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Daily Press Guidance - May 21, 1997

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Daily Press Guidance

Wednesday
May 21, 1997

(For internal use only.)

updated
7/11/97 to G-drive

Press Guidance
Wednesday, May 21, 1997

Domestic
1. Trade Deficit (Trade)
2. Budget - Q&A, Shuster, vote (Budget)
3. Late Term Abortion (Abortion)
4. NAFTA Environmental Studies
5. Gambling Commission (Gambling)
6. Pennsylvania Avenue (Penn. Ave)
7. Banking Deregualtion (Bank Reform)
8. Federal Contractors and Welfare Hiring (Welfare)
9. Veterans Spending (Veterans)
10. Juvenille Justice (Juv. Justice)
11. ~~Jerry's Subs~~
12. BRAC (Military)

Schedule
1. Drug Summit (Drugs)
2. Congressional Black Caucus meeting (Cong. B Caucus)
3. West Virginia Town Hall (Edu.)
4. DSCC reception (Democ. Agenda
5. Europe Schedule
6. White House Briefing for Women's Magazines
7. Vice President's Domestic Violence Event (Domestic Vio)

Foreign
1. DROC (formerly Zaire)
2. NATO/Russia
3. UN
4. China
5. Drugs/Money Laundering
6. El Salvador
7. Turkey/Iraq
8. Israel/Jordan
9. Russia/NIS
10. War Crimes
11. CIA
12. Encryption
13. QDR
14. Middle East
15. Saudi Arabia
16. Fast Track
17. OECD
18. Trips and Visitors
19. Burma
20. Northern Ireland
21. Gulf War Illness

GUIDANCE ON TRADE DEFICIT
May 21, 1997

* Attached is the memorandum, with pertinent information highlighted.

* (We should not make a big deal of either the drop in the trade deficit or the bilateral trade deficit with China. Both could be due to temporary factors and could just as easily pop back up next month.)

TOIV
NEC

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20502

May 21, 1997

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

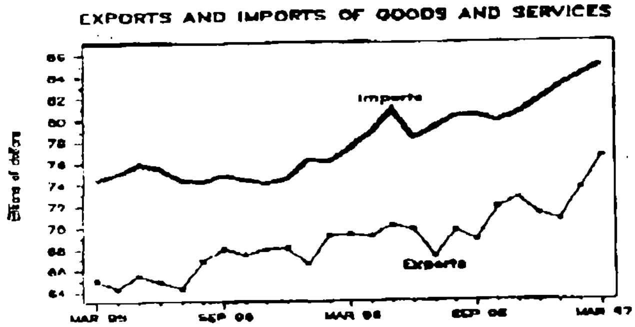
FROM: JEFFREY A. FRANKEL *Jeffrey A. Frankel*

SUBJECT: U.S. Trade in Goods and Services for March, Commerce Department Release, Wednesday, 8:30 a.m.

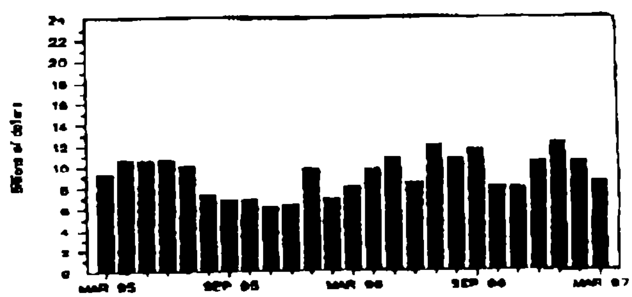
In March, the deficit on trade in goods and services narrowed to $8.5 billion, from $10.5 billion in February. The deficit was substantially smaller than market expectations. The goods deficit decreased $1.9 billion, and the services surplus rose $0.1 billion.

- Exports of goods grew $2.6 billion. Capital goods exports accounted for most of the increase, with civilian aircraft exports at their highest monthly level since 1992.
- Imports of goods increased only $0.6 billion. Automotive imports fell $1.2 billion.
- Despite the improvement in March, the trade deficit remains wider than the year-earlier level. The goods and services deficit for the first quarter of 1997 was $31.4 billion, which was $6.8 billion more than in the first quarter of 1996. While exports have shown strong growth, imports have been even stronger, driven by the strength of the economy.
- The bilateral deficit with China expanded $2.7 billion from the first quarter of 1996, and the deficit with Japan rose $1.4 billion. On the positive side, our trade deficit with the Asian newly industrialized countries narrowed $2.3 billion and is now near balance. The deficit with the European Union shrank $1.0 billion.

EXPORTS AND IMPORTS OF GOODS AND SERVICES



TRADE DEFICIT FOR GOODS AND SERVICES



UNITED STATES DEPARTMENT OF
COMMERCE NEWS
WASHINGTON, D.C. 20230

ECONOMICS AND STATISTICS ADMINISTRATION

Office of the Under Secretary

FOR IMMEDIATE RELEASE
Wednesday, May 21, 1997

CONTACT: David Weinfurter
202-482-3727

STATEMENT BY UNDER SECRETARY OF COMMERCE EVERETT M. EHRLICH

Washington, D.C. -- U.S. exports rose to yet another record level last month, totaling $76.5 billion, driving the trade deficit down from $10.5 billion in February to $8.5 billion in March. The increase was centered around an increase of about $700 million in aircraft exports. Aircraft and other capital goods drove the trade surplus in advanced technology products to $4.4 billion, also a record. Total exports have reached $851 billion over the past twelve months, an increase of 38 percent since 1992.

Imports have also increased, reflecting the very strong growth we have experienced in the U.S. over the past two quarters. Imports also rose to record levels in March despite a fall-off in automobile shipments, reflecting strong growth.

Our ongoing growth in exports to Mexico shows a clear recovery from the 1995 peso crisis. Our exports are running a full 43 percent above the level of the year before NAFTA, and are growing faster than our imports in recent months. We look forward to faster growth in Mexico and better trade results.

Our exports to Latin America, excluding Mexico, are up 18 percent so far this year, and are also growing faster than imports. This makes Latin America one of the fastest growing markets for the United States. Secretary Daley returns today from his trip to Brazil, Chile, and Argentina -- part of our Department's ongoing commitment to export promotion.

The deficit with Japan grew slightly in March. We continue to hope that Japan will work to implement the structural reforms that will allow for balanced and steady growth that benefits both trading partners.

Our deficit with China fell in March, following the usual annual pattern. While exports rose in March, China remains the only major market in the world where U.S. exports are not growing in the long term, and this despite significant economic growth in China. This export picture remains an object of concern to this Administration.

The stabilization of the trade deficit despite surging growth in the U.S. during the first quarter is concrete evidence of the continuing improvement in the competitiveness of American firms and workers. And that competitiveness reflects the healthy economic policy mix that has allowed investment and productivity growth to flourish in this expansion.

Budget Questions
Wednesday, May 21, 1997

Kennedy-Hatch

Q: WILL YOU SUPPORT THE KENNEDY-HATCH AMENDMENT TO THE BUDGET DEAL FOR CHILDREN'S HEALTH?

A: We support Senator Kennedy and Senator Hatch's goals of covering uninsured children and stopping teen smoking. That's why the President insisted on including a $16 billion investment in the bipartisan agreement for children's health; that is a very good beginning. And that's why the President has led the campaign against teen smoking.

We look forward to working with Senators Kennedy and Hatch to design a children's health proposal that ensures that the $16 billion investment provides insurance to as many children as possible. There are many positive aspects to the Kennedy-Hatch proposal. We must work within the bipartisan process that produced the budget agreement to determine whether it can be advanced within the framework of the agreement.

Gephardt's Opposition

Q: IS THE MINORITY LEADER SIMPY POSTURING FOR 2000 BY OPPOSING THIS BUDGET?

A: We take his concerns about the budget at face value. We would like to keep working with him as the budget moves through the process, and we are willing to listen to his concerns.

Q: ISN'T THIS A REPEAT OF 1981 AS CONGRESSMAN GEPHARDT CLAIMS?

A: No it is not. The 1981 tax cut cost the Treasury $2.1 trillion over a ten year period. Here we are talking about $250 billion over ten years -- and they are fully paid for. Even without accounting for inflation, which would magnify the difference, this tax cut is less than 12 percent the size of the 1981 tax cut.

Q: WHAT ABOUT HIS POINT THAT THE TAX CUTS IN THIS BUDGET ARE NOT FAIR?

A: We have worked, and will continue to work, to ensure that the President's tax cut proposals, which are targeted towards middle class families, are in the final tax package. We already have secured a written agreement from Senator Majority Leader Lott and Speaker Gingrich that $35 billion of the $85 billion net tax cut will go to education tax cuts.

Additionally, given its bipartisan support, a version of the President's child tax credit will be included in the final tax package.

We recognize that Republicans have other priorities as well, including capital gains and estate tax cuts. As the details are filled, they obviously will fight for their priorities, and we will try to to **ensure that the bulk of this tax package goes to help middle-class families. And we hope that we can count on Congressman Gephardt's support in that fight.**

Q: CONGRESSMAN GEPHARDT SUGGESTS THAT THIS BUDGET IS A RETURN TO ROSY SCENARIOS. IS THAT TRUE?

A: Absolutely not. We have a strong track record on forscasts. For four years in a row, growth has been higher and the deficit has been lower than predicted. For example, last year CBO forecast a deficit of $197 billion, and the Administration forecast a deficit of $211 billion. The actual deficit was $107 billion.

The assumptions in this budget about future economic performance are conservative. The real growth assumption over the next 5 years (2.2 percent per year), for example, is lower than the Blue Chip private sector consensus (2.3 percent). It is intended to reflect average growth over different stages of the business cycle. Since 1973, over several business cycles, growth has averaged 2.6 percent per year. So we think this budget uses eminently reliable forecasts.

Education Tax Cuts

Q: ARE YOU WILLING TO COMPROMISE ON THE B-AVERAGE REQUIREMENT FOR THE HOPE SCHOLARSHIP?

A: The President believes that part of the higher education tax cut should be targeted to open the doors of college and encourage students to work hard and do well there. That's why he proposed the Hope Scholarship. We've gotten some feedback about that proposal, particularly that the grade requirement may be a little complicated to implement, but we still want to encourage students to perform well. We are listening to those concerns, but no final decisions have been made.

Q: THE BUDGET DIRECTOR INDICATED YESTERDAY THAT THE WHITE HOUSE MIGHT BE WILLING TO MOVE TOWARD THE REPUBLICAN CHILD TAX CREDIT PROPOSAL. ARE YOU WILLING TO RAISE BOTH THE INCOME LIMITS AND AGE LIMITS?

A: The President proposed a $500-a-year child tax credit in his budget that was available for children up to the age of 13 and targeted at middle-class families. The Republican child tax credit was more expensive. **The President is committed to seeing the bulk of this**

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tax package goes to help middle-class families, and we will work with Congress to see how big a child tax credit we can afford consistent with our agreement.

[Background on Child Tax Credit: Our tax credit covers children up to 13 years old and phases out beginning at$60,000. The Republican proposal covers children up to 18 years old and phases out at beginning at $110,000. FYI -- We are flexible on age, not especially so on income limits.]

Q: WILL YOU ACCEPT THE SPEAKER'S PROPOSAL TO INCREASE THE ESTATE TAX EXEMPTION?

A: The President proposed estate tax relief in his budget that was designed to help family farms and small business owners pay estate taxes. The Republican proposal is very expensive, and benefits the most wealthy Americans. Only 1-2 percent of estates are subject to this tax at all. We understand that estate tax relief is a very high priority for Republicans, but the President will work hard to **ensure that the bulk of this tax package goes to help middle-class families consistent with the agreement.**

<u>**Capital Gains Tax Cut**</u>

Q: CAN YOU ACCEPT A BROAD-BASED CAPITAL GAINS TAX CUT?

A:

1) **We have a good capital gains tax cut proposal in our budget targeted at home owners.** It excludes about 99 percent of home sales from the capital gains tax. It allows families to exclude $500,000 of capital gains from the sale of a home.

2) **We expect that the final tax bill will have a broader capital gains tax cut than we had in our budget.** We understand that a capital gains tax cut is a top priority of the Republicans.

3) **The President will continue to work to ensure that the bulk of the tax cut package goes to help middle class families.** The President priorities are to provide tax cuts to make it easier for middle class families raise their kids and send them to college.

4) **We expect both sides to continue to work in good faith to reach a mutually agreeable final tax bill, just as both sides did in reaching the overall agreement.** We are confident that we will do just that.

Q: WILL THE PRESIDENT ACCEPT A 50 PERCENT EXCLUSION?

A: Again, we expect a broader capital gains tax cut than was in our budget. We understand that a capital gains tax cut is a top Republican priority. The President is going to continue to work to ensure that the bulk of the tax cut goes to middle class families. We are confident that we can reach agreement on a mutually acceptable tax cut bill.

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Q: WHAT ABOUT INDEXING?

A: We have some serious concerns about indexation of capital gains. First of all, it would be very difficult to administer. In addition, indexing capital gains without indexing debt creates a strong incentive to create tax shelters. Indexing also becomes very expensive down the road and would, therefore, undermine the tremendous progress we have made in getting our fiscal house in order.

Q: SO YOU OPPOSE INDEXING, WILL YOU VETO THE TAX BILL IF IT'S IN?

A: We expect that both sides will continue to work in good faith and that we will be able to achieve a mutually agreeable final tax bill. The President will continue to work to ensure that the bulk of the tax cuts go to middle class families and to ensure that the tax cut does not explode.

<u>More Transportation Funding</u>

Q: YOU OPPOSED THE SHUSTER AMENDMENT TO INCREASE TRANSPORTATION SPENDING BY $12 BILLION. WILL YOU STOP ANY SIMILAR AMENDMENTS TO INCREASE TRANSPORTATION FUNDING IN THE SENATE?

A: Yes. The President and congressional leadership signed off on a budget that included substantial new investments in transportation. As part of the agreement, we added an additional $10 billion in contract authority to ensure that we can continue to modernize America's infrastructure. However, we will strongly oppose any amendments that would unravel that budget deal and increase the deficit.

<u>Update on Hill Budget Meetings</u>

- o President made calls to House members thanking them for support. Also meets with Congresssional Black Caucus today.
- o President met with bipartisan congressional leadership at White House yesterday.
- o Budget team meeting (Hilley, Sperling, Bowles, and Raines) with House Caucus, Senate Dems ("DPC"), Blue Dogs, and Hispanic Caucus yesterday.

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Veterans ad about cuts in the budget agreement
May 21, 1997

* The veterans function of the budget is treated in the budget agreement the same as every other function.

* In the budget agreement, negotiators agreed at the end to add funds for transportation.

* To stay within agreed-upon limits on OVERALL discretionary spending, all other non-defense functions were forced to take a very small across-the-board cut.

* The cuts amount to about 1.5 percent in 1998 (rising to 4 percent by 2002, although I wouldn't volunteer this).

* We do not believe that these cuts will seriously affect programs on which millions of Americans rely.

* But, in a larger context, the budget agreement provides about 99 percent of the President's overall request for non-defense outlays over five years.

* The budget agreement will be good for all Americans, including veterans, because it will help spur economic growth and keep interest rates down.

Mike: On the specific figures in the ad -- e.g., veterans denied service -- our staff is checking the numbers. If I get something on it before you brief, I'll contact you again.

-Larry Haas

Press Guidance
May 21, 1997

Jerry's Subs

The Washington Post today ran a piece on Jerry's Subs and Pizza highlighting the White House Counsel's policy barring the use of the presidential likeness or image to promote a product.

- We understand that they are just trying to sell a product.
- The President, however, doesn't endorse products regardless of their merits nor does the White House permit use of his image for such promotion.
- Therefore, when something like this arises, the Counsel's office makes the advertiser aware of our policy. It has been our experience that they are generally responsive.

Are there any legal ground on which to prohibit these advertisements?

It has been our experience that once advertisers are aware of White House policy, they are generally responsive.

Mellody per Trey Schroeder, Counsel's Office

Q: REPORTS HAVE SUGGESTED THAT THE ORIGINAL MEDICARE PREMIUM ESTIMATES WERE TOO LOW AND THE ACTUAL INCREASE WILL BE TWICE AS HIGH AS PREVIOUSLY PROJECTED (ABOUT A DOLLAR A MONTH). IS THIS TRUE?

A: **While original preliminary CBO projections may have been slightly off, we still estimate that the Part B premium will be only about $1 more in 1998 than under current law.** In subsequent years within the 5-year Budget Agreement, the annual increase should be no more than about $2 more per month. As a result, by 2002, we project the premium being approximately $8 more than it otherwise would have been without the home health reallocation.

Regardless of the final projection, the Part B premium will be almost $20 per month less than it would have been if it was set at the same 31.5 percent level that the President vetoed. The monthly premium under the 1997 Budget Agreement will be about $69 in 2002. If the policy were a 31.5 percent premium instead of 25 percent, the premium would be about $87. In 2002 alone, this would equate to about $215 a year more for a single beneficiary, $430 for a couple.

Low-income beneficiary protections are expanded. Unlike the 1995 Budget Agreement that the President vetoed, which eroded current-law low-income protections, the 1997 Balanced Budget Agreement invests $1.5 billion to expand premium assistance to low-income beneficiaries. We believe this commitment will help many of the estimated 2.5 million Medicare beneficiaries who have incomes between 125 and 150 percent of poverty-- just above the current eligibility level for Medicare premium protection.

Savings from the new premium are offset by investments in beneficiary improvements. The $9 billion in savings that comes from gradually including home health in the 25 percent premium is virtually identical to the amount of money dedicated to the investment in new benefits. Specifically, the 1997 Balanced Budget Agreement invests $3-4 billion in new preventive benefits (which will, for example, detect breast and colon cancer, and cover the management of diabetes), $4 billion to limit excessive hospital outpatient coinsurance to beneficiaries, and $1.5 billion in premium protections for low-income Medicare beneficiaries. (This contrasts with the vetoed 1995 balanced budget agreement, which reinvested virtually none of its much greater beneficiary savings for benefit enhancements.)

GUIDANCE ON SHUSTER TRANSPORTATION VOTE
MAY 21, 1997

* Attached are copies of letter sent yesterday to the House by Frank Raines opposing the amendment and materials we circulated on House floor. They lay out rationale for opposition.

* As for lobbying, we worked very hard to defeat the amendment. That hard work was necessary, given the closeness of the vote and the impact passage would have had on the Budget Agreement.

* (FYI, since solid majority of Republicans opposed, we didn't need to produce a majority of Dems, only a significant number, and we did.)

TOIV
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Late Term Abortion
May 21, 1997

- The President intends to veto the Santorum bill when it reaches his desk.
- There were no last-minute lobbying efforts by the President on this issue. Senator Nickles discussed it with the President at the bipartisan Congressional meeting, and the President indicated that he intended to veto the legislation if it passed.
- There were staff contacts with Hill staffers on this subject yesterday, but not hihg-level efforts.

ME Glynn

QUESTIONS ON NAFTA EFFECTS STUDY
May 21, 1997

Q: What is your response to the NYT story on the environmental effects study? Is this delay a threat to free trade expansion?

A: The Administration believes that the environment and labor side efforts are a critical part of our work with Mexico and Canada. The environmental effects study (the current phase is to develop a methodology for reporting on environmental effects) is a very important part of that work and we are committed to seeing it through.

Of course, the study is only a small part of our joint environmental cooperation. The NADBank (North American Development Bank) has already funded a dozen important environmental projects along the border, such as the wastewater treatment. And the Administration is committed to doing even better: when the President was in Mexico, he asked the environment and labor ministers of our countries to report back in 90 days on way to improve our cooperation in these areas. Without NAFTA, this cooperation would probably not exist at all.

Q: Does the delay mean the study won't be ready for the July deadline for the report to Congress, as the story suggests?

A: The environmental effects study is not part of the July report to Congress about the effects of NAFTA.

Q: What is your position with respect to fast track and environmental considerations as you seek to expand trade in the hemisphere?

A: The key is to maximize progress on three areas which are of major importance to the Administration: expanded market access, advancing worker rights and core labor standards, and protecting public health and the environment. We are committed to a strategy of pursuing our goals and maintaining flexibility rather than pretending that one prescription would fit all countries or all cases. The Administration has been consulting broadly with members of Congress, business, labor and environmental groups and will continue to do so.

Note: The first two were drafted by CEQ following a conference call with USTR; the second was condensed by CEQ based from recent USTR testimony.

GUIDANCE ON GAMBLING COMMISSION CHAIR
May 21, 1997

* In discussions with the Republican Leadership, the White House expressed a preference to designate as chair one of the Commission members who was considered neutral on the subject, such as Richard Leone or Leo McCarthy.

* Nevertheless, the White House does not have a problem with the selection of Ms. James (Kay James, Dean of School of Government at Regent University in Norfolk, founded by Pat Robertson).

* Above all, it's important that the Commission carry out a thorough study of the very serious issues raised by the proliferation of legalized gambling in our society. We believe the commission as currently comprised should be able to accomplish that.

TOIV
Consultation yesterday with Podesta, Emanuel

Pennsylvania Avenue Closure
May 21, 1997

Q: Why has it taken so long for Pennsylvania Avenue to be renovated? You promised that it would be finished by Inauguration, 1997.

A: During the last fiscal year, Congress put extremely restrictive language into the appropriations bill for the National Park Service which did not allow for the renovation or beautification of Pennsylvania Avenue. In FY 97 the National Park Service was given some money for renovations and they began to do so after the Inaugural Parade. Note that there are now permanent barriers at each end of PA Ave now.

Several months ago, a long term plan was unveiled for Lafayette Park. We have been getting comments on the plan from many different groups, such as the PA Avenue Development Corporation and fine arts organizations, as well as feedback from private citizens. The Treasury Department will complete an environmental impact statement some time in the next few weeks. We have encountered many utility problems under PA Ave and such things as trolley tracks. Once we have figured all of this out it is just a matter of getting the funding in place to beautify the front of our national treasure.

Q: Haven't you turned this in to a parking lot for White House staff cars?

A: No. White House cars are not parked on PA Ave. The cars you see in front of the Treasury Building are there because Riggs Bank lost parking spots in front of its bank across the street. The National Park Service and the Secret Service reached on agreement with Riggs and a few other businesses for private parking in that stretch of PA Ave.

Cars that you see parked in front of Blair House are for guests of that facility. You will recall that when PA Ave was open to traffic, one or two lanes were routinely blocked off in front of Lafayette Park to accomodate Blair House vehicles.

MEGlynn
Jodie Torkelson

DEPARTMENT OF THE TREASURY

TREASURY NEWS

OFFICE OF PUBLIC AFFAIRS • 1500 PENNSYLVANIA AVENUE, N.W. • WASHINGTON, D.C. • 20220 • (202) 622-2960

KEY PROVISIONS OF THE TREASURY'S FINANCIAL MODERNIZATION PROPOSAL

May 21, 1997

1. FINANCIAL ACTIVITIES OF COMPANIES OWNING INSURED DEPOSITORY INSTITUTIONS
   - Companies that own banks (bank holding companies) and meet certain qualifications would -- subject to certain safeguards -- be permitted to engage in any financial activity, including the full range of:
     - securities activities;
     - insurance activities;
     - investment advisory activities and mutual fund sponsorship; and
     - merchant banking.
   - Likewise, financial companies could own banks.

2. FINANCIAL ACTIVITIES OF INSURED DEPOSITORY INSTITUTIONS AND THEIR SUBSIDIARIES
   - National banks (and state banks to the extent permitted by state law) would be authorized, subject to certain safeguards, to conduct any financial activity through subsidiaries (except that national bank subsidiaries would not be authorized to engage in real estate development).
   - National banks would be permitted to engage in the full scope of activities that had previously been permissible for national banks or federally chartered thrifts (except investing in real estate development).
     - National banks (and state banks to the extent permitted by state law) would be permitted to act as general agents for the sale of insurance. National banks would be prohibited from engaging directly in insurance underwriting other than what is currently permissible (e.g., credit-related insurance).

RR-1700

- National banks (and state banks to the extent permitted by state law) would be permitted to underwrite and deal in municipal revenue bonds in addition to other securities activities currently permissible in the bank.

3. NONFINANCIAL AFFILIATIONS

Two alternative approaches will be suggested:

- Under the **"basket"** approach (**Alternative A**), bank holding companies that derive some significant percentage (specified by Congress) of their gross revenues in the U.S. from financial activities could derive the remainder of their revenues from nonfinancial activities.
  - In addition to the "basket" limitation, we would suggest prohibiting any affiliation between a bank holding company and a nonfinancial firm having assets in excess of a specified amount (calculated to approximate the 1,000 largest nonfinancial companies).
  - The federal thrift charter would be eliminated after two years, and existing unitary thrift holding companies (which presently have no activity restrictions) would be given a grandfather exemption from the "basket" test (terminable upon a change of control).
- Under the **"financial-only"** approach (**Alternative B**), bank holding companies would not be permitted to engage in *any* nonfinancial activities.
  - The existing thrift charter would be preserved, and thrift holding companies would retain their current authority to engage in any lawful activity.

4. CAPITAL PROTECTIONS AND OTHER SAFEGUARDS

- The following safeguards would apply if a bank holding company or a subsidiary of a bank engaged as principal in activities not permissible for a national bank to engage in directly:
  - The bank would have to remain "well capitalized" -- that is, to be in the highest regulatory capital category, with capital exceeding normal requirements.
    - The bank would have to deduct from its regulatory capital the entire amount of its equity investment in any subsidiary engaged in such activities. Thus even if the investment were to be a total loss, the bank would still be well-capitalized.

- The bank would have to be well-managed.

- Any company controlling the bank would have to give an undertaking that if the bank's capital fell below the well capitalized level, it would be promptly restored.

- Existing limits on loans and other transactions between banks and affiliated companies (sections 23A and 23B of the Federal Reserve Act) would be extended to bank subsidiaries engaged in such activities. Thus any transactions between the bank and the subsidiary would have to be conducted at arm's length, could not exceed 10 percent of the bank's capital, and would have to be fully collateralized. (In addition, the bank's transactions with all affiliates, including the subsidiary, could not exceed 20 percent of the bank's capital.)

- Banks could not be held vicariously liable -- under the "piercing the corporate veil" theory -- for obligations of a subsidiary or other affiliate that the bank had not assumed.

    - Bank regulators would be specifically required to assure that banks observed principles of corporate separateness.

- Under **Alternative A**, banks would be prohibited from extending any credit to, or for the benefit of, any nonfinancial affiliate. (**Alternative B** would permit no nonfinancial affiliates.)

5. **FEDERAL RESERVE REGULATION OF HOLDING COMPANIES**

- The Federal Reserve would continue to approve the formation of, and to supervise and regulate, all bank holding companies.

    - The Federal Reserve would be able to require financial reports from holding companies if they are not reasonably available from other sources. The Board would have access to information that was provided by the holding company or any of its units to other regulatory organizations.

- Federal Reserve examinations of a bank holding company would be limited, to the fullest extent possible, to holding company units that could have a materially adverse effect on the safety and soundness of a bank affiliate.

    - The Board would, to the fullest extent possible, make use of examination reports made by, or on behalf of, regulators of holding company units.

- The Federal Reserve would be permitted to set consolidated capital requirements for a bank holding company if:

- With the elimination of the OTS, the FDIC Board would be restored to its original three-member size.

- The FDIC's Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) would be merged.

- Under **Alternative B** (the "financial-only" approach to bank affiliations), the thrift system would be left as it is today.

  - OTS and OCC would be kept intact (although the prohibition against combining functions of the two agencies would be lifted).

  - No conversion of thrifts would be required, and unitary thrift holding companies would retain their diversified affiliation authority.

  - BIF and SAIF would be merged.

7. WHOLESALE FINANCIAL INSTITUTIONS

- Wholesale financial institutions (WFIs) could be chartered as either national banks or state member banks.

- WFIs would not have FDIC insurance and could not accept retail deposits.

- The OCC and Federal Reserve would supervise WFIs and set their capital requirements.

- Owners of WFIs would not be treated as bank holding companies, could therefore engage in any lawful business.

- WFIs would be subject to Community Reinvestment Act (CRA) requirements.

8. FUNCTIONAL REGULATION OF INSURANCE AND SECURITIES ACTIVITIES

- Insurance activities of banking organizations would be subject to normal state insurance regulations, if those regulations do not discriminate against financial institutions. States could not apply to national banks laws that had the purpose or effect of discriminating against, or had a disproportionately adverse effect on, financial institutions.

- Securities activities of banking organizations would be regulated as follows:

  - The Securities Exchange Act's exemption of banks from broker and dealer registration would be narrowed to permit SEC regulation of activities other than traditional banking activities.

- The SEC would be required to amend its net capital rule to avoid a *de facto* pushing out of broker-dealer activities from the bank.

- SIPC insurance would not apply to broker-dealer activities conducted in the bank.

- Products traditionally provided by banks would not subject to SEC broker-dealer regulation, and the primary banking regulator and the SEC could jointly exempt new banking activities.

- The Investment Company Act's application to banking activities would be updated and clarified. Banks' exemption from the Investment Advisers Act would be narrowed.

- The SEC, rather than the banking agencies, would handle registration of bank-issued securities and periodic reporting by banks having securities registered under the Securities Exchange Act of 1934.

9. **CONSUMER PROTECTION**

- The banking agencies, in consultation with the SEC, would be required to prescribe rules regarding banks' retail sales of nondeposit investment products, in order to avoid customer confusion about the nature and applicability of FDIC and SIPC insurance, and to protect against conflicts of interest and other abuses.

  - Such rules would address such matters as sales practices, qualifications of sales personnel, incentive compensation, and referrals.

- The rules would require simple, direct and understandable disclosures, such as the following:

  "NOT FDIC-INSURED OR SIPC-INSURED
  "NOT GUARANTEED BY THE BANK
  "MAY GO DOWN IN VALUE."

- Customers could prevent sharing of confidential customer information between banks and their nonbank affiliates.

- The National Council on Financial Services would periodically assess the effectiveness of such regulations, and could adopt regulations more stringent than those of the agencies.

10. NATIONAL COUNCIL ON FINANCIAL SERVICES

- A National Council on Financial Services would be created.

- Among other functions, the Council would do the following:

    - Prescribe (under **Alternative A**) the method for applying the gross revenues test for measuring the extent of a bank holding company's financial activities;

    - Consider whether additional activities are financial;

    - Impose additional firewall restrictions, if determined to be necessary, between banks and their affiliates, including subsidiaries of banks;

    - Review the adequacy of consumer protections to determine whether modifications are needed; and

    - Resolve differences among the agencies on such questions as whether an activity is "financial," or whether a particular product or activity is insurance, securities, or banking.

11. TIME FRAME FOR MODERNIZATION

- Under **Alternative A**, modernization of bank activities and affiliations would occur two years after enactment. The two-year period would accommodate unification of the bank and thrift charters, as well as the respective federal regulators.

- Under **Alternative B**, the thrift system would remain intact. Thus modernization of bank activities and affiliations would begin nine months after enactment.

DEPARTMENT OF THE TREASURY

TREASURY NEWS

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May 21, 1997

Remarks by Treasury Secretary Robert E. Rubin
to the Exchequer Club

Thank you for the opportunity to speak here today.

I'd like to talk about financial modernization, and the Treasury's approach to dealing with this important issue. Our objective is simple: modernizing financial services in a way that will benefit consumers, businesses, and communities, enhance competitiveness of our industry worldwide, and protect the safety and soundness of our financial institutions.

And the stakes here are enormous. The Bureau of Economic Analysis estimates that in 1995, Americans spent nearly $300 billion on brokerage, insurance, and banking services. Even if increased competition from financial modernization were to reduce costs to consumers by just 1 percent, that would be savings of $3 billion a year. And, as I'll explain a bit later, substantiality greater savings than that may be likely.

In many respects, moving forward on financial modernization is a logical next step in the financial services agenda the Administration has pursued since 1993.

We helped bring to conclusion one of the most costly chapters in the history of U.S. finance, the savings and loan debacle, by helping four years ago to pass the Resolution Trust Corporation Completion Act, and last year by helping pass legislation to increase capitalization of the Savings Association Insurance Fund, which insures deposits at thrift institutions.

We've also worked to enact landmark interstate banking legislation, which will go into effect nationwide on June 1st. And the bank and thrift regulators have been eliminating unnecessary regulatory burdens that serve no clear purpose, while protecting consumers and communities.

In 1995, at President Clinton's urging, regulators completely rewrote their Community Reinvestment Act rules, to enable banks and thrifts to focus on performance, not paperwork. Today depository institutions and communities are coming together in innovative ways to help serve creditworthy borrowers and rebuild areas long left behind. Similarly, the Treasury has established the Community Development Financial Institutions Fund, whose primary purpose is

RR-1699

to help non-traditional lenders meet the financing needs of economically distressed communities.

All of these measures were good for the consumer, businesses and communities that depend every day on financial services.

Today, our nation's financial marketplace is exceptionally strong. Unprecedented numbers of Americans have access to credit. We have the most reliable, liquid markets anywhere. Our financial institutions are innovative, and function effectively in a highly competitive global economy.

The Challenge

But in the midst of all this progress, we're still operating under an outdated legal and regulatory structure. National banks can sell insurance, but only from a town of five thousand. Securities firms provide bank-like products, but can't actually own a bank. Bank holding companies can underwrite securities, but with arbitrary limitations on the revenues they can derive from that activity.

The Glass Steagall law may have been appropriate when we had a dramatically different financial system. But think of the enormous changes that we've seen since then: We have developed a very sophisticated system of bank supervision. Our securities markets are the most liquid and reliable in the world. Geographic barriers to competition have come down. Financial products are rapidly converging. Globalization has spurred greater opportunity and competition. And technological innovation is a driving force behind the development of sophisticated financial products.

As you know better than anyone, the old lines that separated the insurance, securities, and banking industries have increasingly blurred as new financial products and services have appeared. And regulatory and judicial rulings continue to erode many of the barrier that were put in place to restrain competition among financial services firms.

Our goal now is to create a regulatory and legal environment in which: 1) consumers benefit from lower costs, better services and greater convenience; 2) financial services providers operate on a level playing field; 3) financial institutions can offer products and services without maneuvering through a maze of archaic laws; and 4) we protect the deposit insurance funds and safety and soundness. However, we don't simply want regulation to reflect the market realities of 1997. We want to create a framework in which US financial markets can innovate, evolve and compete well into the 21st century.

The Approach

Let me share with you our current thinking on several legislative changes we think should be considered.

First, we would propose to break down barriers that inhibit or prevent competition among various providers of financial products and services. We would permit banks, securities firms and insurance companies to affiliate with one another, reflecting the consensus that this reform is long overdue. These affiliations would help promote a genuine two-way street, one in which all participants have the opportunity to compete and innovate.

Second, we would give firms the choice to organize their financial activities in the most efficient way they see fit -- either as a subsidiary of a bank, or as an affiliate of a bank holding company regulated by the Federal Reserve Board. Banks would, if they took the subsidiary route, have to subtract from their regulatory capital 100% of any investment in subsidiaries that undertake activities not permissible for the bank itself, and banks would have to establish firewalls restricting certain transactions between the bank and its subsidiary. Safeguards like these -- which will be the same for subsidiaries as for holding company affiliates -- will protect banks and the federal deposit insurance funds from any risks posed by subsidiaries.

In establishing subsidiaries, banks could expand the range of financial products and services they offer, and diversify the sources of their earnings. In this respect, subsidiaries can help promote safety and soundness at banking institutions.

We should not and do not favor one form of corporate structure over another. But, by developing equal and consistent safeguards for subsidiaries and affiliates, we give companies the power to choose their structure for business, not regulatory, reasons. And let me emphasize: banks and the federal deposit insurance funds will be equally well protected under either format.

Third -- and perhaps the most difficult question in this debate -- is whether to permit companies that include banks to engage in non-financial activities, the so-called "banking and commerce" issue.

As we examined this issue, we recognized that people on all sides have strongly held views about this issue. There are, for example, some who believe that permitting broader affiliations between banking and commercial firms could have not only significant economic implications but also important cultural and social effects. Therefore, because of the nature of the issues and the complete lack of consensus, we think the issue needs to be further debated by Congress before settling on a final approach.

Consequently, we believe that Treasury can be most helpful in resolving this issue by providing two possible alternative legislative models.

Under the first model, Congress could decide to permit some modest measure of non-financial activity for bank holding companies. In such a case, it would be sensible to set a high threshold -- expressed in terms of gross domestic revenues -- to qualify the organization as predominantly financial. Under this model, Congress also could prohibit any affiliation between a bank and any of the 1,000 largest non-financial companies.

This alternative, would provide a basis for Congress to unify the regulation of banks and thrifts.

Under the second model, Congress may decide not to relax limits on non-financial activities of firms affiliated with banks, while as I've already said permitting bank holding companies to engage in the broad range of financial activities.

Under this alternative, the likely outcome would be for Congress to retain the separate thrift charter and the current rules relating to unitary thrift holding companies. While this alternative would not eliminate the current disparities between banks and thrifts, it does permit bank holding companies to engage in the full range of financial activity.

Let me now turn to the fourth item in our approach -- the creation of a new wholesale financial institution (so-called "woofies"). WFIs would be banks which accept only wholesale uninsured deposits, but they would not be considered banks for the purpose of holding company regulation. As chartered financial institutions with access to the payments system, they would be subject to prompt corrective action and other safeguards to ensure they don't pose a significant risk to the financial system. We would also require these banks to comply with the Community Reinvestment Act.

Lastly, we believe that we should move closer to a system of regulation by function, whereby specific financial activities would be regulated by the appropriate federal or state agency, regardless of where these activities are conducted. In this way, consumers would receive consistent regulatory protections. In the securities area, we would maintain and strengthen the important role of the Securities and Exchange Commission, without pushing current securities activities out of banks. With respect to insurance, we'd permit states to apply state laws to bank insurance activities as long as those laws were truly non-discriminatory. Finally, we would propose to create a council of financial regulators that would help resolve questions about the regulation of specific financial products.

Safeguards

With all these changes, of course, we must ensure that any and all financial modernization proposals are safe. In the past eight years, we've made great strides in restoring safety and soundness to our financial system. We're mindful of the S&L experience and are committed to avoiding anything of this sort again.

The Treasury approach would enhance existing consumer safeguards. We would provide for important disclosures -- in plain, straightforward terms -- so buyers can understand whether or not the products they purchase from financial services providers are insured.

For financial institutions, we believe that our proposal for expanded activities, which employs a "belt and suspenders" approach, is safe and sound because it provides even greater safety and soundness protections than current law. The expanded business opportunities we described above are linked to greater protections for insured depository institutions. Banks would have to be well-capitalized -- the highest regulatory capital category -- and well-managed to qualify for broader affiliations. They would have to meet other important prudential safeguards that prevent subsidiaries or affiliates from weakening the depository institution.

And finally, this proposal comes with an absolute commitment to safeguard communities. This Administration will not tolerate any weakening of CRA in any legislation.

Benefits

In the past, when we have permitted greater competition in the financial services industry, consumers of financial products have benefited significantly. For example, after the New York Stock Exchange eliminated fixed commission rates in 1975, brokerage rates dropped by over 20 percent and an entire new industry -- discount brokers -- was created. From 1986 to 1989, as affiliates of banks began to underwrite municipal revenue bonds, issuers like local governments saved as much as $9 per $1000 of borrowed funds -- savings that could be passed on directly to taxpayers to help build roads, schools, hospitals and their communities.

Even more dramatic savings have accrued to consumers after the government has lifted barriers to competition in other industries.

As I mentioned earlier, the Bureau of Economic Analysis estimates that in 1995, American consumers spent nearly $300 billion on brokerage, insurance, and banking services. If increased competition from financial modernization were to reduce costs to consumers by 1 percent, that would be a savings of about $3 billion a year. Based on the efficiencies that could be realized from increased competition, it is plausible to expect ultimate savings to consumers of up to 5 percent from increased competition in the securities, banking and insurance industries -- as much as $15 billion per year. The bulk of these savings should come as financial services firms, driven by increased competition, adopt best-practices.

As I indicated earlier, the financial services industry is undergoing fundamental and dramatic change. The question we need to address is: what will be the rules of the road in the years to come? Will we rely on the old rules -- crafted primarily in the depth of the Depression -- or will we look forward to creating a legal and regulatory structure that will meet the needs of a dynamic and ever-changing system?

I share the views of many others who feel that the time has come to modernize the rules of our financial services system. Such a move, if done with due regard for safety and soundness, will benefit the broad range of users of financial services: consumers, small and large businesses, communities, and state and local governments. A more rational system, with a level playing field and appropriate safeguards, is in everyone's interest.

We look forward to working with the Congress on this important initiative in the time ahead.

GUIDANCE ON WELFARE HIRING BY FEDERAL CONTRACTORS
MAY 21, 1997

(The Post story on yesterday's welfare-to-work event mentions the President's statement that, in addition to the commitment by agencies to hire 10,000 welfare recipients over two years, we thought we could get Federal contractors to hire about 10,000 more.)

* Contractors will not be required to hire welfare recipients. They will not have targets, goals, etc. It will not be a condition in any way of their selection as contractors. Rather, they will be encouraged to do so, based on their own capabilities and circumstances.

* The number 10,000 is a very rough approximation based on what the agencies have told us. We'll have more detailed information soon on what the agencies are doing in terms of hiring welfare recipients, and each agency at that time will talk about their contractors, although I do not expect specific numerical targets for contractors at the agencies.

TOIV
Conversation yesterday with Kamarck

Veterans ad about cuts in the budget agreement
May 21, 1997

* The veterans function of the budget is treated in the budget agreement the same as every other function.

* In the budget agreement, negotiators agreed at the end to add funds for transportation.

* To stay within agreed-upon limits on OVERALL discretionary spending, all other non-defense functions were forced to take a very small across-the-board cut.

* The cuts amount to about 1.5 percent in 1998 (rising to 4 percent by 2002, although I wouldn't volunteer this).

* We do not believe that these cuts will seriously affect programs on which millions of Americans rely.

* But, in a larger context, the budget agreement provides about 99 percent of the President's overall request for non-defense outlays over five years.

* The budget agreement will be good for all Americans, including veterans, because it will help spur economic growth and keep interest rates down.

Mike: On the specific figures in the ad -- e.g., veterans denied service -- our staff is checking the numbers. If I get something on it before you brief, I'll contact you again.

-Larry Haas

5·9·97

Questions and Answers on Juvenile Justice

Q. What is the Administration's position on the H.R.3, the Juvenile Crime Control Act?

A. The President is opposed to the legislation because it is not a comprehensive plan to attack gangs and juvenile crime. A 1996 report released by the Justice Department's Office of Juvenile Justice and Delinquency Prevention projected that if trends continue as they have over the past 10 years, juvenile arrests for violent crime will more than double by the year 2010. This is why President Clinton has made juvenile crime and gangs his top law enforcement priority over the next four years.

America's Anti-Gang and Youth Violence Strategy must declare war on gangs; target funding for additional local prosecutors to pursue, prosecute, and punish gang members; extend the Brady Law so violent teen criminals will never have the right to purchase a gun; require federal dealers to sell a child safety lock with every gun, to protect our kids from using guns to hurt each other or themselves; and target resources to keep schools open late, on weekends, and in the summer to keep young people off the street and out of trouble.

The legislation passed in the House today fails to provide any of these necessary measures to give law enforcement, prosecutors, and parents the tools they need to combat gangs and youth violence in their communities.

The President will continue to work with Congress to ensure passage of legislation that will give our children the safest and most secure future as possible.

Q. What does the Administration's juvenile justice proposal do?

A. The legislation that President Clinton announced on February 19 is part of his overall Anti-Gang and Youth Violence Strategy. The strategy seeks to break the back of violent gangs, reduce youth violence, and provide our kids with positive alternatives to steer them away from gangs, guns, and drugs.

Among many other measures, the strategy provides critical resources for state and local prosecutors to target, prosecute and convict violent youth gangs. It permits Federal prosecutors to prosecute juveniles in adult court when they commit violent crimes.

It requires child safety locks for guns to prevent accidents and thefts and extends the Brady Law so that violent juveniles can never own a gun.

It also creates afterschool initiatives to keep kids off the streets and give them positive alternatives. It will give communities the resources and support to establish comprehensive curfews, anti-truancy efforts, create youth violence courts, and effective prevention initiatives.

Q. Can the Federal government actually have any impact on crime?

A. Yes. Police chiefs, sheriffs, and rank-and-file officers from across the country will tell you that the Clinton anti-crime agenda has made a difference in their efforts --- putting more cops on the streets, longer sentences for violent offenders, and taking guns out of the hands of criminals.

Local prosecutors also know we can help them. That is why the nation's primary and largest organization of prosecutors, the National District Attorneys Association, has enthusiastically endorsed President Clinton's proposal to launch a massive attack on gangs and violent crimes by juveniles.

Press Guidance
May 21, 1997

Jerry's Subs

The Washington Post today ran a piece on Jerry's Subs and Pizza highlighting the White House Counsel's policy barring the use of the presidential likeness or image to promote a product.

- We understand that they are just trying to sell a product.
- The President, however, doesn't endorse products regardless of their merits nor does the White House permit use of his image for such promotion.
- Therefore, when something like this arises, the Counsel's office makes the advertiser aware of our policy. It has been our experience that they are generally responsive.

Are there any legal ground on which to prohibit these advertisements?

It has been our experience that once advertisers are aware of White House policy, they are generally responsive.

Mellody per Trey Schroeder, Counsel's Office

Background Paper: BRAC

Held for Sec Brief Book

We need another BRAC

- We have more bases than we need to support our forces. Since 1989, DoD has cut troops by 33%. The QDR will recommend additional endstrength reductions of 60,000-70,000 active duty, bringing the total reduction to 36%.
- We have only eliminated 21% of our U.S. base structure, 26% worldwide.
- Spending money on bases we don't need takes money from modernization and readiness.

We expect significant savings from BRAC

- Each round of BRAC will generate $1.4 billion in annual recurring savings.
- A round of BRAC requires some upfront investment – about $4.4 billion.for a BRAC 99.
- We begin saving money in the fourth year of a BRAC round – '03 for a BRAC 99.
- These estimates are based on experience with four BRAC rounds which closed 97 major bases. These rounds will cost a total of $23 billion. By 2001, we will have saved about $14 billion. After 2001, we will save about $5.6 billion *a year*.

How would a new BRAC work?

- The Administration must propose enabling legislation to Congress. Our proposal would be modeled on legislation that worked well for the previous BRAC rounds. For a BRAC 99:
- Services analyze and recommend closures/realignments to SecDef, who reviews and makes recommendations to an independent commission. Members of the Commission are nominated by the President, the Speaker of the House, and the Majority Leader of the Senate.
- The Commission reviews DoD's analysis and issues its own closure list (summer '99).
- The President may either accept or reject the Commision's list in total – he cannot modify it.
- Congress then has 45 days in which it may reject the list.
- For a BRAC 99, legislation must be passed this year.

Progress on Past BRAC Rounds: Administration Policies Speed Economic Development

- In 1993, President announced a 5 Point Program to assisted communities with closing bases:
  - Job creation/development became main focus of property disposal process
  - Fast track environmental cleanup removed needless delays
  - On-site ombudsmen assigned to every major base closure community
  - More retraining assistance for workers and development aid for communities
  - Larger planning grants to base closure communities -- *on average, $1 million over 5-years*
- DoD established policies/procedures to respond to community needs and has been continuously improving them to speed implementation.

Results: Rapid Job Creation

- Nearly 31,000 jobs have been created thus far at closed bases. Eighty percent of these new jobs were created last year. 77,000 civilian jobs at these bases had been lost – that's a replacement rate of over 40%. At bases closed over a year, the job replacement rate is 47%, and growing.
- Economic Development Conveyances (new conveyance method to promote economic development) signed thus far are projected to create 96,000 new jobs.

Results: Better and Faster Implementation

- Military Departments closing bases faster – from 66 months (BRAC 88) to 42 months now
- Communities developing reuse plans faster – from 57 months (BRAC 88) to 21 months now
- Services executed more than 700 leases to bring commercial tenants to closing bases and DoD approved 20 EDCs this year.

MAYORS' SUMMIT ON DRUGS
Questions and Answers
May 21, 1997

<u>Methamphetamine Report</u>

Q. What does today's report say?

A. Today's report provides an update of the Administration's National Methamphetamine Strategy and make two key findings: (1) that methamphetamine use is down in 8 key cities; and (2) that clandestine lab seizures by the Drug Enforcement Agency (DEA) are up 170% in 1996. The Justice Department report cites 1996 data which shows that in eight western cities --Dallas, Denver, Los Angeles, Omaha, Phoenix, Portland, San Diego, and San Jose-- methamphetamine use declined between 7 and 52% from 1995 levels.

Moreover, the report shows that our strategy is being aggressively implemented and showing results. We've worked with Congress to strengthen penalties for meth trafficking and established new controls over precursor chemicals used to manufacture meth. U.S. Attorneys -- working with coalitions of federal, state and local law enforcement agencies -- are successfully prosecuting methamphetamine, including lifetime sentences for certain convicted methamphetamine traffickers. Federal agencies are working to increase information about the dangers of meth. They're producing meth-specific education and prevention materials, hosting local conferences and training local law enforcement.

Q. What is methamphetamine? Why is it so dangerous?

A. Methamphetamine is a synthetic stimulant drug that creates extreme aggressiveness among chronic users. The violence-prone, irrational, and aggressive behavior associated with chronic methamphetamine users make it an especially volatile drug. Meth can be snorted, smoked, injected, or ingested orally. The effects of methamphetamine can last anywhere from 4 to 24 hours, while the effect of cocaine is measured in minutes. The crash that occurs with the tapering off of methamphetamine's effects is often potentially psychologically disastrous.

Additionally, clandestine laboratories that manufacture methamphetamine pose an environmental and safety hazard, as toxic wastes are frequently dumped on the ground or into waterways, as well as the enormously high risk of a fire or explosion. Anyone near a meth manufacturing lab is in potential danger, and cleanup costs, per lab, run into thousands of dollars.

Q. How much does methamphetamine cost?

A. A gram of methamphetamine can begin at $50. For comparison purposes, a gram of cocaine costs about $100. For this reason, meth is often referred to as the "poor man's cocaine."

Q. How serious is the methamphetamine problem?

A. The methamphetamine problem is serious and spreading. In recent years, use of the drug has spread from the West to the Midwest. As a result, meth-related emergency room episodes doubled between 1991 and 1994, and the number of meth-related deaths tripled. Seizures of clandestine laboratories and along the Southwest border also increased during this time period.

More importantly, methamphetamine is a triple killer and extremely dangerous: First, it is a cheap, highly addictive, long-lasting stimulant that often induces violent behavior; Second, labs used to manufacture meth present a high risk of fire or explosion, endangering nearby residents; and third, the toxic wastes produced by meth labs are often dumped on the ground and in waterways, posing an environmental threat to entire communities.

Q. Why are you only providing meth data for 9 cities? Is there data on other cities?

A. The Drug Use Forecasting System collects meth data for 23 cities across the country. The methamphetamine use amongst the arrestees tested in the other 14 cities was so low, it was determined to be insignificant. By insignificant, we mean less than one percent.

Q. Doesn't the drop in the numbers for methamphetamine mean that we're just generating hysteria about methamphetamine when the problem is really disappearing?

A. Not at all. I am very encouraged by the new, lower numbers. But we are just turning the corner. Now is not the time to let up. The numbers show that when we work hard, we can have some effect. Now, we've got to redouble that effort and help to prevent the spread of this dangerous drug to the eastern part of the U.S.

Q. If illegal drugs are such a big problem, then why didn't your new anti-gang bill contain new drug provisions?

A. Our juvenile crime bill <u>does</u> contain increased penalties for people who sell drugs to kids and use kids to sell drugs. But we should keep in mind that existing federal drug laws are already pretty tough. Trafficking can carry up to a life sentence.

But we also need to do is to make sure that local prosecutors have more resources to go after the gangs that pedal drugs to our kids. Our juvenile crime bill does that, too.

Additionally, our anti-gang strategy calls for expanding after school programs. This will not only help us cut crimes when kids would be otherwise unsupervised, it will help schools get the message out that gangs, guns and drugs are dangerous.

Q. **Mr. President, despite the 1994 Crime Act and tough drug laws, federal statistics show enormous increases in drug use among teenagers. Don't these figures show that you have failed and that you are taking the wrong approach?**

A. I am deeply disturbed by the current trends in teenage drug use. General McCaffrey, the Attorney General and I have spent a great deal of time on this issue. That's why I've proposed a national media campaign, leveraged with private sector resources, to reach the 68 million kids at risk in this country.

That's also why we need more programs to stop crimes and drug use from happening in the first place. We need a place for young people to go in those hours after school when they are unsupervised. If we don't, they may just wind up on a street corner using drugs or getting involved in delinquent or criminal activity. I've asked Congress to provide funds for after-school programs and for programs for at -risk youths-- so we could keep kids off the streets and out of trouble. I was disappointed that the House didn't include these provisions in its juvenile crime bill, but I'm hopeful that we'll be successful in the Senate.

Money Laundering

Q: **Could you briefly describe the proposed regulations on money laundering?**

A: When I learned of the successes of the New York Geographic Targeting Order (GTO) in dramatically reducing the flow of narcotics proceeds to Columbia, I asked the Treasury Department to examine ways to extend the GTO nationally.

Today's regulations are a response to my request. There are three proposed rules which will be published today. The most fundamental of these proposals is to register "money services businesses" generally, which includes money transmitters or remitter, money order issuers and sellers, travelers check issuers and sellers, retail currency exchanges, and check cashers.

The second proposed regulation would extend the suspicious activity reporting requirements — already in place with respect to banks — to money transmitters and issuers, sellers and redeemers of traveler's checks or money orders.

The final proposed regulation essentially makes the New York City GTO apply nation-wide and on a permanent basis. Under the proposed rule, money transmitters would be required to report currency transactions of $750 or more that involve the transmission of funds to any person outside of the United States. The rule also requires the remitters to verify the identity of the person sending the funds.

Q: When will these proposed regulations become effective?

A: There will be a 90-day comment period that begins today. The Treasury Department will then review the comments and make any appropriate changes to the rules. The Treasury hopes to publish a final rule by January 1, 1998.

The rules regarding suspicious activity reporting and the new $750 reporting threshold will take effect 30 days after the final rules are published. Money services businesses will have 180 days from publication of the final rules to register with FinCEN.

Q: What are the current reporting requirements for sending money transmissions outside the U.S.?

A: Currently, no record has to be kept for any transmission under $3,000. For transmissions of $3,000 or more, the money transmitter must keep a record of the transmission. For transmissions of $10,000 or more, the money transmitter must fill out a Currency Transaction Report or CTR and file it with the IRS.

Q: Why the $750 threshold?

A: Our experience with the El Dorado Task Force indicates that most legitimate money transmissions are between $250 and $500, and that most of the abuse by money launderers occurs above this level. Thus, we made the threshold $750 so as to exclude the majority of legitimate businesses from reporting requirements.

Q: Money transmitters are used primarily by people who do not have bank accounts —the poor and immigrants. Isn't it then discriminatory to have a $750 threshold for transmitters and not banks?

A: We do not believe the proposed regulations are discriminatory. The $750 amount applies to money wire transfers that are sent <u>anywhere</u> outside the United States. We did not focus on any particular country or region.

Also, these regulations do not prevent anyone from wiring money anywhere. You can pay cash to send $100,000 to Colombia tomorrow, so long as you fill out a form and provide a photo ID. The proposed rules are designed to stop the abuse of the money transmitter industry by criminals by collecting information, not to prevent legitimate transactions.

Banks are already subject to extensive regulation. Today's proposed rules are intended to deal with a relatively unregulated area of the financial services industry — the money services businesses.

General Drug Policy Questions

Q. Why do you think spending $175 million on an ad campaign will reduce drug use among our youth?

A. The central challenge we face is to reverse the surge in youth drug rates-- this is the focus of my 1997 National Drug Control Strategy and it is the primary concern of the mayors. My targeted anti-drug advertising campaign-- which would involve about 1 percent of the federal counterdrug budget-- holds the promise to change our youth's relaxed attitudes toward drugs. We have 68 million kids who are vulnerable to drugs. It is imperative that we get our kids accurate information about drugs.

Q. What do you think of the Sentencing Commission's recommendations on penalties for crack and powder cocaine?

A. Last month, I commended the Sentencing Commission for moving forward with recommendations to Congress to reduce the disparity between crack and powder cocaine penalties. My Administration will give them very serious consideration. I have asked Attorney General Reno and General McCaffrey to review the Sentencing Commission's recommendations and report back to me by the end of June.

However, I continue to believe that our sentencing laws must reflect that crack cocaine is a more harmful form of cocaine. The Sentencing Commission's new recommendations do so. Trafficking in crack, and the violence it fosters, has a devastating impact on communities across America, and any changes in penalties must ensure that more dangerous offenders receive tougher sentences.

Q. Isn't the National Action Plan put forward by the Mayors essentially a criticism of your Administration's drug policy? Doesn't it call for more funds and different actions to be taken?

A. I don't think so. On the contrary, I think the Mayors' Action Plan is complementary to our own National Drug Strategy. Both of our plans share the same number one priority: that drug use amongst our kids must be reduced. Both of our plans call for a comprehensive drug strategy that includes enforcement, treatment, prevention and education. And both of our plans recognize the importance of responding to the country's growing methamphetamine problem -- as well as cracking down on money laundering. While some of the details vary, our plans are largely similar.

WHITE HOUSE MAYORS CONFERENCE ON DRUG CONTROL
PRESIDENTIAL ANNOUNCEMENTS
MAY 21, 1997

Announcements

Today, at the White House Mayors Conference on Drug Control, President Clinton and members of his Cabinet met with mayors from across the country to discuss efforts to control illegal drugs and their destructive consequences. The President made two anti-drug announcements:

1) **Attacking the Threat of Methamphetamine.** President Clinton released a new report by the Department of Justice with Drug Use Forecasting (DUF) data indicating that methamphetamine use is down in 8 key cities by as much as 52% over the past year. Clandestine lab seizures by the Drug Enforcement Agency (DEA) increased by 170% in 1996.

2) **Cracking Down on Money Laundering.** The Treasury Department will publish proposed rules today, designed to prevent and detect money laundering through money services businesses (MSBs) -- helping to staunch the flow of narcotics and illegal drug proceeds.

Methamphetamine Report

- Methamphetamine is a synthetic stimulant drug that is cheaper than cocaine in many markets, produces a longer high, and can cause irrational violence among chronic users.

- *President Clinton's Methamphetamine Strategy.* The President's April 1996 Strategy assessed the methamphetamine threat, and established an action plan. In October 1996, President Clinton signed the Comprehensive Methamphetamine Control Act of 1996 into law. The new law incorporates many elements of the President's Strategy, including increased penalties and regulatory provisions for precursor chemicals. The new penalties are scheduled to take effect on November 1, 1997.

- Methamphetamine Report Findings:
  ✔ ***Increased Seizures.*** In 1996, DEA Clandestine Laboratory Enforcement Teams seized 879 clandestine methamphetamine laboratories-- a 170% increase over 1995.
  ✔ ***Methamphetamine Use Down in Key Cities.*** Preliminary data from the National Institute for Justice (NIJ) 1996 Drug Use Forecasting figures show that in eight western cities, methamphetamine use declined between 7 and 52% from 1995 levels.
  ✔ ***Successful Federal Prosecutions.*** U.S. Attorneys around the nation are successfully prosecuting methamphetamine cases in coordination with state and local law enforcement agencies, including cases with lifetime sentences for methamphetamine traffickers.

Anti-Money Laundering Initiative

- Today, the Treasury Department will publish three rules to make it more difficult for drug cartels to wire money out of the country by: (1) requiring money services businesses to register with the Treasury Department; (2) requiring certain MSBs to report suspicious business activity; and (3) lowering the amount of money that transmitters are required to report for international transactions from $10,000 to $750. Currently in place in New York City, Treasury credits these requirements with reducing the amount of money wired to Colombia by 30%, and helping increase seizures of illegal currency by almost 400%.

CLINTON ADMINISTRATION
NATIONAL METHAMPHETAMINE STRATEGY UPDATE
MAY 21, 1997

Announcement

Today, in a meeting with Mayors to discuss drug policy, President Clinton announced that in a new report by the Department of Justice, Drug Use Forecasting (DUF) data indicates that methamphetamine use is down in 8 key cities by as much as 52% over the past year. In addition, clandestine lab seizures by the Drug Enforcement Agency (DEA) increased by 170% in 1996.

Background

Methamphetamine is a synthetic stimulant drug that is cheaper than cocaine in many markets, produces a longer high than cocaine, and can produce extreme aggressiveness and irrational violence among chronic users.

- *Methamphetamine is dangerous and spreading.* While use of the drug has historically been concentrated in the West and Southwestern regions of the U.S., it is now spreading to the Midwest and the East. Methamphetamine is produced in clandestine laboratories, which carry an enormously high risk of fire and explosion.

- *President Clinton's Methamphetamine Strategy.* The President's April 1996 Strategy assessed the methamphetamine threat and established an action plan to avert its further spread. In October 1996, President Clinton signed into law the Comprehensive Methamphetamine Control Act of 1996 which incorporates many elements of the President's Strategy, including increased penalties and regulatory provisions for precursor chemicals. New penalties are scheduled to take effect on November 1, 1997.

Clinton Administration: Taking Action Against the Spread of Methamphetamine

- *Increased Seizures.* DEA Clandestine Laboratory Enforcement Teams seized 879 clandestine methamphetamine laboratories in 1996 -- a 170% increase over the number of labs seized in 1995. Current projections indicate an even higher number of seizures will be achieved in 1997.

- *Preliminary 1996 Data Shows Meth Use Down.* Data from the National Institute for Justice 1996 Drug Use Forecasting (DUF) show that in 8 western cities (Dallas, Denver, Los Angeles, Omaha, Phoenix, Portland, San Diego, and San Jose) methamphetamine use declined between 7 and 52% from 1995 levels. San Antonio showed a modest increase: from 1.5% in 1995 to 2.1% in 1996. 1996 DUF data also indicate that adult female arrestees use methamphetamine more than male arrestees, and white arrestees were more likely to use the drug than African-American and Hispanic arrestees.

- *Targeting the Midwest.* In 1996, the Office of National Drug Control Policy (ONDCP) designated a five-state region in the Midwest (Nebraska, Iowa, Kansas, Missouri and South Dakota) as a High-Intensity Drug Trafficking Area (HIDTA) to address methamphetamine use, production, and trafficking. In one of many successful prosecutions, a joint effort between the DEA, U.S. Marshals, and state and local law enforcement resulted in the conviction and life sentence of a methamphetamine trafficker in Missouri.

PRESIDENT CLINTON'S BUDGET AGREEMENT IS A WIN FOR CITIES

President Clinton has shown that you can bring the deficit down while still investing in our critical priorities. We provided a tax cut to 15 million working families in 1993 while bringing the deficit down from $290 billion to an expected $67 billion this year. Now, he has delivered the first balanced budget in a generation that invests in key priorities such as education and training, health care, and the environment while strengthening and modernizing Medicare and Medicaid.

FINISHING THE JOB OF WELFARE REFORM

- **Adds $3 billion to the Temporary Assistance for Needy Families** (TANF) block grant for welfare-to-work activities, targeted within a state to high-poverty, high-unemployment areas. A share of the additional dollars will go to cities/counties with large poverty populations, according to the number of long-term welfare recipients in those areas.

☞ These resources will give cities and states the help they need to place welfare recipients living in disadvantaged areas into lasting jobs. These funds could be used for wage subsidies to private employers, transportation and other post-employment supportive services essential for job retention, and other effective job creation and placement strategies.

- **Establishes an enhanced welfare-to-work tax credit**, to give private employers an extra incentive to hire welfare recipients.

☞ The Congressional leadership has pledged to seek a welfare-to-work (WTW) tax credit along the lines of the proposal in the Administration's FY 1998 budget. The President's WTW credit would allow an employer to claim a credit of up to 50 percent of the first $10,000 in wages paid during a year to a worker who had been on welfare for a prolonged period of time. The WTW credit, which under the President's plan would be available for up to 2 years per worker, will help individuals move from welfare to work.

PROTECTING THE MOST VULNERABLE AND PREVENTING A COST SHIFT

- **Restores SSI and Medicaid benefits for legal immigrants.** Reinstates benefits for immigrants in the country prior to enactment of the welfare bill who became, or become, disabled after entry, ensuring that cities are not saddled with the full burden of providing health care and subsistence benefits for persons who worked hard but, through no fault of their own, are in need of assistance.

- **Provides $1 billion in new Food Stamp program funding** to create additional work slots to maintain eligibility for food stamp benefits for recipients subject to the "3 in 36" time limit (able-bodied childless adults age 18-50 can receive food stamps for only 3 out of every 36 months, unless they are working), redirects existing employment and training funds to 18-50s and pays benefits for these redirected work slots as well.

- **Allows States to exempt (without a waiver) up to an additional 15 percent of the food stamp recipients** who would otherwise be denied benefits as a result of the "3 in 36" time limit.

☞ The two provisions together will preserve food stamps for many of the able-bodied adults who, even though they are willing to work, would otherwise be ineligible for benefits. If not for these measures, localities could be left with the burden of providing emergency food assistance to persons falling into this category.

PROMOTING ECONOMIC DEVELOPMENT, PROTECTING THE ENVIRONMENT, AND FIGHTING CRIME

- **Funds expansion of "brownfields"** environmental cleanup/economic development efforts.

- **Creates additional empowerment zones and enterprise communities.**

☞ The Congressional leadership has agreed to seek both of the above measures in the final tax bill.

- **Expands Community Development Financial Institution (CDFI) Fund.** The agreement provides for full funding ($125 million in 1998 vs. $50 million in 1997) of the President's CDFI fund expansion. The fund supports institutions that provide a variety of financial services to distressed communities, including mortgage financing, commercial loans, and investments to start new small businesses.

- **Puts more police on the street.** Protects funding for the Community Oriented Policing Services (COPS) initiative, which should put 100,000 more police officers on the street by 2000.

INVESTING IN EDUCATION AND TRAINING

- **Increases funding for Head Start to continue on road to achieve enrollment of 1 million kids in 2002.**

- **Provides largest Pell Grant increase in two decades - boosts the maximum 1998 Pell grant from $2,700 to $3,000.**

- **Increases funding for bilingual (27% increase) and immigrant education (50% increase).**

- **Includes all of the $579 million increase in funding requested by the President in his FY 1998 budget of $5.3 billion for Training and Employment Services. Included in the President's training budget:**

    - Opportunity Areas for Out-of-School Youth - will provide about $14 million in annual grants to 15-20 high poverty urban and rural communities to train 50,000 young people, targeted to current and potential EZs and ECs. Total annual grants of $250 million.

    - At Risk Youth - funding of $1 billion, including funds to assist 530,000 disadvantaged youth through the Summer Jobs program and 107,000 through the year-round youth training grant program.

    - Adult Training - at $1.1 billion, an increase of $169 million or 19%, to provide employment and training assistance to 351,000 disadvantaged adults, about 42% of whom currently are welfare recipients.

    - Job Corps - Includes the President's request of $1.25 billion for Job Corps, a residential training program that will enroll about 64,000 severely disadvantaged youth.

PRESERVING HOUSING ASSISTANCE FOR LOW-INCOME FAMILIES

- **Includes the funding needed to renew all expiring Section 8 contracts**--both tenant and project-based housing assistance--for one-year terms, through FY 2002, ensuring that hundreds of thousands of very low-income families are not displaced.

EXPANDING HEALTH COVERAGE FOR CHILDREN

- **Provides health coverage for up to 5 million more children**, through 1) grants to States to cover otherwise uninsured children; and/or 2) additional Medicaid funding.

PROTECTING MEDICAID

- **Maintains Federal guarantee to coverage** .

- **No per capita cap.** We have responded to concerns expressed about the per capita cap by deleting this provision from the final agreement.

THE WHITE HOUSE

WASHINGTON

May 20, 1997

BREAKFAST ROUND TABLE

U.S. CONFERENCE OF MAYORS
NATIONAL FORUM ON DRUG CONTROL

DATE:	Wednesday, May 20, 1997
LOCATION:	State Dining Room
TIME:	10:00 - 11:30 a.m.
FROM:	Marcia L. Hale Emily Bromberg

I. PURPOSE

To engage in an informal dialogue on drug control with a bipartisan group of mayors, prosecutors, and members of the law enforcement community. This is a valuable opportunity to highlight your efforts to curb illegal drug use and drug trafficking in cities.

You will unveil two newsworthy items at this event. These include: (1) *Geographic Targeting Orders (GTO):* On Monday, May 18, 1997, Secretary Rubin announced that the Treasury Department will institutionalize and expand its GTO initiative that requires money remitters to obtain identifying information on wire transfers of more than $750; (2) *Report on Methamphetamine Strategy:* You will announce that, after one year, the Administration's methamphetamine strategy is showing positive results. Illegal use is decreasing in eight key cities and seizures of methamphetamine laboratories have increased by 170%.

II. BACKGROUND

The U.S. Conference of Mayors (USCM) is convening in Washington, DC for the National Forum on Drug Control on Tuesday, May 20, and Wednesday, May 21, 1997. As you will recall, you met with the U.S. Conference of Mayors on January 17, 1997 during their Annual Meeting.

When he began his term as the President of the U.S. Conference of Mayors, Mayor Richard M. Daley (D-Chicago, Illinois) announced that drug control would be a top priority. Mayor Daley appointed Mayor Brent Coles (R-Boise, Idaho) and Mayor Scott King (D-Gary, Indiana) as Co-Chairs of a Task Force on Drug Control who would spearhead the Conference's efforts; he named twenty mayors to serve on it. Leaders and members of the Task Force met twice in Boise, Gary, and Chicago and once in West Palm Beach during the latter half of 1996 and early 1997.

The Task Force on Drug Control met with a wide range of individuals involved in drug education, prevention, treatment, and enforcement. These meetings covered the increase in drug use among young people, the absence of drug treatment in many communities, issues relating to illegal drug trafficking, and the need for more effective cooperation and information sharing among enforcement authorities. Particular attention was devoted to the growth of the methamphetamine problem, which has spread to many western cities and is moving eastward.

In each of their meetings, the Task Force on Drug Control has expanded their draft of "A National Action Plan to Control Drugs," a document designed to reflect what local officials believe must be done to reduce illegal drug use and illegal drug trafficking in cities. In early January, the Task Force presented the draft to all mayors attending the Winter Meeting of the U.S. Conference of Mayors and to the Office of National Drug Control Policy (ONDCP) and other federal agencies. On Tuesday, May 20, the Action Plan was reviewed and ratified by the mayors, police chiefs, and prosecutors attending the National Forum on Drug Control.

Mayor Richard Daley will present to you this seven-point "National Action Plan" that mirrors the Administration's comprehensive drug strategy. The Plan's principal priority is convincing young people not to use drugs. It challenges parents, teachers, and employers to be more engaged in anti-drug abuse efforts, calls for efforts to increase role models, anti-drug advertising and prevention programs for adolescents.

The Plan's other six priorities include: increasing access to treatment; strengthening and improving federal law enforcement (particularly with respect to money laundering); cracking down on methamphetamine; challenging the private sector to play a larger role; improving federal coordination through ONDCP by providing direct grants to cities; and declaring illegal drugs a major foreign policy concern.

There are no new policies or specific budget requests in the mayors' recommendations. Their plan is intended to help raise the visibility of the drug issue and to highlight the multifaceted strategy -- and federal commitment -- required to reduce drug use in the United States. Focusing on money laundering and financial crimes is a particular priority for Chicago's Mayor Daley, a former local prosecutor.

Featured speakers in the Opening Session of the National Forum on Drug Control on Tuesday, May 20, 1997, included Treasury Secretary Robert Rubin, Transportation Secretary Rodney Slater, and ONDCP Director Barry McCaffrey. Drug Enforcement Agency Director Thomas Constantine and Treasury Undersecretary for Enforcement Raymond Kelly briefed on the Administration's enforcement efforts; HHS Secretary Donna Shalala presented the federal prevention and treatment efforts. Following their session at the White House on Wednesday, May 21, the Drug Control Conference will feature a program on Capitol Hill. Congressmen Denny Hastert (R-IL-14) and Charles Rangel (D-NY-15), Co-chairs of the House Bipartisan Drug Policy Working Group, and Senator John Kerry (D-MA), Chairman, Senate Democratic Steering and Coordination Committee are the confirmed speakers.

III. PARTICIPANTS

The President
The Vice President
General Barry McCaffrey, Director, ONDCP
Hon. Richard M. Daley, President, U.S. Conference of Mayors, Mayor of Chicago, Illinois (D)
Several Cabinet Members (see attached participant list)
Approximately 90 mayors, prosecutors, and members of the law enforcement community (see attached participant list)

IV. PRESS PLAN

Pool spray at the top of the program only. Note: Following the breakfast, Mayors Richard Daley (D-Chicago), Paul Helmke (R-Fort Wayne), Scott King (D-Gary, Indiana), Brent Coles (R-Boise, Idaho), and Corradini (D- Salt Lake City, Utah) will be available to the press at the stakeout.

V. SEQUENCE OF EVENTS

- The Vice President enters the State Dining Room to extend welcome and deliver brief remarks

- The Vice President departs for briefing

- You proceed to holding room for briefing

- You and the Vice President proceed to the State Dining Room and are seated; you greet the participants seated at your table:

  Mayor Richard M. Daley (D-Chicago; President, USCM)
  Mr. John Kaye (Prosecutor/President, NDAA, Monmouth County, New Jersey)
  Mr. Michael P. Barnes (Prosecuting Attorney, St. Joseph County, Indiana)
  Mayor Dennis W. Archer (D-Detroit, Michigan)
  General Barry R. McCaffrey (Director, ONDCP)
  Hon. Matthew Rodriguez (Superintendent of Police, Chicago)
  Chief Darrell L. Sanders (President, IACP, Frankfurt, Illinois)
  Mayor Nancy Graham (R-West Palm Beach, Florida)
  Police Commissioner Richard Guilford Kerlikowske (Buffalo)

- Press enters State Dining Room; The Vice President proceeds to podium
- The Vice President introduces General Barry McCaffrey
- General McCaffrey delivers brief remarks and introduces Mayor Daley
- Mayor Daley delivers brief remarks and introduces the President
- You make brief remarks
- You lead question and answer discussion. You will call on and ask questions of Mayor Paul Helmke (R-Fort Wayne, Indiana), Charlie Hynes, District Attorney (Brooklyn, New York) and Commissioner Paul Evans (Boston, Massachusetts). (See attached suggested discussion questions.)
- You continue to lead question and answer discussion
- You depart

VI. REMARKS

To be provided by speech writing.

VII. ATTACHMENTS

Breakfast Round Table Participant List
Attached suggested discussion questions
Program Agenda: U.S. Conference of Mayors National Forum on Drug Control
Draft U.S. Conference of Mayors National Action Plan to Control Drugs
DPC Briefing: "Conference on Drug Control - Presidential Announcements"
DPC Briefing: "National Methamphetamine Strategy Update"
NEC Talking Points: "Budget Agreement is a Win for Cities"

U.S. CONFERENCE OF MAYORS
NATIONAL FORUM ON DRUG CONTROL

BREAKFAST ROUNDTABLE
PARTICIPANT LIST

MAYORS

Hon. Jerry E. Abramson	Mayor of Louisville, KY (D)
Hon. Floyd Adams	Mayor of Savannah, GA (D)
Hon. Dennis W. Archer	Mayor of Detroit, MI (D)
Hon. Victor H. Ashe	Mayor of Knoxville, TN (D)
Hon. J. Christian Bollwage	Mayor of Elizabeth, NJ (R)
Hon. Charles E. Box	Mayor of Rockford, IL (D)
Hon. Sila Calderon	Mayor of San Juan, PR (D)
Hon. H. Brent Coles	Mayor of Boise, ID (R)
Hon. Cardell Cooper	Mayor of East Orange, ID (D)
Hon. Ellen Corbett	Mayor of San Leandro, CA (D)
Hon. Rosemary Corbin	Mayor of Richmond, CA (D)
Hon. Deedee Corradini	Mayor of Salt Lake City, UT (D)
Hon. Richard M. Daley	Mayor of Chicago, IL (D)
Hon. Nancy Graham	Mayor of West Palm Beach, FL (R)
Hon. Joseph A. Griffo	Mayor of Rome, NY (R)
Hon. Richard P. Hartmann	Mayor of Kettering, OH (R)
Hon. Patrick Henry Hays	Mayor of North Little Rock, AR (D)
Hon. Paul Helmke	Mayor of Fort Wayne, IN (R)
Hon. Scott L. King	Mayor of Gary, IN (D)
Hon. Dannel P. Malloy	Mayor of Stamford, CT (D)
Hon. John McCarthy	Mayor of Everett, MA (R)
Hon. Patrick J. McManus	Mayor of Lynn, MA (D)
Hon. Thomas M. Menino	Mayor of Boston, MA (D)
Hon. David W. Moore	Mayor of Beaumont, TX (NP)
Hon. Arlene J. Mulder	Mayor of Arlington Heights, IL (NP)
Hon. Rita L. Mullins	Mayor of Palatine, IL (R)
Hon. Meyera E. Oberndorf	Mayor of Virginia Beach, VA (I)
Hon. Douglas H. Palmer	Mayor of Trenton, NJ (D)
Hon. James P. Perron	Mayor of Elkhart, IN (D)
Hon. Donald L. Plusquellic	Mayor of Akron, OH (D)
Hon. Elizabeth D. Rhea	Mayor of Rock Hill, SC (D)
Hon. Kurt L. Schmoke	Mayor of Baltimore, MD (D)
Hon. Michael R. Turner	Mayor of Dayton, OH (NP)
Hon. Wellington E. Webb	Mayor of Denver, CO (D)
Hon. Michael R. White	Mayor of Cleveland, OH (D)
Hon. Martha S. Wood	Mayor of Winston-Salem, NC (D)

POLICE OFFICIALS

Captain James A. Cervera, Virginia Beach, VA
Chief Samuel M. Cochran, Mobile, AL
Deputy Chief Kevin Coppinger, Lynn, MA
Assistant Chief Linda Davis, Winston-Salem, NC
Commissioner Paul F. Evans, Boston, MA
Sheriff Armando Fontoura, Essex County, NJ
Sgt. Ralph Godbee, Detriot, MI
Chief Edward Irvine, Akron, OH
Commissioner Richard Guilford Kerlikowske, Buffalo, NY
Roy C. Kime, International Association of Chiefs of Police, Alexandria, VA
Chief Ronald Lowe, Dayton, OH
Chief Robert Maginnis, San Leandro, CA
Chief Isaiah McKinnon, Detriot, MI
Chief David Michaud, Denver, CO
Deputy Chief G. Patrick Miller, Rome, NY
Chief Larry Nowery, Rock Hill, SC
Chief James O'Dell, Kettering, OH
Chief Ruben Ortega, Salt Lake City, UT
Chief Richard Pennington, New Orleans, LA
Chief Rocco Pullutro, Cleveland, OH
Sheriff Mike Ratcliff, Victoria, TX
Superintendent Matthew Rodriguez, Chicago, IL
Chief Darrell L. Sanders, Frankfurt, IL
Commander Steven Smith, Savannah, GA
Assistant Chief Jim Spatara, West Palm Beach, FL

PROSECUTORS

Michael P. Barnes, South Bend, IN
Bernard Carter, Crown Point, IN
Zachary Carter, Brooklyn, NY
Richard Devine, Chicago, IL
Charles Hynes, Brooklyn, NY
John Kaye, Freehold, NJ
Chief of Narcotics Prosecutions Neil Linehan, Chicago, IL
William L. Murphy, Staten Island, NY
August William Ritter, Denver, CO
Ms. E. Francine Stokes, Baltimore, MD

OTHERS

Glen Anderson, Merritt-Behavioral
Elizabeth Bresee
Michael W. Brown, Director, Public Affairs, U.S. Conference of Mayors
Nelba R. Chavez, Administrator, Substance Abuse and Mental Health Services
J. Thomas Cochran, Executive Director, U.S. Conference of Mayors
Hon. Thomas A. Constantine

Milton Creagh, Creagh & Associates
Newman Flanagan, Executive Director, National District Attorneys Association
David Gatton, U.S. Conference of Mayors
Henry Gomez, New York, NY
Richard Goodstein, Browning-Ferris Industries
Janice Ford Griffin, Deputy Director, Join Together
Gerry Komisar, Director, DCI Crime and Narcotics Center
Alan I. Leshner, National Institute on Drug Abuse
David Mactas, Director, Center for Substance Abuse Treatment
William Modzeleski, Director, Safe and Drug-Free Schools
Mark Mullins, IBM
Patrick V. Murphy, Director, Police Policy Board, U.S. Conference of Mayors
Thomas Needham, Assistant to the Mayor on Crime, City of Chicago
Babette T. Penton, U.S. Conference of Mayors
Robert Polito, Executive Director, Bowery Mission Transitional Center
Geraldine Powell, Director of Urban Affairs, Waste Management
Anthony Rizzato, Department Director, Central States Institute of Addiction
Brian Sheridan
Reverend John P. Smyth, Des Plaines, IL
Edward Somers, U.S. Conference of Mayors
Hon. Jeremy Travis, Director, National Institute of Justice
Laura Waxman, Assistant Executive Director, U.S. Conference of Mayors
David Yudin, Director, City of Chicago/Washington Office

CABINET MEMBERS

Hon. Madeleine K. Albright, Secretary of State
Hon. Bruce Babbitt, Secretary of the Interior
Hon. Andrew Cuomo, Secretary of Housing and Urban Development
Hon. Alexis M. Herman, Secretary of Labor
Hon. Federico Peña, Secretary of Energy
Hon. Janet Reno, Attorney General
Hon. Richard W. Riley, Secretary of Education
Hon. Donna E. Shalala, Secretary of Health and Human Services

FEDERAL OFFICIALS

Hoover Adger, Deputy Director, Office of National Drug Control Policy
Brigadier General George Close, Commander, Joint Interagency Task Force South
Janet Crist, Chief of Staff, Office of National Drug Control Policy
Nicholas Gess, Director, Intergovernmental Affairs, Department of Justice
Brigadier General James Lovelace Jr., Commander, Joint Task Force Six
Hon. General Barry R. McCaffrey, Director, Office of National Drug Control Policy
Rear Admiral J.J. McClelland, Director, Joint Interagency Task Force South
James Milford, Deputy Administrator, Drug Enforcement Agency
Hon. Franklin D. Raines, Director, Office of Management & Budget
Admiral Norman Saunders, USCG Chief of Operations
General John M.D. Shalikashvili, Chairman, Joint Chiefs of Staff

Meeting with Congressional Black Caucus
Tax Issues Raised Prior to Meeting and Responses
May 21, 1997

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Issue: Tax Loopholes
Response:

- Our budget included a significant package of reductions in unwarranted corporate subsides totaling $34 billion over five years (1998-2002). These proposals close some loopholes and address inequities. We strongly believe that these are appropriate measures that belong in the final tax bill.

Issue: Capital Accumulation
Response:

- I have long shared your concern for generating increased economic activity in distressed areas. Together we have enacted into law a number of provisions to address this need: including the Empowerment Zone and Enterprise Community Program, the Community Development Financial Institutions Fund (CDFI), the tax credit for contributions to Community Development Corporations (CDCs), and the tax provision allowing tax-free rollovers for investments into Specialized Small Business Investment Companies (SSBICs -- minority owned investment companies).

- In the budget negotiations, on the spending side, we were able to secure our expansion of the Community Development Financial Institutions Fund -- ($75 million increase to $125 million in 1998). On the tax side, we were able to secure a written commitment from Speaker Gingrich and Majority Leader Lott that they would do their part to seek to include our Empowerment Zone and Enterprise Community tax incentives, the Brownfields program, and the tax incentives to spur economic growth in the District of Columbia. We have to work together to ensure these important proposals are in he final tax bill.

Issue: Congressman Rangel's Education Proposals
Response:

- Ranking Member Rangel has proposed a number of tax initiatives to address the situation of inadequate primary and secondary schools in our distressed communities.

- We believe that the proposal to use the tax code to finance debt issuance for the construction and rehabilitation of schools in these areas is a novel approach that holds the promise of advancing goals we share. We want to work with you on your ideas.

Guidance on West Virginia Trip
May 21, 1997

Tomorrow the President will visit Clarksburg, WV to hold a town hall meeting on education at Robert C. Byrd High School. Secretary Riley will accompany the President. This visit is part of the President's continued effort to build public support for the education initiatives he outlined in his State of the Union Address and has been discussing at state legislatures across the country. (The last town hall the President held was June 1, 1995 at a tv station in Billings, MT). After the town hall meeting, the President will make remarks to the people of Clarksburg at the airport before departing West Virginia.

Format?
* The town hall meeting will be moderated by School District Superintendent Bob Kittle. A local high school student will introduce the President who will make opening remarks explaining what education standards are and their importance nationwide. The discussion will then open to Q/A from the audience. The 150-person audience is composed of teachers, parents, students and education administrators from throughout the state of West Virginia.

If asked:
Audience members were chosen by the school district superintendent after receiving recommendations from local government and education officials. The White House did not choose audience participants. You should know, however, that we have requested that the school select one teacher and one student from the final audience list to ask questions on a specific topic as a means of transitioning the dialog.

Why this school?
* Robert C. Byrd High School is a state of the art facility in Clarksburg and a model for what schools should be like, in terms of educational curriculum, architecture, and technical advances, as we prepare students for the 21st century. With a strong technology infrastructure, school amenities include: computers in every classroom, computer labs, a performing arts auditorium used as a community events and arts center; and a tv studio and instructional electronic classroom with a centralized video distribution system.

News?
* The President will announce tomorrow that the states of West Virginia and Massachusetts will endorse the need for national standards. He will also announce that today the National Alliance of Business is endorsing the Administration's testing proposal (Voluntary national tests of 4th grade reading and 8th grade math).

Drafted: J. Green

DRAFT

Education Town Meeting
Clarksburg West Virginia

<u>**President Holds Town Meeting to Promote His Plan for National Standards and Tests**</u>
Today President Clinton held an Education Town Meeting at Robert C. Byrd High School in Clarksburg West Virginia. West Virginia has been a leader in the use of technology in schools, in increasing achievements of their students, and today has signed onto the President's national standards and testing proposal. The President met with 160 parents, students, teachers, business and community leaders and others interested in education, to discuss his plans for national standards and tests and how we can prepare young people for the future. Participants in the meeting were selected by Robert Kittle, Superintendent of the local Harrison County school system.

West Virginia has been a national leader in the use of technology in classrooms. The state's 11 -to- 1 student-computer ratio in elementary schools is one of the lowest in the nation. To date, 14,000 educators have been trained to use computers for basic skills instruction. Forty percent of West Virginia's schools are now connected to the Internet, and state officials plan to reach 85% in 1997.

West Virginia has demonstrated substantial improvement in 4th grade and 8th grade math during the 1990s. Between 1992 and 1996, West Virginia's average 4th grade math score increased by 8 points, together with a 6 point increase for 8th grade math, on the National Assessment of Education Progress (NAEP), which tests a sample of students in each participating state. Among all of the states, West Virginia tied for the third highest improvement at both grade levels on NAEP.

In his State of the Union Address, President Clinton called on every state to adopt high national standards and tests in 4th grade reading and 8th grade math, in order to make sure that every student masters these basic skills. The new tests will be based on the widely used National Assessment of Education Progress, and will measure individual student performance against widely accepted content standards used by NAEP. The tests will be available for use in the Spring of 1999.

<u>**Growing Bipartisan Support for National Tests in 4th Grade Reading and 8th Grade Math.**</u> President Clinton's call for national standards and tests in 4th grade reading and 8th grade math received additional bipartisan support today, as Governor Underwood and state education officials in West Virginia, and Governor Weld and state education officials in Massachusetts, announced plans to participate in the testing initiative. These states join [top officials in] Maryland, Michigan, North Carolina, and the Department of Defense schools, which have pledged to participate in this testing initiative in 1999.

Growing Business Support. Yesterday, James Orr, CEO of UNUM Insurance and Chairman of the Board of the National Alliance of Business, announced NAB's endorsement of the President's testing initiative. NAB represents small, medium and large size businesses. Following a survey of its members which revealed strong overall support for the President's testing initiative, NAB announced its full support for President Clinton's testing initiative, and promised to bring this message to other business organizations. NAB now joins the Business Roundtable and more than 240 high-tech CEO's who have already endorsed these tests. The strong support of the business community underscores the fact that in order for individuals to compete in a global economy and a geographically mobile society, our nation must set and our students must bee challenging national standards.

President Explains Standards

Using an example of the kind of questions students will be expected to answer on the 4th grade reading test, President Clinton helped town meeting participants understand clearly the kinds of knowledge and skills students must master in order to meet national standards. The President called on 4th grade student Hannah Galey to read a passage from Charlotte's Web as he worked through the sample reading question for the audience.

Draft 5/20/97 7:30 pm

PRESIDENT WILLIAM J. CLINTON
OPENING REMARKS
EDUCATION TOWN HALL MEETING
CLARKSBURG, WEST VIRGINIA
MAY 22, 1997

We are here today to talk about what we must do together to set high standards that will ensure that all our children have the knowledge and skills to meet the challenges and opportunities of the 21st century. Standards are the key to making sure every 8-year-old can read, every 12-year old can log on to the Internet, and every 18-year-old can go to college.

I came to Clarksburg because of the great strides you are making in the national movement for standards. And because I know that this challenge can not be met in Washington alone. We can articulate a vision, but it is up to parents, teachers and community leaders like you to really make it work. I want to thank our host, Gov. Underwood, for his leadership in raising standards and achievement in this state. In 1996, West Virginia tied for third in improvement since 1992 in 4th grade and 8th grade math.

Education is my top priority. It has always been the heart of opportunity in America. It is the embodiment of everything we must do to prepare for the jobs and careers of the 21st century. If we all have the tools to succeed, we can build a strong, united community and move forward as one America.

The balanced budget agreement we reached with Congress funds the largest investment in education in a generation; the largest increase in higher education since the G.I. Bill in 1945, more than 50 years ago: expands Head Start; funds America Reads; $35 billion in tax relief for higher education, including HOPE Scholarship and $10,000 tax deduction and will help us wire every classroom by the year 2000.

I want to thank former Gov. Caperton for his pioneering efforts to make West Virginia a national leader in the use of technology in schools. This state is now well on its way to putting a computer in every elementary school by 1999. Innovative use of "distance learning." This town meeting is being broadcast live on the Internet here in West Virginia and across the country.

But nothing we do matters as much as what our children learn each day. Our success depends upon holding our students to the highest standards -- making sure they learn the basics that will be the foundation of success in the next century.

We must have high standards of excellence that all states -- from West Virginia to Nevada -- can agree on. That is why in my State of the Union address, I called for national standards of excellence in the basics -- not federal government standards, but national standards for 4th grade reading and 8th grade math, representing what all our students must know to succeed in the 21st century.

I have proposed national tests, based on widely used National Assessment of Educational Progress test. Today, I am pleased to announce that Gov. Underwood, along with the state board of ed. and state superintendent has agreed that W. VA. Should participate in this test. In addition, Massachusetts and the National Alliance of Business are endorsing our call for national tests. West Virginia, Massachusetts and the NAB are now on board with MD, NC, MI and the Department of Defense Schools in this growing national consensus for standards.

This is great news, but we must do even more. We all talk about standards, but today I want to walk through with you just what we mean when we talk about standards. [GO TO CHARTS]

CHART ONE: describes fourth grade reading standards -- what it means to meet basic, proficient and advanced standards

CHART TWO: ask a student [Hannah Galey, a 4th grader from Nutter Fort Intermediate] to read passage from *Charlotte's Web.*

CHART THREE: Based on the above passage, how would you describe Charlotte to a friend? Three descriptions match three standard levels.

CHART FOUR: Shows how America's fourth graders are doing.

Reading is the key to everything we are trying to do to prepare our children for the next century -- from opening up a new world of knowledge on the Internet to opening the doors of college to getting them ready for the high-tech jobs of the future. We know we have a lot to do to lift the reading levels of our students up, but we know from the progress you have made here in West Virginia, that our students can do better. We know our children can meet high standards if they are challenged to do so.

That is why this meeting is so important. Standards are a way of making sure our children can learn and compete with students anywhere in the country and anywhere in the world. Now I want to hear from you...

THE WHITE HOUSE

WASHINGTON

May 20, 1997

BRIEFING FOR EDUCATION TOWN HALL

DATE:	May 21, 1997
LOCATION:	Oval Office
EVENT TIME:	4:00 pm - 4:45 pm
FROM:	Sylvia Mathews Bruce Reed

I. PURPOSE

To brief you on the substance and format for the upcoming Education Town Hall in Clarksburg, West Virginia on Thursday.

II. BACKGROUND

You will be holding a town hall meeting at the Robert C. Byrd High School attended by 160 students, parents, teachers, principals, school administrators, and other individuals interested in education from throughout the state. This an opportunity for you to highlight the importance of national standards and, for the first time, explain in detail what standards are and why they are important. In your opening remarks, you will walk through a sample reading question. You will also be announcing that West Virginia and Massachusetts have agreed to participate in your national standards and testing initiative, and that the National Alliance of Business has just endorsed your proposal. Following your remarks, you will call on members of the audience to ask you questions and pose questions to audience members in return. Bob Kittle, the County Superintendent of Schools will serve as the moderator.

III. PARTICIPANTS

Sylvia Mathews
Rahm Emanuel
Bruce Reed
Michael Cohen
Ann Lewis
Terry Edmonds

Mike McCurry
Eli Attie
Linda Moore

IV. PRESS PLAN

Closed Press.

V. SEQUENCE OF EVENTS

Participants in the briefing will review the following items:
1) The overall event format and message.
2) Substance of your opening remarks, including the sample reading question.
3) Questions you may be asked on education.
4) Questions you may be asked Other issues Q&A.

VI. REMARKS

None.

VII. ATTACHMENTS

- Outline of Event.
- Background on Education in West Virginia.
- Draft Remarks.
- Sample Reading Question (to be incorporated in your remarks).
- Suggested Questions from President to Audience.

OUTLINE OF EVENTS
EDUCATION TOWN HALL
MAY 22, 1997

1:00-1:05 MODERATOR BOB KITTLE, Superintendent of Harrison County Schools, will welcome audience and introduce Mary Helen Shields, senior at the Robert C. Byrd High School.

HIGH SCHOOL SENIOR MARY HELEN SHIELDS, will introduce the President.

1:05-1:15 **THE PRESIDENT MAKES OPENING REMARKS: EXPLANATION OF STANDARDS/POLICY ANNOUNCEMENTS.**

THE PRESIDENT will make remarks about education as the highest priority, the need to focus on standards, and announce new state and business endorsements.

THE PRESIDENT will walk-through charts explaining 4th grade reading standards which will be displayed for the audience on an overhead projector. THE PRESIDENT will invite 4th grade student Hannah Galey to read a passage from Charlotte's Web.

1:15-1:35 **THE PRESIDENT** takes/asks questions.

1:35-1:40 MODERATOR HIGHLIGHTS TEACHER
Moderator calls on Donna Rose, Reading Specialist at the Lost Creek Elementary School, who speaks about meeting standards, what schools and teachers will need.

1:45-2:00 **THE PRESIDENT** takes/asks questions.

2:00-2:05 MODERATOR HIGHLIGHTS STUDENT
Moderator calls on Jeremy Thompson, National Merit Finalist from the Bridgeport High School, who talks about how high standards/good education has helped him.

2:05-2:15 **THE PRESIDENT** takes/asks questions.

(Total time: 1:15)

BACKGROUND ON EDUCATION IN WEST VIRGINIA

SCHOOL REFORM EFFORTS

West Virginia's reform efforts have been piecemeal rather than comprehensive, but nevertheless have received high marks from outside observers. As both one of the nation's poorest states and one of its most rural, West Virginia faces some unusual challenges in education. Efforts to overcome these challenges in the past fifteen years have included a substantial investment in information technology for the classroom; raising teacher salaries to near the national average (when adjusted for cost of living); a statewide effort to replace and renovate decaying schools; and, most recently, a restructuring of the high school curriculum to focus on job skills and vocational training as well as academics. If the 1996 National Assessment of Educational Progress in Mathematics results are any guide, West Virginia's schools are improving. The state tied for third in improvement over 1992 in both 8th grade and 4th grade scores.

Standards and Testing

West Virginia has not made a substantial investment in development of its own standards. This year, students will be taking the nationally normed Stanford Achievement Test. State Superintendent Henry Marockie suggests that with adequate norm-referenced tests available, state education funds can be better spent in other areas. He says West Virginia has spent less than $100,000 on its standards program, whereas its neighbor, Kentucky, has spent nearly $29 million.

Rather than establishing academic standards and then developing tests aligned to the standards, West Virginia started with the test first. Once selected the Stanford Achievement Test, he state developed specific instructional objectives for each subject area, based on the content of the test.

School Finance

In April 1997, a West Virginia judge held that the state has not complied with a 1982 decision ordering higher quality and greater statewide equity in schools. The original decision, which included unusually detailed specifications for curriculum, personnel, materials, equipment and facilities in 16 academic areas as well as in guidance, health services and transportation, served as a catalyst for many of the reforms that have been enacted in the past 15 years. However, although the state attempted to equalize funding among districts by guaranteeing a minimum per-pupil allocation to every district, substantial inequities remain because districts may impose excess levies on their residents to generate higher per-pupil spending.

Technology

Both Gov. Caperton and now Gov. Underwood have made technology a major priority in education. As a result, West Virginia is a national leader in the use of technology in classrooms. In 1989, the legislature launched the computer-assisted basic skills program, a ten-year effort to place computers in every elementary school classroom. Since then, the state has purchased

19,500 computers for local districts and expects to meet its ten-year goal. The state's 11-to-1 student-computer ratio in elementary schools is one of the lowest in the nation, and in 1996 the legislature appropriated $8.8 million to increase technology in middle and high schools. To date, 14,000 educators have been trained to use computers for basic skills instruction.

Forty percent of West Virginia's schools are now connected to the Internet, and state officials plan to reach 85% in 1997. Bell Atlantic has been a major partner in this effort, called WORLD SCHOOL. The state has 320 distance learning downlink sites across the state. Students may take a number of courses through the system, including advanced placement and foreign language classes.

In February 1997, West Virginia received a Technology Innovation Challenge Grant from the U.S. Department of Education , which will help 152 schools in eight county school districts (including Harrison County, in which Clarksburg is located), the West Virginia High Technology Consortium Foundation, and several other partners increase the use of computers in the classroom. Part of the grant will also support Technology Opportunity Centers, at which students, parents and displaced workers can receive computer training and use computers for job searches.

Teachers

West Virginia teacher salaries in 1990 were the among the lowest in the country, but are now 17th in the nation when adjusted for cost of living. The state's student-teacher ratio, at about 15-to-1, is one of the lowest anywhere. Last year the West Virginia Education Fund, a statewide fund established by business leaders in 1983 to foster innovation and excellence in the public schools, helped overhaul West Virginia University's teacher education program. Students now will study for five years and will earn a bachelor's degree in a subject area and a master's degree in education. Students also will receive three years of internship experience through "professional development schools" run by colleges and universities.

School Construction

A 1989 law created the statewide School Building Authority (SBA) to fund the construction and renovation of schools. The SBA has funded the construction of 61 new schools and renovations or additions to 780 schools.

Full-day Kindergarten

In 1993, the state legislature required all districts to offer full-day kindergarten classes to all eligible students by 1996. A 1996 law allowed the state superintendent to grant extensions to systems with significant school building projects or sizable enrollment growth.

Jobs Through Education Act

A 1996 law requires teachers and counselors to work with eighth grade students to establish five-year job skills plans. High schools must offer students choices of career clusters, each incorporating both academic and vocational skills. The state's Certificate of Proficiency will be replaced by a CD-ROM electronic portfolio containing students' academic records, awards, test scores and exemplary work. Some groups oppose the reform due to its emphasis on early career preparation, and a bill has been introduced in the legislature to repeal the law.

1997 Legislative Session

There were no new initiatives proposed or enacted in the last legislative session. The Governor's major education priority was continued support for technology implementation.

One controvertial issue that arose during the legislative session pertained to funding for 4yr olds in kindergarten. The state's school finance formula provides addition funds for 4yr olds who participate in kindergarten programs. During the legislative session it became apparant that a number of local superintendents were using this financial incentive to aggressively recruit 4yr olds in order to boost state funding. Several legislators threatened to cut off this program because they viewed the local behavior as an abuse of the funding mechanism. As a compromise, the legislature delayed the termination of this component of the formula until school year 98-99, since student placement and teacher hiring decisions had already been made for the coming school year.

There was also an unsuccessful move in the legislature to end the state's participation in the federal School-to-Work program, which has come under attack by far right groups. Supporters of School-to-Work were able to turn this effort back.

WEST VIRGINIA SCHOOLS STATISTICAL OVERVIEW

SIZE

Enrollment: 310,511 (95% White, 4% Black, less than 1% all other groups)
School Districts: 55
Public Schools: 848

STATE DEMOGRAPHICS

Population: 1.8 million
Children in Poverty: 29%
Single Parent Families: 24%

SCHOOL SPENDING

State Spending: $1.783 billion
Per Pupil: $5,713 (1993-94 school year)

STUDENT ACHIEVEMENT

MATH:

West Virginia's 4th and 8th graders have improved their performance in mathematics during the 1990's.

1996 4th Grade NAEP Math
- Proficient or Advanced -- 19% (Nation: 20%)
- At or above basic -- 63% (62%)
- Below basic -- 37% (38%)

Average public school 4th grade math scores increased significantly from 1992 to 1996; in 1996 students performed near the national average. The percentage at or above proficient increased from 12% to 19%.

1996 8th Grade NAEP Math
- Proficient or Advanced -- 14% (Nation: 23%)
- At or above basic -- 54% (Nation: 61%)
- Below Basic -- 46% (Nation: 39%)

Average public school 8th grade math scores increased significantly from 1990 to 1996, and from 1992 to 1996, although average student performance remained below the national average. In addition, the percentage of students at or above proficient increased from 1990 to 1992, and from 1992 to 1996.

READING:

On reading, West Virginia performed about the same in 1992 and 1994. Students performed near the national average.

1994 4th Grade NAEP Reading
- Proficient or advanced -- 26% (Nation: 28%)
- At or above basic -- 58% (Nation: 59%)
- Below Basic -- 42% (Nation 41%)

SCIENCE:

1996 8th Grade NAEP Science
- Students performed near national average (Test is not yet nationally normed)

DROPOUTS AND STUDENT ACHIEVEMENT

16-19-Year-Old Dropout Rate: 10.6% (National: 11.2%)

College Attendance Rate: 49.5% (National: 57.5%) (Estimates)

NATIONAL EDUCATION STANDARDS:
FOURTH-GRADE READING

BASIC:

- CAN RECOGNIZE MOST WORDS, IDENTIFY MOST IMPORTANT INFORMATION

PROFICIENT:

- CAN SUMMARIZE PASSAGE, FIND SPECIFIC INFORMATION, DESCRIBE THE WAY AUTHOR PRESENTS INFORMATION

ADVANCED:

- CAN PROVIDE A MORE DETAILED AND THOUGHTFUL EXPLANATION

SAMPLE PASSAGE FROM E.B. WHITE'S *CHARLOTTE'S WEB*:

HAVING PROMISED WILBUR THAT SHE WOULD SAVE HIS LIFE, SHE WAS DETERMINED TO KEEP HER PROMISE. CHARLOTTE WAS NATURALLY PATIENT. SHE KNEW FROM EXPERIENCE THAT IF SHE WAITED LONG ENOUGH, A FLY WOULD COME TO HER WEB; AND SHE FELT SURE THAT IF SHE THOUGHT LONG ENOUGH ABOUT WILBUR'S PROBLEM, AN IDEA WOULD COME TO HER MIND. FINALLY, ONE MORNING TOWARD THE MIDDLE OF JULY, THE IDEA CAME. "WHY HOW PERFECTLY SIMPLE!" SHE SAID TO HERSELF. "THE WAY TO SAVE WILBUR'S LIFE IS TO PLAY A TRICK ON ZUCKERMAN. IF I CAN FOOL A BUG," THOUGHT CHARLOTTE, "I CAN SURELY FOOL A MAN. PEOPLE ARE NOT AS SMART AS BUGS."

UNDERSTANDING *CHARLOTTE'S WEB*:

Q: BASED ON THE ABOVE PASSAGE, HOW WOULD YOU DESCRIBE CHARLOTTE TO A FRIEND?

BASIC

- CHARLOTTE KEEPS HER PROMISE

PROFICIENT

- CHARLOTTE WORKS HARD TO KEEP HER PROMISE

ADVANCED

- CHARLOTTE PLANS TO KEEP HER PROMISE TO SAVE WILBUR'S LIFE BY TRICKING ZUCKERMAN

MEETING NATIONAL STANDARDS IN FOURTH GRADE READING: HOW AMERICA IS DOING

BELOW BASIC:	40%
BASIC:	30%
PROFICIENT:	23%
ADVANCED:	7%

QUESTIONS FROM PRESIDENT TO AUDIENCE:

Student Expectations and Parent/Teacher Support

West Virginia recently adopted new instructional goals in core subject areas (its own effort at standards); education is improving steadily. In 1996, the state tied for 3rd in improvement over 1992 in both 8th grade and 4th grade math -- very impressive, since it is 49th in per capita income.

Q: A recent survey of high school students by Public Agenda showed that more than 70% felt students would pay more attention to school and learn more if standards were raised and enforced. Do you think we are challenging our students enough, or expecting too little?

Q: [To students:] Do your teachers and parents push you to work as hard as you can? Is schoolwork more interesting when the teachers demand more, or just harder? Could most of your classmates learn more if they worked harder?

Q: [To teachers:] How can parents help teachers achieve higher standards for students? What can teachers do to help parents be more supportive?

Q: What are some of the ways that parents are involved in schools here -- and do you think that role needs to increase?

Q: [To parents:] How do you find the time to know what your child is doing in school, and to help them? How do you let them know that they must work hard and do well? What could the schools do to help you do a better job? Will it be useful for you to have the kinds of individual test results for your child that our standards plan will provide?

Teaching

West Virginia has one of the lowest student-teacher ratios anywhere (15 to 1). Teacher salaries, among the lowest in the nation in 1990, have been raised to 17th in the nation -- the biggest 3-year salary increase in the country.

Q: What do you do in this community to attract the best teachers and reward excellence in teaching?

Q: What do you do about the few teachers who aren't effective in the classroom?

Q: [To teachers:] Were you adequately prepared by your teacher training programs for the challenges you face in the classroom? Do you get the kind of support you need to stay current, grow professionally, and become more effective?

Q: [To students:] Tell me about your best teachers. What makes them so good?

Accountability

Q: How can we reward schools that are doing a good job?

Q: What do you do here in Clarksburg, and throughout West Virginia, if there is a school that is not meeting standards? How do you give a school the help it needs to improve?

Technology

West Virginia is a national leader in the use of technology in schools -- well on its way to your goal of a computer in every elementary classroom by 1999. By the end of this year, 85% of all schools will be connected to the Internet. So far, 14,000 teachers have been trained to use computers to teach basic skills.

Q: How do computers in the classroom help prepare students? What do they enable teachers and students to do?

Q: How are classrooms making use of the Internet? What kinds of resources and Web sites are useful for students and teachers?

Q: Can new technology play a role in teaching the basic subjects, such as reading and math?

Q: Does it make a difference to have that background in technology for life after school?

Q: What kind of special training do teachers need to use technology in the classroom? Who provides it, and how can more teachers get involved?

Community Support

Examples: Last year, a new statewide fund (the West Virginia Education Fund) established by business leaders overhauled the state's teacher education program to make it more rigorous. A partnership between Bell-Atlantic and the state's Department of Education is giving all public schools access to the Internet. West Virginia is one of the top 10 states in offering service learning opportunities to students.

Q: What is the larger community doing to improve education here?

Q: What do higher standards and better education in the basics mean to West Virginia's businesses? What can the business community do to help raise standards?

Q: I've been asking America's colleges to encourage their students to work as reading tutors, to help 8-year-olds learn to read. Are there other ways in which colleges and universities can play a role in K-12 education in West Virginia?

Press Guidance
May 21, 1997

DSCC

The President will attend a fundraiser for the Democratic Senatorial Campaign Committee at the Corcoran Museum of Art. The event is the second of three presidential events being held in order to help the DSCC retire its debt. The first took place in New York at the home of Shelby and Katherine Bryan on February 18 and the last will take place in Los Angeles on June 23.

Three hundred fifty guests are expected to attend the reception and dinner. ***For briefer only:*** the event is expected to raise $1.5 million.

The event will be open to the pool for remarks.

Mellody per Craig Smith

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THE WHITE HOUSE
Office of the Vice President

~~FOR IMMEDIATE RELEASE~~ CONTACT: 202-456-7035
TUESDAY, May 21, 1997

VICE PRESIDENT ANNOUNCES U.S. POSTAL SERVICE DOMESTIC VIOLENCE PUBLIC AWARENESS CAMPAIGN
Domestic Violence Hotline (1-800-799-SAFE)
will be Printed on the Covers of 200 Million Postage Stamp Booklets

WASHINGTON -- Vice President Al Gore today announced that the U.S. Postal Service would release 200 million postage stamp booklets with the National Domestic Violence Hotline number (1-800-799-SAFE) printed on the covers.

"Each public service effort to bring attention to the National Domestic Violence Hotline will help bring relief to families plagued by domestic violence," said Vice President Gore. "Public service announcements have consistently prompted more calls to the hotline, many times from those seeking help for the first time. Like the U.S. Postal Service, I encourage corporations and others to help publicize the hotline number."

The booklets with the hotline number will be on sale immediately across the nation. The flag on porch and Statue of Liberty postage stamp booklets will include the public service announcement. The Postal Service campaign is a result of the Administration working in conjunction with a bi-partisan effort on Capitol Hill.

"Domestic violence thrives on isolation, silence and denial," said the Vice President. "Public awareness of the hotline number and services is crucial for the child who doesn't know who to talk to about the violence in her home, for the abuser who knows enough is enough or for the abused whose body and mind have been crushed. I applaud Postmaster General Marvin Runyon and the U.S. Postal Service for this effort to stop the madness of domestic violence."

President Clinton launched the National Domestic Violence Hotline -- 1-800-799-SAFE -- in February, 1996. More than 107,000 calls have been made to the 24-hour service, averaging about 8,000 calls each month. Hotline staff and volunteers provide victims of domestic violence and those calling on their behalf with crisis intervention, information about domestic violence and referrals to local service providers. The hotline receives federal and private funding.

For the hearing impaired, the TDD number is 1-800-787-3224. The hotline offers instant help in English and Spanish and translators are available in 139 other languages.

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NORTH AMERICAN
ROTO ENGRAVERS, INCORPORATED

INSPECTED BY: James M. Silz DATE 2/10/97
N.A.R.E.

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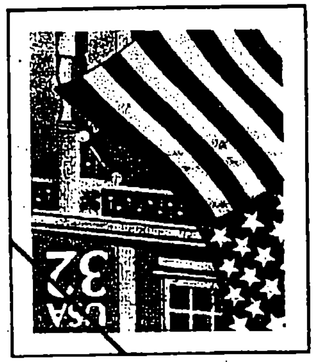

Twenty
Self-adhesive Stamps

Millions suffer from domestic violence every year. If you or someone you know needs assistance or information, call the

National Domestic Violence Hotline

at 1-800-799-SAFE (7233)
(English & Spanish)

or 1-800-787-3224
(TDD/Deaf Access).

All communications are confidential.
Help is only a telephone call away.

0 15645 16673 8

UNITED STATES POSTAL SERVICE.
We Deliver For You.

DEMOCRATIC REPUBLIC OF THE CONGO (EX-ZAIRE)

Q: What is the situation like in Kinshasa?

A: Kinshasa is largely quiet. Occasional confrontations between ADFL forces and former FAZ soldiers continue. There are reports of carjacking and auto theft in some areas.

The international airport and Brazzaville ferry remain closed. Traffic, markets and stores are resuming normal daytime activities.

We continue to advise Americans to limit movements and remain at home until the situation returns to normal.

Q: (If announced): What is your reaction to Kabila's new government?

A: Kabila arrived in Kinshasa about 7 p.m. local time May 20. He has not yet announced a government.

We expected the announcement last night but understand the Alliance is continuing to negotiate with other political forces. We hope an announcement will come shortly.

Q: Do you have any comment on the killing of two French businessmen in Kinshasa yesterday?

A: The United States deeply regrets the murder of two French nationals in Kinshasa yesterday. We are very concerned by this incident and hope the perpetrators of this act are found and brought to justice.

Q: Has Ambassador Simpson met with Kabila today?

A: Not since Kabila's arrival last night, but he has been in touch with other senior ADFL representatives.

Q: Has he met with Tshisekedi?

A: No, but the Deputy Chief of Mission met briefly with him yesterday.

Q: Where is Mobutu?

A: We have seen reports placing him in Togo; other news reports indicate he is in Morocco.

Q: **<u>Do you still consider Tshisekedi to be the Prime Minister?</u>**

A: **These are internal policy matters for the Congolese people to decide.**

Q: **<u>Are you going to send our Embassy employees back to Kinshasa?</u>**

A: **We are still evaluating the security situation, but we expect to send some back shortly.**

Q: **<u>Are you going to pull U.S. troops out of Brazzaville?</u>**

A: **We would refer you to the Defense Department for details of deployment, but clearly the likelihood of an evacuation has diminished now that the transfer of power in Kinshasa has occurred.**

Q: **<u>Was the FSN riding in a car with diplomatic plates at the time of this murder?</u>**

A: **No, he was in a private vehicle.**

Q: **<u>What is the status of the diplomatic staff of the embassy of the former Zaire? Are you dealing with them as representatives of the new Democratic Republic of the Congo government?</u>**

A: **We are in contact with the Charge at the former Zairian Embassy here. He has informed us that he is in contact with the new government in Kinshasa and they have asked him to remain for the moment as Charge of the Democratic Republic of the Congo.**

NATO-RUSSIA DRAFT ACCORD

Q: <u>Does NATO-Russia Founding Act require parliamentary/legislative approval?</u>

A: As stated in the Preamble of the Founding Act, this document reflects an "enduring political commitment" by the signatories."

This is not a treaty and thus will not be presented to the Senate for advice and consent to ratification.

How or if the founding act is presented to the Duma is entirely for President Yeltsin and the Russian Government to decide.

We do not expect any attempts to change the text of the Founding Act, but in any event, that is not an action which could be taken unilaterally (by any state).

- On the Founding Act, it has not yet been released because work is still ongoing in conforming the texts from English into French (the other official NATO language) and Russian. This is a technical process which we expect to be completed before the end of the week.

- From the beginning of this Administration, President Clinton set as a key foreign policy goal the achievement of a peaceful, stable, undivided and democratic Europe.

- In March in Helsinki, Presidents Clinton and Yeltsin discussed the future of European security. They agreed on the importance of building a cooperative relationship between NATO and Russia.

- Wednesday in Moscow, NATO Secretary General Solana and Russian Foreign Minister Primakov reached agreement on the text of a NATO-Russia document, called the NATO-Russia Founding Act.

- The Act provides the basis for an enduring partnership between NATO and Russia, a partnership giving Russia a historic chance to secure its rightful place in Europe.

- The Act defines the terms of a fundamentally new and sustained relationship -- in which NATO and Russia will consult and coordinate regularly and, where appropriate, act jointly -- as NATO and Russia are working together in Bosnia today.

- We applaud the hard work of Mr. Solana and Mr. Primakov, and of many others. The NATO-Russia relationship is a key element of the security architecture that we are building for Europe for the 21st century.

- Its new relationship with Russia is part of NATO's effort, in the aftermath of the Cold War, to adapt to new circumstances and meet new challenges.

- NATO remains the bedrock of Euro-Atlantic security and will retain all of its prerogatives.

- In just a few weeks, NATO will invite the first new members to join the Alliance, as full members with all rights and responsibilities of membership.

- Enlargement will extend the benefits of the stability and security that Western Europe has enjoyed for decades to Central and Eastern Europe.

- Some doubted we could proceed with enlargement and a new relationship with Russia in parallel. But through steady, consistent leadership, the United States, in a truly bipartisan fashion, is in fact building a better Europe, without lines, without gray zones, without secret deals, but with hope and confidence.

UN ARREARS

- The Administration has proposed a package of reforms concentrating on three broad areas: budget, personnel and oversight. We would not begin to pay our arrears until after the UN demonstrated that it had adopted these reforms. In only two years, the Administration's reforms would reduce the costs to the U.S. taxpayer of American membership in the UN system by nearly 10%.

- We have a window of opportunity in 1997 to achieve our reform objectives but it will soon close. The appointment of a new reform-minded UN Secretary General has increased the momentum for UN reform. In addition, this is the year that the UN's assessment rates and two-year budget will be set.

- The NYT story characterized our negotiations with the hill as "stalled". That is not the case. Much progress has been made, though perhaps not as fast as we would prefer and significant issues still remain. The administration supports the concept of benchmarks; the negotiations are over specifically which benchmarks should be enacted into US law.

- The President is asking the Congress to pay the arrears over two years to give our negotiators the diplomatic leverage they need to secure these reforms. Many nations do not believe American promises to pay our arrears -- they've heard it all before. Five years is therefore too long and will not be credible. If we can demonstrate to other member states that the United States will pay off its debts in a credible amount of time, then we have a good chance of succeeding. But if we cannot, then our chances are practically nil.

CHINA -- MFN

WHY CONTINUATION OF NORMAL TRADE STATUS IS IN THE NATIONAL INTEREST OF THE UNITED STATES:

- **ENGAGEMENT**: US interests are best served by a secure, stable, open and prosperous China. The manner in which we engage China will help determine whether it becomes integrated into international norms and institutions or whether it becomes more isolated and unpredictable. This vote must be about how best to promote U.S. interests--not an endorsement of China's policies. Extending for China the same normal trade treatment we give to virtually every nation on earth will help further integrate China--and promote the interests of the American people.

- **INTERNATIONAL COOPERATION:** China's adherence to international norms is fundamental to advancing the interests of the American people. On nonproliferation, China has joined us in the NPT, CTBT, and CWC regimes. China is a constructive contributor to maintaining stability on the Korean peninsula and bringing North Korea into peace talks. We have a strong bilateral program to combat alien smuggling, narcotics trafficking and terrorism. Negotiations on China's adherence to WTO norms and standards is moving forward, building on past trade successes such as last year's intellectual property agreement. MFN extension supports our efforts to subject China to the same international discipline as other major powers and builds on cooperation in important areas.

- **HONG KONG**: Hong Kong is the gateway of trade between the US and China. Revocation of MFN would seriously weaken the people of Hong Kong just when they need to assert their strength and autonomy. The Hong Kong Government estimates that revocation would: slash trade by $20-$30 billion, eliminate 60,000-85,000 jobs, cut economic growth by well over 50% and reduce income by $4 billion. That's why Hong Kong leaders across the political spectrum, including Democratic Party Hong Kong leader Martin Lee and Governor Patten favor renewal of MFN.

- **JOBS**: Today an estimated 170,000 U.S. job depend on exports to China. U.S. exports to China have more than tripled over the past decade and China is now our fifth largest trading partner, accounting for $12 billion of U.S. exports. Revocation would derail the talks on China's entry into the World Trade Organization, under which China would reduce its trade barriers substantially, creating new export opportunities for U.S. companies and workers. Revocation would also hurt U.S. consumers, who could pay at least $590 million more in a single year because of higher tariffs on such products as shoes and clothing.

- **HUMAN RIGHTS**: The Administration has consistently pressed its human rights concerns with China, including most recently in Geneva at the UN Human Rights Committee. Over time normal trade and continued economic engagement opens up Chinese society. Every year, thousands of Chinese employees of U.S. companies visit this country, gaining exposure to our politics, economy and personal freedoms. Revoking normal trade status will diminish these growing ties and play into the hands of those in China who want less openness.

- **RELIGIOUS FREEDOM**: Revocation would also set back the cause of winning religious freedom in China. This is the view of the China Service Coordinating Office, an organization serving more than one hundred Christian organizations in China. They fear the following effects: doors will be closed for service through educational, cultural and other exchanges; revocation would undermine Hong Kong and Taiwan, hurting their Christian outreach to the mainland

- **TAIWAN:** Revocation would damage Taiwan's economy. It is heavily dependent on U.S.-China trade, with $20-30 billion invested in the mainland. Taiwan's economic viability is in the interest of the American people.

DRUGS/MONEY-LAUNDERING

NEW CONTROLS ON WIRE TRANSFERS

May 21 Announcement

- On Wednesday, May 21, the Department of the Treasury will publish (in the Federal Register) three Notices of Proposed Rulemaking designed to prevent and detect money laundering in the money services businesses -- money transmitters, issuers, redeemers and sellers of money orders and traveler's checks, check cashers, and currency retail exchangers.

- These regulations expand on and broaden a series of orders (New York Geographic Targeting Order (GTO)) beginning August 7, 1996, requiring certain licensed money transmitters in the New York metropolitan area to report all-cash purchased transmissions to Colombia of $750 or more. The earlier regulations have had a significant effect on the flow of narcotics proceeds to Colombia (below).

- Purpose of new proposed rules is to translate the benefits of the GTO into permanent regulations. Treasury Department and the Justice Department will be considering whether and under what circumstances to issue additional GTOs.

- Regulations show Administration determination to prevent and detect money laundering and deprive narcotics traffickers of ill-gotten gains.

The Prior Orders

- The GTO was extended and expanded in October, 1996 to include a total of 22 licensed transmitters and approximately 3,500 agents and was extended again in December, February and expanded again in April of 1997 to include additional licensed money transmitter.

- The GTO caused an immediate and dramatic reduction in the flow of narcotics proceeds to Colombia through New York City money transmitters (approximately 30% drop in the targeted money transmitters' business volume to Colombia), and also has had a significant impact on money laundering activities among the targeted transmitters, including one going out of business , a guilty plea and additional arrests. Customs has observed a marked increase in interdiction and seizure activity at the borders-- over $50 million in the first six months since the GTO went into effect, approximately four times more than in prior years.

The New Controls

- **The proposals would:**

  (1) implement the Congressional mandate to register "money transmitting businesses";

  (2) extend suspicious activity reporting requirements already in place with respect to banks to money transmitters and issuers and sellers and redeemers of traveler's checks or money orders; and

  (3) makes the New York City GTO apply nation wide and on a permanent basis, lowering the threshold for currency transaction reporting by money transmitters to $750 or more for transmission of funds to any person outside the United States.

EL SALVADOR

- The Administration has been worked with Congress since late 1995 to look into events surrounding the 1985 Zona Rosa murders and the 1990 parole into the United States of Pedro Andrade. At the request of the SSCI, Inspectors General from State, Justice, CIA and DoD undertook formal investigations of the Zona Rosa incident and its aftermath. The results of those investigations were briefed to interested agencies and reports were delivered to the SSCI in late September. Senator Shelby requested declassification of the four reports. The White House encouraged the four agencies concerned to undertake this declassification on an expedited basis and those reports are now available to the public at the National Archives.

- The IG's concluded that no laws or regulations were violated in the Andrade parole, but did identify a failure to communicate and lack of coordination among agencies involved in the parole decision. The Department of Justice's IG recommended that the process for coordination of parole requests needs improvement.

- To ensure appropriate high-level attention to sensitive public benefit parole requests, INS and State have developed mechanisms to increase accountability and ensure adequate senior-level review of each case. These new procedures will ensure better coordination and more stringent law-enforcement review of future parole requests. (FYI for briefer: There are about 500 public benefit paroles each year. These are paroles which involve political or national policy interests. Only 5-10 of these originate with the Department of State. Most come from law enforcement agencies.)

- The INS exclusion process for Pedro Andrade is a judicial proceeding in which the White House is not involved. The interests of the executive branch in this case are represented by the INS. Beyond that, it is our policy not to comment on asylum issues.

TURKISH INCURSION INTO IRAQ

Q: <u>What is your reaction to the incursion of Turkish forces into northern Iraq on May 14 to attack PKK strongholds?</u>

A: The Turkish military launched an operation against PKK forces in northern Iraq on May 14. This action is similar to Turkish operations that have taken place in the past.

The U.S. supports the right of Turkey to defend itself against the terrorist PKK, which uses northern Iraq as a staging ground to mount attacks into Turkey.

At the same time, we have repeatedly stressed that operations of this sort must be limited in scope and duration, and that adequate safeguards must be taken to protect the lives and property of the civilian population.

We have repeated this message with respect to the current operation and been assured by the Turkish government that this operation will be conducted with these concerns in mind.

We also note that Prime Minister Erbakan confirmed publicly on May 16 that the operation would be limited in scope and temporary in duration.

Turkish government sources have announced that, as of May 20, approximately 1300 PKK terrorists had been killed in action. Turkish losses were put at 14.

We do not have any independent confirmation of these estimates.

There are also press reports from Turkey suggesting that the PKK has been forced to evacuate its bases in northern Iraq.

Our position on the PKK remains clear. It is a vicious terrorist group of Marxist-Leninist origin responsible for the deaths of many innocent ethnic Kurds and Turks in Turkey and has no role to play in northern Iraq.

ISRAEL/JORDAN

AID FOR JORDAN

Q: Do you have anything more on stories in the Israeli press that the U.S. plans to cut $50 million in aid from Israel and Egypt, in order to give it to Jordan?

A: As you know we've been doing all we can to assist the parties to get the peace process get back on track. We are looking at ways we might assist those nations who are willing to take risks for peace.

For some time now, the President has been seeking ways to provide substantial assistance to Jordan. King Hussein has taken genuine risks for peace; he deserves support.

We are still examining ways we might do that. No final decisions. We've been in close consultation with the Israelis and others in the region about this.

ISRAELI SETTLEMENTS OCCUPANCY RATE

Q: Do you have any comment on this flap about the occupancy rate of Israeli settlements on the West Bank?

A: You know our views on settlements. Focus right now has to be on re-energizing the negotiations between the Israelis and the Palestinians. They need to deal with a variety of issues in that context, and settlements is one of them.

RUSSIA/NIS

Current

NATO-Russia Agreement (see also NATO-Russia, above)

- NATO and Russia reached agreement on Founding Act defining terms of new partnership between NATO and Russia.

- Summit of NATO heads of state and government and Russian President Yeltsin to be held May 27 in Paris to sign Founding Act.

Suspension of Harvard Contracts

- **Understand AID suspended certain Harvard Institution for International Development contracts in Russia until further notice. Preliminary AID Inspector General investigation indicates two HIID employees violated contracts, used insider information for personal gain.**

- **Problem uncovered through careful program management. Refer to AID for details.**

General

NATO-Russia

- Plans for NATO enlargement proceeding on schedule -- Madrid summit on track; will issue first invitations to prospective new members at July 8-9 meeting.

- Enlargement part of broader effort to build comprehensive European security system, which includes strong NATO-Russia relationship. Going forward in way that does not threaten any nation's security, enhances stability in Europe.

- In Helsinki, President and Yeltsin disagreed over enlargement but agreed to work together to build cooperative NATO-Russia relationship.

- See Russia as partner of NATO in shaping more secure, stable and undivided Europe. That is good for United States, Russia and Europe.

Denver Summit of the Eight

- Denver meeting will be Denver Summit of Eight; will build on increased Russian involvement; Yeltsin to arrive and depart with others; will be one press conference by leaders of the Eight.

- Seven will still discuss economic, financial matters; expect this to be small part of agenda.

Prospects for START II Ratification by Russian Duma

- At Helsinki summit, President Yeltsin made clear his firm commitment to press Duma to ratify START II -- without conditions.

- START II ratification in both U.S. and Russia's best interests -- provides for stabilizing reductions in strategic forces, reduced costs, and opens the door to negotiations on further reductions in "START III," as agreed in Helsinki.

- The ratification of START II by Russia remains an essential prerequisite to begin START III negotiations toward further reductions in nuclear forces.

WAR CRIMES

Nomination of David Scheffer to be Ambassador at Large for War Crimes Issues

- **If confirmed, David Scheffer's responsibilities will be to advise the Secretary of State on U.S. efforts to address serious violations of international humanitarian law throughout the world.**

- **This will include coordination of support for the Yugoslav and Rwanda tribunals; leading negotiations at the UN for the establishment of a permanent international criminal court; and coordination of US efforts to establish international mechanisms of accountability for past or on-going violations of international humanitarian law in conflict areas.**

- **He also will assist the Secretary in addressing the needs of victims of atrocities.**

[IF ASKED]

Q: Does this nomination indicate that the U.S. will be more serious in seeking to apprehend indicted war criminals?

A: U.S. continues to strongly believe that all persons indicted by the War Crimes Tribunal should appear in the Hague for trial.

We have emphasized to the parties (including Milosevic) that failure to cooperate with the War Crimes Tribunal can have serious consequences.

U.S. and SFOR will continue to provide support to the International War Crimes Tribunal and other civilian organizations that are working to bring indicted war criminals to justice. In particular, SFOR will detain indicted war criminals if it comes into contact with them, but it is not SFOR's mission to hunt them down.

CIA

Openness/Guatemala Issue

- We would note that CIA has taken extraordinary steps toward openness over the past five years.

- The Agency, for the first time, is about to release to the public volumes of documents relating to a covert action, the 1954 coup in Guatemala.

- We are confident that CIA will continue to release documents of historical interest, consistent with the protection of sources and methods, but understand that such a process necessarily takes time.

Budget/Suit

- The President has previously endorsed the public disclosure of the aggregate appropriation for intelligence and intelligence-related activities of the United States at the time the appropriations are passed by Congress.

- Former DCI Deutch, in testimony to the Congress, agreed. The administration would support such a provision in the intelligence authorization act.

ENCRYPTION

Re Sun Microsystems plan to sell encryption software developed in Russia

- We are reviewing our regulatory posture with Sun to ensure that their arrangement with the Russian encryption company is in compliance with US export controls.

[FYI ONLY: We have three licenses issued to Sun which we are looking at to determine whether there is any restriction that might be available re Sun's transfer of information or participation in the marketing of this product We need a legal review to see where we stand before making this fact public. The above point simply alludes to the fact that a review (further unspecified) is underway. END FYI]

- With respect to the product itself, we have not evaluated it and are not in a position to comment on its nature, e.g., whether it includes key recovery, or its strength.

[FYI ONLY: This is an allusion to the fact that a number of foreign products claim to be more than they are in terms of encryption power and security. We also do not know whether the product contains some form of key recovery, but we do know that Sun had permission from the license to transfer key recovery. END FYI]

- That said, we continue to maintain that key recovery is an essential element of encryption as it relates to electronic commerce and secure public networks. Key recovery is necessary to allow business to have independent access to its own information to protect proprietary data from inadvertent loss or theft. Key recovery is also essential for public safety to prevent the use of encryption to conceal illegal acts.

QUADRENNIAL DEFENSE REVIEW (QDR)

QDR

- As the QDR entered its final stages, the President was briefed twice by Secretary Cohen and General Shalikashvili on its conceptual underpinnings and principal force structure and programmatic recommendations. *Although there are a lot of details to the QDR report -- and the President has not gone over them line-by-line -- he was briefed on and approved the basic elements of the report.*

- The NSC staff and OMB participated as observers at a senior level throughout the review and will remain involved in QDR-related follow-up as it pertains to budgetary issues and as revised program plans for FY-99 and onward are developed.

- Urge Congress to work closely with the Administration in using the QDR as the first step on the road to shaping the U.S. military to respond to the diverse challenges of the twenty-first century. As Secretary Cohen said last week, this is an evolutionary process -- a process that involves making hard choices.

BRAC:

Why are we closing more bases, particularly as the 1995 Commission on Roles and Missions recommended a six-year hiatus in base closures?

- The Joint Chiefs have strongly urged that we close more excess base infrastructure. Since the end of the Cold War we have decreased our active force by 33 percent. The reduction in domestic base infrastructure has been only 21 percent. After completing the force structure reductions under the QDR, the force will have decreased by 36 percent.

- As these figures demonstrate, it is clear that DoD is spending an increasing percentage of its funds on overhead -- funds that can be used to modernize the force, to replace aging Cold War era equipment and to develop future systems.

- **Across the Federal government we are restructuring to achieve greater efficiencies and savings -- and the Department of Defense cannot be exempt. The President has said that he is supportive of the QDR decisions and we** will work with Congress to fashion appropriate legislation to guide future BRAC rounds so as to bring our base structure more in line with our force structure.

How can the President propose more closures when he "saved McClellan and Kelly?"

- The 1995 BRAC decision was a particularly difficult one for the President. Only after receiving written assurances from Alan Dixon, the BRAC Commission Chairman, that the Commission intended to provide DoD the flexibility to privatize at Kelly and McClellan, did the President agree to forward the BRAC recommendations to Congress.

- Congress approved the 1995 BRAC recommendations the President sent forward. Included with those recommendations was the intention to implement a privatization plan for Kelly and McClellan Air Force Bases.

- The President wrote to Alan Dixon that he would accept the Commission's recommendations "because of the overwhelming national security interest in reducing our base structure in line with the personnel reductions that have already taken place...." He also said that his acceptance of the recommendations was based on the understanding that DoD would "implement a privatization plan for McClellan Air Force Base (AFB), in Sacramento, California, and Kelly AFB in San Antonio, Texas, that reduces the economic impact on these communities and avoids unacceptable disruption of Air Force readiness...." [Many in Congress continue to criticize the President for the decision to privatize activities at the Kelly and McClellan AFB depots.]

National Guard:
Doesn't the QDR's plan to cut the Army National Guard violate the President's previous assurances to support the Guard and further integrate it into our "Total Force"?

- The President and this Administration remain committed to a strong partnership between our Active and Reserve military components. As Governor of Arkansas and President of the United States, President Clinton has seen first hand the unparalleled contributions our citizen soldiers make to our national security and the safety of our citizens at home.

- The President has pledged that he would "not let the Guard become a backup force of last resort" -- and he won't. In fact, under this Administration the Reserve Components have become an even larger percentage of our total military force.

- The QDR, even though it cuts the Army Reserve and the Army National Guard, actually strengthens the National Guard by accelerating Guard conversion and modernization programs and outlining wartime missions for the National Guard.

- Guard and Reserve forces provide trained units and individuals to fight in wartime and to support the wide range of peacetime operations. No major operation can be successful without them and the Army Guard's Enhanced Separate Brigades are written into theater war plans.

- Having said that, the need for as large a strategic reserve as we had during the Cold War has declined. This was demonstrated as recently as last week, when NATO and Russia agreed on the text of the "Founding Act on Mutual Relations, Cooperation and Security between NATO and the Russian Federation." In the preamble to that document both sides agree that NATO and Russia do not consider one another adversaries and cite the sweeping transformations in NATO and Russia that make possible this new relationship.

- When the QDR reductions are completed, the Army Reserve and National Guard combined will have been reduced 32 percent from Cold War levels -- as compared with a 38 percent reduction in the Active Army.

Modernization:

Isn't the seriousness of the QDR process called into question by the decision to retain three expensive tactical fighter programs (F-22, Joint Strike Fighter, F/A-18E/F)?

- The QDR assessed alternatives for all three programs from the standpoint of both warfighting risk and acquisition cost. Although the total number of planned aircraft were reduced, and the procurement pace was revised, the QDR concluded that it would not be prudent to terminate any of the programs given the warfighting risk of such a decision and the significant adverse impact it would have on technology development and the defense industrial base.

If we are to retain an ability to fight two regional wars, don't we need more B-2 bombers, particularly in light of the planned QDR force structure reductions?

- The QDR examined various options for adding additional B-2s to the 21 planned aircraft. The arguments against additional B-2s, particularly the large unprogrammed expenses in the FYDP ($2.4 - $14.3 billion) and the long gap between the retirement of the offset aircraft and the delivery of the extra B-2s, outweigh arguments in favor of extra B-2s. Further, the retirement of Navy and Air Force fighter aircraft, for instance, would limit our ability to conduct our national security strategy of overseas engagement.

Strategy:

Aren't we exaggerating or inflating the threat by maintaining a requirement to prepare to fight two major regional wars nearly simultaneously -- as expressed in the President's 1997 National Security Strategy and the QDR?

- The 1997 National Security Strategy makes a clear case that as long as countries like Iraq and North Korea remain capable of threatening vital U.S. interests, a two war requirement is prudent.

- Maintaining such a capability should deter adventurism elsewhere if we are heavily engaged in one theater and provide a hedge against the possibility that we might encounter larger or more difficult than expected threats.

- A strategy for deterring and defeating aggression in two theaters ensures we maintain the flexibility to meet unknown future threats while our continued global engagement helps preclude such threats from developing.

Wasn't the QDR really budget-based, rather than strategy-based?

- An updated defense strategy was formulated as the first step of the QDR and provided the conceptual foundation for the rest of the review. Subsequent QDR decisions flowed from the strategy. [The QDR was developed in parallel with and draws on the President's 1997 National Security Strategy Report, which was released May 15.]

- Having said that, there were fiscal constraints that guided the process. Efforts to reduce the deficit and balance the budget by 2002 clearly suggest that there are limits to the amount of funds available for future weapons procurement. Thus, the QDR sought to try and restructure DoD and free-up funds for modernization -- while operating within the President's budget figures.

MIDDLE EAST PEACE PROCESS

Q: **Has the Peace Process broken down? Is Dennis Ross a spent force? Are you going to become personally engaged in negotiations? Are you sure there's a 25 percent vacancy rate in Israeli settlements? Did you announce that figure to pressure Netanyahu?**

A: **No doubt it's a difficult time in the Peace Process. Dennis Ross has just returned from the region after arranging the first meeting between the parties in some time. Shows that he's a tough, determined negotiator. We believe such contacts will continue.**

We're going to remain actively engaged in the process, looking for opportunities to move it forward. Progress seldom made through grand gestures, but through hard work with the parties.

Ultimately, decisions about moving the process forward up to the parties themselves. We can facilitate, provide opportunities, reassurance; they have to make the decisions.

You know our views on settlements; they complicate the process. As we've said before, our focus now is on getting the parties back to the negotiating table.

Q: Some commentators have accused the Administration of not taking on the responsibility it should to save the Middle East peace process, even if that means putting some pressure on Israel to compromise. What are you doing?

A: At a time when the peace process is experiencing serious difficulties, there is a temptation to look for quick fixes or easy answers to explain the lack of progress.

That's not our approach. President Clinton has made it clear since the beginning of his Administration that he is committed to helping the parties to make peace after five decades of war and violence.

The President and Secretary Albright and are in regular and constant contact with Arab and Israeli leaders in order to do everything we can to get the negotiations back on track. The talks we have had over the past two months, including two meetings with Prime Minister Netanyahu, have been for the purpose of developing an approach which will move the process closer to our goal of a comprehensive peace.

For these efforts to succeed, two things are necessary: Zero tolerance for terror, including a 100% effort to prevent it, and a readiness by both sides to take steps that build confidence in the integrity of the negotiating process.

We understand the urgency of moving ahead, but we're not going to be rushed. We need to make sure that both sides are ready to take the steps necessary for credible negotiations.

SAUDI ARABIA

Bin Ladin

- His message and his methods are reprehensible.
- The U.S. has military forces in the Persian Gulf to protect its vital interests.
- Host governments, including the Saudi leadership, share these interests and are our valuable allies.
- Terrorist threats are not going to force us to abandon our interests or our friends in the region.
- In the meantime, we are taking every step to protect our forces in the area from terrorist attack. Our units in Saudi Arabia are already on high alert.

Khobar Bombing

Q: Is the suspect in Canada being interviewed? Is he cooperating with the U.S.? Is he coming to the U.S., etc.?

A: This is an ongoing criminal investigation.

It would be inappropriate for us to comment on such details.

I refer you to the Justice Department."

Q: Are we getting cooperation from Syria on the Khobar bombing investigation?

A: The investigation into the Khobar bombing is ongoing. We do not comment on investigations in progress.

Regarding Syria, I'm not going to discuss the details of our diplomatic exchanges with other governments, particularly when they involve a matter under investigation.

Q: Are the Saudis helping? What have we learned from the suspect detained by Canada?

A: As I've said before, we have gotten cooperation from the Saudis and we've been assured at the highest levels of the Saudi Government that more cooperation will be forthcoming.

As has been reported, Canada has detained an individual who may have information about Khobar. I'd refer you to the FBI for any comment on that.

Q: <u>But the Canadians charged this guy with participating in the bombing and the papers they filed indicate he has links to Syria and Iran. Do you concur with the Canadian assessment of his culpability? Does this mean we're going to finally take action against Iran? Will it be military action?</u>

A: Canada did make some specific allegations in the papers the Canadian government filed with its own courts. As you know, we, too, have an investigation ongoing.

At this time in our own investigation, it is neither necessary nor appropriate to make specific public charges or allegations. The FBI, the agency in our government that is in charge of this investigation and the agency that has been working with Canada, will follow all leads and will take them to their appropriate conclusion.

We are treating this as a criminal, law enforcement investigation. I'm not going to speculate about the outcome of the investigation or any actions that outcome might require.

Q: <u>So you're ruling out any military action against Iran based on the clear and convincing evidence Canada's authorities have submitted to their courts?</u>

A: I'm declining to speculate on the outcome of the case. Nothing more, nothing less.

FAST TRACK

- Committed to getting fast track through the Congress.
- Will continue to work with Congress to pass fast track authority.
- High level Administration officials have been meeting with key members on both sides of the aisle to push this legislation forward.
- Hopeful that we will succeed.

Q: <u>It has been reported that the President is planning to delay his request for fast track authority to accommodate the budget process. Is that true? Does this signal Administration retreat on fast track? Has Gephardt scared the President off?</u>

A: Not at all. The President is still firmly committed to seeking fast track authority to open foreign markets. It is critical if we want to continue creating good jobs for American workers.

Every President since Ford has had fast track authority for key periods, and the reasons for it now are more compelling than ever. Over 11 million U.S. jobs now depend on exports, and these jobs pay 13-16 percent more than the average U.S. job. Today, 95 percent of the world's consumers live outside the U.S., and the vast majority of those consumers live in the emerging and fastest growing markets of Latin America and Asia. We simply must continue to open these markets for U.S. exports if we are to succeed in the global economy.

We cannot afford inaction. If we are not seizing opportunities to break down trade barriers and open foreign markets, we can be sure other countries will act -- to the benefit of their companies and their workers.

The United States has nothing to fear. We are the most competitive large economy in the world as judged by independent experts. But our ability to define the nature of our trade relationships will in significant measure determine our leadership role in the next century. Fast track authority is the most important factor determining these relationships.

As you know, we have been consulting with Congress to develop bipartisan support for this legislation. We think that is the best way to build a strong foundation for this effort. We will continue to consult with Congress as to the substance, tactics and timing of the fast track initiative.

Q: <u>It has been reported that the Administration is weighing the dropping of labor and environmental goals from fast track trade authority legislation, a move certain to infuriate labor unions. Is this true?</u>

A: As we have stated before, our goal is to build the broadest possible support for the fast track legislation. To that end, Ambassador Barshefsky and others have been consulting actively with members of Congress representing all points of view on this subject, and with all interested parties, including organized labor. We will continue to do so with the goal of enacting legislation that receives broad support.

OECD ANTI-CORRUPTION DEBATE

Background: Talks continue on whether to proceed to criminalization of foreign commercial bribery through an OECD Recommendation for national legislation or via further negotiation of an OECD Convention. France, Germany, Japan and Spain have blocked consensus by insisting on negotiation of an OECD Convention.

A possible compromise would provide for national legislation based on agreed common elements to be submitted to legislatures by Autumn 1998, while OECD members seek to negotiate a convention by the Spring of 1998. If successful, the Convention would provide the basis for national legislation. The key U.S. objective is prompt enactment of strong national legislation.

France thus far has rejected the compromise proposal. Germany and Japan are considering it. Spain will not block consensus.

Q: What is the U.S. trying to achieve in the OECD on combatting bribery of foreign officials, and what are its prospects?

A: OECD Ministers meet on May 26 in Paris. Secretary Daley will lead our delegation. The United States and other members of the OECD seek prompt, effective action to put an end to foreign commercial bribery. The United States has criminal laws that prohibit bribery of foreign government officials, and, with U.S. leadership, the OECD has developed a set of common elements that should be included in national antibribery legislation.

The large majority of OECD members have agreed to an OECD recommendation to enact national criminal legislation, based on the common OECD elements, by the end of 1998. Only a few countries have refused to join the consensus, insisting on prior negotiation of an OECD convention.

U.S. experience demonstrates that a convention is not necessary to criminalize foreign bribery. We should not delay national action in favor of more negotiations.

TRIPS AND VISITORS

- President will travel to Netherlands May 28 for U.S.-EU Summit and Marshall Plan commemoration event. President has accepted invitation to stop in London to meet with Prime Minister Blair.

- President Kiro Gligorov of the Former Yugoslav Republic of Macedonia in Washington June 17 for working visit with the President.

- Denver Summit June 20-22.

- POTUS will travel to Denmark in July in conjunction with the July 8-9 NATO Summit in Madrid.

- President's visits to Brazil, Argentina and Venezuela rescheduled to October 12-17.

- APEC Summit in Vancouver, Canada November 24-25.

Visit of President Aliyev of Azerbaijan

Background: The President wrote Aliyev Friday, inviting him to visit Washington, "perhaps in late July or August." Amb Kauzlarich delivered the letter to Aliyev on Saturday, who promptly had the part regarding the invitation read to the Azeri press.

- POTUS has invited Aliyev to visit Washington; date TBD, possibly in the late summer.

BURMA

Q: <u>Why did you wait so long to invoke Cohen-Feinstein sanctions?</u>

A: We have been watching closely events in Burma to determine whether conditions of the law have been met.

As indicated in the President's [Secretary's] statement, the regime has perpetrated a range of abuses over the past seven months, which have had the cumulative effect of triggering the requirements of the Amendment.

Q: <u>What would it take to lift the sanctions?</u>

A: We would expect to see progress by the Burmese authorities on critical human rights and democracy issues, which include the lifting of restrictions on Aung San Suu Kyi and the political opposition, respecting the rights of free expression, assembly and association, and undertaking a dialogue on Burma's political future that includes leaders of the NLD and the ethnic minorities.

[Note: Lifting of the sanctions could be accomplished in a number of ways, including through a waiver provision in the law, which requires a Presidential determination that application of sanctions would be contrary to the national security interests of the United States.]

Q: <u>What are Aung San Suu Kyi's views on sanctions?</u>

A: We are reluctant to attempt to characterize Aung San Suu Kyi's position on sanctions; rather we would encourage you to refer to her many public statements on this issue.

Q: <u>Why are sanctions appropriate for Burma but not for China?</u>

A: Our values and goals in the area of human rights promotion are constant, but our approach from one country to another can and does vary based on our judgment on what may be effective.

In case of Burma, there is a stronger international consensus on the need to bring pressure to bear upon the government. For example, the European Union has imposed a visa ban and restricted trade preferences, and all members of the UN General Assembly and Human Rights Commission have joined consensus in resolutions critical of Rangoon. Thus, our action on Burma is part of a collective effort to pressure the regime, and may encourage other governments to take stronger actions. Moreover, given the relatively high degree of repression and state control over aspects of civic and economic life in Burma [i.e., greater than in China], a policy of engagement with Rangoon is less likely to bring about positive change over time.

BOSNIA

Train and Equip Program (NYT)

- The international Train and Equip program is successfully helping to establish a stable military balance in Bosnia, which is one of the keys to establishing a lasting peace in the region. The recently announced delivery order of 116 refurbished howitzers and 21 heavy equipment transporters from U.S. Army excess stocks to Bosnia is part of the ongoing program to meet the defense requirements of the Federation, as identified shortly after Dayton, and within the parameters of the Bosnia arms control agreements.

- The T&E program continues to facilitate concrete progress in the formation of joint Federation defense structures that will be critical to strengthening the Bosniak-Croat Federation. The latest step forward in this regard, announced in Sarajevo last week, are the agreements between Presidents Izetbegovic and Zubak on a joint Federation Military Strategy and on key commands.

Tudjman Letter

- The President and Croatian President Franjo Tudjman have exchanged letters on our overall bilateral relationship. In his response, the President reiterated our support in principle for Croatia's PFP membership while noting that there is a lot of work to be done together in implementing Dayton/Erdut agreements before we get there.

Problems with Dayton Implementation

- Implementation of Dayton and bringing long term peace and reconciliation to Bosnia remains a long term process and much work remains to be done. Nevertheless, we should not lose sight of how far we've come.

- Only 18 months ago, the bloodiest conflict in Europe since World War II continued to rage in Bosnia. Today, the market massacres, sniper alleys, and grim campaigns of ethnic cleansing are over; since Dayton, we have maintained a secure peace, separated and demobilized the former warring parties, held successful national elections, created new national institutions that are beginning to govern, and made real progress toward the difficult long term challenges of political reconciliation and economic reconstruction.

- More recently, the parties agreed on a new central bank and common currency. So we continue to see progress on a day-to-day basis but our work in Bosnia is not yet done.

- The Dayton process brought peace to Bosnia and remains the best hope for long-term stability and reconciliation. We continue to reexamine our implementation efforts and look for ways to more effectively bring about the conditions needed for a self-sustaining peace. But it is the Bosnian parties themselves who bear primary responsibility for fulfilling the vision of the Dayton Accords.

War Crimes Verdict

- We welcome the historic verdict by the International Criminal Tribunal convicting Dusan Tadic of crimes against humanity. There can be no peace without justice in Bosnia and this conviction is an important step toward that goal.

- With this conviction and the recent delivery of indicted war criminal Zlatko Aleksovski to the Hague, it is clear we are making slow progress on war crimes. We will not be satisfied, however, until all indicted war criminals stand trial at the Hague.

War Criminals

- We continue to remain deeply concerned with the slow progress on war crimes front in Bosnia. We continue to press the parties to fulfill their obligations to turn over indicted war criminals. We are also examining a variety of ways we can help the Tribunal to bring indicted war criminals to justice. We have made no decisions on how to assist the Tribunal. We are reviewing many different options.

If pressed about sending teams of special police or commandos to arrest war criminals:

- We have been examining several options to assist and enhance the ability of the Tribunal to bring indicted war criminals into custody. One option may be to establish some sort of capability to execute the court's arrest warrants. We are studying the feasibility of these options but have made no decisions yet.

Radovan Karadzic

- Karadzic was removed from office and remains banned from any public or political role as agreed by Republika Srpska. We continue to monitor the situation and will insist that Republika Srpska live up to their agreement. We remain concerned about his potential influence and will not be satisfied until he is brought to justice in the Hague.

Supplemental Amendment for Date Certain Withdrawal from Bosnia (passed by Senate)

- We strongly urge that this legislation not be further pursued. President's senior advisors would recommend a veto to the bill if an amendment is adopted that would mandate a date certain for withdrawal of U.S. forces from Bosnia — even a date of June 1998, when SFOR's mission is scheduled to end.

- An amendment requiring a withdrawal by a date certain — with no regard for the situation on the ground or prospects for self-sustaining peace — would seriously restrict the flexibility of our military commanders in completing their mission and jeopardize the secure environment needed for civilian implementation.

- We continue to believe SFOR's mission (18 months) should provide sufficient time to establish the conditions to maintain security and stability without an outside military presence. We have no desire or plan to extend the mission beyond mid-1998, but we should not set an arbitrary deadline that would call into question our commitment to implementation of the Dayton Accords, our reliability as a NATO ally, and our commitment to peace and stability in Europe.

SFOR Mission Duration

- We continue to believe that SFOR's mission should be completed in 18 months. 18 months should give sufficient extra time needed to establish conditions to maintain security and stability without an outside military presence.

NORTHERN IRELAND

IRA Approved Off-Duty Policeman's Murder?

- Do not have any official confirmation of this press report.
- Understood that different group, INLA, claimed responsibility for this brutal murder.

BRITISH ELECTION -NI RESULTS

Background: Clear that Gerry Adams has won back the West Belfast seat he lost to the SDLP in 1992. That was expected. The biggest news is that Sinn Fein strategist Martin McGuinness has won a seat too, defeating hard-line unionist and DUP candidate Willy McCrea in spite of splitting the nationalist vote with an SDLP candidate. It looks like the UUP (mainstream unionists) will either keep 9 seats or get 10.

- Important election in Northern Ireland, fought on completely different issues than in rest of UK.
- If asked reaction to SF seats: Hope party leaders will conclude that democracy works, offers only way forward to just and lasting settlement in Northern Ireland. Time to take gun out of Irish politics forever and get down to work.

PEARSON DEPORTATION

Background: DOJ has decided to appeal the lower court's ruling that Brian Pearson is eligible to stay in the U.S. Pearson served time for an IRA bombing (of a military/ policy barracks--no one injured) before coming to the U.S.

- This decision was made by the Department of Justice on legal grounds. Questions concerning the case should be referred to DOJ.
- If asked: This is a deportation case; our policy toward Northern Ireland was not at issue. That policy is clear --we strongly condemn IRA terrorism and will continue to support efforts to achieve a just and lasting peace in Northern Ireland.

MITCHELL RESIGNATION AS SAPASS FOR ECONOMIC INITIATIVES IN IRELAND

[Background: It has not been made public yet but Senator Mitchell has submitted a letter to POTUS resigning his position as Special Advisor to the President and Secretary of State for Economic Initiatives in Ireland -- a position he has held since late 1994. Ideally, we would prefer to announce it at same time his successor is named, which will take a few weeks.]

- Yes, Senator Mitchell has decided to give up position as Special Advisor to President and Secretary of State for Economic Initiatives in Northern Ireland. Will of course continue as chair of Belfast peace talks; in fact, understand his decision to resign the economic job based on need to devote his time to the talks.

- We are moving to select a successor to Senator Mitchell to oversee Administration support for economic initiatives. Creating jobs through investment and trade is key to underpinning Northern Ireland peace process over long term.

CONTINUED IRA VIOLENCE

- Strongly condemn continued IRA violence in Northern Ireland and in Britain, urge immediate, unequivocal cease-fire.

- Belfast peace talks (now in recess until June) have best chance of long-term success if they are inclusive (that is, if Sinn Fein participates) but that can only happen after IRA cease-fire.

ON WHETHER IRA NEEDS TO DISARM BEFORE JOINING TALKS

- U.S., like British and Irish governments, have accepted the report issued last year by Senator Mitchell and his colleagues, which suggested decommissioning of arms in parallel with talks.

GULF WAR ILLNESSES

<u>What is your reaction to the findings in the Presidential Advisory Committee (PAC) interim letter report that (1) there was information even prior to the Gulf War raising cause for concern about chemical weapons storage at Khamisiyah; and (2) that there was "substantial mismanagement and lack of communication" between the military and intelligence community on this information?</u>

- Important here at the outset to note that we are where we are today -- with all of the recent and continuing document releases -- because of the President's direction to get out all of the facts, and DOD and CIA's commitment to carry out that direction...
- DOD and CIA have already stated for the record that their handling of Khamisiyah-related information should have been better, and they are both committed to capturing the appropriate "lessons learned"...
- Moreover, both agencies currently have their IG staffs investigating the related issues, and their reports are expected this summer...

<u>Why was there, in the PAC's words, "no serious [executive branch] effort to examine the possibility of chemical warfare agent exposure of U.S. troops at Khamisiyah until late 1995" when there were documents available raising this concern by December 1991?</u>

- No question that the recently-released documents should have been identified and released much earlier; this figured prominently in the President's decision in JAN 97 to extend the PAC he established in MAY 95 in order to provide independent oversight of the ongoing process...
- These documents are being identified and released now in response to the President's direction to get out all of the facts...
- As to why these documents did not come to light earlier, the various ongoing IG and other investigations at DOD and CIA should help us to understand what happened...

<u>The PAC found that there is no single entity integrating the data for a comprehensive assessment of the government-wide response to Khamisiyah; the PAC also questioned how individual accountability will be addressed. What is the White House view?</u>

- First, the PAC's recommendation that a "presidential-level" entity to integrate intelligence community "lessons learned" is consistent with the Administration's commitment to take full advantage of the Gulf War experience to improve our preparedness and planning for future deployments -- this recommendation will be carefully considered when the President receives the PAC's interim letter report and the accompanying agency responses...
- DOD and CIA have asked former SEN Warren Rudman to advise both agencies on the GWI problem. SEN Rudman is well-qualified to undertake a review of all investigative findings, and his efforts will enhance our ability to integrate the intelligence "lessons learned"...
- With respect to accountability, our understanding is that there is no evidence to date of individual misconduct. If and when any such evidence comes to light, the DOD and CIA IG and other investigators tackling the many issues involved would document and refer that evidence to their respective agency heads as a matter of course...

The PAC believes that an EPA-type approach would be appropriate for the long-delayed Khamisiyah modeling effort and that veterans deserve to learn the results of a full-range of modeling scenarios (including worst-case events). What is your reaction?

- DOD and CIA recently formed a joint modeling team to take this work forward to conclusion as rapidly as possible, with the projected completion date of 21 JUL 97...
- The PAC's assessment that EPA-type modeling may be useful or even more appropriate will need to be evaluated by the joint DOD/CIA team...
- In terms of targeted notification letters, DOD has already sent out letters to those personnel within 50 kilometers of Khamisiyah, and will conduct additional notifications if necessary...
- Most important here is that the issue of notification has no bearing on the eligibility of veterans for physical examinations, health care, and compensation -- and DOD and VA have strongly encouraged all Gulf War veterans to take full advantage of the available programs...

Is DOD using the Privacy Act as a "shield" to block the PAC's "unfettered access" to the critical information they need?

- Our understanding is that earlier this year DOD lawyers noted Privacy Act legal concerns about certain information being provided to the PAC in response to their requests...
- We have confirmed that the Privacy Act does have application and have been informed that the required legal steps are being taken to obtain the consent of individuals providing information for release of that information to the PAC...

Is the PAC likely to be extended again given the many problems still remaining?

- The PAC has a critical role to play -- the White House is relying on the PAC's expertise and independent assessments to enhance program quality across the full spectrum of government activity related to Gulf War illnesses...
- Any discussion of extending the PAC would be premature at this juncture given the many initiatives currently underway and the amount of time remaining before the end of the initial extension period (31 OCT 97)...

What about the statement in the recent CIA white paper that the CIA briefed the NSC staff in JAN 96 on the Khamisiyah evidence?

- The CIA white paper (and one of the accompanying documents containing briefing slides) reflects the classified CIA brief the NSC staff received in JAN 96.
- During the briefing -- which focused on the CIA's declassification initiative and ongoing study of potential exposures -- the staff was told that information had come to light about the possibility of chemical munitions storage and agent release at the Khamisiyah facility. This was briefed as preliminary information, and the NSC staff noted at the close of the brief that CIA needed to pursue this possibility aggressively together with DOD.
- Subsequent CIA and DOD efforts to investigate this concern eventually led to the JUN 96 DOD announcement of Khamisiyah.

<u>The intelligence community admits making mistakes in its handling of the Gulf War illnesses investigation, and the many recently-declassified documents clearly should have come out much sooner. With much of the related activity occurring during George Tenet's tenure at CIA, does the Director-designate retain the President's full confidence?</u>

- Absolutely.
- The CIA has contributed a tremendous amount to our knowledge about chemical weapons in the Gulf War theater and specifically about exposure incidents that might be related to undiagnosed Gulf War illnesses.
- George Tenet is fully supportive of the President's commitment to get out all the facts, and has increased the level of resources devoted to the Gulf War illnesses problem when new information indicated the need to do so.

<u>What has the Administration done for Gulf War veterans who are sick?</u>

- Through the dedicated efforts of DOD and VA personnel, veterans are receiving the care they need for Gulf War illnesses, whether diagnosed or undiagnosed.
- Overall, to date -- (1) DOD & VA toll-free help lines; (2) 80,000+ free medical exams; (3) 26,000+ compensation claims approved; (4) special legislation paying disability for Gulf veterans with undiagnosed illnesses, with an extension of the presumptive period for undiagnosed illness compensation forthcoming soon; (5) thousands of pages declassified; and (6) 90+ federally-sponsored research projects completed or underway.