McEntee, Chair Political Committee
Steve Rosenthal, AFL-CIO Political Director

Economic Policy Committee Report: Vice President George Becker

Balanced Budget Committee Report: Vice President Gerald McEntee

Charlene Barshevsky, United States Trade Representative

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **9**

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **10**

ELIMINATING UNNECESSARY SUBSIDIES TO CORPORATIONS AND BROADENING THE BUSINESS TAX BASE

- **The President's budget, in addition to entitlement and discretionary savings, will propose approximately $40 billion of business tax base broadeners, tax loophole closers and tax compliance measures for fiscal years 1997 to 2002.**

  - At a time when we are trying to balance the budget while protecting priorities like Medicare, Medicaid, education and the environment, the President believes we should also be closing loopholes and special interest provisions.

- **In contrast to others who talk about eliminating unnecessary subsidies in the tax system but provide no specifics, the President is making a series of specific and sensible proposals.**

  - "The Corporate Subsidy Reform Commission," as proposed in legislation sponsored by Senators McCain and Feingold, offers no specific recommendations in the bill.

  - The newly formed coalition, "Stop Corporate Welfare," which includes House Budget Committee Chairman John Kasich, did not propose to close any specific corporate tax loopholes.

  - Last year's Republican-passed Budget Resolution conference report did not reference specific loophole closers, even in report language.

- **The President's base broadeners, tax loophole closers and tax compliance measures include:**

  - Cutting corporate subsidies, for example, by repealing percentage depletion for non-fuel minerals mined on Federal lands leased at minuscule rents under the anachronistic 1872 mining laws.

  - Modernizing the tax code to keep up with changes in the financial markets, such as evolving strategies for manipulating debt and equity distinctions for tax advantage.

  - Preventing abuse by financial manipulations, such as, "shorting against the box" and the similar strategies such as equity swaps, that are designed to eliminate the risk of loss and opportunity for gain with respect to a security without realization of any gain for tax purposes.

  - Closing corporate loopholes, for example, by eliminating tax-free sales of subsidiaries through spinoffs, and by reforming inventory methods that understate income to reduce tax liability.

Note: The budget also proposes extension of various excise taxes (or their equivalent) dedicated to Trust Funds, which were allowed to lapse when no legislation was passed to extend them. These are not new revenue raisers in the same sense as the proposals described above. Because they were allowed to elapse, under the rules of the Budget Enforcement Act, they are technically scored as revenue increases. The principal extender in this category, the excise tax supporting the Airport and the Airways Trust Fund, was extended in the Republican-passed Balanced Budget Amendment.

NOTES ON LOOPHOLE CLOSERS IN ADMINISTRATION BUDGET SUBMISSION

mjm 2/7/97

Replace Sales Source Rules with Activity-Based Rule

- of interest to multinationals

Current Law: The foreign tax credit rules permit corporations to claim a credit against U.S. income tax for income tax payments made to foreign governments on income generated abroad. Accordingly, it is important to determine how much income is generated in (sourced to) foreign lands. Current Treasury regulations provide that, for products manufactured in the United States, 50 percent of the income is deemed earned in the U.S. and 50 percent is earned in the country where title to the product is transferred. This rule gives companies great latitude in determining the country in which the 50 percent of income will be sourced. This latitude helps greatly in tax planning to minimize worldwide taxes, but often leads to greatly reduced taxes paid to the U.S.

Proposal: The proposal would change the rules determining income sourcing to require that income be sourced to different countries based on the amount of economic activity that occurs in each. Therefore, if a manufacturer in the United States sells goods in China and 90 percent of the economic activity takes place in the U.S. (with the remaining 10 percent being marketing activity in China), then 90 percent of the income earned on this sale would also be sourced to the U.S.

Reduces the amount of foreign tax credit that can be claimed.

Effect: Note that determining the exact sources of economic activity and allocating percentages can be a tricky question of fact and that the number of disputes between taxpayers and the IRS can be expected to increase if this proposal is enacted.

Modify Foreign Tax Credit Carryover Rules

- of interest to multinationals

Current Law: Taxpayers are allowed a tax credit against U.S. income taxes for income taxes paid to foreign governments on income earned abroad. This provision is intended to prevent double taxation of the same income. Under current law, if a U.S. taxpayer does not have sufficient income tax liability to use up all its foreign tax credits in one year, these credits can be carried back to the 2 previous years, creating refunds. If the carryback does not use up the foreign tax credits, they can be carried forward to the subsequent 5 years.

Proposal: The proposal would change the carryback and carryforward rules. Under the proposal foreign tax credits could be carried back only 1 year, but could be carried forward up to 7 years, before they expire.

Effect: This proposal has a timing effect on revenue, by reducing losses that can occur in the current year, since less foreign tax credits can be applied to prior year liabilities. There also is a permanent revenue effect, since some taxpayers will find foreign tax credits expiring unused if they cannot be carried back 2 years.

Repeal Lower of Cost or Market Inventory Method

- of interest to domestic taxpayers, especially manufacturers with extensive inventories

Current Law: Taxpayers are permitted to use a variety of inventory methods in determining their income tax liability. One is the "lower of cost or market method" which permits taxpayers to examine individual inventory items and write down the value of those that have a value lower than their original cost (i.e., those that have declined in value). This generates a tax deduction in the year the writedown is taken, though some of the deduction may be recaptured when the inventory is sold.

Proposal: The proposal would eliminate the ability of taxpayers to use this inventory method, postponing the recognition of the loss through decline in value of inventory to the point where the property is sold.

Effect: This proposal is just a timing shift in when revenues are received, with the Federal government making sure that revenues are received sooner rather than later by eliminating a possible tax reducing device.

Extend Pro-Rata Disallowance of Tax-Exempt Interest Expense to All Corporations

- of interest to tax-exempt bond community

Current Law: Taxpayers are not allowed a deduction for interest payments on debt that is used directly to support holdings of tax-exempt bonds, because this would encourage an arbitrage situation where a tax deduction is granted to activities that generate tax-exempt income. For financial institutions, current law treats all debt as financing the taxpayer's assets proportionately, meaning that if 10 percent of a financial institution's assets are in tax-exempt debt, then 10 percent of its debts are treated as supporting these tax-exempt bonds. Accordingly, 10 percent of the interest payments are disallowed as being related to the generation of tax-exempt income.

Proposal: The proposal would treat all corporations the same as financial institutions, disallowing a deduction for a percentage of interest payments equal to the percentage of assets in the form of tax-exempt bonds.

Effect: The effect of this provision is that corporations will have less incentive to purchase and hold tax-exempt bonds, reducing the potential size of the market for these debt instruments. It is possible that this proposal may increase the interest rate on tax-exempt debt, but the size of the effect is unknown (my guess is that it would be very small, but the industry will claim it si gigantic).

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **11**

BACKGROUND ON PELL GRANT INCREASE

Overview. The Pell Grant is the main federal grant that allows millions of low-income and moderate-income families to have access to college. Despite the fact that the President's budget contains well over $200 billion in discretionary cuts over 7 years, the President's balanced budget includes a 25 percent increase in Pell Grant funding in FY1998, and additional increases through FY2002.

- **$2 Billion Program Deficit Eliminated.** The projected $2 billion Pell Grant program deficit was eliminated within the first two years of the Clinton Administration.

- **Record Increase in FY1997:** The President's FY1997 Budget called for funding to support a $2,700 maximum Pell Grant -- nearly a 10 percent increase over the FY1996 level -- to provide Pell Grants to about 3.7 million students in 1997, an increase of 60,000 over 1996. The President successfully secured this increase -- then the largest increase in the maximum Pell Grant award since implementation of the program in the 1970s.

- ***Another* record increase in FY1998:** The President's FY1998 Budget beats his own 1997 record with funding to support a $3,000 maximum Pell Grant -- over 11 percent (or $300) increase over the FY1997 level. This increase represents the largest increase in the maximum Pell Grant award in two decades. Raising the maximum award to $3,000 provides more aid to currently eligible students and makes an additional 130,000 students eligible for the grants.

- **Expansion of independent student eligibility:** The President's FY1998 Budget also proposes expanding the eligibility of low-income students (generally age 24 or older) who are financially independent from their parents. This expansion provides an average increase of more than $800 to 819,000 low-income, independent students, and brings 218,000 students into the program who are currently not eligible.

- **Helping over 4 million students in FY1998:** The President's FY1998 Budget that increases the maximum Pell Grant award to $3,000 and expands the eligibility of independent students offers Pell Scholarships to over 4 million students pursuing postsecondary education and training.

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **12**

MEMORANDUM

To: Gene Sperling

From: Tom Kalil TAK

Re: AFL-CIO support for NetDay

Date: February 18, 1997

A number of the unions have been strong supporters of NetDay. CWA's Executive Board pledged to support the President's goal of connecting all schools to the Internet by the year 2000, and to encourage its members to help volunteer wire those schools "in financial need."

Members of IBEW participated in the California NetDay, and included an article on NetDay in their periodical.

It would be great to get a statement of support from the AFL-CIO. The next NetDay will be held on April 19th, and an AFL-CIO endorsement would encourage local unions to get involved in NetDays all over the country.

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

Divider Title: **13**

THE WHITE HOUSE

WASHINGTON

February 18, 1997

MEMORANDUM FOR GENE SPERLING

FROM: ELGIE HOLSTEIN EH

RE: **Climate Change: Additional Information**

Attached is some additional information, prepared by OSTP, on the climate change issue.

THE LONGER-TERM VIEW: THE RELATIONSHIP OF EMISSIONS TO ATMOSPHERIC CONCENTRATIONS

Most discussions have focused on what steps might be taken in the medium term (2010-2020) to reduce emissions of greenhouse gases. Such actions represent only an initial step and, by themselves, would fall far short of significantly reducing the risks of climate change. Much more long-term planning will be necessary to achieve the goal of the Framework Convention on Climate Change:

> *"stabilization of greenhouse gas concentrations . . . at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should . . . allow ecosystems to adapt naturally to climate change; ensure that food production is not threatened; and enable economic development to proceed in a sustainable matter."*

This paper describes emissions paths that would be necessary to achieve various longer-term goals of stabilizing atmospheric concentrations of greenhouse gases. It also explores the implications that a longer term goal has for shaping near-term policy decisions.

Several aspects of the climate change issue underscore its long term nature, but also suggest a need for beginning action now:

-- Once emitted, carbon dioxide will remain in the atmosphere for 150-200 years.

-- Lags in the climate system result in temperatures increasing for several decades and sea level rising for centuries after greenhouse emissions have ceased to increase.

-- Uncertainties in scientific understanding of climate change and its relationship to long-term costs and benefits make selecting any specific ultimate concentration goal somewhat speculative at this time.

-- It has taken decades for the infrastructure of fossil-fuel based technologies to develop. A transition to alternative sources of energy will also require many decades, but will only begin in earnest if research and development is begun now and if proper incentives are provided.

I. GLOBAL EMISSIONS AND ATMOSPHERIC CONCENTRATIONS

In the absence of any actions specifically to limit carbon dioxide emissions, the Intergovernmental Panel on Climate Change (IPCC), as shown in Figure 1, estimated that current emissions (as shown by the 2 upper lines labeled Business as Usual [BAU]) of 6 billion tons of carbon per year could grow to between 15-25 billion tons of carbon by 2050 and continue to increase through the end of the next century.

Global CO_2 Emissions & Concentrations

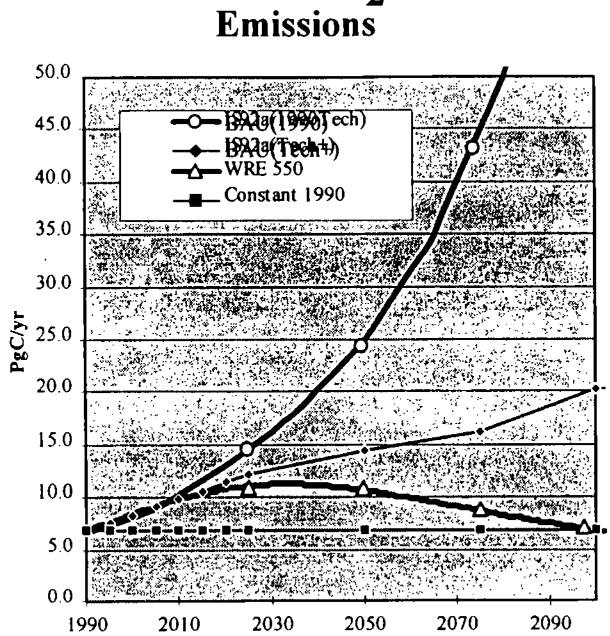


Figure 1

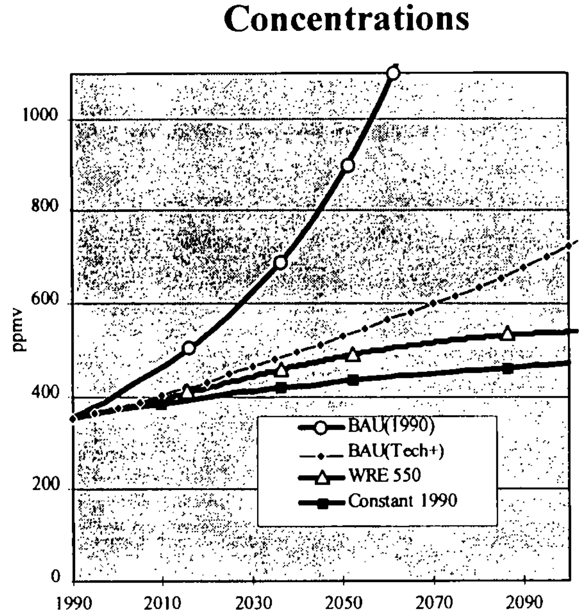


Figure 2

Figure 2 shows the impact of these emissions scenarios on atmospheric concentrations. For context, preindustrial levels of carbon dioxide were about 280 ppm, and have increased to today's levels of about 360 ppm. The BAU "1990 tech" scenario assumes technology remains constant at 1990 levels in the future. The BAU "tech+" scenario assumes technology improves substantially and results in lower costs for alternative fuels and enhanced energy efficiency; this latter scenario represents the "central case" developed by the IPCC and is sometimes referred to as "IS92a". In both of these scenarios, emissions grow substantially over time and concentrations far exceed a doubling of preindustrial levels before the end of the next century.

If it were possible to cap global emissions in both developed and developing countries at 1990 levels, figure 2 (line labeled "constant 1990") shows that concentrations would nonetheless continue to rise throughout the next century and beyond, eventually exceeding a doubling of preindustrial levels. (Note that the other greenhouse gases make the effective concentration about 20% higher than indicated by CO_2 alone.)

Figure 3 shows the projected long-term atmospheric concentrations if emissions were stabilized at different levels. The figure shows that if emissions were stabilized at current levels (6 PgC/yr), atmospheric concentrations would grow to almost 500 ppm by 2100 and continue increasing thereafter. It also shows that if worldwide emissions are frozen at 10 PgC/yr, roughly 33 percent higher than today's level, then atmospheric concentrations would more than double from pre-industrial levels by 2100, and continue to increase thereafter.

CO2 Concentrations Associated with BAU(Tech+) and Alternative Energy Related Emissions Stabilization Levels

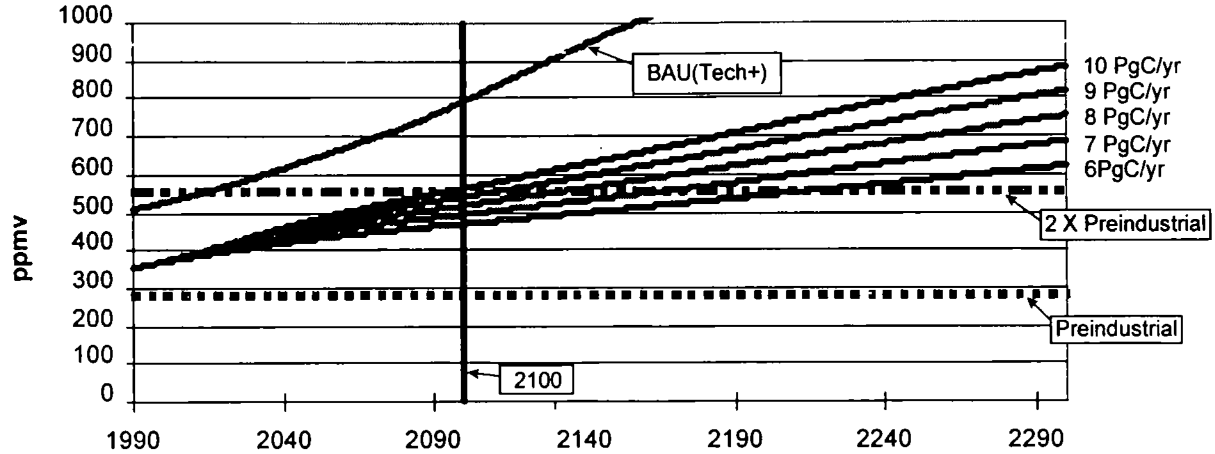


Figure 3

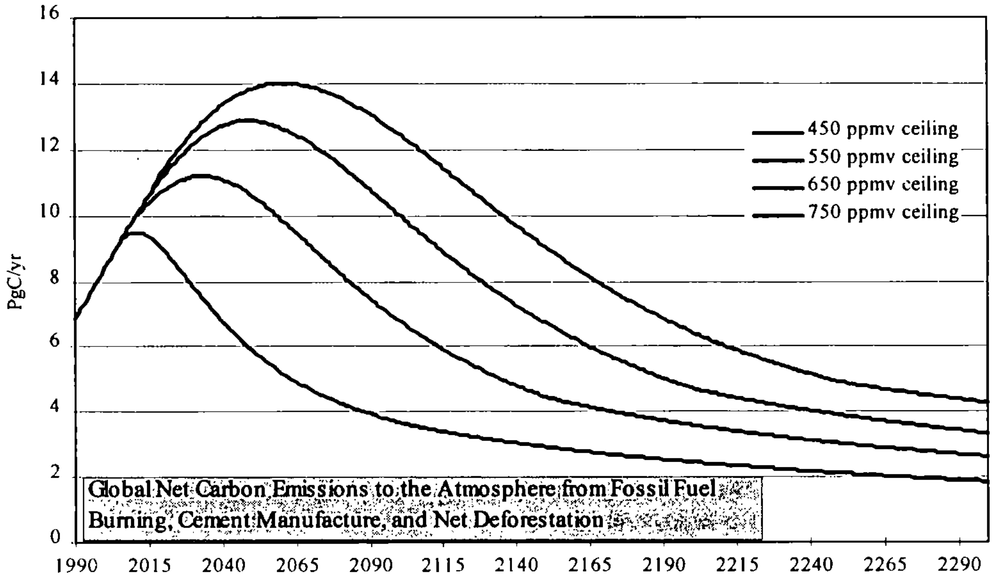
Table 1 shows how various concentration targets relate to emissions pathways. For example, to meet a 550 ppmv concentration goal, global emissions must begin to deflect from the business-as-usual curve by 2013. In this scenario, emissions would peak at 9.7 PgC/yr in 2033 and drop rapidly thereafter.

Researchers have examined in some detail the annual emissions paths required to meet atmospheric carbon concentration targets of 450 to 750 ppm. These targets require significant reductions in cumulative projected global carbon emissions; and as shown in Figure 3, all of them require dramatic reductions in annual emissions rates sometime during the next century. To achieve 450 ppm target – which still represents a two-thirds increase in atmospheric concentrations over preindustrial levels – annual emissions must begin declining steeply within the next quarter-century and must fall to less than half the current rate by 2100. To achieve a 550 ppm concentration target – which represents about a doubling in atmospheric concentrations – annual emissions must begin declining steeply during the second quarter of the century. Furthermore, these budgets must be distributed both across countries and across time.

The relationship between CO2 concentrations and emissions pathways (energy emissions only)*				
Steady-State Concentration →	450 ppmv	550 ppmv	650 ppmv	750 ppmv
Deflection Date BAU (Tech+) [a]	2007	2013	2018	2023
Maximum Emission Date	2011	2033	2049	2062
Maximum Emission [b]	8.0	9.7	11.4	12.5

[a] The deflection date is the year in which emissions first fall below BAU emissions.

[B] Maximum PgC/yr fossil fuel carbon emissions. If other greenhouse gases were included, emissions would be effectively 20% higher; thus, reductions would have to occur sooner than the deflection date noted to achieve a given concentration.



* - note: the curves in the graph represent slightly different values than those in the table because the graph takes cement manufacture and deforestation into account in addition to energy emissions.

Figure 4

II. DEVELOPED AND DEVELOPING COUNTRY EMISSION TRENDS

Figure 5 presents current and projected emissions of carbon dioxide for developed and developing countries. Of the current emissions of roughly 6 billion tons, approximately two-thirds are from developed and one-third from developing countries. The U.S. is currently the largest emitter of carbon dioxide, with China the second largest source. However, on a per capita basis, the U.S. emits about 5 tons of carbon per capita, compared to an average of approximately 4 tons per capita in Japan and Western Europe, and 0.4 tons per capita for developing countries. Figure 6 shows per capita emissions for the BAU case out to 2100. While per capita differences remain large over time, by the middle of the next century, developing countries would become a source for more than half of total global emissions.

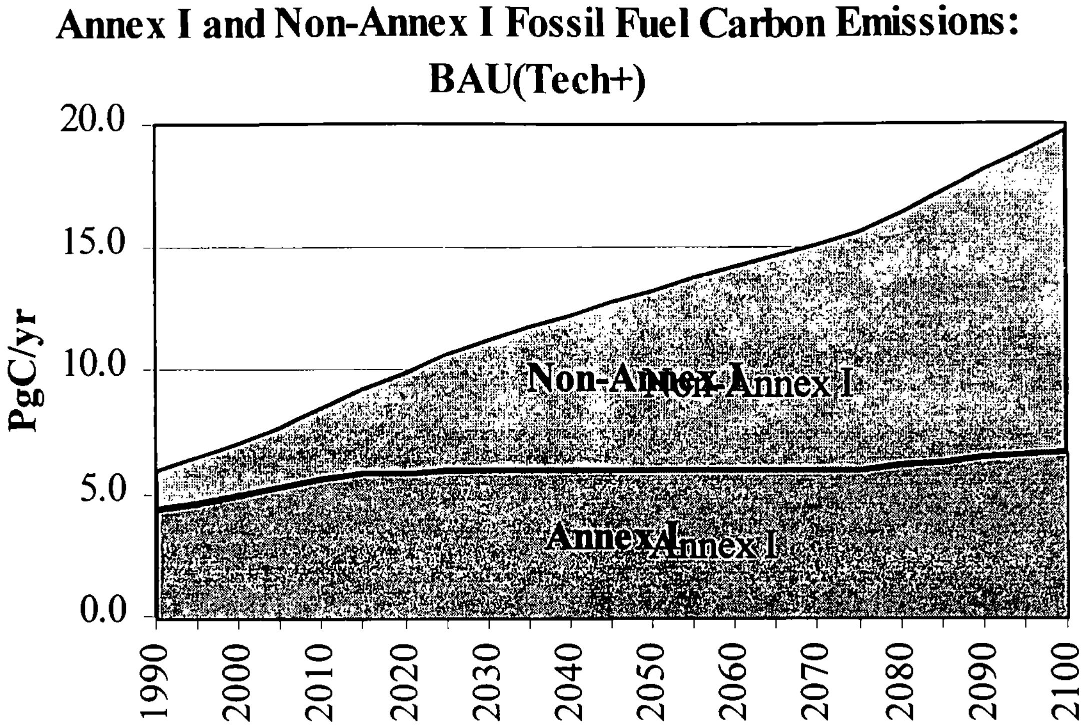


Figure 5

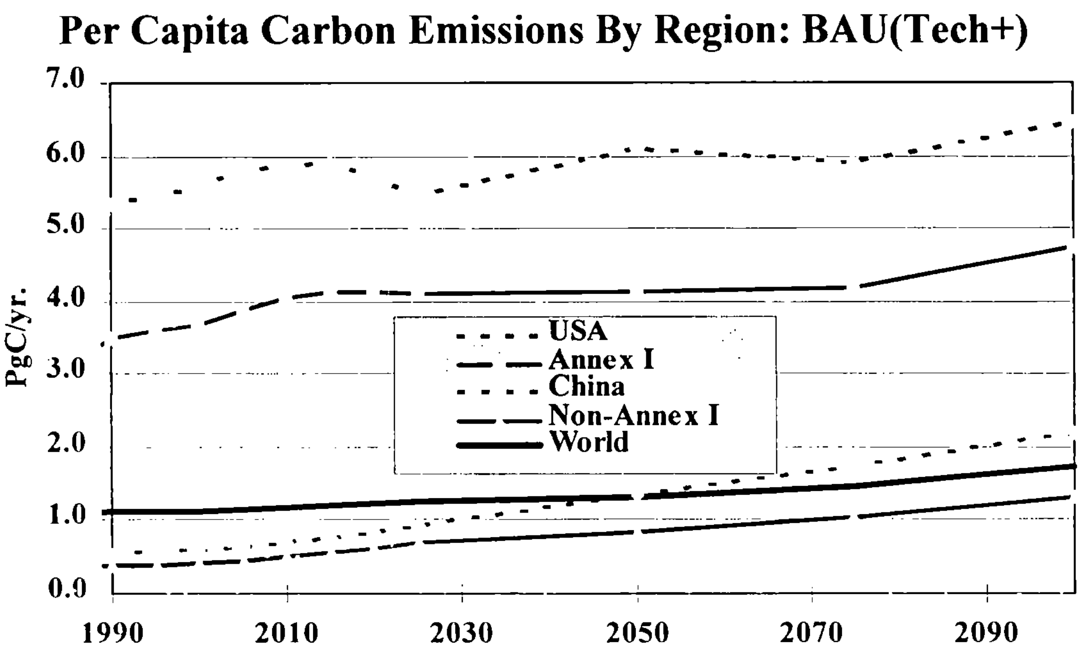


Figure 6

III. ILLUSTRATIVE EMISSION REDUCTION SCENARIOS

Limited mid-term actions to reduce emissions by developed countries alone have little impact on shifting the atmospheric concentrations curve. The top line in Figure 7 shows the small change in concentrations if Annex I (developed countries) freeze emissions at 1990 l vels in the year 2010. Successive lines show what a coal ban in various parts of the world (beginning in 2020) might do to emissions and concentrations. Without the participation of developing countries, concentrations will not stabilize.

Global Paths for BAU(Tech+), Annex I Emissions Stabilization, Coal Bans

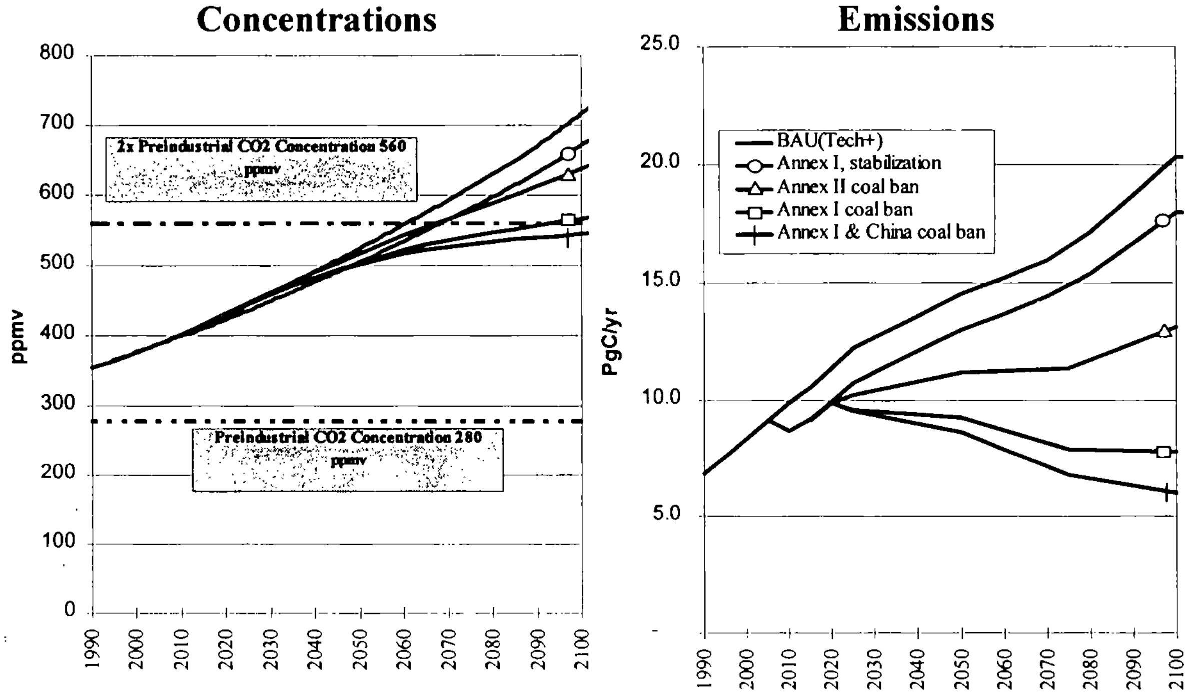
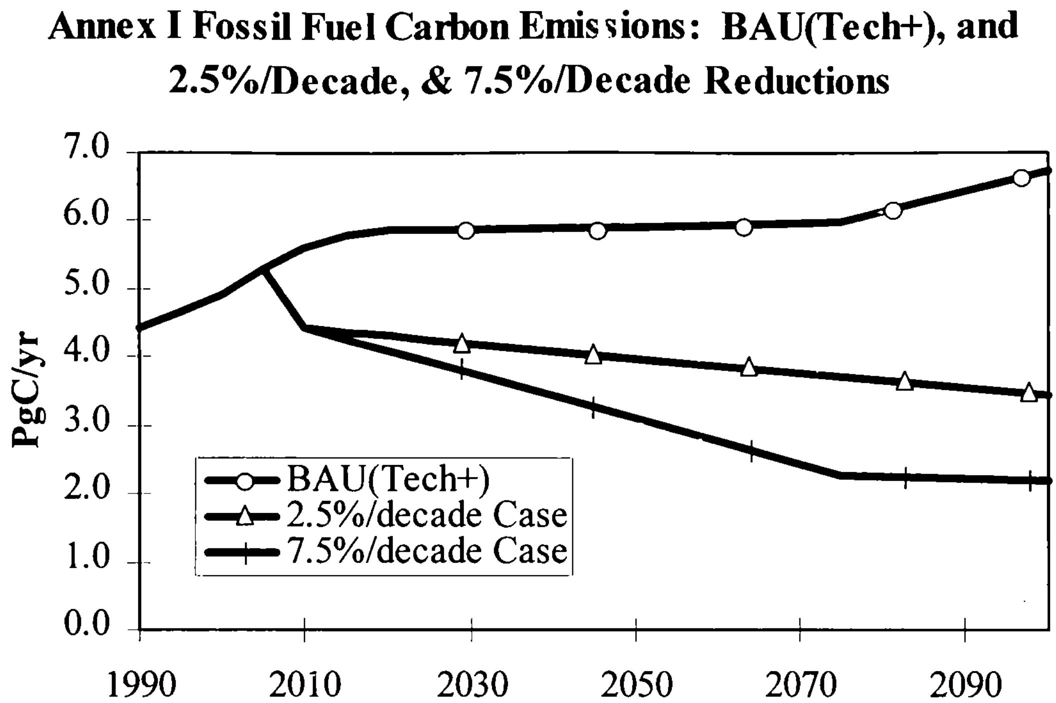


Figure 7



2.5%/Decade Case assumes that Annex I nations stabilize emissions at 1990 levels in 2010 and then reduce emissions at 2.5%/decade through the year 2100.

7.5%/Decade Case assumes that Annex I nations stabilize emissions at 1990 levels in 2010 and then reduce emissions at 7.5%/decade until they are 50% of 1990 levels after which time they are held constant.

Figure 8

Figure 8 illustrates two possible emissions profiles for developed (Annex I) countries. Both scenarios assume a freeze in emissions at 1990 levels in 2010. On the hatched line, emissions are then reduced by 2.5% per decade and in the lower line they are reduced at 7.5% per decade. The highest line is the business-as-usual (TECH+) scenario from the IPCC.

Figure 9 is based on the Annex I pathways described in Figure 6. They show the pathway developing countries would need to follow to stabilize concentrations at 450 ppm, 550 ppm and 650 ppm. These figures show that to achieve stabilization at 550, developing countries would be able to emit on their currently projected path until about 2020 before significant reductions would be required.

Figures 10 and 11 show the **per capita** emissions for both developed and developing countries that result from the scenarios described in the previous two figures. They show that under these scenarios, developed country emissions stay substantially greater than those in developing countries (which rise to 1 TC/person only in the 650 ppm case).

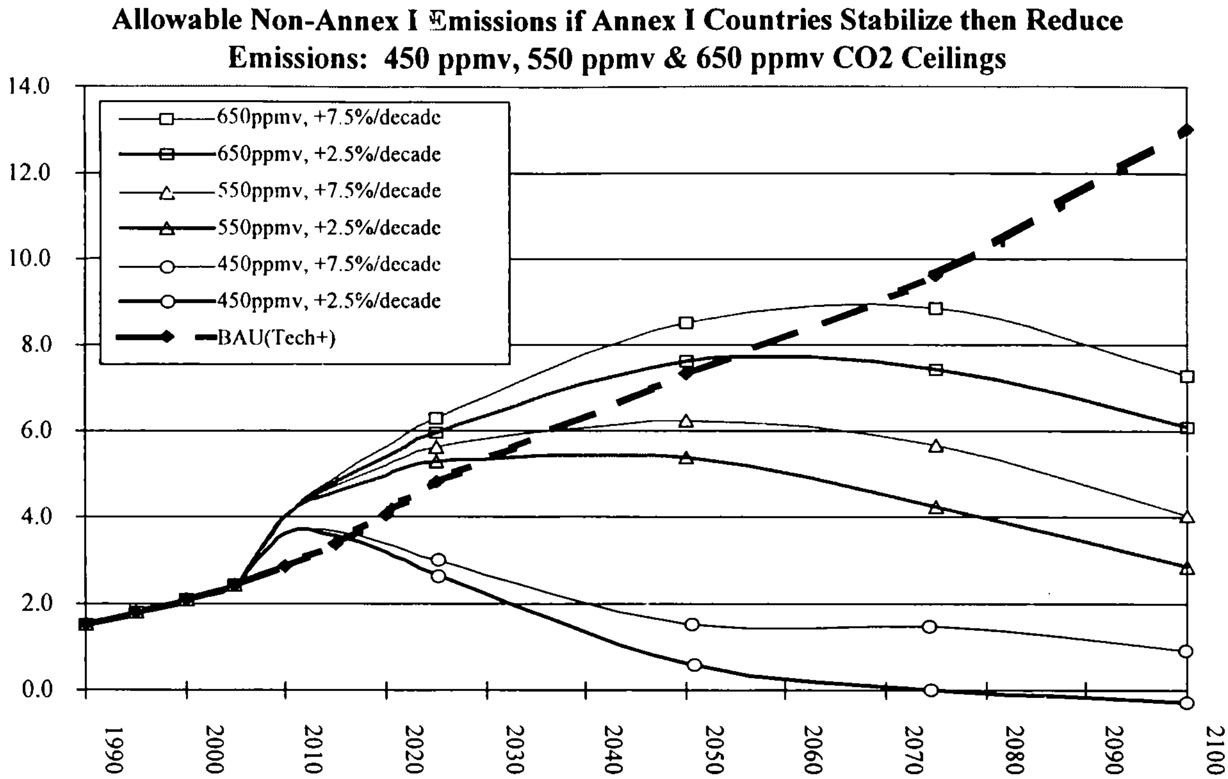


Figure 9

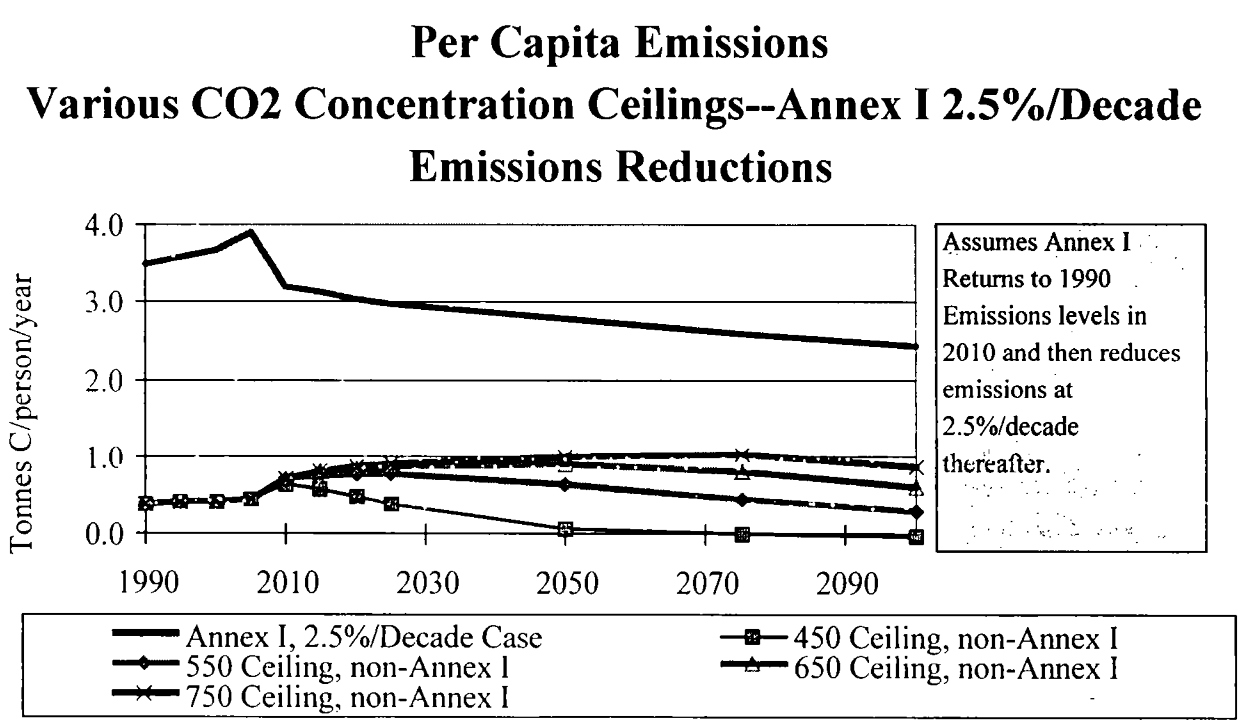


Figure 10

Per Capita Emissions
Various CO2 Concentration Ceilings--Annex I 7.5%/Decade Emissions Reductions

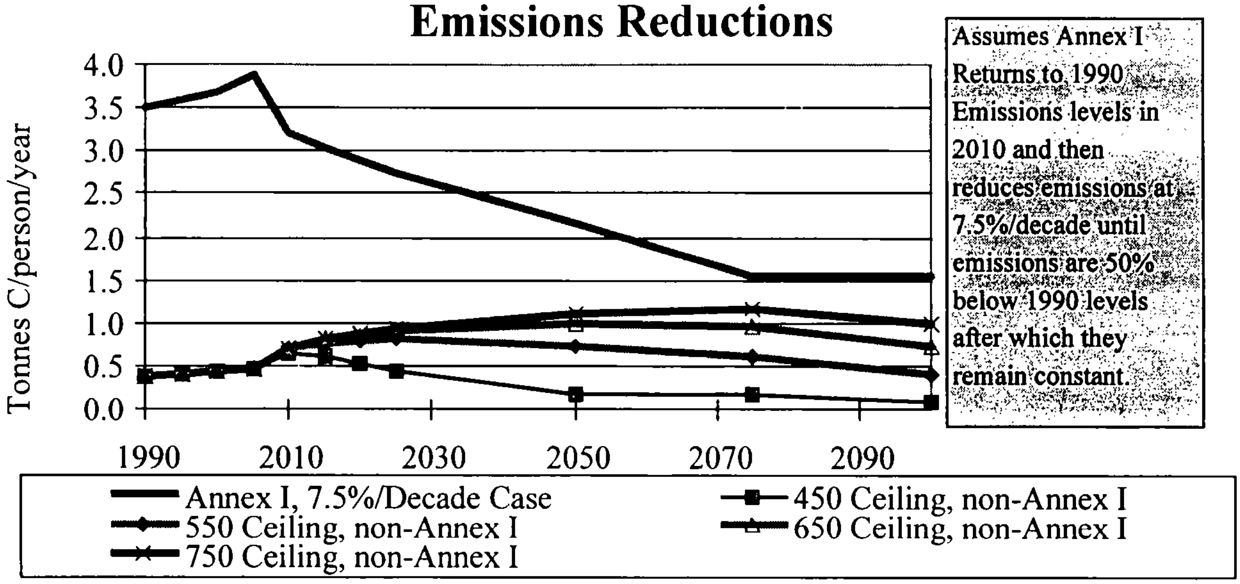


Figure 11

IV. THE ROLE OF TECHNOLOGY AND IMPACTS ON COSTS

As suggested in Figure 1, the rate of technological change can play a very important role in determining the level at which atmospheric concentrations can be stabilized. Figure 11 looks specifically at the costs associated with different technology cases. It looks at three specific cases:

-- 1990 tech: assumes no technological change from 1990

-- 1990 tech +: assumes significant improvements in reducing the costs of alternative fuels and in improving efficiency;

-- Advanced tech: assumes even further advances and cost savings.

A description of key assumptions for the latter two cases is included as Appendix 1.

Figure 11 shows for each of these technology cases, the total costs associated with achieving three different levels of atmospheric concentrations: 550, 650 and 750 ppm. The estimated costs under the assumption that no technological progress is possible were found to be about $12 trillion or 1.2% of total world GDP, compared to $1 trillion or 0.12% of GDP assuming substantial progress in reduction technologies. In the advanced technology case, which assumes very substantial non-fossil alternatives will be available by 2020, the costs are greatly reduced. However, the assumed cost and performance of the alternative technologies would only become achievable with significant increases in research and developmer* investments. For example, funding in conservation and renewables is about half of what it was 15 years ago, despite substantial proposed increases each year of the Clinton Administration.

The Relationship Between Technology and Minimum Cost of Stabilizing the Atmosphere Below Various Ceilings

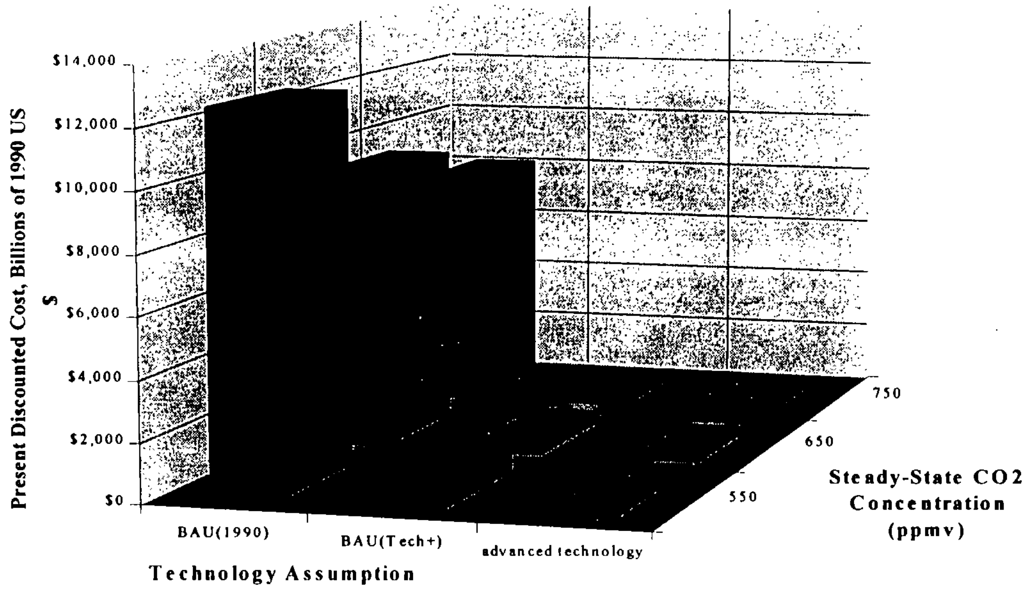


Figure 12

Substantial technological progress aimed at reducing the costs of emission reductions is critical for several reasons. It would result in lower costs to the U.S. economy, both in terms of reductions made domestically and in the costs of a reductions obtained abroad through any emissions trading regime. Reducing the costs of alternatives is also critical to limiting future emissions from developing countries, particularly those with large fossil fuel reserves. Finally, expanding the technological frontier offers U.S. industry significant potential opportunities for expanding our industrial base both at home and abroad.

APPENDIX

Key Assumptions about Technology Scenarios:

<u>IS92a (Tech+)</u>

- End-use (AEEI) Improves at 1%/yr.
- Conventional Fossil Fuel Power Generation Improves at 1%/yr.
- Non-Fossil Power Sources Improves at 4.5%/yr, 1990 to 2025, 1.25%/yr thereafter.
- Biomass Energy Improves at 1%/yr.

<u>Advanced Energy Technology</u>

- Advanced solar/wind/fusion
    - The cost of solar/wind power reaches a busbar cost of \$0.04/kWh by 2020 and
    - the cost decreases at 0.5 %/year thereafter.
- Low cost biomass
    - By the year 2020, 20% of the biomass resource is available at \$1.40/GJ and
    - 80% is available at \$2.40
- Advanced liquefied hydrogen fuel cells for transport

Draft

Overview of Greenhouse Gas Mitigation Options

Introduction

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

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

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

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

Technology Diffusion Programs

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

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

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

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

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

Standards and Regulations

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

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

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

Other Policies Relevant to Emissions

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

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

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

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

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

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

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

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

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

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

Emissions Trading

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

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

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

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

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

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

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

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

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

Research and Development (R&D)

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

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

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

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

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

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

Clean Power

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

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

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

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

Energy Efficiency

Transportation

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

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

Industry

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

Buildings

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

Capture and Sequestration

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

Advanced Research

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

Conclusion

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

Attachment 1: Global Trends In Emissions and Concentrations

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

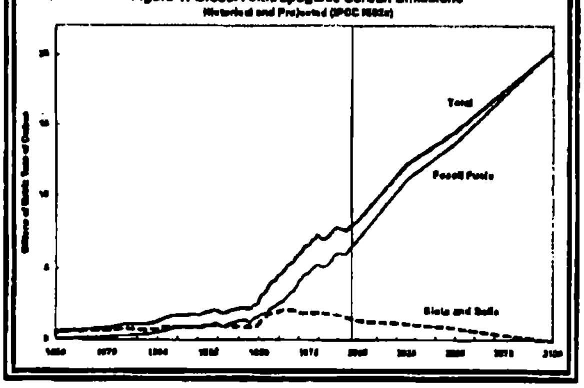
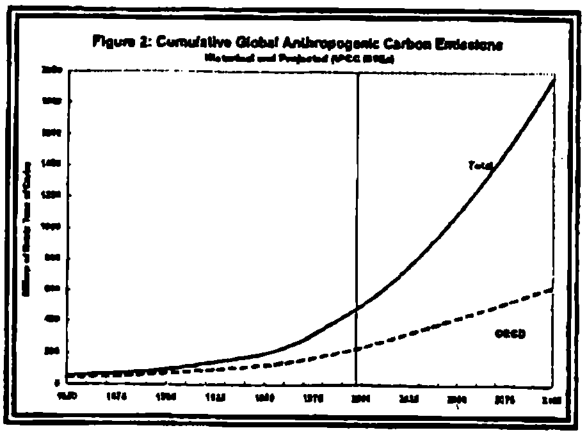


Figure 1: Global Anthropogenic Carbon Emissions

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

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

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



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

Table 1: Alternative Carbon Targets and Budgets

Target	Carbon Budget 1991-2100 (GtC)	Reduction from 1500 GtC
450 ppm	630 - 650	-67% to -68%
550 ppm	870 - 990	-34% to -42%
650 ppm	1030 - 1190	-21% to -31%
750 ppm	1200 - 1300	-13% to -20%

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

---

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

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

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

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

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

Figure 3: Alternative Atmospheric Concentration Pathways

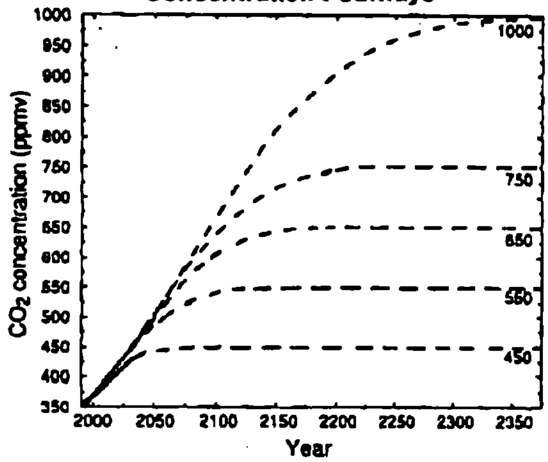
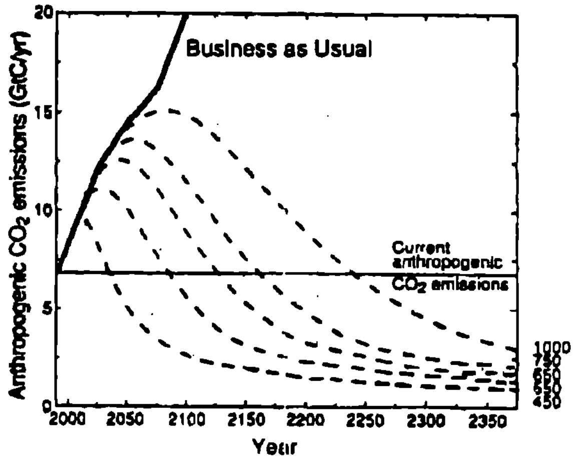


Figure 4: Emission Scenarios to Meet Alternative Atmospheric Concentrations



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

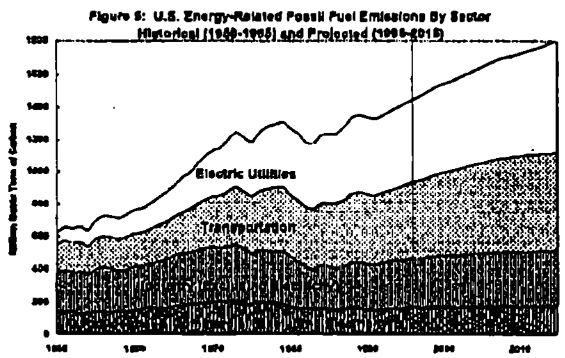
Why 1950?

Attachment 2: U.S. Emission Trends

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

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

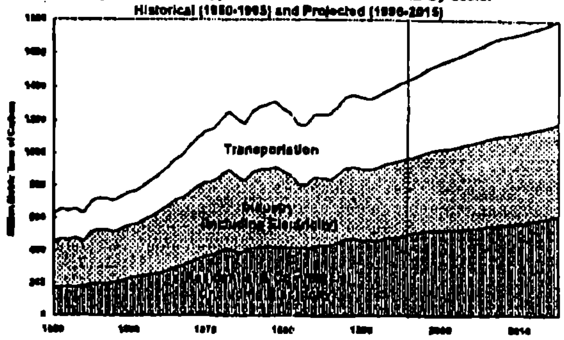
The electric utility sector's share has grown from 12% in 1950 to 35% in 1996 (500 MMTC), as the American economy has steadily increased its use of electricity. Over 85% of electric utility sector carbon emissions come from burning coal. Similarly, the transportation sector's share of fossil-related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



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

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

Figure 8: U.S. Energy-Related Fossil Fuel Emissions By Sector Historical (1950-1995) and Projected (1996-2015)



2/16/97

Climate Change

Background

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

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

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

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

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

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

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

ratification.
Status

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

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

AFL-CIO

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

Talking Points

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

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

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

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

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

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

- We are committing to working with industry to:

  -- design cost-effective approaches;

-- address competitiveness issues;

-- identify and develop promising new emissions-reducing technologies and policies.

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

Clinton Presidential Records
Digital Records Marker

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies the place of a tabbed divider. Given our digitization capabilities, we are sometimes unable to adequately scan such dividers. The title from the original document is indicated below.

14

Divider Title: ______________________________

3. NAFTA Trucking

In December 1995, we postponed implementation of NAFTA trucking commitments out of a stated concern for safety and security. On January 1, 1997, we also postponed implementation of related commitments on cross-border busing and cross-border trucking investment, on the expectation that all three NAFTA transportation issues would be announced simultaneously. The transportation unions (led by the Teamsters) oppose our decision to move ahead on these commitments. They continue to raise concerns about safety and our capacity to enforce U.S. labor laws as they apply to Mexican drivers operating in the United States.

We have not yet announced a decision to open the border, but we have informed union representatives that the decision is imminent. We are actively working to resolve some transportation-related trade issues with Mexico before going forward.

<u>TALKING POINTS</u>

- Our primary goal remains assuring the safety and security of American citizens and the observance of U.S. laws, while providing opportunities for American trucking companies and drivers to participate in the transportation of goods across the border.

- Since the decision to delay the opening last December, we have allocated additional funds and personnel to border enforcement programs and have worked with Mexico and Canada to standardize critical safety regulations. We have also agreed on specific compliance and enforcement actions that Mexico will implement in the next several months covering such areas as equipment safety and hazardous materials.

- I hope we can move forward with resolution of all our truck-related issues with Mexico in a way that protects and benefits American truck companies, drivers and citizens.

February 18, 1997

Background

In December 1995, we postponed implementation of NAFTA trucking commitments out of a stated concern for safety and security. More recently, we postponed implementation of NAFTA commitments on cross-border busing and cross-border investment in the trucking sector, scheduled to take effect on January 1, 1997, on the expectation that these two issues would be announced simultaneously with trucking. In the last month, we have been moving to finalize a safety agreement with Mexico, with a view to proceeding with all three NAFTA transportation commitments soon. This information has been reported in several newspapers, and the Teamsters have staged protests along the border.

Following the briefing we provided to union officials in January, John Sweeney wrote Erskine the attached letter detailing specific concerns. DOT is preparing a point-by-point response; their attached background paper addresses many of the key points. Sweeney has told Charlene Barshefsky verbally that he understands we are close to finalizing an agreement with Mexico; he accepts that decision, although the AFL will maintain a critical position.

There are two concerns specific to U.S. labor laws. On the issue of enforcement of U.S. minimum wage laws, DOT, DOL and USTR lawyers have been working to develop language that would permit DOT to revoke a grant of operating authority if a Mexican trucking company refuses to provide information on driver hours and pay upon request. The Teamsters have also requested that the agreement include legal prohibitions against "strikebreaking" by a Mexican trucking company backhauling cargo from the U.S. border states into Mexico. A legal analysis by USTR suggests NAFTA does not provide protections in these circumstances. However, USTR and DOT analysts believe the potential for such strikebreaking to have a discernible influence on American labor dispute outcomes is extremely low.

Status

In recent weeks, Mexico has backtracked on some related trade issues, which we originally understood to be part of a package deal. These include prohibitions against standard U.S. truck configurations (53-foot trailers with cab-overs) and weight restrictions on small package deliveries that discriminate against U.S. firms. We are actively working to resolve these outstanding issues, .

February 8, 1997

Q&A: NAFTA Trucking

Q: I understand the Administration is preparing to open the border to Mexican trucks under the provisions of the North American Free Trade Agreement (NAFTA). Has anything been done to address key concerns on hazardous materials, enforceability of safety standards, and enforceability of American labor laws?

A: Our primary goal remains assuring the safety and security of American citizens and the observance of all U.S. laws while providing opportunities for American trucking companies and drivers to participate in the transportation of goods across the border.

- Since the decision to delay the opening last December, we have allocated additional funds and personnel to border enforcement programs and have worked with Mexico and Canada to standardize critical safety regulations. We have also agreed on specific compliance and enforcement actions that Mexico will implement in the next several months covering such areas as equipment safety and hazardous materials.

- I am pleased with the cooperation we have received from Mexico on truck safety issues. I remain optimistic that we can move forward with resolution of all our truck-related issues with Mexico in a way that benefits American truck companies, drivers and consumers.

February 8, 1997

NORTH AMERICAN FREE TRADE AGREEMENT IMPLEMENTATION

QUESTION: How is the Department implementing the transportation provisions of the North American Free Trade Agreement?

ANSWER: **MAJOR POINTS**

1. On December 18, 1995, Secretary Peña announced a delay in the NAFTA implementation schedule because of safety concerns related to the operation of Mexican trucks. The U.S. government has been accepting applications from Mexican motor carriers for operations in the U.S. border states. Final disposition of pending applications has been deferred until negotiations with Mexico to resolve our safety concerns are completed.

2. In negotiations over the past year, the United States, Mexico, and Canada have agreed on a strategy to assure that motor carriers are in compliance with their safety obligations prior to beginning cross-border operations.

3. We are currently discussing a timetable for Mexico to implement specific elements of its compliance and enforcement program, including a roadside inspection program focussed at the northern border.

4. The United States government remains committed to NAFTA and its promise of economic prosperity for North America. We fully intend to honor our NAFTA commitment to permit Mexican motor carriers to operate in the United States.

5. We believe that there are a number of steps that the United States and Mexico can take together that will benefit our motor carriers and their customers while enhancing public safety and security in both countries. Our implementation efforts are focused on this goal.

BACKGROUND

NAFTA creates a timetable for the removal of barriers to the provision of motor carrier services among the NAFTA countries for carriage of passengers and of international cargo.

- For trucking, the United States and Mexico were to have allowed access to each other's border states for the delivery and backhaul of cross-border (international) cargo beginning in December 1995. In 2000, all restrictions on cross-border trucking will be lifted.

- For buses, liberalized cross-border access involves two steps. For charter and tour buses, all cross-border restrictions were lifted in January 1994. In January 1997, Mexico and the United States will lift all restrictions on granting authority to carry passengers from one country to another over regular routes in scheduled operations.

- Mexico will gradually eliminate its investment restrictions for motor carriers established in that country by 2004. The United States will lift most investment restrictions for trucking and bus companies by 2001.

On December 18, 1995, Secretary Peña announced a delay in the NAFTA implementation schedule. Citing safety and security concerns, the Secretary said that he and Mexico's Secretary of Communications and Transportation (SCT) had agreed to new consultations to address continuing motor carrier safety and security concerns on both sides of the border. He continued that, consistent with the liberalization schedule set forth in NAFTA, the U.S. government would accept applications from Mexican motor carriers for operations in the U.S. border states, but that final disposition of pending applications would be held until the consultations with Mexico were completed.

ACTIONS TO ADDRESS SAFETY CONCERNS RAISED BY NAFTA

QUESTION: Last December, Secretary Peña said that no Mexican applications for authority to operate in the U.S. border states would be processed until U.S. safety concerns were addressed. What actions has the Department taken to address these concerns?

ANSWER: **MAJOR POINTS**

1. Since last December the Department of Transportation has been working to resolve safety issues related to increased operations of Mexican trucks in the United States by allocating additional funds and personnel to border enforcement programs and working with Mexico and Canada to standardize critical safety regulations.

2. The key to minimizing safety risk is to ensure that Mexican inspectors check northbound trucks before they reach the border, and turn back those that do not comply with U.S. safety requirements. Further, there must be a system in place to independently verify the safety compliance of these carriers.

3. We are working with Mexico on how best to implement these measures and to determine a timeframe within which implementation will be possible.

BACKGROUND

Since December 1995, the Department of Transportation has worked with its counterparts in Mexico and with the states to enhance and improve compliance and enforcement programs. Mexico has agreed in the context of an overall resolution of current issues to implement a roadside vehicle inspection program, consistent with established North American procedures, in the northern Mexican states, with a particular focus on the U.S.-Mexico border area; to provide specific data and information on the Mexican motor carriers and drivers seeking U.S. grants of operating authority and those drivers and carriers that transit the United States to and from Canada; and to implement a safety management oversight program for those carriers granted authority to operate in the United States and for those carriers who transit the United States on the way to Canada. These program elements will be implemented in the next several months.

In addition, the three NAFTA countries have agreed to standardize critical regulations applicable to international motor carrier operations. For example, we have adopted a basic commercial vehicle safety standard as the minimum level of mechanical fitness to be sustained by all trucks operating in international commerce. Further, we have agreed that drivers in international commerce must be at least 21 years old and must be able to communicate in the language of the country in which they are operating. In addition, the three countries are developing a North American logbook, which should be complete by January 1997, to assure that driver duty time is recorded and accounted for. Also, Mexico has adopted and is enforcing hazardous materials transportation regulations modeled on the UN standards.

DOT has hired 13 inspectors who are conducting inspection activities at all major commercial crossings and has assigned an additional 7 inspectors to the border area for outreach and compliance review activities. The border states have also taken steps to upgrade their enforcement programs. DOT has provided the border states with $2.1 million for enhanced enforcement activities related to the operations of Mexican trucks and will provide an additional $1.5 million this fiscal year. The State of Texas has hired 82 enforcement officers and expects to add 27 more by June 1997. The State of California has made a major commitment to enforce federal and state motor carrier safety and operating requirements, supporting its commitment with substantial investments in infrastructure and personnel.

NAFTA IMPLEMENTATION
TRUCK SIZE AND WEIGHT STANDARDS

QUESTION: The U.S. interstate gross vehicle weight limit for trucks is 80,000 lbs. Both Mexico and Canada allow trucks that are heavier than this. Are we going to agree during the current NAFTA harmonization talks to raise the U.S. weight limits? What is the U.S. position on this issue?

ANSWER: **MAJOR POINTS**

1. NAFTA does not require that standards be harmonized. Rather, it calls for best efforts to achieve greater compatibility where feasible and practicable. The Land Transport Standards Subcommittee (LTSS) was established by NAFTA as the tri-national mechanism for examining land transportation regulatory regimes, including vehicle weights and dimensions, in the United States, Canada, and Mexico.

2. If the Department were to consider amending existing regulations, we would follow the normal regulatory procedures for the issuance of federal regulations, including ample provision for public comment on any proposals. Any proposals to change current vehicle weights and dimensions standards as set forth by statute would be decided by the Congress.

3. It is important to examine carefully the potential ramifications of any change in vehicle weight and dimension requirements. We want to be certain that only recommendations based on the most thorough research and analysis are presented for executive level consideration.

4. This is why we are examining international vehicle weights and dimensions issues as part of a Comprehensive Truck Size and Weight Study now nearing completion. The Department will not consider any recommendations concerning possible changes to the U.S. standards -- from the LTSS or any other forum -- until the study has been completed in the spring of 1997.

5. No such recommendations are currently being considered by the LTSS.

MEXICO DISPUTES UNDER NAFTA

QUESTION: What is the status of the U.S. disputes with Mexico over small package delivery services, access to Mexico for 53-ft. trailers, and problems encountered by individual U.S. companies that have invested in Mexican trucking companies?

ANSWER: **MAJOR POINTS**

1. On January 7, Mexico issued regulations formalizing its current restrictions on the use of 53-ft. trailers. While these regulations will not permit unrestricted access for 53-ft trailers on all Mexican highways (according to Mexico, road infrastructure conditions do not safely permit unrestricted access), we believe that the limited access for 53-foot trailers that we have been able to obtain is a step in the right direction. We will continue to place liberalized access for 53 footers in the forefront of our bilateral agenda with Mexico.

2. The Mexican government has agreed to work individually with U.S. companies that have made legal and good-faith investments in Mexican trucking companies to resolve any legal ambiguities in their current investment structures. Such companies may have to restructure their investments to conform to the letter of Mexican law. However, they will not be forced to divest. Mexican companies that are partially owned by U.S. interests will not be treated any differently by Mexican government regulatory agencies than wholly owned Mexican companies offering similar services.

3. We are continuing to negotiate with Mexico to resolve its failure to grant national treatment to U.S.-owned small package delivery companies operating in Mexico. This is a significant violation of the terms of the North American Free Trade Agreement. Accordingly, on April 25, 1995, the United States Trade Representative, with DOT concurrence, requested initiation of a formal dispute resolution proceeding under NAFTA's Chapter 20. The United States will pursue its options under NAFTA's dispute resolution provisions if this issue is not resolved.

4. We intend to resolve all outstanding transportation issues with Mexico, including authority to operate Mexican trucks and buses in the United States, as a package.

BACKGROUND

Access for 53-ft. Trailers: In 1994, the Mexican Government designated in writing a network of highways where international cargo could move in 53-ft. trailers, provided that the total length of the vehicle does not exceed 20.8 meters (68.2 feet). This compromise allowed the use of 53-ft. trailers when coupled to certain short tractors, but precluded the use of the conventional tractors in service in the United States. On January 7, 1997, Mexico issued new regulations formalizing these limitations. Mexico insists that it must restrict the operations of 53-ft. trailers for safety reasons. Despite the American Trucking Associations' (ATA) assertion that the overall length limit is in effect a ban on this type of equipment and a barrier to U.S. trucking operations in Mexico, we believe our carriers will find ways to continue to do business in Mexico.

Investment Issue: Schneider Trucking, a U.S. company, owns 99.99 percent of a Mexican trucking company engaged in domestic cargo transportation in Mexico. Foreign investment in carriers hauling domestic cargo in Mexico is prohibited by law; Schneider is operating under authority of a decree from Mexico's investment commission. Despite Schneider's compliance with all of the conditions set by the foreign investment commission, in March 1995 SCT unilaterally suspended issuance of license plates, registration cards, and decals for TranspoVirel's units. SCT was reacting to complaints from Mexican motor carriers about what they consider to be Schneider's illegal investment. The Mexican government says that the Foreign Investment Commission approval of Schneider's ownership stake in TranspoVirel was a "mistake." In the Mexican government's view, the investment is clearly illegal and falls within the scope of a very specific reservation taken by Mexico in the North American Free Trade Agreement.

It is our understanding that SECOFI (Mexico's Trade Ministry) supports permitting Schneider and several other carriers with similar investment problems to restructure their investments so that they meet the requirements for "neutral investment" as established in Mexico's Foreign Investment Law. Mexican government representatives have indicated that Schneider's investment problem can be resolved in the next several months.

Small Package Delivery Companies: Because NAFTA obligates Mexico to extend national treatment to U.S. small package and messenger service companies, Mexico must allow U.S. small package delivery services to use the same size trucks that Mexican small package delivery companies are permitted to use. Currently, U.S. companies are limited to trucks the size of a minivan. The Mexican government says that it cannot issue permits for large trucks until regulations governing the small package delivery sector have been promulgated and insists that the regulations must clearly distinguish the small package delivery sector from domestic general cargo transportation. It is in making the distinction between the small package delivery sector and general cargo transportation that negotiations have thus far been unsuccessful. Mexico's motor carrier industry is pressuring the government to define the small package delivery industry as narrowly as possible. By contrast, the U.S. industry's major concern is that Mexico will meet the letter of its NAFTA national treatment obligations, but, in so doing, will impose such a restrictive regulatory regime that the market will be effectively closed.

The Journal of Commerce
SINCE 1827
VOL. 411 - NO. 28,899 WEDNESDAY JANUARY 29, 1997 $1.50 A CO

Mexican trucks gain US access

BY TIM SHORROCK
& CHRIS ISIDORE
JOURNAL OF COMMERCE STAFF

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

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

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

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

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

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

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

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

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

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

Michele Kayal in Washington contributed to this report.

American Federation of Labor and Congress of Industrial Organizations

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

MEMORANDUM

February 4, 1997

TO: Lael Brainard

FROM: Gerry Shea

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

attachment
GS/kc
opeiu 2, afl-cio

American Federation of Labor and Congress of Industrial Organizations

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

February 3, 1997

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

Dear Mr. Bowles:

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

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

Major problems that remain unaddressed include:

- **Hazardous Materials**

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

- **Accessibility of Data**

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

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

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

- **Insurance Coverage**

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

- **Hours of Service**

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

- **Inspection Capacity**

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

- **Market Access**

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

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

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

Sincerely,

John J. Sweeney

John J. Sweeney
President

U.S. DEPARTMENT OF TRANSPORTATION

OFFICE OF INTERNATIONAL TRANSPORTATION AND TRADE

MARITIME AND SURFACE DIVISION P-24

FAX SHEET

December 17, 1996

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

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

PAGES: *12 (including cover)*

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

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

Thank you for all your assistance on this issue.

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

Background

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

Cargo Implementation Delay

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

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

Progress in Resolving Safety Concerns

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic Implications

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

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

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

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

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

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

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

Results of Enhanced Federal and State Programs

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Progress in Resolving Security Concerns

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

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

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

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

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

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

Investment Provisions

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

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

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

Bus Provisions

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

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

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

Moratorium Modifications

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

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

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

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

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

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

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

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

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

DOT Proposal

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

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

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

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

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

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

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

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

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

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

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

December 17, 1996

DRAFT

Talking Points - NAFTA Provision on Motor Carrier Access

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

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

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

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

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

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

DRAFT

DRAFT

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

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

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

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

DRAFT