

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:10-AUG-1999 18:28:54.00

SUBJECT: Economic Outlook Agenda

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Sylvia M. Mathews (CN=Sylvia M. Mathews/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Agenda revised per 4:30 meeting for your review and clearance. Thanks!===== ATTACHMENT
1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D29]ARMS283521326.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEETING ON THE ECONOMIC OUTLOOK

August 11, 1999; 1:00 – 2:00 p.m.

OUTLINE OF ISSUES

THE OUTLOOK

I. THE NEW ECONOMY VS. THE TRADITIONAL INFLATIONARY TRADEOFF

- Prospects for Continued Productivity Growth
- Labor Market Constraints on Non-Inflationary Growth
- Inflationary Pressures from International Commodity Prices and Growth Abroad

II. OUTLOOK FOR THE DOMESTIC ASSET MARKETS

- Stock Market Correction
 - Recent Trends in Stock Market Pricing
 - The Wealth Effect and Recent Personal Savings Trends
 - Effects on Domestic Consumption, Employment and the Economy
 - Effects on the Domestic Financial System
- Developments in Broader Asset Markets
- Federal Reserve Response

III. CURRENCY OUTLOOK

- Current Account Trends
- Currency Outlook

IV. CONTAGION FROM THE GLOBAL ECONOMY

- Growth Prospects in Japan and Europe
- Uncertainties in Argentina and Prospects for Latin America
- Economic and Currency Outlook for China

BUDGET SENSITIVITY

I. THE RANGE OF UNCERTAINTY FROM ECONOMIC & TECHNICAL FORECASTING ERROR

- Historical Forecasting Error
- Changes in Receipts
- Interest Rates
- Growth

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Shannon Mason (CN=Shannon Mason/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:16-AUG-1999 18:45:56.00

SUBJECT: Ag agenda for Wednesday's meeting

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Andrew F. Schneider (CN=Andrew F. Schneider/O=OVP@OVP [UNKNOWN])

READ:UNKNOWN

TO: Nancy Marlow (CN=Nancy Marlow/OU=CEQ/O=EOP@EOP [CEQ])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D33]ARMS258275820.236 to ASCII,

The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

AG AGENDA

I. Framework: \$7 Billion

- Long term policy fixes
- Short term assistance

II. Long Term

- Income assistance
- Equalize loan rates
- Uncapping loan rates

III. Short Term

- Commodity donations
- Livestock assistance
- Conservation Reserve Program
- Cotton "Step 2"
- Dairy assistance
- Farm loan subsidy BA
- County office S&E
- Crop storage loan BA
- State Mediation Program

IV. Crop Insurance

- Mandatory
- Permissive

V. Drought Assistance

- Loans
- Grants

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-AUG-1999 13:25:13.00

SUBJECT: FW: Report on emissions trading

TO: Rosina M. Bierbaum (CN=Rosina M. Bierbaum/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: David Gardiner (CN=David Gardiner/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Ian Bowles (CN=Ian Bowles/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:
FYI. I have downloaded the executive summary and requested the full report. It may provide some insights for us regarding the design of a domestic trading system.

----- Forwarded by Joseph E. Aldy/CEA/EOP on 08/18/99
12:17 PM -----

"Silverman, Linda" <Linda.Silverman@hq.doe.gov>
08/18/99 12:00:05 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: "jeff miotke" <miotkes@ix.netcom.com>, Joseph E. Aldy/CEA/EOP,
"wickwire@state" <wickwirest@state.gov>
Subject: FW: Report on emissions trading

Thought you'd find this interesting.

-----Original Message-----
From: Clive Hamilton [mailto:austinst@dynamite.com.au]
Sent: Monday, August 16, 1999 8:26 PM
To: CLIMATE-L@MBnet.MB.CA@INTERNET

Subject: Report on emissions trading

NEW ANALYSIS

EMISSIONS TRADING AND BUSINESS TAXATION

The Australia Institute has just released a new paper proposing the integration of emissions trading into business tax reform. The paper develops a detailed domestic emissions trading system for the period 2001-2012. It is based on an upstream approach with full auctioning of permits defining an emissions path that will meet Australia's Kyoto target. Features of the emissions trading system include provision for banking and limited borrowing, inclusion of sinks under tight conditions and credit for early action.

Revenue from auctioning is estimated at A\$7 billion per annum at a permit price of A\$20 per tonne of CO2 (US\$13). Four options for using the revenue to cut business taxes are considered, including one involving large reductions in payroll tax. The paper argues that the latter will generate a 'double dividend' - meeting the Kyoto target while stimulating employment.

Accessing the paper

A summary of the paper is available on the Australia Institute website www.tai.org.au

If you would like to be emailed a copy of the full report (70 pages) please email a request to

tail@tai.org.au

Dr Clive Hamilton

Executive Director

The Australia Institute

PO Box 72

Lyneham ACT 2602

ph. +61 2 6249 6221

fax. +61 2 6249 6448

www.tai.org.au

- ATTACHMENT.TXT

Message Sent

To:

"Bradley, Richard" <Richard.BRADLEY@hq.doe.gov>

"Karpoff, Peter" <Peter.Karpoff@hq.doe.gov>

"Friedrichs, Mark" <Mark.FRIEDRICHS@hq.doe.gov>

"Lee, Steven" <Steven.LEE@hq.doe.gov>

"Breed, William" <William.Breed@hq.doe.gov>

"Mazur, Mark" <Mark.Mazur@hq.doe.gov>

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

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<HTML>

<HEAD>

<META content=text/html; charset=iso-8859-1 http-equiv=Content-Type>

<META content="MSHTML 4.72.2106.6" name=GENERATOR>

</HEAD>

<BODY bgColor=#ffffff>

<DIV>NEW ANALYSIS</DIV>

<DIV>EMISSIONS TRADING AND BUSINESS
TAXATION</DIV>

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for the period 2001-2012. It is based on an upstream approach with full

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Kyoto target. </DIV>

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<DIV>Revenue from auctioning is estimated at A\$7 billion per annum

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<DIV>Accessing the paper</DIV>

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website www.tai.org.au</DIV>

<DIV>If you would like to be emailed a copy of the full report (70

pages) please email a request to </DIV>

<DIV>tail@tai.org.au</DIV>

<DIV> </DIV>

<DIV>Dr Clive Hamilton
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Australia Institute
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6221
fax. +61 2 6249 6448
www.tai.org.au</DIV></BODY></HTML>

===== END ATTACHMENT 1 =====

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:18-AUG-1999 13:22:30.00

SUBJECT: American Inventors Protection Act

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Dorothy Robyn (CN=Dorothy Robyn/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

Robert,

Per our conversation yesterday, I sought out some more expert advise about Patent Law so that I could ask my questions about the provisional rights section of the Act. Dorothy Robyn suggested I call AIPLA (American Intellectual Property Law Association) to ask them about this provisional rights component of the Act that passed the House. I was concerned that this provision was a significant extension of patent life over and above existing law. The short answer is that while this provision does create a small extension of patent rights relative to existing law, the actual effect appears to be very modest. (If you are interested, the detailed explanation is below.) Accordingly, I don't think that there is any reason to raise an objection to this bill.

The provisional rights section of the Act basically says that between the time of publication and the time a patent is granted, an inventor is entitled to a royalty on his invention. The concept of publication of a patent is new, and is a result of another subsection of this bill. (Currently in the US, patents are not "published" in any meaningful way.) Publication takes place 18 months after the filing of the application. Publication is not immediate, as I had assumed. (I had erroneously equated "filing" with "publication," and the two are different.) According the person I talked with at AIPLA, the average time for patents to be resolved by the Patent office is currently about 20 months. Thus, while the Act will extend slightly the amount of time over which royalties can be collected relative to existing law, the total extension for most patents should be relatively small. Moreover, royalties can only be collected once the patent is granted, so there should be much less problem with fraud (people claiming royalties on inventions that don't warrant a patent) than I had thought.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-AUG-1999 13:03:50.00

SUBJECT: Re: CA as % GDP

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

Robert:

I think the CA could be a record, or close to it, relative to GDP in Q2. My estimate is that the trade balance relative to GDP deteriorated about 0.5 percent from Q1 to Q2 (i.e., from 2.2 percent in Q1 to 2.7 percent, on a national accounts basis). That same deterioration would imply that the CA relative to GDP would fall from 3.1 percent in Q1 (from the spreadsheet below) to 3.6 percent. This compares with the 1987 peak of 3.5 percent.

(The numbers in the table do appear to be correct).

John

Robert Z. Lawrence
08/19/99 12:11:43 PM
Record Type: Record

To: John G. Fernald/CEA/EOP@EOP
cc:
Subject: CA as % GDP

What do you think? Will we still be at a low for the current account in 1999 second quarter? Please Reply to Lael as well.
----- Forwarded by Robert Z. Lawrence/CEA/EOP on 08/19/99
12:10 PM -----

Lael Brainard
08/19/99 11:49:29 AM
Record Type: Record

To: Robert Z. Lawrence/CEA/EOP@EOP
cc:
Subject: CA as % GDP

Surprisingly, looks like we are still safe on the CA, although your basic argument sounds right. Reaction?

----- Forwarded by Lael Brainard/OPD/EOP on 08/19/99
11:48 AM -----

Carl Haacke 08/19/99 11:40:35 AM

Record Type: Record

To: Lael Brainard/OPD/EOP@EOP
cc:
Subject: CA as % GDP

1999 Q1 = 3.1% still below 3.5% in 1987 Q4.
Current Account as % GDP
Seasonally Adjusted

	Current Account billions	Deficit	GDP	CA as % GDP
1999 Q1	-274	8808.7	-3.1%	
1998 Q4	-247	8681.2	-2.8%	
1998 Q3	-254	8537.9	-3.0%	
1998 Q2	-210	8440.6	-2.5%	
1998 Q1	-172	8384.2	-2.1%	
1997 Q4	-166	8254.5	-2.0%	
1997 Q3	-142	8170.8	-1.7%	
1997 Q2	-126	8063.4	-1.6%	
1997 Q1	-140	7955.0	-1.8%	
1996 Q4	-131	7818.4	-1.7%	
1996 Q3	-153	7703.4	-2.0%	
1996 Q2	-126	7629.2	-1.6%	
1996 Q1	-107	7495.3	-1.4%	
1995 Q4	-87	7391.9	-1.2%	
1995 Q3	-112	7304.8	-1.5%	
1995 Q2	-133	7210.9	-1.8%	
1995 Q1	-122	7170.8	-1.7%	
1994 Q4	-142	7095.7	-2.0%	
1994 Q3	-134	6986.5	-1.9%	
1994 Q2	-114	6911.4	-1.7%	
1994 Q1	-97	6794.3	-1.4%	
1993 Q4	-110	6704.2	-1.6%	
1993 Q3	-92	6574.6	-1.4%	
1993 Q2	-82	6509.1	-1.3%	
1993 Q1	-56	6444.5	-0.9%	
1992 Q4	-74	6383.1	-1.2%	

1992 Q3 -57	6271.7	-0.9%
1992 Q2 -50	6201.2	-0.8%
1992 Q1 -21	6121.8	-0.3%
1991 Q4 -19	6002.1	-0.3%
1991 Q3 -24	5950.2	-0.4%
1991 Q2 14	5892.5	0.2%
1991 Q1 47	5821.9	0.8%
1990 Q4 -58	5781.7	-1.0%
1990 Q3 -97	5782.2	-1.7%
1990 Q2 -77	5750.8	-1.3%
1990 Q1 -86	5660.6	-1.5%
1989 Q4 -96	5537.8	-1.7%
1989 Q3 -98	5486.9	-1.8%
1989 Q2 -99	5413.2	-1.8%
1989 Q1 -103	5316.8	-1.9%
1988 Q4 -127	5205.3	-2.4%
1988 Q3 -114	5094.5	-2.2%
1988 Q2 -118	5000.4	-2.4%
1988 Q1 -134	4898.2	-2.7%
1987 Q4 -167	4835.9	-3.5%
1987 Q3 -162	4722.6	-3.4%
1987 Q2 -162	4645.1	-3.5%
1987 Q1 -159	4565.7	-3.5%
1986 Q4 -159	4501.7	-3.5%
1986 Q3 -154	4443.3	-3.5%
1986 Q2 -145	4385.6	-3.3%
1986 Q1 -139	4358.2	-3.2%
1985 Q4 -140	4285.3	-3.3%
1985 Q3 -126	4221.4	-3.0%
1985 Q2 -116	4134.8	-2.8%
1985 Q1 -95	4081.2	-2.3%
1984 Q4 -107	3996.7	-2.7%
1984 Q3 -94	3942.2	-2.4%
1984 Q2 -94	3879.7	-2.4%
1984 Q1 -84	3791.1	-2.2%
1983 Q4 -62	3664.6	-1.7%
1983 Q3 -52	3563.3	-1.5%
1983 Q2 -32	3469.2	-0.9%
1983 Q1 -11	3361.0	-0.3%
1982 Q4 -21	3299.1	-0.6%
1982 Q3 -17	3259.1	-0.5%
1982 Q2 15	3231.6	0.4%
1982 Q1 -2	3178.6	-0.1%
1981 Q4 3	3185.5	0.1%
1981 Q3 8	3167.7	0.3%
1981 Q2 5	3070.3	0.2%
1981 Q1 4	3040.2	0.1%
1980 Q4 10	2911.8	0.3%
1980 Q3 17	2783.4	0.6%
1980 Q2 -4	2719.4	-0.1%
1980 Q1 -14	2722.3	-0.5%
1979 Q4 0	2650.4	0.0%
1979 Q3 4	2592.8	0.1%
1979 Q2 -3	2522.3	-0.1%

1979 Q1 -2	2464.5	-0.1%
1978 Q4 -3	2410.2	-0.1%
1978 Q3 -15	2333.9	-0.6%
1978 Q2 -15	2273.7	-0.7%
1978 Q1 -28	2147.7	-1.3%
1977 Q4 -23	2104.7	-1.1%
1977 Q3 -11	2063.2	-0.5%
1977 Q2 -12	2005.1	-0.6%
1977 Q1 -11	1934.4	-0.6%
1976 Q4 1	1880.3	0.0%
1976 Q3 0	1830.4	0.0%
1976 Q2 7	1797.9	0.4%
1976 Q1 10	1767.3	0.6%
1975 Q4 19	1707.3	1.1%
1975 Q3 16	1657.1	1.0%
1975 Q2 20	1597.8	1.3%
1975 Q1 17	1560.3	1.1%
1974 Q4 2	1546.8	0.1%
1974 Q3 -1	1511.7	-0.1%
1974 Q2 0	1482.5	0.0%
1974 Q1 6	1446.5	0.4%
1973 Q4 14	1432.3	0.9%
1973 Q3 11	1391.4	0.8%
1973 Q2 3	1369.4	0.3%
1973 Q1 1	1337.5	0.0%
1972 Q4 -5	1286.8	-0.4%
1972 Q3 -5	1247.8	-0.4%
1972 Q2 -7	1224.4	-0.6%
1972 Q1 -7	1190.2	-0.6%
1971 Q4 -5	1149.8	-0.4%
1971 Q3 -2	1137.3	-0.2%
1971 Q2 -2	1117.7	-0.1%
1971 Q1 3	1096.8	0.2%
1970 Q4 1	1051.3	0.1%
1970 Q3 2	1047.8	0.2%
1970 Q2 4	1029.5	0.4%
1970 Q1 2	1013.9	0.2%

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:19-AUG-1999 10:58:16.00

SUBJECT: Re: Deficit to GDP

TO: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

Here is maybe more than you want to know. It seems we were both correct. For merchandise trade, we were already at higher shares of --GDP than we were in the mid 80s, whereas for goods and services (the reported number) we remain below that level.-----

although we are getting very close -- June's numbers seem to be equal to the peak. So we should be careful in making this point. Indeed it may be better not to make it since now, with negative net investment earnings, the current account deficit will be larger than the goods and services deficit. whereas before, when we had positive earnings, it was a smaller deficit.

----- Forwarded by Robert Z. Lawrence/CEA/EOP on 08/19/99 10:51 AM

John G. Fernald
08/19/99 10:34:48 AM
Record Type: Record

To: Robert Z. Lawrence/CEA/EOP@EOP
cc: Yu-Chin Chen/CEA/EOP@EOP, Victoria A. Greenfield/CEA/EOP@EOP
bcc:
Subject: Re: Deficit to GDP

Robert:

Combining the April, May, and June trade numbers for goods and services (annualized) and dividing by Q2 GDP, the revised ratio would be 2.9 percent, compared with a preliminary announced figure in the national accounts of 2.5 percent. This compares with a 1987 peak of 3.1 percent of GDP in 1987Q2.

However, the national accounts coverage of net exports is somewhat different than the trade release coverage, which works to NARROW the goods and services deficit in the national accounts. Kathy Morisse at the Fed estimates that second quarter nominal net exports were worse by about \$14 billion than in the preliminary national accounts release, which would

make the ratio in the second quarter about 2.7 percent. (Kathy's estimate is consistent with our own ballpark estimate, which comes from comparing the two sets of figures from the first quarter, and finding an annualized difference of about \$17 billion.)

So my preferred estimate is that in the second quarter, the goods and services deficit was about 2.7 percent, still below the peak from 1987.

Two additional observations: (1) The trend is getting worse. As Lael notes, if you multiply the June figure by 12 and divide by Q2 GDP, you get a deficit of 3.3 percent. Even controlling for the difference between nat. accounts and BOP basis, you would get a deficit of about 3.1 percent, roughly equal to the peak.

(2) For goods alone, we were ALREADY above the peak from the 1980s. The preliminary release for the second quarter had a deficit on goods of 3.7 percent of GDP, compared with a 1987 peak of 3.4 percent. The revision will presumably make the figure even worse in 1999Q2. (The trade release implies a deficit of 3.6 percent, so presumably the difference in coverage works to make the goods balance somewhat more negative in the national accounts, and the services balance somewhat more positive).

John

P.S. Figures for the first quarter showed a goods and services deficit of 2.2 percent of GDP, with the goods deficit equal to 3.4 percent of GDP.

Robert Z. Lawrence
08/19/99 09:39:51 AM
Record Type: Record

To: John G. Fernald/CEA/EOP@EOP
cc:
Subject: Deficit to GDP

I would like to respond to Lael ASAP
----- Forwarded by Robert Z. Lawrence/CEA/EOP on 08/19/99
09:39 AM -----

Lael Brainard
08/19/99 09:33:49 AM
Record Type: Record

To: Robert Z. Lawrence/CEA/EOP@EOP
cc:

Subject: Deficit to GDP

Numbers I have from Commerce suggest Deficit to GDP of 2.7 percent for first half, still comfortably below 1987 peak. June annualized would be 3.3 percent, comparable to 1987 peak, but presume we would not want to look at monthly. Do your numbers differ significantly?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-AUG-1999 11:49:37.00

SUBJECT: CA as % GDP

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Surprisingly, looks like we are still safe on the CA, although your basic argument sounds right. Reaction?

----- Forwarded by Lael Brainard/OPD/EOP on 08/19/99

11:48 AM -----

Carl Haacke 08/19/99 11:40:35 AM

Record Type: Record

To: Lael Brainard/OPD/EOP@EOP

cc:

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Seasonally Adjusted

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1990 Q3 -97	5782.2	-1.7%
1990 Q2 -77	5750.8	-1.3%
1990 Q1 -86	5660.6	-1.5%
1989 Q4 -96	5537.8	-1.7%
1989 Q3 -98	5486.9	-1.8%
1989 Q2 -99	5413.2	-1.8%
1989 Q1 -103	5316.8	-1.9%
1988 Q4 -127	5205.3	-2.4%
1988 Q3 -114	5094.5	-2.2%
1988 Q2 -118	5000.4	-2.4%
1988 Q1 -134	4898.2	-2.7%
1987 Q4 -167	4835.9	-3.5%
1987 Q3 -162	4722.6	-3.4%
1987 Q2 -162	4645.1	-3.5%
1987 Q1 -159	4565.7	-3.5%
1986 Q4 -159	4501.7	-3.5%
1986 Q3 -154	4443.3	-3.5%
1986 Q2 -145	4385.6	-3.3%
1986 Q1 -139	4358.2	-3.2%
1985 Q4 -140	4285.3	-3.3%
1985 Q3 -126	4221.4	-3.0%
1985 Q2 -116	4134.8	-2.8%
1985 Q1 -95	4081.2	-2.3%
1984 Q4 -107	3996.7	-2.7%
1984 Q3 -94	3942.2	-2.4%
1984 Q2 -94	3879.7	-2.4%
1984 Q1 -84	3791.1	-2.2%
1983 Q4 -62	3664.6	-1.7%
1983 Q3 -52	3563.3	-1.5%
1983 Q2 -32	3469.2	-0.9%
1983 Q1 -11	3361.0	-0.3%
1982 Q4 -21	3299.1	-0.6%
1982 Q3 -17	3259.1	-0.5%
1982 Q2 15	3231.6	0.4%
1982 Q1 -2	3178.6	-0.1%
1981 Q4 3	3185.5	0.1%
1981 Q3 8	3167.7	0.3%
1981 Q2 5	3070.3	0.2%
1981 Q1 4	3040.2	0.1%
1980 Q4 10	2911.8	0.3%
1980 Q3 17	2783.4	0.6%

1980 Q2 -4	2719.4	-0.1%
1980 Q1 -14	2722.3	-0.5%
1979 Q4 0	2650.4	0.0%
1979 Q3 4	2592.8	0.1%
1979 Q2 -3	2522.3	-0.1%
1979 Q1 -2	2464.5	-0.1%
1978 Q4 -3	2410.2	-0.1%
1978 Q3 -15	2333.9	-0.6%
1978 Q2 -15	2273.7	-0.7%
1978 Q1 -28	2147.7	-1.3%
1977 Q4 -23	2104.7	-1.1%
1977 Q3 -11	2063.2	-0.5%
1977 Q2 -12	2005.1	-0.6%
1977 Q1 -11	1934.4	-0.6%
1976 Q4 1	1880.3	0.0%
1976 Q3 0	1830.4	0.0%
1976 Q2 7	1797.9	0.4%
1976 Q1 10	1767.3	0.6%
1975 Q4 19	1707.3	1.1%
1975 Q3 16	1657.1	1.0%
1975 Q2 20	1597.8	1.3%
1975 Q1 17	1560.3	1.1%
1974 Q4 2	1546.8	0.1%
1974 Q3 -1	1511.7	-0.1%
1974 Q2 0	1482.5	0.0%
1974 Q1 6	1446.5	0.4%
1973 Q4 14	1432.3	0.9%
1973 Q3 11	1391.4	0.8%
1973 Q2 3	1369.4	0.3%
1973 Q1 1	1337.5	0.0%
1972 Q4 -5	1286.8	-0.4%
1972 Q3 -5	1247.8	-0.4%
1972 Q2 -7	1224.4	-0.6%
1972 Q1 -7	1190.2	-0.6%
1971 Q4 -5	1149.8	-0.4%
1971 Q3 -2	1137.3	-0.2%
1971 Q2 -2	1117.7	-0.1%
1971 Q1 3	1096.8	0.2%
1970 Q4 1	1051.3	0.1%
1970 Q3 2	1047.8	0.2%
1970 Q2 4	1029.5	0.4%
1970 Q1 2	1013.9	0.2%

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-AUG-1999 09:33:55.00

SUBJECT: Deficit to GDP

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Numbers I have from Commerce suggest Deficit to GDP of 2.7 percent for first half, still comfortably below 1987 peak. June annualized would be 3.3 percent, comparable to 1987 peak, but presume we would not want to look at monthly. Do your numbers differ significantly?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:20-AUG-1999 17:59:40.00

SUBJECT: Paper

TO: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

CC: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Here is the paper on the Costs of Non-GM Segregation prepared by CEA and USTR.

----- Forwarded by Robert Z. Lawrence/CEA/EOP on 08/20/99
05:58 PM -----

Victoria A. Greenfield

08/20/99 05:55:10 PM

Record Type: Record

To: Robert Z. Lawrence/CEA/EOP@EOP

cc:

Subject: Paper

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D4]ARMS29832723Q.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

EU Standards for GM and Non-GM Products: Possible Market Implications

This paper evaluates the possible market implication of EU standards for GM and non-GM products on international and domestic markets. The analysis proceeds in three parts. First, we estimate the costs of non-GM product segregation in the United States. Next, we evaluate the effects of existing EU standards for corn and finally, we consider the short and long run impacts of an (as yet unspecified) EU standard for soybeans.

We reach two principal conclusions:

First, the long-run costs of segregation and production are sensitive to the standards that are adopted. If the standards allow for reasonable GM tolerance levels, the additional costs of segregation and production could be less than 12 percent of the projected farm price of corn for 1999/00 and less than 17 percent of the projected farm price of soybeans. However, if the standards require extremely strict identity preservation (IP), the costs of segregation and production could approach, or even exceed, 66 percent of the projected farm price of corn for 1999/00 and 54 percent of the projected farm price of soybeans.

Second, the costs to the United States are greater, the more suddenly the standards are invoked and the smaller the supply of non-GM products available on world markets. If promulgated without prior notice, a non-GM standard for soybeans, for which available non-GM supplies are less than EU demand, could be highly disruptive, particularly in the short term. The immediate response would be an increase in the price of non-GM products and a reduction in prices of GM and non-segregated non-GM products. Over time, however, as the supply system responds, non-GM prices would decline and GM prices would rise until the price differential converged to a non-GM premium which reflected additional production, segregation, and transportation costs. The current impasse on approvals of GM corn varieties, by contrast, probably has little effect on the EU or the United States, because trade can be rerouted.

1. Estimates of Additional Costs for non-GM Products

Estimates of additional handling costs for specialty crops provide a basis for estimating the additional segregation costs for non-GM corn and soybeans. Using survey data, Bender et al. report the additional costs of handling specialty corn and soybeans, consisting of high-oil corn (HOC), Synchrony Treated Soybeans (STS), and various food corns and soybeans.¹ Their report provides ballpark figures for current discussions about product segregation and IP in other arenas, such as non-GM corn and soybeans. However, the analogies are imperfect. For example, the

1. See Karen Bender, Lowell Hill, and others at the University of Illinois, Urbana-Champaign in, *Alternative Market Channels for Specialty Corn and Soybeans* (AE-4726, Feb. 1999).

estimates in Bender et al. pertain to niche-market products. Additional handling costs could be substantially lower for relatively high-volume products, owing to economies of scale. Other factors, as discussed below, could nudge the estimates upward.

The costs of segregation depend, in part, on the level of tolerance established for deliverable products. For example, if a purchaser were to set a strict zero tolerance level for GM varieties, it could be very costly for suppliers to segregate sufficiently to meet the standard -- particularly for corn where the potential for cross-contamination from other fields, conveyances, and storage facilities is high. Generally, the more stringent the standard, the higher the cost of segregation. As used in this analysis, IP is defined as a rigorous form of segregation, associated with a very low tolerance threshold. Under IP, segregation by variety would be done strictly throughout the entire handling and distribution system. Shipment might be done by container, as in the case of tofu-grade food soybeans exported to Japan.

A. Estimates of Segregation Costs for Corn and Soybeans

Estimates of additional segregation costs for non-GM corn range from 10 percent to 63 percent of the projected price for 1999/00. For a single point in the distribution chain, Bender et al. report additional costs ranging from 6 cents per bushel for HOC to 39 cents per bushel for various types of food corn.² If these costs recur at two other points in the chain, e.g., the sub-terminal or export elevator, the total additional costs would range from 18 cents per bushel to \$1.17 per bushel. The cost at the high end of the range may be reflective of a greater degree of stringency afforded to certain kinds of food crops, akin to IP. For HOC, the total additional cost would amount to about 10 percent of the average projected farm price of \$1.85 per bushel of corn for 1999/00.³ For food corn, the additional cost would amount to about 63 percent of the average projected farm price.

Estimates of additional segregation costs for non-GM soybeans range from 13 percent to 43 percent of the projected price for 1999/00. For a single point in the distribution chain, Bender et al. report additional costs ranging from about 18 cents per bushel for STS, to about 61 cents per bushel for various kinds of food soybeans. If these costs recur at two other points in the chain, e.g., the sub-terminal or export elevator, the total additional costs would range from 54 cents per bushel to \$1.83 per bushel. As above, the cost at the high end of the range may be reflective of a greater degree of stringency afforded to certain kinds of food crops, akin to IP. For STS, the total additional cost would amount to about 13 percent of the average projected farm price of \$4.30 per bushel of soybeans for 1999/00. For food soybeans, the additional cost would amount to about 43

2. As presented here, in section (A), the reported additional costs arise primarily from storage, handling/segregation, risk management, transportation, analysis/testing, and marketing. Bender et al. also reports purchasing costs, including price premiums. These premiums are potentially reflective of the additional costs accruing at the farm level. These costs are addressed separately in section (B) below.
3. For price projections, see USDA, *World Agriculture Supply and Demand Estimates*, July 12, 1999.

percent of the average projected farm price.

Cost estimates provide rough indicators. The actual costs of segregation could be lower or higher. Several competing considerations come into play. First, the total additional costs are derived from a simple multiplication of the costs for a single point in the distribution channel, often the first handler. This approach may overstate the total, because the costs of segregation may decline after the initial separation. Second, high-volume non-GM transactions could convey significant economies of scale. These two considerations suggest that the costs could be lower, but other factors could offset some of these reductions. Third, USDA notes that all GM-testing methods available to date are geared to a specific protein level or DNA sequence. Thus, separation requires one test for each specific genetic modification. Such testing costs may be higher than those identified in Bender et al. Fourth, for corn, a two-tier segregation process could result in higher handling costs.

B. Estimates of other costs in the distribution chain

Additional costs also arise at the farm level. The overall costs to the farmer of planting non-GM varieties are the foregone benefits of adopting GM varieties and any additional costs of segregating products. For early adopters, net cash returns from Roundup Ready soybeans have been estimated anecdotally, at \$10 to \$25 more per acre than from non-GM varieties. Based on an approximate yield of 50 bushels per acre, producers would have to receive cash prices for non-GM varieties of 20 cents to 50 cents per bushel higher than for GM varieties to consider switching. From a slightly different perspective, Dupont-ADM reported a farm-level price premium of 18 cents per bushel for STS soybeans in 1999 and Consolidated Grain reported a premium of 5 cents per bushel for non-GM corn.⁴ In a highly competitive and well-established market, the price premium would just offset the additional farm-level costs, but in a thin and newly established market it is more difficult to interpret the figures precisely.

Other costs may arise after export. Another potentially important consideration is the degree to which exports can be certified at origin to meet a specified delivery standard and that certification recognized and honored by the importing country. Testing at the port of entry can lead to substantial costs because of potential demurrage charges incurred while the shipment awaits the results of the test and the potential losses if the shipment were to be rejected. The net effect would depend, in part, on when the buyer takes possession and the risk-sharing arrangements specified in purchase contracts.

2. Analysis of Corn Markets

Production and trade. The United States accounts for a significant share of world

4. Bender et al. report farm-level price premium of 12 cents per bushel for high-oil corn, 35 cents per bushel for food corn, 15 cents per bushel for STS soybeans, and \$1.07 dollars per bushel for food soybeans.

production and exports (see Table 1). In 1998/99, the United States produced an estimated 248 mmt of corn, amounting to about 42 percent of total world production. GM varieties may account for as much as 35 percent of U.S. corn acreage, but planting decisions can be altered from year to year. The United States is also the single largest corn exporter in the world market. In 1998/99, the U.S. exported an estimated 49 mmt of corn, amounting to about 67 percent of total world exports. The United States is also a significant producer and exporter of corn gluten and meal. Other major suppliers of bulk corn include Argentina, which grows only EU-approved biotech corn or non-GM varieties. Argentina produced about 14 mmt of corn in 1998/99, of which it exported almost 9 mmt. The EU, which produced an estimated 34 mmt of corn in 1998/99, engages in trade as both an importer and exporter. On net, however, EU imports typically account for only a small fraction of total world imports. For 1998/99, the EU's net imports of corn are estimated at less than 3 mmt.

EU policies probably have little net effect on corn markets. Until recently, the United States accounted for a significant share of the EU's net corn imports.⁵ In 1997/98, U.S. exports to the EU dropped precipitously because of marketing difficulties arising over the slow pace of the EU's approvals of GM corn. In the absence of U.S. supplies, however, the EU imports >acceptable= corn from other sources, such as Argentina and Eastern Europe. Re-routing probably results in slightly higher transportation costs, but likely has little net impact on the volume of trade. Because the EU has many potential alternative sources for feed grains, it is unlikely that non-GM corn will carry much premium to GM varieties.

Some corn products may be at risk. Corn gluten feed is a by-product of the wet milling process used to make products such as high fructose corn syrup and ethanol. The United States is expected to wet mill about 1.3 billion bushels of corn in 1999/00, yielding an estimated 7.4 mmt of corn gluten feed. Of this, more than 70 percent is typically exported to the EU. To date, the EU has imposed no restrictions on corn gluten feed imports. Earlier this spring, however, two large corn processors, A.E. Staley and ADM, announced that they would not accept GM corn varieties that had not been approved in the European Union. The market for corn gluten feed and meal is more problematic than the market for bulk corn because these products are feed substitutes. If the EU market were closed to U.S. corn gluten feed exports, it is likely that most of the U.S. corn gluten feed would be fed domestically and would compete with other protein feed stuffs, thus driving down domestic prices.

3. Analysis of Soybean Markets

5. As part of the compensation for their accession to the EU in the mid-1980s, the EU established a tariff rate quota for corn exports to Spain and Portugal of 2.5 million tons. The tariff rate quota is offered on a most favored nation basis, but its operation by the EU has historically favored the United States. The EU typically opened the tariff rate quota in late November and December. Since Argentine supplies were usually exhausted by the early fall, the United States was the main beneficiary of the quota.

Production and trade. The United States accounts for a significant share of world production and exports (see Table 2). In 1998/99, the United States produced an estimated 75 mmt of soybeans, amounting to about 48 percent of total world production. GM varieties may account for as much as 50 percent of U.S. soybean acreage, but planting decisions can be altered from year to year. The United States is also the single largest soybean exporter in the world. In 1998/99, the U.S. exported an estimated 21 mmt of soybeans, amounting to about 54 percent of total world exports.⁶ The United States is also a significant, though less prominent, producer and exporter of soybean meal. Other major suppliers of soybeans and soybean meal include Argentina, which has approved GM soybeans, and Brazil, where GM soybeans are being currently considered for approval. Argentina produced about 18 mmt of soybeans in 1998/99 and Brazil produced another 31 mmt. The EU, which does not produce substantial quantities of bulk soybeans, is expected to import about 16 mmt of soybeans in 1998/99. Roughly 40 percent of the EU's imports originates in the United States.

Advance warning is important. A stringent standard could be highly disruptive, especially in the short term. As a practical matter, it might block exports from countries that produce both GM and non-GM varieties. Without adequate notice, the United States and Argentina would likely divert exports to other markets, but hold some production in storage until the next marketing year. Brazil, Eastern Europe, and other non-GM suppliers could step in to fill some EU demand, but substantial re-routing may be unrealistic on short notice. On balance, trade would likely diminish. However, with adequate notice, GM and non-GM suppliers might be able to shift their trade routes more fully. Brazil currently produces about twice as much soybeans as the EU imports, but consumes about 70 percent of its crop domestically.⁷ If Brazil and other non-GM suppliers were to increase their production and exports, they could satisfy EU demand, but the shift would be substantial. With this shift, there would be enough >acceptable= non-GM soybeans to meet EU demand -- even without segregation in the U.S. or other distribution systems. However, if Brazil were to approve GM technologies, segregation could become necessary, as there might not be enough >acceptable= soybeans to meet EU demand. To the extent that re-routing alone did not suffice to meet EU demand, neither the United States nor Argentina could likely develop segregation systems rapidly enough to service the EU in the near term. Uncertainty about an EU standard could further complicate the adjustment.

Initially, U.S. prices would fall. Table 3 shows possible effects in the United States of a substantial decrease in soybean exports. If U.S. exports were to fall by 25 percent, prices could fall

6. Roughly 30 percent of U.S. exports go to the EU, amounting to about 6.4 mmt of soybeans.
7. Brazil currently exports about 30 percent of its production. If it were to increase this share to 50 percent it would offset EU demand. As Brazil would likely need to import some soybeans from GM suppliers to meet domestic demand, it could be difficult for Brazil to prove that GM and non-GM products had not been co-mingled.

by as much as 30 percent. However, as discussed above, some re-routing would likely occur -- even in the short term. Brazil could increase its exports to the EU, thus leaving other markets for the United States and Argentina to fill. Because of these substitution effects, a halt in EU imports of U.S. and Argentine soybeans would likely result in a smaller drop in total exports. Even with a 10 percent decline in exports, U.S. market prices for GM soybeans could fall by as much as 14 percent or about 60 cents per bushel.

At the same time, prices would rise in the EU. Table 3 does not incorporate the effect of the standard -- and the attendant market disruption -- on prices in the EU, but this effect could be significant. If Brazil and other non-GM suppliers cannot meet EU demand, as seems likely on short notice, the price of oilseeds in the EU will rise. EU consumers would lose, because of higher prices, and non-GM suppliers would gain.

Eventually, markets would adjust, at least partially. Markets would respond to the EU=s >price premium.= In the long term, prices would reflect any additional transportation costs, and possibly some additional production and handling costs. If GM and non-GM suppliers can re-route their trade to meet EU demand, the costs of transportation would rise, but there would be no other significant market effects. The overall impact on trade would be small. If re-routing were not sufficient, segregation might occur -- if the price premium were large enough to offset any additional production and handling costs. To the extent that segregation did occur, EU consumers would absorb some of the additional costs in the form of higher prices, but -- after the market adjusted -- the difference in the price of GM and non-GM soybeans would be no greater than the difference in production and handling costs.

U.S. farm programs could interfere with market adjustment. At present, U.S. soybean producers would be largely insulated from a drop in soybean prices. The marketing loan provisions of the 1996 Farm Bill allow producers to place their crop under loan and repay at world prices. Because prices are now under the loan rate, producers would have little incentive to switch to non-GM varieties. As prices rise above the loan rate, however, some or all of the price difference between GM and non-GM varieties would be transmitted to U.S. producers. If the premium for non-GM varieties were sufficiently large, i.e., to compensate for any differences in production and handling costs, U.S. grain and oilseed handlers could develop segregated distribution channels for EU exports.

Table 1. World Corn Supply and Use, 1998/99
(Estimates in Million Metric Tons)

	Production	Imports	Exports	Net Exports*
World	592.53	73.35	72.71	n/a
United States	247.94	0.51	48.9	48.39
Total foreign	344.58	72.85	23.81	-49.04
Major exporters	20.3	0.85	8.7	7.85
Argentina	13.8	0	8.5	8.5
South Africa	6.5	0.85	0.2	-0.65
Major importers	93.43	48.16	11.04	-37.12
EU-15	34.49	11.16	8.61	-2.55
Japan	0	16.5	0	-16.5
Mexico	17.5	5.25	0.05	-5.2
Southeast Asia	15.65	2.5	0.2	-2.3
South Korea	0.08	7.75	0	-7.75
Other	25.71	5	2.18	-2.82
Selected other				
China	124	0.25	2.5	2.25
FSU-12	5.29	0.7	0.45	-0.25
Russia	0.8	0.65	0	-0.65

* Negative numbers indicate net importer

Source: USDA, *World Agriculture Supply and Demand Estimates*, July 12, 1999

Table 2. World Soybean Supply and Use, 1998/99
(Estimates in Million Metric Tons)

	Production	Imports	Exports	Net Exports [*]
World	157.19	39.95	39.62	n/a
United States	75.03	0.11	21.36	21.25
Total foreign	82.16	39.84	18.26	-21.58
Major exporters	52.4	1.5	15.1	13.6
Argentina	18.3	0.9	3.1	2.2
Brazil	31	0.6	9.5	8.9
Other	3.1	0	2.5	2.5
Major importers	17.28	31.24	1.51	-29.73
EU-15	1.54	17.12	1.34	-15.78
Japan	0.16	4.7	0	-4.7
China	13.8	3.6	0.18	-3.42
Other	1.78	5.82	-0.01	-5.83

^{*}Negative numbers indicate net importer

Source: USDA, *World Agriculture Supply and Demand Estimates*, July 12, 1999

Table 3 B Possible Effect of a Decrease in Soybean Exports, 1999/00 Crop Year

Item	Unit	Reduction in Exports		
		0 percent	10 percent	25 percent
Exports	Million bushel	930	837	698
Total use	Million bushel	2,744	2,674	2,564
Price	\$ per bushel	4.30	3.70	3.00
Value of production	\$ million	12,620	10,860	8,805
Marketing loan outlays	\$ million	3,150	4,820	6,584
Gross income	\$ million	15,770	15,680	15,389
Cash expenses	\$ million	9,543	9,543	9,543
Net income	\$ million	6,227	6,137	5,846
Change in net income	\$ million	0	-90	-381

Source: USDA analysis using Data from *World Agriculture Supply and Demand Estimates*, July 12, 1999.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Rosina M. Bierbaum (CN=Rosina M. Bierbaum/OU=OSTP/O=EOP [OSTP])

CREATION DATE/TIME:20-AUG-1999 09:38:38.00

SUBJECT: Press release on the PCAST report

TO: Thomas A. Kalil (CN=Thomas A. Kalil/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Jim Kohlenberger (CN=Jim Kohlenberger/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ian Bowles (CN=Ian Bowles/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

Henry C. Kelly (CN=Henry C. Kelly/O=O [UNKNOWN])
READ:UNKNOWN

Kelly (Kelly [OSTP])
READ:UNKNOWN

Kirkpatrick (CN=Kirkpatrick/OU=OSTP/O=EOP [UNKNOWN])
READ:UNKNOWN

Duncan T. Moore (CN=Duncan T. Moore/OU=OSTP/O=EOP [OSTP])
READ:UNKNOWN

Arthur Bienenstock (CN=Arthur Bienenstock/OU=OSTP/O=EOP [OSTP])
READ:UNKNOWN

Linda Lance (CN=Linda Lance/OU=CEQ/O=EOP [CEQ])
READ:UNKNOWN

TEXT:
Hi--This is the press release issued yesterday on the PCAST report. The
WSJ Fialka story on p A-12 today is based on this. Thought you'd be
interested!

Let me know if you need more info, Rosina

THE WHITE HOUSE

For Immediate Release MEDIA ADVISORY Contacts:

August 19, 1999

Dr. Joan Porter (202/456-6101)

Dr. John Holdren (617/495-1464)

President's Committee on Science and
Technology Finds
Soaring Worldwide Energy Demand & Potentially Disastrous⁸
Unless U.S. Makes Clean Technology and Efficiency Investments

Investments Would Yield Huge Foreign Markets, Avoid Environmental Risk

Washington, D.C. -- A new report by the President's Committee of Advisors on Science and Technology (PCAST) concludes that projected growth in energy usage worldwide could be & potentially disastrous⁸ for the environment and calls for greater public and private investment by the United States in clean energy technology, in cooperation with international partners.

At the same time, the report, notes that U.S. firms would greatly benefit from such investments, helping them capture much of the \$10 trillion which will be spent worldwide for energy supply technologies over the next 20 years.

Dr. John Holdren of Harvard University and Chair of the PCAST Energy Panel said, &The world faces more severe air pollution, greater oil insecurity, heightened threat of global climatic changes, and increased nuclear proliferation risks unless we increase investments in international cooperation on clean energy technology and efficiency now.⁸

The Panel found that world energy demand is likely to soar in the next century to four times today's level. Reductions in projected energy demand would not happen, the panel said, unless innovation to increase energy end-use efficiency and to improve energy supply technologies is both rapid and global.

Dr. Neal F. Lane, Assistant to the President for Science and Technology and Co Chair of PCAST, said, &Tremendous export markets will develop for advanced fossil fuel, renewable, and other clean energy technologies in the very near future. U.S. firms can position themselves to capture a much larger portion of those markets if government and industry make the right decisions now.⁸

Overall, the report finds that the choices the U.S. makes today on research, development, and deployment opportunities will influence the evolution of the global energy system for many decades, and have a tremendous impact on efforts to fight global warming, air pollution, oil

insecurity and other problems energy use will cause.

The report was prepared in response to a request from President Clinton to identify ways to improve the U.S. program of international cooperation on energy R&D to best support our nation's priorities and address the key global energy and environmental challenges of the next century.

The PCAST panel which produced the report identified four sets of initiatives to help address these problems, requiring an additional government investment of about \$250 million per year in FY2001, increasing to \$500 million more per year in FY2005. The recommended initiatives include:

- ú Strengthening energy-related education and training; supporting regional centers for energy research and employment; promoting energy sector reform that attracts private capital while protecting the public interest; and creating mechanisms to assist competitive demonstration, cost-reduction, and financing of advanced energy technologies;

- ú Developing and promoting technologies to halve the energy use of new buildings, build the factories of the 21st century, improve the efficiency of small vehicles and buses, and increase cogeneration of electricity and heat;

- ú Developing and promoting cleaner energy supply technologies, particularly biomass, wind, solar, and other renewable energy sources, more efficient fossil fuel systems, technologies to capture and store carbon, and nuclear fission and fusion; and

- ú Improving management of the Federal portfolio, including greater use of external peer review.

The PCAST panel responsible for the report is made of a diverse group of experts from industry, academic, and non-governmental organizations with a variety of backgrounds and perspectives. In addition to energy expert John Holdren, the report panel included PCAST members John Young (former CEO of Hewlett-Packard Co. and PCAST Co-Chair), John M. Deutch (Massachusetts Institute of Technology), Lilian Shiao-Yen Wu (IBM); industry representatives Richard Balzhiser (President Emeritus of the Electric Power Research Institute), Larry Papay (Vice President of Bechtel), Maxine Savitz (Allied Signal Ceramic Components), Bruce Stram (VP of Enron Energy Services); and others from diverse backgrounds, John P. Boright (National Research Council), William Chandler (Battelle Pacific Northwest National Laboratory), Howard Geller (American Council for an Energy Efficient Economy), John H. Gibbons (Assistant to the President for Science and Technology, ret.), Nathan Rosenberg (Stanford University), and Robert Williams (Princeton University). Despite this diversity, these members and PCAST were unanimous in the recommendations.

Powerful Partnerships: A Synthesis of a Report by PCAST can be accessed at: <http://www.whitehouse.gov/WH/EOP/OSTP/html/new.html>.

The full PCAST report can be found at: Powerful Partnerships: The Federal

Role in International Cooperation on Energy Innovation can be accessed at:
http://www.whitehouse.gov/WH/EOP/OSTP/html/OSTP_Home.html.

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===== ATTACHMENT 1 =====

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THE WHITE HOUSE

Office of Science and Technology Policy

For Immediate Release
August 19, 1999

MEDIA ADVISORY

Contacts:
Dr. Joan Porter (202/456-6101)
Dr. John Holdren (617/495-1464)

**President's Committee on Science and Technology Finds
Soaring Worldwide Energy Demand "Potentially Disastrous"
Unless U.S. Makes Clean Technology and Efficiency Investments**

Investments Would Yield Huge Foreign Markets, Avoid Environmental Risk

Washington, D.C. -- A new report by the President's Committee of Advisors on Science and Technology (PCAST) concludes that projected growth in energy usage worldwide could be "potentially disastrous" for the environment and calls for greater public and private investment by the United States in clean energy technology, in cooperation with international partners.

At the same time, the report, notes that U.S. firms would greatly benefit from such investments, helping them capture much of the \$10 trillion which will be spent worldwide for energy supply technologies over the next 20 years.

Dr. John Holdren of Harvard University and Chair of the PCAST Energy Panel said, "The world faces more severe air pollution, greater oil insecurity, heightened threat of global climatic changes, and increased nuclear proliferation risks unless we increase investments in international cooperation on clean energy technology and efficiency now."

The Panel found that world energy demand is likely to soar in the next century to four times today's level. Reductions in projected energy demand would not happen, the panel said, unless innovation to increase energy end-use efficiency and to improve energy supply technologies is both rapid and global.

Dr. Neal F. Lane, Assistant to the President for Science and Technology and Co Chair of PCAST, said, "Tremendous export markets will develop for advanced fossil fuel, renewable, and other clean energy technologies in the very near future. U.S. firms can position themselves to capture a much larger portion of those markets if government and industry make the right decisions now."

Overall, the report finds that the choices the U.S. makes today on research, development, and deployment opportunities will influence the evolution of the global energy system for many decades, and have a tremendous impact on efforts to fight global warming, air pollution, oil insecurity and other problems energy use will cause.

The report was prepared in response to a request from President Clinton to identify ways to improve the U.S. program of international cooperation on energy R&D to best support our nation's priorities and address the key global energy and environmental challenges of the next century.

The PCAST panel which produced the report identified four sets of initiatives to help address these problems, requiring an additional government investment of about \$250 million per year in FY2001, increasing to \$500 million more per year in FY2005. The recommended initiatives include:

- Strengthening energy-related education and training; supporting regional centers for energy research and employment; promoting energy sector reform that attracts private capital while protecting the public interest; and creating mechanisms to assist competitive demonstration, cost-reduction, and financing of advanced energy technologies;
- Developing and promoting technologies to halve the energy use of new buildings, build the factories of the 21st century, improve the efficiency of small vehicles and buses, and increase cogeneration of electricity and heat;
- Developing and promoting cleaner energy supply technologies, particularly biomass, wind, solar, and other renewable energy sources, more efficient fossil fuel systems, technologies to capture and store carbon, and nuclear fission and fusion; and
- Improving management of the Federal portfolio, including greater use of external peer review.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Shannon Mason (CN=Shannon Mason/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:30-AUG-1999 17:13:37.00

SUBJECT: Ag memo - 8/31 10:00am @ 472

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Draft 8/30/1999 3:10pm

MEMORANDUM FOR:

FROM:

SUBJECT: Proposed Agriculture Package

DATE: August 30, 1999

We have been asked to prepare an agricultural assistance package that would respond to the serious needs in the farm community that have been identified in recent years, in a way that reflects sound policy. When the President signed the 1996 Farm Bill, he expressed concern that it did not provide an adequate safety net to protect farmers in lean times. Those concerns have come to fruition as increased production and diminished opportunities for export have produced relatively low farm revenues last year and this year, with similar expectations for next year as well. This effect is being felt across almost all crops (except some fruits and vegetables) and livestock throughout the country. Recognizing that even the best long-term solutions will not fix the situation overnight, there is a need for immediate assistance. In addition, given the serious drought that has affected several Eastern and Southern states, our package also includes drought assistance.

Overview

Building on the work done earlier this year by the NEC agriculture working group, we have focused on fixing the safety net for the 1999 crop year in a way that indicates our policy performances for a long-term fix to the farm safety net. Our comprehensive package is approximately \$7 billion (see attached Table for particulars), but it includes several components whose cost is adjustable in the event that we want to propose a different total dollar amount. We have identified three separate long-term goals, which individually and collectively will enhance farm security. First, we recommend improving the safety net by providing income assistance to farmers when farm incomes fall; we therefore have as the centerpiece of our package a targeted counter-cyclical income assistance proposal (\$3.5 billion) as well as disaster/drought assistance (\$1.6 billion). Second, we recommend moving farmers towards better risk management by improving participation in the crop insurance program; for the reasons discussed below, we include only limited funds to continue the premium discount that was provided last year to make crop insurance buy-up policies more affordable (\$400 million). Third, we recommend a significant portion of the funds be directed to promoting environmental/conservation goals (\$288 million) and export opportunities (\$700 million), with the remainder being targeted to sectoral initiatives that address more narrow concerns. Within these programs, there are a variety of policy options that are set forth for your consideration.

Our package should be compared and contrasted with the centerpiece of the Republican's \$7.4 billion assistance package, which is a doubling of FY 2000 AMTA payments. It bears

emphasis that AMTA payments are distributed largely on the basis of past production; as a result, and even though there is a \$40,000 cap on such payments for any single producer, the Republican plan delivers significant sums to large farms rather than more targeted relief.

A. Counter Cyclical Assistance

Because of the widespread declines in farm economic conditions, coupled with the effects of natural disasters, the most pressing need is to put in place a program that provides cash assistance for farmers suffering from declines in farm revenues. Two alternative approaches have been suggested. First, there are several proposals for modifying the marketing loan rates in order to deliver more money to the producers of corn, wheat, and perhaps soybeans. Second, we considered a targeted counter-cyclical income assistance plan. The consensus of the interagency working group (NEC, OMB, CEA, USTR, CEQ, OVP, USDA, Treasury) is that a counter-cyclical income assistance program represents the best alternative because it may easily be targeted to those with the greatest need, it is less intrusive on production decisions, and it is more consistent with our WTO obligations.

1. Adjusting Marketing Loan Rates

After harvest, a farmer may want to store the crop for future sale when there is less product on the market and hence higher prices. To allow farmers to do this and still pay their bills when they come due, USDA offers “non-recourse marketing assistance” loans. The size of the loan is the number of bushels (or pounds in the case of cotton) placed under the loan multiplied by the “loan rate,” a special price set by a formula in the 1996 Farm Bill. (For example, if the farmer has 1,000 bushels of a commodity and the loan rate is \$5.00, she can receive a loan for \$5,000.) USDA offers these loans on most major crops, including corn, wheat, soybeans, grain sorghum (a livestock feed), rice, most cotton, and some oilseeds. The non-recourse feature of the loans allows farmers to give their crops to the government in full repayment of the loan. If the market value of the commodity falls below the marketing loan rate, then the farmer can satisfy the loan by either giving the commodity to the government or repaying the loan at the market price. Accordingly, the loan rate effectively serves as the guaranteed minimum price that the farmer will receive for the crop.

When the market is soft or falling, many farmers would take out a marketing assistance loan at the higher loan rate and then repay it at the lower market price, so for most crops USDA offers a short cut called a “loan deficiency payment” (LDP). Without taking out a loan, a producer can apply for a payment equal to the difference between the loan value and what it would cost to repay it. If loan rates are raised, farmers can get more cash from the government.

The interagency working group examined two different proposals for increasing loan rates: (1) equalizing loan rates among certain crops and (2) uncapping loan rates. We discuss these in turn. Either has the primary advantage of directly addressing the concern of most farmers: low crop prices. Higher loan rates would raise gross farm revenue, reduce the price (but not yield) risk that farmers bear, and improve their cash flow for debt management.

(1) The 1996 Farm Bill set loan rates for soybeans at a relatively higher level than loan rates for corn, wheat, and other grains. One rationale that has been offered is that the acreage allocated to soybeans in 1996 was not included in the base for calculations of AMTA payments. Since 1996, however, producers have been free to substantially change their crop mix without losing AMTA payments (hence the 1996 Farm Bill's moniker "Freedom to Farm"). For a variety of reasons, partly due to changing production costs and returns for other grains and partly due to the relatively high loan rates for soybeans, many producers have chosen to switch from other grains into soybeans. In the last two years, this policy -- along with good harvests -- has led to large supplies of soybeans and increasing federal expenditures on loan deficiency payments (in 1998, the LDP program spent \$1.8 billion on soybeans; the same program is expected to spend \$6.6 billion in 1999). It has been suggested that the disparity in the relative loan rates has resulted in planting decisions for the government, not the market, and that to rectify the situation we should increase the loan rate for non-soybean crops. This would result in larger payments for those crops and hence higher income for farmers who plant these crops. OMB estimates that adjusting non-soybean loan rates upwards to provide equivalent subsidies would cost \$4.8 billion per year for the next 5 years.

(2) Alternatively, in the face of persistently low crop prices, we could increase (or uncapped) all loan rates. The 1996 Farm Bill "capped" loan rates at 85% of a rolling five-year average or the 1995 loan rate, whichever is lower. The Senate Democrats have made uncapping the loan rates a centerpiece of their proposed revisions of the 1996 Farm Bill. OMB estimates that uncapping all loan rates would cost \$7-8 billion over the next 5 years, \$5 billion of which would be outlayed in the first year.

As noted above, the benefits of increasing some or all of the loan rates is that it would increase farm income by raising the guaranteed minimum price that farmers receive for their crops. It would, however, only help those farmers planting the eight program crops that are part of the program; it would not help those who plant non-program crops, ranchers etc. It also cannot be targeted either by size of farm or income eligibility. There is an approach that has stepped loan rates (e.g., \$5.00 for the first 1,000 bushels; \$4.00 for the rest), which would give smaller producers a larger proportionate share of benefits. But this would add greatly to the administrative burden of the program and would open the door for significant gaming of the system. In addition, raising loan rates encourages over production, thereby worsening the drop in market prices. The policy response would normally be to impose acreage restrictions, but that is something we moved away from (to universal acclaim) in the 1996 Farm Bill. Obviously if crop prices were to fall further, the cost of the program would simply increase without any accompanying improvement in the farm economy. Finally, programs that are tied to production are more suspect under the WTO rules, and higher loan rates could end up boosting the "amber" box.

2. Income Assistance Program

A counter-cyclical income assistance program would deliver money to farmers when their revenues fall below historic averages for whatever reason, whether low prices, low yields, natural disasters, etc. It could be further targeted by limiting eligibility to producers with gross

farm revenues below a specified amount (to exclude the largest producers), to producers with household income below a specified amount (to ensure that only those dependent on farm income as opposed to hobby farmers obtain funds), and/or to producers in areas whose region-wide revenue has also fallen (to reduce the moral hazard of rewarding inefficient farmers).

Such a program could be based on a decline in revenue either on a national or an individual basis. A national test, which would provide payments when national revenue for a commodity falls below a certain level, is easy to administer in terms of knowing when the program is triggered, but it does not answer the question of how to distribute the money. One possibility is to allocate the money on the same basis as AMTA payments, the mechanism used in the Senate Republican package. Under this approach, payments to each farmer would be tied to the historical crop acreage base (which may differ significantly from current crop mix and acreage), but it would permit payments to be made within a couple of weeks of enactment. Alternatively, the payments could be made based on current production, as proposed in the Harkin/Daschle package. This method would provide payments to those actually producing a crop, but it would require USDA to process individual production records for each farm. Neither approach—the AMTA mechanism or current production—promotes the goal of distributing the money on the basis of need instead of size.

The interagency group agreed that any permanent program we would propose should be based on a measurable decline in revenue on an individual basis. Specifically, when a farmer's revenue drops at least a predetermined percentage below his five-year average, government payments can replace a portion of the shortfall. For example, if a farmer's average farm revenue over five years was \$60,000, but fell 10 percent to \$54,000, we could replace 85 percent of the shortfall, resulting in a payment of \$5,100 (*i.e.*, $6,000 \times .85$). To reduce the administrative burden, we could require certifications of eligibility (similar to certifications of income eligibility for student loans), with sample audits to deter and detect fraud.

We also discussed whether any permanent program should be based on declines in farm revenue or household income (farm and non-farm). The primary virtue of basing a determination on the former is that farm revenue is what we are trying to protect. Moreover, basing the program on a decline in farm revenue would eliminate the possibility of making payments to someone whose household income fell because of a non-farm related decline in revenue (e.g., a drop in consulting income). Although basing the level of benefit on farm revenue could deliver payments to an inefficient farmer, this should self-correct over time as the five-year average upon which the payment was based would fall. Moreover, we can reduce this hazard by limiting eligibility to farms in areas whose overall farm economy has also declined. Alternatively or in addition, we could use farm revenue as the measure but establish an off-farm income ceiling to exclude those who have significant (e.g. over \$100,000) non-farm income and therefore presumably are not suffering as much. We must recognize, however, that these eligibility criteria may affect incentives to seek off-farm income and, more problematic, will increase the administrative complexity of the program. USDA in particular cautions that while we can talk about future policy direction in general terms (e.g., targeting), there are a number of significant implementation/administrative issues (such as the definitions of revenues, household

income, etc.) that would have to be resolved before we could unveil any legislation for a long-term change or permanent program.

While the interagency group is in general agreement that triggering and eligibility criteria such as those discussed above should be incorporated in any permanent income assistance program, the immediacy of the current need for cash militates strongly against a complex process. There is only so much that USDA can do if we want checks in hand in the foreseeable future. Accordingly, we agreed that for this year, we would use proxies that are administratively feasible and can reasonably approximate the more careful targeting we will construct later. In that context, USDA suggests that we base the trigger and the payment total for each crop on the decline in the national revenue for that crop. The payment to each producer would, for the eight major crops, be based on the share of each crop in their AMTA program base acreage. If we include other farm products in the program, USDA will need to identify producers of those products and estimate their share of national production, which would then be their share of the national total.

USDA's suggested program for this year is very similar to the proposal put forth by Representative Stenholm (H.R. 2792). The major difference is that the Stenholm revenue calculation does not include loan deficiency payments, whereas we do include the value of those payments in our calculations. The Senate Republican package (Cochran amendment) simply doubles the 1999-crop AMTA payments, without regard to the different revenue decreases of individual crops. The Harkin/Daschle (S. 1233) proposal provided for \$5.6 billion in income loss payments for major field crops to be distributed by the Secretary to producers eligible for marketing assistance loans.

Assuming that this year's payments would be triggered by drops in the national revenue for each farm product that is included in the program, there are still several components of the proposal that require policy decisions:

- To which groups of producers should the program apply?
There are three main categories of producers that could be part of this program: (1) producers of the eight major crops that are part of the AMTA program; (2) fruit and vegetable growers; and (3) livestock producers. There is no dispute about including the growers of the eight major crops. USDA and OVP recommend that we include all three groups to provide the broadest safety net. OMB, CEA, and Treasury, on the other hand, are concerned about the significant precedent of pulling in those sectors that have never been part of a program like this, particularly when the drought assistance elements of this package will likely cover this year's losses in the fruit, vegetable, and livestock areas. They also note that, with respect to livestock, cattle ranchers have seen steady declines in the last several years. That means that their rolling average is already relatively low, so this year's livestock revenues (with the exception of hogs) will not represent a precipitous decline from the historical average and hence no assistance would be triggered.

_____ 8 Major Crops _____ Fruits & Vegetables _____ Livestock

- How far should revenue fall before a payment is triggered, and how much of the loss should be replaced by the government?

No one is advocating compensation for a modest decline (less than 5%). With respect to a permanent program based on individual revenue, there is concern that if we compensate a large portion of the shortfall (e.g. 95% of the difference between the current revenues and the five-year average), we could be providing an incentive for those with revenues close to the cutoff point to forego revenues in order to trigger the payments. This problem will not arise this year because we propose to use national (not individual) revenue losses to trigger the program. The two general trigger/replacement formula approaches we have considered are

- (1) a decline (such as 5% or 10%) from historical average triggers payment of a specific percent (such as 75% or 85%) of the total shortfall; and
- (2) a certain percent (such as 85 or 95%) of the historical average revenue is guaranteed. For example, if national revenue from corn this year is 92% of the five-year average, there would be payments to producers if 95% revenue was guaranteed, but no payments if 85% of historical revenue was the guarantee.

_____ Decline/Replacement _____ Revenue Guarantee

The interagency group concluded that, for this year, the second approach is easier to understand and more straightforward, although either would work.

- What is the farm revenue cutoff for eligibility?

The interagency group agrees that eligibility should be limited to producers below a reasonable revenue cutoff; such a provision would be consistent with proposals made earlier in this Administration, but they were never enacted and remain controversial. USDA has proposed a maximum of \$2 million in gross revenue. OMB, CEA, and Treasury propose \$500,000, excluding retired farmers and those earning more than \$100,000 in off-farm income, noting that this would include at least 75% [check] of all producers. The interagency group also agrees that there should also be a minimum revenue requirement of \$1000, to eliminate farms with little commercial activity.

_____ \$2 million _____ \$500,000

- Should there be a limit on the amount of payments to a single producer?

To further target the program, we all agree that there should be a cap on payments to each participant. The current cap on AMTA payments is \$40,000 per participant; the average payment in 1998 was roughly \$5,000. USDA suggests either (1) a limit of \$40,000 to any one producer for AMTA and income assistance; or (2) a separate, and additional, \$20,000 limit for income assistance. USDA would support the former, but notes that this could affect a number of mid-size family farms. The economic agencies all believe option 1 is preferable.

_____ \$40,000 (including AMTA) _____ \$20,000 (income assistance only)

As is clear from the above, the specifications of an income assistance program may be dialed up or down. Limiting the program to the growers of the eight major crops, assuming we

are guaranteeing 95% of the five-year average, for producers with \$500,000 in gross revenues and imposing a cap of \$40,000 to any single producer, the cost of the program is roughly \$3.5 billion.

* * *

In conclusion, the interagency group does not support increasing loan rates. The group unanimously believes that targeted income assistance is the best way to help those who are suffering. It is consistent with WTO commitments, provides help to troubled farmers, allows all farmers to choose their crop mix freely, does not encourage over production, and stretches limited resources by only helping those who need it.

_____ Income Assistance Proposal _____ Modify Loan Rates

B. Crop Insurance

Another long-term objective is to enhance farmers' (and ranchers') willingness and ability to manage their risks so as to minimize their reliance on ad hoc assistance payments. Crop insurance can be an important risk management tool. Currently, there is 100% subsidy on low levels of coverage (called "catastrophic" or CAT for short), and 25 to 50% subsidy on higher rates of coverage ("buy-up" levels). Crop insurance is available for over 70 crops in selected counties. NAP covers all crops for which insurance is not available at roughly the CAT level.

For the past year, the Administration has advocated crop insurance reform (although we did not include funds for reform in the President's FY2000 Budget) that would raise the floor for catastrophic coverage; make higher-level coverage more affordable; apply to losses in revenue as well as yields; cover multi-year disasters; extend coverage to livestock; improve the NAP by increasing coverage and replacing the area trigger with a Secretarial or Presidential disaster designation; and provide better information and service to farmers. These principles were announced by Secretary Glickman last February. They are essentially the same as the House Committee (Combest) bill, although that bill contains less increase in the subsidy for the buy-up level of coverage, no expansion of the NAP program, and no extension to livestock. OMB estimates the cost of the Administration's proposal at \$2.0-2.4 billion per year.

We have not included crop insurance reform in our package because it cannot, under any circumstances, take effect until the 2001 crop year (beginning July 2000), and thus it will be difficult to argue that these reforms can respond to the immediate needs. Nonetheless, we believe we should do everything possible to increase participation in the program. Therefore, this package provides \$400 million to continue the 30 percent premium discount that was provided by the FY1998 emergency supplemental appropriations bill. This would make all Federal crop insurance buy-up policies more affordable next year and provide an incentive for farmers to manage their risks through Federal crop insurance. In addition, USDA suggests that we include as part of this package our previously announced proposal to change the area trigger to make NAP benefits available when a Secretarial or Presidential disaster designation is made.

_____ \$400 million _____ Reform NAP Program Trigger

We also recommend requiring growers to enroll in the crop insurance program next year, at least at the CAT level, in order to remain eligible for other farm programs such as loan deficiency payments and AMTA payments. The Administration has long supported this policy, often called "linkage," in the belief that it can reduce the risk growers bear and perhaps reduce the need for ad hoc disaster assistance. Linkage was a notable feature in the Administration's 1994 reforms of the crop insurance system, and in 1995 participation rose to 85% of eligible acres. In the 1996 Farm Bill, with little if any explanation, linkage was replaced by a requirement that growers who did not buy crop insurance had to sign a waiver acknowledging that they would be ineligible for assistance in the event of a disaster (although they would still be eligible for other Federal farm programs). Thereafter crop insurance participation decreased, but not to its former level. In 1998, about 61% of eligible acres were enrolled when the emergency assistance was distributed, but contrary to announced intentions, the Act did not exclude growers who had signed the waivers. Instead, those who received assistance were required to buy crop insurance for the 1999 and 2000 crop years. We recommend continuations of this requirement for the 2001 crop year.

Even with 100% participation in the crop insurance program, there will be continued calls for ad hoc assistance when prices fall. That is so because insurance is fundamentally designed to address year-to-year risk rather than chronic economic conditions and thus does not compensate growers for *persistently* low commodity prices. Mandatory crop insurance also imposes expense and paperwork on some producers who may rightly believe that it provides them no benefit. Nonetheless, the interagency group unanimously supports a continuation of last year's requirement for enrolling in crop insurance to remain eligible for other USDA programs.

_____ Require Crop Insurance _____ Do not Require Crop Insurance

C. Environmental Support For Farmers in Distress

When farmers suffer, their land can, too, because distress in the farm economy presents new pressure to abandon good stewardship practices that increase costs of production. USDA's conservation programs strengthen the farm safety net by:

- relieving these pressures to abandon conservation practices;
- providing cash assistance to farmers who implement or maintain these practices; and
- lessening pressure that in several states has led, or could lead, to mandatory regulatory restrictions that could further increase production costs at a time when farmers are already experiencing severe cost-return pressures.

There also may be marginal commodity price benefits from programs that reduce production.

The environmental/conservation initiatives described below are not specifically targeted to distressed farmers, but particular programs have limitations on eligibility that generally focus the programs on smaller producers. In addition, each of the relevant programs includes limits on the amount of program assistance that a producer may receive. The interagency group believes that a broad coalition of commodity, farm, conservation, and environmental groups would support these proposals.

1. Raise the Wetlands Reserve Program Cap

The Wetlands Reserve Program (WRP), which provides direct payments to farmers while advancing wetland protection goals, is authorized to enroll up to 975,000 acres total through 2002. The WRP primarily buys permanent easements (approximately 15% of the program funds have been used for 30-year easements or cost-share restorations only) and provides farmers with cost share and technical assistance for converting croplands back to wetlands. Farmers often can realize both 100% of the agricultural value of their land and generate further income by leasing wetland acreage to sporting groups.

Demand for WRP participation far exceeds funding levels, and FY 1999 enrollment will likely be severely limited by a congressionally imposed cap of 120,000 acres (45,000 fewer acres than requested in the FY 1999 Budget). The FY 2000 Budget proposed to enroll nearly 200,000 acres, but the House bill again limits WRP enrollment to 120,000 acres, while the Senate bill limits enrollment to 180,000 acres. The President committed to WRP increases as part of the Clean Water Action Plan.

We propose as part of this package to enroll the additional 45,000 acres requested in the FY 1999 Budget, as well as eliminating the 975,000 acre cumulative cap. For the long-term, we would state our policy that WRP shall enroll no more than 250,000 acres per year through 2002 (the 250,000 number is consistent with the Clean Water Action Plan). This would ensure that WRP has outlays of over \$50 million in 2002 (which it would not have under the current cap), and thereby allow it to automatically be reauthorized under the BEA with no offsets needed in the next farm bill. It would cost an additional \$30 million in FY 1999 to enroll the acres assumed in the FY 1999 Budget, and \$58 million beyond the \$191million requested in FY 2000 to enroll an additional 50,000 acres in the upcoming year.

2. Increase Conservation Reserve Program Continuous Signup Incentives

The Conservation Reserve Program (CRP) provides farmers with rental payments and cost-share assistance in return for taking land out of production and establishing native grass or tree cover. As of October 1 of this year, 31.3 million acres will be enrolled in CRP, which is authorized to enroll up to 36.4 million acres through 2002. To encourage the enrollment of especially valuable acres, USDA established a continuous signup program in which farmers can bypass the regular competitive signup and immediately enter their land into the program. Eligible acres include vegetated buffer strips along riparian areas and grassed waterways that can filter out sediment and chemicals before they pollute streams and rivers. Increasing these practices is an essential element of the Clean Water Action Plan.

The continuous sign-up practices can be costly to establish and maintain, and, perhaps not surprisingly when farm revenue is down, enrollment has lagged. Although the number of acres in continuous sign-up contracts tends to be small, the contracts often require significant costs such as planting trees, building fences, and moving earth. Currently, producers bear half the cost of establishing the conservation practices on the acres they enroll.

To better support farmers who want to protect the environment but may not be able to do so at their own expense in the face of current low prices for most commodities, the interagency group proposes to strengthen the continuous sign-up program. These proposals, which do not require legislative action, could include:

- providing signing bonuses for high priority or especially costly practices, such as riparian buffers or grassed waterways;
- raising annual rental payments; and/or
- giving producers who enroll in continuous signup advantages in the regular CRP program.

The estimated FY 1999 cost of these program changes is \$300 million through 2002, with \$100 million for FY 1999. All of these changes could be implemented administratively, without legislation, and would not count toward discretionary budget caps. Increasing enrollment in continuous signup practices from one million acres to the four million acres goal set by the Clean Water Action Plan would not push CRP over its 36 million acre cap.

3. Expand the Environmental Quality Incentives Program

The Environmental Quality Incentives Program (EQIP) was created in the 1996 Farm Bill with an annual authorization of \$200 million on the mandatory spending side. The EQIP program is different from CRP in that it focuses on livestock-related environmental issues and the practices farmers use on land that remains in production. For example, it funds technical and financial assistance to farmers who improve tillage and other soil management practices, create wildlife habitat, and establish facilities to properly handle animal waste.

We have identified EQIP as essential to ensuring that small producers get the support they need as our Clean Water Action Plan and corresponding initiatives by state and local governments to protect water quality from agricultural runoff are increasing the costs of manure handling and other waste management practices. Livestock producers, in particular, are being asked to assume these increased costs and management burdens on a voluntary basis at the very time that their prices are falling. EQIP can not only ease the burden, but was established in part for the express purpose of helping producers comply with such requirements.

The Administration's FY 2000 Budget proposed to increase EQIP by \$100 million to \$300 million annually. The FY 1999 Budget had included this same proposal, but Congress limited it to only \$174 million. Neither the House or the Senate have acted on the Administration's FY2000 request, but the appropriation bill would again cut EQIP to \$174 million.

The interagency group proposes as part of this package to increase the FY 2000 to \$350 million, which would be an additional \$50 million beyond that contained in the President's Budget.

4. Increase Natural Resources Conservation Service Technical Assistance

The additional assistance provided by WRP and CRP will add to the workload of the Natural Resources Conservation Service (NRCS), which provides on-farm help to farmers implementing the conservation measures that are supported by these programs. The success of these programs in delivering higher levels of assistance to farmers practicing conservation is directly dependent on higher levels of assistance from NRCS. We have proposed an \$50 million increase in funding, which may vary depending on the precise conservation options selected.

Future Environmental Initiatives

The interagency group has identified a number of other initiatives that could provide important environmental benefits over the long run. We include a brief discussion of them here because they complement the environmental measures in the assistance package. They are not, however, included in the current package.

1. Expand the Conservation Reserve Program (CRP) from 36.4 to 40 million acres.

The Conservation Reserve Program is currently authorized for 36.4 million acres by 2002. Environmental groups support expansion of CRP as long as environmental standards are maintained. Farm constituencies support expanded CRP because it provides guaranteed income for the 10-15 year life of the rental contract. There is some concern that CRP can take so much land out of production that it may hurt the rural businesses that depend on farming activities. Increasing the authorized enrollment level to 40 million acres will cost approximately \$1.8 billion over 10 years. Note: enrollment in CRP this fall will total 31.3 million acres, approximately five million of which were accepted in last fall's signup. Because it would take years to boost enrollment and because rental payments would get to new participants no earlier than FY 2002, it would be difficult to characterize this option as responsive to the immediate needs.

2. Provide Assistance for Transition to EPA Pesticide Requirements.

In August, EPA made the first of a series of anticipated decisions under the Food Quality Protection Act (FQPA) that will restrict or eliminate the uses of certain pesticides, most likely forcing farmers to use more expensive substitutes. OVP, CEQ and USDA recommend assistance to farmers who make an early transition to safer substitutes. USDA notes that FQPA provides authorization for transition assistance payments for farmers moving to lower-risk pest management strategies. The economic agencies, however, have expressed concern about the significant precedent that would be set if the Federal government directly reimburses regulatory costs. Moreover, USTR points out that such pesticide assistance could fall into the WTO's "amber box."

The cost of such a program is obviously dialable; USDA proposes such assistance at a level of roughly \$50 million annually.

3. Create a new Soil Restoration Program (SRP).

The proposed SRP could provide annual rental payments and one-time cost-share payments for farmers who retire their cropland from active agricultural production for 3 to 5 years. One purpose is to provide an option for farmers to take land out of production for a shorter period of time than is required under the CRP. USDA notes that the program would target lands that are suffering productivity losses, such as lands silted over by floods and fields that have become disease-infested. The short-term (relative to CRP) contracts would allow the land to be restored and then quickly returned to production. The environmental groups are generally skittish about anything that departs from the environmental emphasis of land retirement programs. There is also substantial dispute about the cost of the program, depending on whether the idling of the land will in fact lower crop production and hence raise prices and lower LDP payments. In addition, the economic agencies are concerned that the Administration could be seen as recreating the pre-1996 Farm Bill acreage set-aside programs.

4. Strengthen the Debt for Nature Program.

This program provides an opportunity for certain Farm Service Agency borrowers to enter into conservation contracts to cancel a portion of their indebtedness to USDA in exchange for devoting all or a portion of their eligible acreage for conservation, recreation, or wildlife purposes. Interest in this voluntary program has been quite low to date -- less than 17,000 acres have been entered into conservation contracts. USDA is examining ways in which the program could better identify and enroll environmentally important lands. There is no current cost estimate.

5. Promote industrial use of corn and soybeans in ethanol and bio-diesel production.

Ethanol and bio-diesel may offer some potential within the United States to absorb surplus grains and oilseeds. Currently, however, these fuels are not fully competitive with their fossil-based analogues, so USDA, CEQ and OVP have called for increased government support of the industry. USDA acknowledges that there is unused ethanol production capacity, but argues that demand for ethanol could expand substantially over the next five years.

USDA is developing a proposal for a multiple-year program to encourage new processing capacity, with the dual effect of removing more corn and soybeans from the market, and adding to the supply of bio-energy and bio-based lubricants. The program would be similar to the ethanol program put in place in 1986, whereby USDA issued certificates to ethanol producers that entitled them to one bushel of corn for every 2.5 bushels they removed from the market and converted to ethanol. The 1986 program cost \$54 million and an estimated 30 million bushels of corn were removed. USDA estimates that a similar program today would cost \$69 million and remove 36 million bushels of corn. Large ethanol plants and/or large firms could be excluded from the program, although this would sharply reduce the ability of the program to lower crop surpluses, because most of the existing production capacity is in large plants. USDA is reviewing options to provide more generous incentives for smaller or new producers.

As noted above, USDA, CEQ, and OVP want to include industrial market promotion in the current package. Treasury, OMB, and CEA generally oppose further ethanol subsidies, and

have not had an opportunity to review USDA's proposal. CEA notes that subsidizing ethanol could be counter to the Administration's efforts to reduce CO₂ emissions -- according to DOE's 5-Labs Study, ethanol derived from corn may actually produce higher levels of CO₂ equivalent emissions than conventional gasoline. CEA also notes that early action on this proposal could bypass the process set forth in the President's recent Executive Order.

_____ \$836 million in Environmental Programs _____ Include other programs

D. Trade Initiatives

In addition to the other steps we are advocating, expanding exports should be a critical element of our plan to address the current farm crisis. U.S. agricultural exports are down for the third year in a row from a high of \$59.8 billion in 1996 to an estimated \$49 billion this year. Grain stocks have been building for four years as a result of record U.S. and world production, depressing commodity prices. The President's Humanitarian Wheat Aid Initiative, announced in July 1998, and the Russian Food Aid Package, announced in November 1998, increased U.S. food aid almost four times as much as prior years, and helped reduce large U.S. stocks of wheat.

The interagency group proposes to continue the approach of the past year. We would extend the wheat donation program to provide food (wheat and other (?) commodities) for hungry people around the world who would not normally be able to afford commercial food exports from the United States. We would also increase the availability of meat and other foods to needy countries by exporting other, non-traditional donation commodities, such as corn and soybeans, through concessional sales under PL 480 authorities. Because the current program has been criticized for 1) displacing U.S. commercial exports; and 2) disrupting the agricultural markets in recipient countries, hurting their farmers and damaging their efforts to restructure rural economies, USDA would first review the experience of the past year's program in light of the criticisms, and design future program activity to minimize unintended harm.

This proposal would increase spending in FY 2000 by \$700 million, which together with commodities and transport already programmed and assumed in the President's FY 2000 Budget, would total over \$1 billion. Donations above this level are likely to substitute for U.S. commercial exports and this would produce little additional exports and no price enhancement. This proposal can be funded through Commodity Credit Corporation mandatory funds without additional appropriations.

The interagency group also suggests that the Administration call on Congress, as it has in the past, to allow unused Export Enhancement Program (EEP) funding to be rolled forward for use in future years or be made available to be used for food aid or other export assistance programs. That funding would allow increased amounts for concessional food sales under PL 480 and/or implementation of other key export programs included in the President's budget, such as the Quality Samples Program.

_____ Food Donation Program

E. Targeted Sectoral Initiatives

To complement the broad safety net proposals, the interagency group has identified a number of targeted sectoral initiatives. These proposals would meet an immediate need for assistance to producers through an extension of current programs and administrative actions in specialized areas. While some of these programs do not address market failures or assist sectors in current distress, together these options broaden the scope of the package to include all major agricultural production.

1. Extend the Dairy Price Support Program

The 1996 Farm Bill terminates the dairy price support program at the end of this calendar year, even though all of the remaining commodity programs authorized under the 1996 Act continue through 2002. This proposal would extend the dairy price support program for two years at a support level of \$10 per hundredweight, a slight increase over the current level. Extending the dairy price support program through the duration of the 1996 Act would put dairy on par with other commodity programs authorized in the 1996 Act.

Under the dairy price support program, the Federal government purchases butter, cheese and nonfat dry milk at a price that allows processors to pay producers the support price for milk, which is set by statute at \$9.90 per hundredweight for this calendar year. As a replacement for the existing dairy price support program, beginning on January 1, 2000, the 1996 Act authorizes a processor recourse loan program for dairy products. Under the recourse loan program, processors could place in storage cheese, butter and nonfat dry milk and receive a loan on the amount held in storage. Since no government purchases are permitted and the processor cannot forfeit the commodity to the government in lieu of loan repayment, the recourse loan program is not expected to provide nearly the same level of price support as the current program.

Dairy prices have been strong in recent years, with record-high prices last year and again expected this fall. Thus this option does not support an industry facing an economic downturn. However, price volatility has concerned some in the industry, who point to February 1999 when there was the largest single monthly drop in history and to the fact that price support purchases are being made through much of this year.

Terminating the dairy price support program at end of this year is expected to be disruptive to the industry. The support program has been in existence for half a century and is particularly important in balancing the market for nonfat dry milk. Given the current excess supplies of nonfat dry milk, termination of the price support program would likely lead to a sharp decline in prices of that product.

The cost would be around \$300 million per fiscal year. The required legislation has been introduced to wide support.

_____ Extend Dairy Price Support Program

2. Fund the Step 2 Program for Cotton

Step 2 provides funds for purchases of cotton, both here and abroad. It was funded at \$700 million in the 1996 Farm Bill through 2002; however, funding was exhausted in December of 1998. Additional funding for Step 2 would revitalize U.S. cotton exports, which this past year fell to their second lowest level in the past two decades. Funding Step 2 would have the added effect of reducing the likelihood of triggering additional cotton import controls under the 1996 Act's competitiveness provisions. This proposal would fund Step 2 at \$410 million, estimated to last through FY 2002 (identical to Harkin/Daschle and Senate-passed bills).

USDA notes that Step 2 is a popular program in the Southeast and the Southwest. On the other hand, it is not free from criticism – GAO has been very critical of the program, as have those who generally object to price subsidies. CEA also notes that whereas the rest of the package is driven by low commodity prices, this proposal responds to high domestic cotton prices.

_____ Fund Step 2 Cotton Program

3. Improve Farm Storage Capacity

U.S. grain storage capacity has decreased slightly recently, while grain production has increased. Although the national gross numbers imply sufficient storage capacity (on-farm and commercial), there is evidence of regional shortfalls in capacity, and on-farm storage is especially important in certain areas during peak periods when grain storage is limited and/or transportation problems arise.

The Farm Storage Facility Loan Program (FSFLP) provides low-cost financing for producers to build or upgrade commodity storage, drying, and handling facilities on the farm to enhance farmers' marketing flexibility. Without storage capacity, more producers are forced to market their grain at harvest time, when prices are normally at their lowest. Farmers choosing to construct on-farm storage would have the ability to store their grain in anticipation of higher prices later in the normal price cycle.

The FSFLP was suspended in 1982 when a determination was made that sufficient storage capacity was available to producers. A reactivation of the FSFLP, depending on the lending rate applied, could be done administratively and at nominal cost. These intermediate term loans (averaging 5 years) have a very low historical default rate. This proposal would make available \$200 million in loans at a cost of \$10 million in new appropriations.

The program arguably does not address a market failure; there is no evidence that producers have had difficulty obtaining private financing at commercial rates for storage facilities. Encouraging additional storage facility construction could also encourage overproduction and thus worsen the farm crisis. Nonetheless, the interagency group supports the proposal.

_____ Increase On-Farm Storage Capacity

4. Expand Farm Loans by an Additional \$2 Billion

Because of the drought and low commodity prices, there is an extraordinary need for additional farm operating loans. These loans, which are administered by the Farm Service Agency (FSA), are accompanied by supervisory assistance in farm and financial management. Operating credit is targeted to family farmers throughout the United States who are unable to obtain credit from private sources. The additional funds could also fund Emergency Loans, low-interest loans that are made available to producers in designated disaster areas.

Demand for USDA credit assistance increased dramatically in FY1999 and will continue to do so in FY2000 as falling prices and weather continue to put pressure on farm revenues. Minority and beginning family farmers are the most vulnerable to depressed economic conditions; commercial credit sources are increasingly drying up for these farmers. Additionally, the recently increased loan limits for FSA guaranteed loan programs is increasing the demand for guaranteed loan funding. All of these factors will cause the demand for loan funds in FY 2000 to far exceed what is currently requested in the President's Budget.

The interagency group proposes to include as part of this package an additional \$150 million to support \$2 billion in farm loans, including \$300 million in Emergency Loans (for drought relief), to bring the FY 2000 loan level above the FY 1999 level (including supplementals). The FY 1999 level (including supplementals) was \$4 billion. The President's FY 2000 Request was for \$3 billion, based on an early assessment of the farm economy. The House and Senate versions of the FY 2000 Agriculture Appropriations fund the account at about the requested level. The additional amount we propose is the same as the Harkin/Daschle amendment, which did not pass the Senate.

_____ Increase Funds for Farm Loans

5. Farm Service Agency Staffing

Increases in standing support programs as well as the items in this assistance package would significantly increase the workload at the field level. The latest USDA agricultural price projections imply continued higher-than-expected demand for commodity loans and other FSA price-sensitive farm programs, in addition to the assistance currently under consideration. Additional funding for FSA salaries and expenses is appropriate in order to maintain staffing at current high-workload levels.

OMB estimates that USDA could maintain existing staff levels and cover minimal ADP costs with approximately \$80 million in addition to the amounts requested in the President's FY 2000 Budget. USDA asserts that \$105 million should be included to avoid reductions of staff.

_____ FSA Increases

6. Strengthen State Mediation Program

The State Mediation Program is administered by the FSA, through the States, to expedite the resolution of agriculture program disputes. Grants are currently made to 22 States whose mediation programs have been certified by the FSA. USDA anticipates that there will be an increased need for State mediation because of the increased Federal assistance. The FY 1999 program level is \$2 million. The Administration has twice asked Congress to increase the program to \$4 million, in both the FY 1999 Budget and the FY 2000 Budget. In both years' appropriations bills, Congress has maintained the program at the \$2 million level. The Daschle/Harkin amendment included the Administration's Budget Request (increasing the program level by \$2 million); that amendment did not pass the Senate. We would add an additional \$2 million as part of this package.

_____ Increase State Mediation Program

F. Drought and Disaster Relief

The interagency group has identified the following options that are specifically suited for drought and other disaster relief. There are components for livestock, crops, environment, and farm workers.

1. Implement Livestock Assistance Program

Livestock producers are faced with a number of uninsurable risks, including for example the effects of the drought this year. This option proposes to replenish the depleted emergency livestock programs that can cover some of the losses associated with increased livestock deaths and higher feed costs in emergency situations.

The Livestock Assistance Program (LAP) provides financial assistance when grazing lands cannot support the livestock, and livestock producers face much higher feed costs. The LAP program, like the loan programs, was funded by emergency supplemental appropriations twice in FY 1999 for a total of \$270 million. The need for the program has only increased in the FY 2000 crop year. A total appropriation of \$500 million for FY 1999 and FY 2000 would be a significant step toward mitigating the impact of these dry conditions, and would be considered largely drought assistance. A setaside for lamb growers would partially fulfill the Administration's commitment to assistance in the 201 safeguard decision announced in July.

_____ Livestock Assistance Program

For the long term, the interagency group believes that we should restore the authority for a permanent livestock assistance program that was eliminated in the 1996 Farm Bill. Even if the crop insurance program were expanded to include livestock, such as the Administration has proposed, a need for an emergency program may remain. A four-part assistance program costing \$75 million per fiscal year, would include:

Dire Livestock Emergency Assistance Program. Providing short-term emergency feed assistance to producers with foundation livestock in danger of perishing and isolated from normal feed supplies.

Food Emergency Livestock Products Loss Program. Providing payments to help offset production losses caused by a natural disaster. Payments would be made on 30 percent of the losses associated with production (milk and eggs only) disposed of, multiplied by an established price per unit. Payments would be calculated at a level to compensate producers in a manner similar to catastrophic loss coverage available for other commodities under 7 U.S.C. 1508(b).

Livestock Indemnity Program. Providing assistance to producers who have lost livestock due to natural disaster conditions. Payment rates would be based on livestock type at a level consistent with catastrophic levels of insurance coverage (30%). Payments would not be limited to foundation livestock.

Foundation Livestock Feed Assistance Program. Compensating foundation livestock producers for natural disaster-related losses of non-insurable livestock feed and forage crops. Payments would be made on 30 percent of the losses.

2. Implement Crop Loss Disaster Assistance Program

The proposed 1999 Crop Loss Disaster Assistance Program would be similar to the 1998 program, but would only cover 1999 crop losses (no payments for multiple-year losses). To avoid having to wait to make payments until all applications have been received, the President should ask Congress to authorize CCC to make payments under this program rather than appropriating a specific amount.

Based on crop conditions in early August, USDA estimates current losses to be \$1 billion, without accounting for any crop insurance. USDA estimates the cost of a crop disaster assistance program at \$500 million if implemented nation wide. Should crop conditions continue to deteriorate, or additional natural disasters affect other areas, the cost of the program likely would increase. A substantial portion of the payments, but not a majority (?), would go to producers inside the drought-affected regions of the Mid-Atlantic and Northeast.

There is agreement that we would compensate producers with losses of more than 35 percent of expected yield by paying on the number of lost bushels exceeding that 35 percent point as follows:

- a) insured crops (crop insured by either Catastrophic or "buy-up" crop insurance) -- at 65 percent of crop insurance market price elections.
- b) noninsurable crops (crops for which insurance was not available) -- at 65 percent of the 5-year average National Agricultural Statistics Service (NASS) price. Noninsured Crop Disaster Assistance Program (NAP) area loss triggers will not apply.

_____ Crop Assistance Program

The interagency group was divided about whether to assist producers of crops for which crop insurance was available but not taken. As noted above, we announced last year that crop insurance for this year must be purchased by producers who received 1998 disaster benefits in order to remain eligible for farm programs. The economic agencies believe we should be true to our word; they argue that otherwise, we would have no credibility and this has broader economic implications in that it can reduce the incentives for farmers to engage in efficient risk management strategies. USDA joins the economic agencies. OVP suggests that uninsured crop losses be reimbursed at 60 percent [or lower] of crop insurance market price elections, they arguing that the lower reimbursement rate is an adequate penalty for not enrolling in crop insurance. USDA could support that approach if the reimbursement rate was lower (e.g., 50% or less).

_____ Do not include those who declined crop insurance

_____ Include those who declined crop insurance

3. Expand the Emergency Watershed Protection Program

The Emergency Watershed Protection Program purchases permanent easements on flooded land as authorized by the 1996 Farm Bill. It provides direct payments to farmers, protects ecologically sensitive wetlands and floodplains, and helps direct farming and residential areas away from floodplain areas. A funding level of \$150 million would protect over 120,000 acres. About 20% of the total appropriations would be used for technical assistance.

In the May 1999 supplemental, EWP received \$95 million, of which \$31 million went toward the acquisition of easements. Senator Harkin's farm assistance proposal included \$250 million for a flooded land program. [USDA maintains a list of states waiting for easement funds and could probably obligate nearly \$10 million in FY 1999 if this program were included in the assistance package and the funds were received in early September.]

4. Farm Workers/Socially Disadvantaged Farmers Outreach Program

The interagency group recommends enacting special assistance for farm workers who are displaced by drought. In May, the emergency bill appropriated \$20 million for farm workers. In response to a request for proposals published August 3, 1999, USDA has received 79 proposals for these funds, which far exceeds the available amount. Some of the proposals relate to this year's drought, which was not contemplated when the \$20 million was made available. An additional \$10 million could fund those proposals that have merit. In addition, the interagency group would encourage the President to use this opportunity to call on Congress for full funding for the Socially Disadvantaged Farmers Outreach Program. This program is designed to provide technical assistance and counseling to socially disadvantaged farmers and ranchers who are especially in need in the current economic situation. The President's FY 2000 Budget Request was for \$10 million. The House has appropriated ____; the Senate has appropriated ____; we should call for full funding.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Shannon Mason (CN=Shannon Mason/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:30-AUG-1999 12:41:33.00

SUBJECT: Agriculture Deputies Meeting

TO: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])

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TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])

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CC: David A. Bernell (CN=David A. Bernell/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TEXT:

Sally Katzen will host a deputies meeting Tuesday, August 31st at 10:00am,

Rm 472. Please be prepared to discuss the options memo, which will be distributed later this afternoon. Please confirm your attendance as soon as possible.

NOTE: unfortunately, this is the only time I could get on the deputy's schedule at USDA. For obvious reasons, it's crucial he attend. Please be as flexible with your schedule as possible. Thanks for you help.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 1-SEP-1999 00:50:24.00

SUBJECT: latest draft of China paper

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CC: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

I apologize for the delay in circulating the most recent draft of the China paper. Please note that the bulk of the paper is unchanged from the last draft. We have tried to incorporate all written comments received and tried to reflect views expressed at the last meeting. There is a new executive summary, a new summary at the end of the paper, modifications to the description of CDM, and additional description of modeling simulations on China's participation in trading. There are 2 small data gaps, but we have been promised the data to fill these in by noon on Wednesday.

Obviously, the executive summary is crucial, and it is not where it needs to be yet, so I solicit a critical review in terms of message, tone, and wordsmithing. (John Gibson -- any help you can provide would be great.)

I have been informed by OVP that there is interest in sending this analysis as an attachment to a letter from Vice-President Gore to Premier Zhu prior to the Clinton-Jiang bi-lat scheduled in New Zealand. Thus, we are operating on a very short schedule. I would appreciate it if your agency could clear on the body of the analysis (all except the executive summary) by COB Thursday. Comments on the executive summary would be greatly appreciated as soon as possible. Our aim is to finalize the

document before the weekend to allow for sufficient time for fact-checking, translation and shipping. Please do not hesitate to call me at 395-1455. Thank you in advance for your thoughts and suggestions on this draft.
Have a nice day.

Joe

(Note to CEA: hard copies have been left for you in your in-boxes.)

===== ATTACHMENT 1 =====
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The Economics of Greenhouse Gas Emissions Abatement in China
September 1999

The Economics of Greenhouse Gas Emissions Abatement in China

Executive Summary

International efforts to address the risks associated with climate change recognize the need to abate greenhouse gas emissions while sustaining economic development. Specifically, the Kyoto Protocol could serve as the foundation for an international emissions market that would facilitate the transfer of capital and technology to the countries where emissions can be abated at least cost. This international emissions market provides the potential for low-cost abating countries to create an export industry – whose export products are emissions abatement – that could be financed through foreign direct investment. Since China can abate greenhouse gas emissions at lower cost than other countries, it has the opportunity to attract investment for energy and industrial technologies that abate emissions and can then sell emissions credits or allowances to countries with higher abatement costs. Attracting investment to develop cleaner sources of energy would also result in lower local air pollutant emissions that cause significant public health impacts. By participating in the Kyoto Protocol, China could generate billions of dollars in revenues annually through the sale of abated emissions and provide substantial local air quality benefits.

The Kyoto Protocol calls for the design of several market-oriented mechanisms that, if designed and implemented efficiently, could provide the foundation for a global emissions market. Through the Kyoto Protocol's Clean Development Mechanism and international emissions trading, countries with low emissions abatement costs could take advantage of the opportunity to “produce” emissions abatement and to “export” certified emissions reductions or tradable allowances to other higher-cost countries. Just as in the production of commodities or the sale of financial assets, low-cost producers could attract foreign direct investment to finance their emissions abatement industry. The Clean Development Mechanism (CDM) – where a country with an emissions target can invest in projects resulting in emissions abatement in countries without emissions targets and thereby generate an emissions credit to be used to comply with a target – effectively incorporates the economic value of emissions abatement for project finance consideration by investors. By including the additional stream of economic benefits associated with abating greenhouse gas emissions, the CDM can leverage investment in clean energy and other similar projects that would not likely happen otherwise.

While the CDM can result in the investment in some additional energy projects, international emissions trading holds much greater promise as a vehicle for transferring capital and technology and as a stimulus for cost-effective emissions abatement. Under the Kyoto Protocol, two countries with emissions targets can engage in trades of emissions allowances representing portions of the total amount of emissions a country has under its target. The concept of gains from trade is basically the same in this case as it is for trade in goods and services. The potential gains from trade in emissions could be significant as a result of the large differences in marginal abatement costs across countries.

Consistent with sustainable development objectives, an emissions target for a developing country

could be set above current emissions levels, but below what emissions are forecast to be, without additional abatement policies, during the 2008 to 2012 commitment period. This emissions growth target could provide for continued economic development but with a lower emissions growth rate. Since such a target depends on the forecast of future emissions, some have expressed concerns about uncertainty in forecasting future emissions. To mitigate the risk that a target could be too stringent (or too lax), a target could be indexed to a country's economic performance between now and the start of the 2008-2012 commitment period. A target could then be specified in a way that depends on the future values of economic variables, such as GDP. Such targets would avoid the risk of inadvertent stringency associated with higher than projected economic growth between now and the beginning of the commitment period in 2008.

The potential role for China in a global emissions market could be quite substantial. A set of international economic models have evaluated the potential for a global emissions market to achieve the emissions abatement called for in the Kyoto Protocol. These modeling analyses assume that China adopts an emissions target set at its 2010 forecast emissions level without new abatement policies, and actively participates in international emissions trading. As an illustration of the potential gains from trade, a range of model results indicates that at the global market price for emissions abatement, China would find it economic to abate emissions 15 to 24% below projected 2010 emissions levels, and sell emissions allowances valued at \$6 to \$14 billion annually. China has the potential to enjoy gains from trade because of its low abatement costs. For example, one model finds that it costs China less than any other country or region in the world to abate 10% of its emissions in 2010. Several other international models confirm that China has lower abatement costs than virtually any other country in the world. Targets set slightly below business as usual could generate substantial gains from trade. However, more stringent targets would reduce, and could eliminate, the gains from trade.

Efforts to abate carbon dioxide emissions will likely result in significant reductions in emissions of local air pollutants, such as sulfur dioxide and particulate matter, since both kinds of emissions are by-products of fossil fuel combustion. Local air pollution levels in many urban areas in China are several times higher than World Health Organization recommended levels. These high air pollution levels in China have resulted in lost workdays, hospital and emergency room visits, and chronic bronchitis with estimated economic costs of more than \$20 billion annually. Further, agriculture and forestry damage from air pollution affects commodities valued at more than \$4 billion annually in China's economy. By taking advantage of its position as a low-cost producer in the global greenhouse gas emissions market, China could attract investment in the energy and industrial technologies necessary to significantly address the high levels of local air pollution affecting the Chinese people and economy.

The Economics of Greenhouse Gas Emissions Abatement in China

Over the past two decades, China has experienced an impressive rate of economic growth. Between 1978 and 1997, the size of the economy increased from the 18th largest to the 7th largest in the world (in market exchange rate terms), per capita incomes increased by nearly 450%, and energy consumption more than doubled. Like virtually all countries in the world, economic growth was accompanied by the growth of greenhouse gas emissions, especially carbon dioxide.

Emissions of greenhouse gases from all countries pose a risk to the global climate. International efforts to address these risks in Rio de Janeiro in 1992 and Kyoto in 1997 recognize the need to abate greenhouse gas emissions while sustaining economic development. Specifically, the Kyoto Protocol calls for the design of mechanisms that will facilitate the transfer of capital and technology to the countries where emissions can be abated at least cost. A country that can abate greenhouse gas emissions at lower cost than others has the opportunity to attract investment for climate-friendly technology that abates emissions and can then sell emissions credits or allowances to countries with higher abatement costs. Effectively, the Kyoto Protocol provides the potential for low-cost abating countries to create an export industry – whose export products are emissions abatement – that could be financed through foreign direct investment.

What is the potential for a fast-growing economy such as China's to create and benefit from the export of emissions allowances? The economic literature indicates that China has the opportunity to abate more greenhouse gas emissions at a lower cost than any other country. Selling these abated emissions through the Kyoto mechanisms could attract billions of dollars of investment per year that could finance technology leap-frogging in the energy generation and industrial production sectors. In addition, abating carbon dioxide, for example by improving combustion efficiency of coal power plants, would reduce emissions of local air pollutants that carry significant economic costs through lost worker days, additional health care expenses, and premature mortality. The potential is clearly available for China to be better off economically through the development of an emissions abatement export industry.

This paper provides an overview of this potential drawing from economic research on China conducted by academic, industry, and government analysts from around the world. First, the paper presents a description of the trade-oriented mechanisms in the Kyoto Protocol that will promote capital and technology flows to support emissions abatement. Second, it reviews the extensive literature on the potential economic gains associated with participation in the Kyoto mechanisms. Finally, it describes the potential improvement in public health associated with abating emissions of local air pollutants that usually accompany carbon dioxide abatement.

I. Opportunities to Participate in Kyoto Flexibility Mechanisms

The Kyoto Protocol establishes three mechanisms that, if designed and implemented efficiently, could provide the foundation for a global emissions market. Through international emissions trading (Article 17), joint implementation (Article 6), and the Clean Development Mechanism (Article 12), an emissions allowance or credit would have economic value in the international emissions market.

Since greenhouse gas emissions have the same climatic consequences regardless of where they occur, the least-cost approach to addressing the risks of climate change would be to reduce emissions wherever such reductions are cheapest. This implies that emissions abatement has the economic property of a commodity, which facilitates the evolution of a market where entities that demand emissions abatement (e.g., those with relatively high abatement costs) can funnel capital and/or technology to suppliers of emissions abatement. In such a market, countries with low emissions abatement costs could take advantage of the opportunity to “produce” emissions abatement and to “export” certified emissions reductions or tradable allowances to other higher-cost countries. Just as in the production of commodities or the sale of financial assets, low-cost producers could attract foreign direct investment to finance their emissions abatement industry.

This potential evolution of an international emissions market reflects some of the experiences and lessons learned from the international trade in a variety of financial assets, goods, and services. The concept of gains from trade is basically the same as it is for trade in goods and services. For example, Frankel (1999) notes that developing countries could “specialize in installing clean new-technology power-generation capacity, while industrialized countries specialize in producing the capital goods that go into those plants” (p. 4). Toman et al (1998) also note that “[t]hose countries which find themselves with lower abatement costs and more generous emission ceilings can generate a valuable commodity to export” (p. 3). Thus, developing countries would export emissions abatement, and use their export revenues to import, among other things, these new energy technologies.

The gains from trade in emissions allowances occur as a result of the large differences in marginal abatement costs across countries. Weyant and Hill (1999) note that “if the marginal cost in any country participating in a trading regime is higher than in any other participating country, it is advantageous to both countries for the higher cost country to buy emissions rights at a price that is between the two marginal costs” (p. xvii). However, before reviewing the estimated marginal costs across countries, it is important to understand how the Kyoto Mechanisms, specifically the Clean Development Mechanism and international emissions trading, could serve as the necessary foundation of an international emissions market.

A. The Clean Development Mechanism

The Clean Development Mechanism (CDM) was incorporated in the Kyoto Protocol to 1) promote sustainable development; 2) contribute to the Framework Convention’s climate objective of

stabilizing greenhouse gas concentrations at a safe level; and 3) assist the industrialized countries with Kyoto Protocol emissions targets in complying with their commitments (Toman et al 1998). Developing countries participating in CDM projects do not have their own quantitative emissions targets like developed countries. The CDM allows developed and developing countries to work together to design and implement projects in developing countries that abate greenhouse gas emissions. These projects must undergo a review process to certify that the emissions reductions are real in that total emissions are below what they would have been otherwise. In addition, a portion of the emissions credits generated by the project would support an adaptation fund for low-income countries especially vulnerable to climate change and for administrative costs of the CDM. Under the Buenos Aires Plan of Action, the rules for the Clean Development Mechanism are scheduled to be developed by the sixth Conference of the Parties.

The Clean Development Mechanism effectively incorporates a new factor – the economic value of abating greenhouse gas emissions – for project finance consideration by investors. The emissions abatement certified through the CDM would have economic value because developed countries will demand emissions abatement under the Kyoto Protocol. For example, a U.S. firm may evaluate the opportunity to invest in an energy production project such as an advanced technology coal plant in China. In evaluating this project, one of the critical determinants in the decision to invest in the project is the rate of return to the investor. Without the CDM, the investing firm would assess the traditional financial characteristics associated with the project to calculate the rate of return. With the CDM, the investing firm would also account for the economic value associated with the certified emissions reductions that would accrue from the project going forward. Without CDM, the project may not have a sufficient rate of return to justify investment. However, with the CDM, the project may generate enough economic benefits to justify investment. By including the additional stream of economic benefits associated with abating greenhouse gas emissions, the CDM can leverage investment in clean energy and other greenhouse gas abating projects that would not likely happen otherwise.

In addition to firms in developed and developing countries working together to design and implement specific projects, some have suggested that governments could cooperate to design project “fast-track” processes (Chayes 1998). To reduce some of the transaction costs associated with participating in the CDM, two countries could design a fast-track process that makes the project approval process more transparent to the private sector and simplifies the rules for approval. Others have suggested that smaller CDM projects might be bundled, or that a standard for calculating emission reductions might be employed to further reduce transaction costs.

However, even these efforts to promote sustainable development by increasing the number of CDM projects probably would result in a likely volume of capital and technology flows much smaller than that expected for a country with an emissions target that is participating actively in international emissions trading. The CDM carries with it several transaction costs, such as project approval and certification, the adaptation charge, and a charge to cover administrative expenses that together reduce the potential cost-effectiveness of this approach relative to a less-burdened emissions trading

system. It should also be noted that developing countries that adopt emissions targets could be able to participate as a host to CDM projects until the beginning of the commitment period, at which time, it would begin to participate in international trading.

B. International Emissions Trading

Articles 3 and 17 of the Kyoto Protocol allow countries with binding targets to meet their targets by participating in international emissions trading.¹ These binding targets take the form of an “assigned amount” – the number of metric tons of greenhouse gases that may be emitted by sources within the country during the five-year commitment period running from 2008 through 2012. In emissions trading, one country transfers part of its assigned amount to another. This transfer of assigned amount lowers the number of tons of greenhouse gases that the first country may emit between 2008 and 2012, and raises the number of tons that the second country may emit by an equal amount. It is useful to think of each one-ton unit of assigned amount as a tradable allowance for one ton of emissions that may be transferred between countries.

Because the cost of controlling greenhouse gases differs by large amounts from country to country, emissions trading will allow substantial gains from trade in meeting the Kyoto targets. Countries that have relatively inexpensive ways to control greenhouse gases have incentives to reduce emissions by more than their targets require, because they can sell tradable allowances that they will not need. Countries facing the most expensive emissions abatement measures have incentives to buy less costly allowances from others. Since greenhouse gases are global pollutants, the environmental impact of reducing them is the same no matter where the reductions take place. The same overall reduction is achieved, total costs are reduced, and both buyers and sellers gain from the savings allowed by trading. As a result, the international community will be able to afford greater emissions reductions over the longer term while countries selling allowances will receive additional financial in-flows to assist in their economic development.

A country that wants to increase the number of tons of greenhouse gases that it is allowed to emit would seek out other countries that are willing to sell some of their tradable allowances. Buying and selling countries could arrange their transactions directly or use brokers or exchanges. Because of the voluntary nature of trading, a selling country would engage in a trading transaction only if it makes that country better off.

In addition to trading at the governmental level, some countries (including the United States) plan to use both domestic and international emissions trading at the company level as part of their program to meet their Kyoto Protocol commitments. Companies and other legal entities subject to these domestic trading programs (integrated with the international trading system) would have strong

¹ These countries with binding targets include most OECD countries, several eastern European countries, and some former Soviet Union countries. This set of countries is often referred to as Annex I countries. All other countries in the world are often referred to as Non-Annex I countries in the climate policy context.

incentives to look constantly for innovative ways to abate their greenhouse gas emissions. Those who found inexpensive opportunities to abate their emissions could sell the allowances they do not need to other companies or countries who face higher costs. Further, some companies that have climate-friendly technology may find it cost-effective to transfer this technology to facilities in a low-cost abatement country in return for tradable allowances. Countries selling emissions allowances will, therefore, not only benefit from new financial flows but also from increased technology transfer. These tangible rewards for innovation should provide the incentive for research and development and subsequent technological breakthroughs (Petsonk et al 1998).

As stated above, the Kyoto Protocol stipulates that countries must have an emissions target to engage in international emissions trading. Since the Kyoto Conference, several developing countries have expressed an interest in emissions targets. Consistent with the Framework Convention on Climate Change, targets for developing countries should help promote their sustainable development. To do so, such targets should accommodate emissions growth. Unlike targets currently set in the Kyoto Protocol, which were set below most countries' current emissions levels, such a target for developing countries could be set above current emissions levels. To contribute to the international effort to address climate change risks, such targets must result in real abatement of emissions below levels that would otherwise occur during the commitment period – that is, below the projected business as usual (BAU) emissions level.² This kind of target, often referred to as an emissions growth target, could provide for continued economic development but with a lower emissions growth rate.

If developing countries were to agree to binding limits, even if they involved only small cuts below BAU in the first budget period, then such targets, with trading, would imply gains for their

² The term “business as usual emissions level” as used in this paper is synonymous with the term “reference emissions level.”

economies and gains for the environment. Figure 1 provides an illustration of an emissions growth target. Such a target could be expressed as some percentage of a base year, in a similar fashion to current Kyoto Protocol targets, but perhaps with a different base year and/or a percentage greater than 100% to account for emissions growth.

An emissions target could also take alternative forms. Some have expressed concerns about the uncertainty associated with BAU emissions projections (Baumert et al 1999). A country that takes on a commitment for the 2008-2012 period that is fixed *now*, faces the risk, for example, that its economy will grow more rapidly than expected, resulting in an inadvertently stringent target. Alternatively, a country's economy could grow less rapidly than expected, resulting in an inadvertently lax target. There are, however, ways of designing targets to reduce uncertainty and mitigate these risks. In particular, targets could be indexed to future values of economic and other, possibly demographic, variables.

A target could, for example, be indexed to a country's economic performance between now and the start of the 2008-2012 commitment period (Frankel 1999). This approach is used in the private sector, where contracts are frequently indexed to various economic variables. This approach is also used in the public sector (e.g., the U.S. government provides cost-of-living adjustments for social security recipients). A target could then be specified in a way that depends on the future values of economic variables, such as GDP. For example, Baumert et al (1999) have argued for a carbon-to-GDP intensity measure as an appropriate form of developing country commitment. Zhang (1999) also discussed a greenhouse gas emissions per unit GDP measure as the basis for a voluntary commitment by China around 2020.

Such targets would avoid the risk of inadvertent stringency associated with higher than projected economic growth between now and the beginning of the commitment period in 2008. Developing countries would face only the much smaller risk that emissions would be higher than expected, *given* the economic conditions realized in 2007. Similarly, such targets would also avoid the risk of inadvertent laxness associated with lower than expected economic growth between now and the start of the commitment period.

II. Economic Gains from the Clean Development Mechanism and Emissions Trading

A variety of economic models have been developed throughout the world that can evaluate the potential economic gains from trade in emissions allowances. These economic tools effectively model trade in emissions as if they were any other internationally tradable commodity where both production costs and demand vary across countries. However, before reviewing the summary of model results for China, it may be useful to consider some relevant statistics regarding China's projected energy trends. These data will facilitate an understanding of and provide some context for the model results presented below.

A. Illustrative Energy and Economic Statistics

China's economy is expected to continue growing at a strong pace. The International Energy Agency (1998) projects China's economy will grow 5.5% for the 1995-2020 period, while IEA projects OECD countries' GDP to grow on average about 2% over this time period. The higher economic growth rate will likely result in a higher emissions growth rate. However, projected emissions in China are estimated to grow at a slower rate than GDP growth, consistent with the declining energy-to-GDP ratio trend of the past twenty years (IEA 1998, CCCC 1999).

Forecasts of emissions growth through 2010 across six different business as usual projections appear to be fairly similar (figure 2). The differences in projections also appear to be influenced by different economic growth rate assumptions. Indeed, energy-to-GDP projections by many of these analysts follow very similar trends of continued improvement. These forecasts illustrate that the recent decoupling of greenhouse gas emissions and economic growth will likely continue into the future.

Because of the higher growth rate, China has more opportunities than many OECD countries to

reduce emissions relative to baseline projections by installing new greenhouse gas-efficient plants and adopting other new technologies. In contrast to retrofitting existing plants, new investment in greenhouse gas-efficient plants is a less costly approach to abate emissions.

The faster economic growth expected in China implies a higher rate of investment than most OECD countries. For example, investments in electric power generation in China are projected to comprise

nearly $\frac{1}{4}$ of total world generation investment between 1995 and 2010 (figure 3). Many of these Chinese investment projects are likely to increase total generation, while a larger share of OECD investments will likely replace existing power plants. Current Chinese coal plants are about 25 to 33% less efficient than developed countries' coal plants (Fang et al 1998). Investing in power technologies with comparable efficiencies to developed countries' plants could significantly reduce Chinese emissions per unit of electricity generated. Further, one out of every six dollars expected to be invested in transmission systems around the world will be spent in China through 2010. Improving transmission efficiency in China – where transmission losses are twice those found in developed countries and can range up to 30% (Ni and Nien 1998) – through these investments can further reduce emissions per unit of energy consumed.

Differences in energy efficiency between China and developed countries also exist in various industrial sectors. Table 1 illustrates some of these differences in industrial production activities. As these industrial sectors in China evolve, new investment could be leveraged by the value derived from generating emissions abatement to install more advanced, more energy-efficient production technologies.

Table 1. Comparison of Physical Energy Efficiency in Industrial Production between China and Western Countries

Production Activity	China	Western Countries
Industrial Boiler	55-60%	75-80%
Industrial Furnaces	20-30%	50-60%
Thermal Electrical Power	25-30%	35-40%
Steel Industry	1.0 tce/ton of output	0.7 tce/ton of output
Synthetic Ammonia	2.1 tce/ton of output	1.15 tce/ton of output
Cement	0.2 tce/ton of output	0.13 tce/ton of output

Source: Fang et al 1998, p. 125.

As per capita incomes continue to rise in China, the number of motor vehicles per capita is projected to increase much faster (figure 4). Between 1996 and 2010, motor vehicles per capita is projected to triple, and then double again by 2020 (EIA 1999). Since Chinese fuel intensity in highway transport is 25% higher than in developed countries, and domestic-made vehicles consume 30-40% more fuel than comparable import vehicles (Lin and Polenske 1998), this growth in vehicle usage could significantly increase emissions. However, this differential in fuel economy also illustrates another potential opportunity to improve energy efficiency as the transportation sector continues to expand, in part by improving the technologies incorporated in vehicles made in China.

B. Clean Development Mechanism

The Clean Development Mechanism can serve as a vehicle for transferring technology from developed countries to developing countries. In addition, CDM projects can provide investment opportunities for clean energy technologies developed within developing countries. CDM projects will attract investment from firms in developed countries if they generate a sufficient economic return, which includes the value of the certified emissions reductions. The technologies to be diffused through the CDM most likely will be focused in the energy sector.

China has many options for improving efficiency in the energy sector with the continued use of coal. For example, Atmospheric Fluidized Bed Technology (AFBT) achieves thermal efficiency rates of 34-37% by combusting a circulating mixture of coal and gas. If an AFBT plant of X MW displaced a X MW Y coal-fired plant that was part of China's base load, then X million metric tons of carbon (MMTC)³ per year could be abated. Further, Integrated Gas Combustion Cycle (IGCC) is the state of the art in electricity generation from coal. IGCC employs coal gasification along with gas turbines to achieve efficiency rates of 38-45% with SO₂ removal technology in place (Fang 1998). Desulfurization efficiency can reach levels as high as 99%, and the technology can reduce levels of NO_x formation by 25% to 50% when compared to a traditional pulverized coal plant (Government of China 1996). An IGCC plant displacing the same Y coal-fired plant discussed above could abate X MMTC annually.

China has extensive potential for the development of wind power especially along the coastline and in the north. Large-scale wind projects could directly replace coal plants and can usually start generating electricity within a year of beginning construction. Two examples highlight the potential for wind power. One effort, begun in the 1980s to subsidize rural electrification in Inner Mongolia, has generated 140,000 small systems, employed 15,000 technicians, and fostered 42 Chinese enterprises engaged in wind power development. Another project imported medium scale turbines to create a wind farm in Dabancheng, Xinjiang. Overall, China has about 30 MW of grid-connected wind power in operation (Fang 1998).

In addition to technology investment opportunities in the energy sector, several technologies in industrial sectors could also have potential under the CDM. For example, the direct reduction technique for iron smelting could decrease energy use per unit of output. This process uses gas or liquid fuel and non-coking coal as a reducer to smelt iron. It achieves energy savings of 40-50% over blast furnace methods and can reduce carbon dioxide emissions by 50-60% per ton of steel produced (Government of China 1996).

While the Clean Development Mechanism can serve as an important vehicle for investment and technology transfer, some economists believe that several characteristics of the CDM will cause it to result in fewer economic benefits than a well-functioning international trading system. The process of project review and certification, the adaptation fund, and accounting for administrative expenses will likely increase the transaction costs with a specific CDM project that would not likely occur under an efficient trading system. Further, the project-oriented approach of the CDM may not deliver least-cost abatement first like a tradable permit or tax system. Because of this, some have argued that the CDM will deliver fewer tons of emissions abatement at a given price of carbon than a trading system (MacCracken et al 1999). Indeed, because of the complexity of the CDM, Manne and

³ All data on carbon dioxide emissions are presented in this document in terms of million metric tons of carbon equivalent. One ton of carbon dioxide is equal to 12/44 ton of carbon (this is based on the ratio of the molecular weights of carbon and carbon dioxide). All data on the price of a ton of carbon refer to carbon equivalent.

Richels (1999) assumed that a developing country would be able to generate emissions abatement through the CDM equal to 15% of what it would abate at the same carbon price in an international emissions trading system.

C. International Emissions Trading

A variety of international energy-economic models have been used to evaluate the potential economic implications of the Kyoto Protocol. For example, the Stanford University Energy Modeling Forum coordinated a modeling comparison exercise involving 13 models developed by teams in Europe, the United States, Asia, and Australia. Further, the Organisation for Economic Cooperation and Development (OECD) hosted a workshop in 1998 where 9 modeling teams presented their assessments of the Kyoto Protocol.

These models assess the projected marginal cost of abating carbon dioxide across countries and then estimate the extent of buying and selling in an international emissions market until no further economic gains can be achieved through additional trades – i.e., they find the market clearing price for an emissions allowance. For estimating the marginal cost within a country, most of these models evaluate a country's potential emissions abatement by assuming that such abatement occurs at least-cost. In the case of China, these models depict energy technologies – in terms of energy production, carbon emissions, and costs characteristics – across various sectors and they evaluate how firms modify their investment and consumption decisions in these technologies in response to the cost of emitting a ton of carbon. This incentive – pricing carbon emissions – could be provided through a carbon trading system, analogous to the U.S. sulfur dioxide trading system, or through a carbon tax system, analogous to some of China's current pollution discharge fees (Panayotou 1998). Such a policy approach would provide the incentive to attract greenhouse gas-efficient technologies like those discussed in the CDM section above, but at a higher volume than would be expected under the CDM. These models can then provide estimates of marginal cost (e.g., price of one ton of carbon abatement), emissions abatement by country, capital transfers by country, and measures of total economic costs or benefits.

In scenarios involving non-Annex I countries, these models assume that developing countries adopt emissions targets set at estimated 2010 business as usual emissions levels and participate in international trading. Figure 5 presents results from 12 models that participated in the Stanford University Energy Modeling Forum Kyoto Protocol exercise (EMF-16).

While the price of a ton of carbon emissions may vary across models, three key lessons can be drawn from these results. First, projected gains from trade, especially in expanding trading from Annex I countries to all countries, can be substantial. All the models found that marginal and total costs fell substantially going from Annex I to global trading, because developing countries can undertake low-cost emissions abatement and sell their emissions abatement to Annex I countries. Second, higher rates of economic growth in Annex I countries increase demand for emissions allowances, while higher rates of economic growth in developing countries tend to create more opportunities to substitute greenhouse gas-lean technology, and thus increase supply of low-cost emissions abatement. Third, countries with larger coal shares of total energy have more opportunities to abate emissions through energy efficiency and fuel switching than countries with smaller coal shares.

These model results provide illustrations of the possible characteristics of an international emissions market. What kind of role can China play in this emissions market? Analyses based on the MIT-EPPA model developed by researchers at the Massachusetts Institute of Technology indicate that China may have the lowest marginal abatement cost of any country or region in the world (figure 6).

To abate emissions to 10% below 2010 projected business as usual levels, Japan realizes marginal costs 16 times greater than China. The European Community would experience marginal costs more than 6 times greater than China, while the United States would witness marginal costs nearly 4 times greater. The relative differences in marginal costs increase as countries move from abatement of 10% below 2010 BAU to 20% below 2010 BAU. Further, in the EPPA model, no developing or transition economy countries or regions have marginal costs lower than China's marginal cost. Thus, in this representation of the international emissions market, China would be the lowest-cost producer of emissions abatement. Tol (1999) also reports that China (as the dominant economy in the Centrally Planned Asia component of his FUND model) has the lowest abatement costs of any region or country in his global model. These results are based on the specific technology configurations in

these models, and such technology representations vary some across models.

In addition to having the lowest abatement cost to achieve a percentage abatement below 2010 business as usual, as the largest non-Annex I economy, these modeling results illustrate the potential for China to be the largest producer of emissions abatement. Several of the EMF-16 modeling analyses also confirm the potential for China to produce the largest quantity of emissions abatement.

Ellerman et al (1998) have estimated the marginal abatement cost curve for China with the MIT-EPPA model presented below (figure 7).⁴ With this marginal abatement cost curve, or emissions abatement supply curve, one can estimate the number of tons abated in 2010 at a given price of carbon. In their assessment of global trading, they found that the market price would be \$34/ton of carbon.⁵ At this price, China would find it economic to abate approximately 430 MMTC in 2010. This estimate of emissions abatement is larger in absolute terms than the some other estimates, but because Ellerman et al project a higher emissions growth rate for China, the projected abatement as a percentage of BAU is similar to other models. If China had a target set at 2010 BAU, Ellerman et al estimate that it could sell more than \$14 billion per year in emissions allowances which would

4 The equations in figures 7 and 8 take the form: price of carbon (in 1998 U.S. dollars per metric ton of carbon) is equal to the first coefficient multiplied by the quantity of emissions abated below 2010 BAU (in million metric tons of carbon) plus the second coefficient multiplied by the square of the quantity of emissions abated below 2010 BAU (MMTC).

5 All estimates of carbon prices are in 1998 U.S. dollars per ton of carbon equivalent, unless specified otherwise.

generate gains from trade of about \$9 billion per year during the first commitment period.

MacCracken et al (1999) employed the Second Generation Model (SGM) to evaluate the international emissions market assuming global participation. The SGM includes a China module, developed in coordination with Chinese energy-economic experts. The marginal abatement cost curve for China has then been estimated with SGM model outputs (figure 8). They found that under global participation in the international emissions market, the price for a ton of carbon would be \$29/ton, and China would find it profitable to abate about 340 MMTC in 2010. With a target assumed to be set at 2010 business as usual, exporting emissions allowances representing the

emissions abatement could generate nearly \$10 billion in revenue annually.

In addition to the international economic models used in the EMF-16 exercise, some China specific assessments of abatement potential have been conducted. While these studies cannot explicitly illustrate the potential role of China in an international emissions market, they have the benefit of evaluating the Chinese economy in greater detail, and can provide additional insights about the abatement potential in China.

For example, Garbaccio et al (1999) completed a recent evaluation of a carbon tax on the Chinese economy. Such a tax could mirror other emissions and pollutant charges in China. Garbaccio et al designed a 29-sector computable general equilibrium model based on China's 1992 input-output (I-O) tables. They estimated levels of carbon taxes necessary to abate emissions 5%, 10%, and 15% below business as usual over a 40-year period. Revenues from the carbon tax were recycled to the economy by proportional reductions in labor and capital taxes, although given the higher rates of taxation on capital than labor, this recycling promotes higher rates of investment (under the model assumptions). While GDP falls below projected business as usual in the first year of these three simulations, the investment induced by revenue recycling results in GDP growth above BAU after the first year in all scenarios. In this model, China's emissions could be abated by 15% below business as usual at a cost less than \$10 per ton of carbon equivalent (approximately 30 yuan, in 1992 yuan), which is well below the estimated Annex I trading carbon prices in the EMF-16 model results. This analysis indicates that China can substantially reduce its greenhouse gas emissions while maintaining or even increasing its rate of economic growth. Participating in emissions trading and exporting emissions allowances would provide similar economic benefits and bring in additional capital that could also contribute to economic growth.

Table 2 summarizes some of the findings in the economic-energy modeling literature on the potential economic gains for China in participating in international emissions trading. These results assume that China has an emissions target for the first commitment period set at projected emissions for 2010 under business as usual. With the relatively significant emissions abatement below business as usual reflected in these modeling results, targets set slightly below business as usual could generate substantial gains from trade. However, more stringent targets would likely reduce these gains, and extremely stringent targets – for example, below 1990 levels for greenhouse gases in China – would likely result in direct abatement costs well in excess of sales revenues. Of course, these gains from trade are sensitive to both the international market price for a ton of carbon as well as the abatement opportunities within China. These scenarios assume that all developing countries adopt emissions targets set at 2010 BAU levels. Since some of these countries also have low abatement costs relative to developed countries, this assumption implies that China would have competition in “producing” emissions abatement. To the extent that other relatively large, low-cost developing countries do not adopt emissions targets, the supply of emissions abatement would be less than estimated in these global trading scenarios, and China would witness a higher market price for abating carbon and additional economic incentive to abate more emissions. This would increase both the volume of emissions abatement sold to other countries and the economic value of these sales.

Table 2. Potential Economic Effects of Chinese Participation in International Emissions Trading

Model	2010 Price of Carbon (1998\$)	Emissions Abatement (% below BAU)	Annual Revenues from Sales of Emissions Allowances, 2008-2012
MIT-EPPA (Ellerman et al 1998)	\$34/ton	24%	\$14 billion/year
SGM (MacCracken et al 1999)	\$29/ton	24%	\$10 billion/year
GREEN (van der Mensbrugghe 1998)	\$27/ton	15%	\$6 billion/year
RICE (Nordhaus and Boyer 1999)	\$22/ton		
G-Cubed (McKibbin et al 1999)	\$24/ton	19%	\$7 billion/year
ABARE-GTEM (Tulpule et al 1999)	\$28/ton	19%	\$10 billion/year

In these scenarios, every ton of abatement undertaken by China under a 2010 BAU target would allow it to sell a one-ton emissions allowance to other countries with emissions targets. Because these models assume that emissions abatement occurs at least-cost, every ton abated costs less than the 2010 price of carbon – the price China would receive for selling emissions allowances internationally – except for the last ton abated. In addition to the revenues associated with the sale of emissions allowances, the abatement of emissions could have several other economic effects on China. This opportunity to act as one of the largest suppliers of emissions allowances in the international emissions market could serve to attract more FDI and advanced technology to the energy and industrial sectors that emit the majority of greenhouse gases.

Efforts to abate emissions could have two other countervailing effects on the economy. First, policies such as a carbon tax could provide revenues to the government and afford it the opportunity to reduce taxes on labor and investment. As noted above in the discussion of the Garbaccio et al analysis, such a policy could result in lower carbon dioxide emissions while stimulating investment and increasing GDP in the long run. However, some researchers have found that carbon taxes can exacerbate pre-existing tax distortions in markets, such as labor taxes, and this could have the effect of increasing the costs of abatement (Bovenberg and Goulder 1996). It should also be noted that carbon taxes can partially correct pre-existing subsidy distortions in energy markets, which would reduce the costs of abatement.

Finally, abating carbon dioxide emissions often results in the abatement of local air pollutants, such as sulfur dioxide, particulate matter, and nitrogen oxides that cause significant costs in

terms of public health effects as well as agriculture and silviculture damage. The next section reviews the benefits in improving local air quality that accompanies carbon dioxide abatement.

III. Local Air Quality Benefits from Abating Greenhouse Gas Emissions

The same combustion processes that emit carbon dioxide and other greenhouse gases also generate numerous local air pollutants like sulfur dioxide and particulate matter. In its Report on the State of the Environment in China, the State Environmental Protection Administration noted that “atmospheric pollution results mainly from coal-burning” (SEPA 1998, p. 8). This is true for both global and local pollutants. By reducing carbon dioxide emissions through the use of coal substitutes and the adoption of more efficient coal combustion methods, China can simultaneously abate greenhouse gases and improve local air quality.

A. Local Air Quality

Local air quality is the most immediate environmental threat facing China. As figures 9 and 10 show a number of China’s cities regularly encounter more than 2 times the World Health Organization’s recommendations for levels of sulfur dioxide (SO₂) and nitrogen dioxide (NO₂).

In recent years, the level of pollutants has stabilized due primarily to two countervailing effects (Florig 1997). First, more efficient power generation technology and the use of pollution control devices have reduced emissions from industrial sites. Second, household pollution, primarily a result of cooking and heating with coal, increased substantially, leaving the total pollution levels constant. Estimates from the World Bank (1997), however, show particulate emissions increasing 39% and household smoke increasing 90% between 1995 and 2020.

B. Costs of Local Air Pollution

A number of studies have analyzed the relationship between current high levels of local air pollutants and health problems. Xu Zhaoyi and associates at the Liaoning Public Health and Anti-Epidemic Station estimated that indoor and outdoor pollution cause 60% of urban chronic obstructive pulmonary disease cases (Florig 1997). Research by Xu Xiping at the Harvard School of Public Health and his colleagues found that a one-percent increase in SO₂ and total suspended particulates (TSP) levels increased the number of non-surgical visits by 20% and 17%, respectively (Xu et al 1995a; Xu et al 1995b). Xu Zhaoyi and Xu Xiping have also estimated the effects of pollution on mortality rates in Shenyang and Beijing respectively (Xu 1998). In Beijing, a doubling of SO₂ levels increased the mortality rate by 11% while in Shenyang, mortality increased by 2% for each 100 µg/m³ of SO₂ and by 1% for each 100 µg/m³ for TSP. The World Bank (1997) estimates that the economic costs from lost work hours, hospital and emergency room visits, and chronic bronchitis at more than \$20 billion per year in China.

Researchers have also documented the effects of pollution on children. Liu Yulin of the Institute of Pediatrics in Beijing found that children's chances of contracting pneumonia doubled if they lived in a home with coal stoves or adults who smoked. He Qingci of the Wuhan Environmental Protection Institute showed that children from Wuhan's urban areas had lung capacities 5% smaller than children from the suburbs where outdoor TSP levels are 50% lower (110 µg/m³ vs. 251 µg/m³). Finally, Xu Zhaoyi found "up to four times more rhinitis, pharyngitis, and tonsillitis [inflammation of the nasal mucous membrane, pharynx, and tonsils, respectively] among children living in areas of

heavier outdoor pollution” (Florig 1997).

While these estimates demand consideration, they should be used with caution. This area of epidemiology has a relatively short history compared with other disciplines. As a result, many of the studies ignore the effects of pollution levels over time and may not adequately control for the presence of covariates that could magnify or diminish the estimated effects of pollution levels on public health. This criticism notwithstanding, the Working Group on Public Health and Fossil-Fuel Combustion (1997) estimates the number of potential lives that could be saved from particulate matter (PM) alone through a 10% reduction from business as usual over the 2000 to 2020 period. The authors project that 1.5 million premature deaths could be avoided in Centrally Planned Asia.⁶ Since the study assumes an immediate reduction in the mortality rate after a reduction in PM concentrations, the actual number of premature deaths avoided may extend beyond 2020. Additionally, the study does not account for other causes of death, which brings into question the actual number of life-years these statistical lives represent. By assuming PM distributions similar to the United States, however, the authors underestimate the number of deaths because of China’s higher use of coal and residential reliance on coal and biomass stoves.

In addition to public health effects, local air pollution adversely impacts agricultural and silvicultural production activities. The World Bank (1997) estimates that the share of farming and forestry output damaged by sulfur deposition is more than 5% of total economic output in these industries in several provinces. This damage affects commodities representing a value of perhaps more than \$4 billion annually in the Chinese economy.

C. Options for Carbon Dioxide Abatement and Local Air Quality Improvement

The future increases in pollution levels reflect the growth of numerous pollution sources, including new power plants, household heating sources, and automobiles. China has set a goal of 95% electrification by the year 2000, and to that end, electricity capacity has increased by 200% between 1980 and 1994. Because Chinese generators tend to be small, to run for long life spans, and to have low efficiency levels, significant potential exists both to improve ambient air quality and to generate credits for carbon abatement under an emissions target. Even relatively simple policies such as washing and screening coal could both improve air quality and generate more efficient power, reducing levels of carbon dioxide emissions (Murray and Rogers 1998).

To reduce congestion on public transportation and to improve commercial service, China has begun encouraging the use of automobiles. Between 1983 and 1990, the automobile stock increased from 1.8 million to 8.2 million and road transportation volume increased at an average annual rate of 13.5% for both passengers and freight while rail volume only increased 7.7% and 5.6% for passengers and freight, respectively (Lin and Polenske 1998). China’s emissions standards and automotive technology are similar to those of the west in the 1970’s; compared to foreign vehicles,

⁶ Centrally Planned Asia includes China, Laos, North Korea, and Vietnam.

Chinese vehicles emit “2.5 to 7.5 times more hydrocarbons, 2 to 7 time more nitrous oxides, and 6 to 12 times more carbon monoxide” (World Resources Institute 1998). These trends are challenging in themselves, but also offer substantial opportunities for simultaneous reductions in local air pollutants and carbon dioxide emissions through improved highway infrastructure and the use of more recent automotive technology.

Finally, most Chinese residents rely on coal and biomass stoves for cooking and heating. These also constitute the main sources of indoor air pollution. If other energy options develop such as natural gas or electricity, then the adoption of gas furnaces or electric appliances would provide an obvious route to reducing pollution levels, perhaps by substantial amounts. Such steps would tend to reduce greenhouse gas emissions, as well. Absent these developments, however, options still exist. China’s cities, for example, are very dense. This may allow a more centralized control of pollution emissions through large scale heating systems that service multiple housing units (Fang et al 1998).

IV. Summary

The Kyoto Protocol has the potential to create the incentives necessary for a global greenhouse gas emissions market to evolve. This market would serve as a critical vehicle for countries and private firms to participate in the transfer of capital and technology to the countries where emissions can be abated at least cost. A review of the existing economic literature illustrates that China has significant potential to abate greenhouse gas emissions at low cost, thereby providing an opportunity for it to act as a major supplier of emissions abatement in this global market. While the Clean Development Mechanism can attract some investment in climate-friendly technologies, most economists believe that more substantial economic gains can accrue from an appropriately designed emissions growth target and active participation through international emissions trading. The global emissions market would provide the incentive to China to abate emissions of greenhouse gases, providing the opportunity to sell emissions allowances potentially valued in the billions of dollars annually. In addition, the abatement of carbon dioxide would deliver the substantial benefit of reducing emissions of local air pollutants and improving air quality in many urban areas in China.

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CREATOR: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 1-SEP-1999 10:43:26.00

SUBJECT: P5

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Hoping you could come today prepared to present some analysis/reasoning on economic considerations, eg economic significance, trade creation, trade diversion, is this a "natural" FTA in Jeff's parlance. Matt Schaefer spoke to Victoria about this, but didn't sound like she was optimistic. If possible, it would be helpful b/c few of the people in attendance have any sense that FTAs can be mixed blessings from point of view of global free trade or that some FTAs are economically better than others.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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CREATION DATE/TIME: 2-SEP-1999 14:26:31.00

SUBJECT: latest executive summary -Reply

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP [WHO])
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TO: Ian Bowles (CN=Ian Bowles/OU=CEQ/O=EOP [CEQ])
READ:UNKNOWN

TO: David B Sandalow (CN=David B Sandalow/OU=CEQ/O=EOP [CEQ])
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CC: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

CC: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
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TEXT:
Sorry, Joe, the version sent a minute ago had a couple of typo errors.

Please substitute this one.

>>> <Joseph_E._Aldy@cea.eop.gov> 09/02/99 10:41am >>>

Here is a revised executive summary. Your thoughts as soon as possible are very much appreciated.

Joe

(See attached file: chinaes3.doc)

- CHINAE~1.WPD===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D25]ARMS26784054W.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

The Economics of Greenhouse Gas Emissions Abatement in China

Executive Summary

International ~~efforts~~ cooperation to address the risks associated with ~~reduce the risks of~~ climate change ~~recognize~~ is premised on the need to abate greenhouse gas emissions while sustaining economic development. Specifically, the Kyoto Protocol ~~establishes~~ includes market-based mechanisms that, if designed and implemented efficiently, would provide the foundation for a global market in greenhouse gas ~~abatement measures~~ emissions market. This market would offer substantial economic opportunities for countries where emissions abatement is relatively inexpensive, including China. Under an efficient global market for greenhouse gas ~~emissions abatement measures~~ market, low-cost opportunities in China to reduce greenhouse gases would attract foreign direct investment for ~~energy and industrial~~ abatement technologies in the energy sector and other industries, allowing China to generate billions of dollars in revenues annually, through the sale of emissions credits or allowances to countries with higher abatement costs.

Participating in an international greenhouse gas emissions abatement market would also help China gain new technology transfer and investment resources to reduce the high levels of local air pollution affecting the Chinese people and economy. Attracting investment to develop cleaner ~~energy sources of and more efficient energy use~~ would also mean less air pollution in many Chinese localities, resulting in substantial public health benefits. ~~Efforts to abate carbon dioxide emissions will likely~~ result in significant reductions in emissions of local air pollutants, such as sulfur dioxide and particulate matter, as well as greenhouse gases, since both kinds of emissions are by-products of fossil fuel combustion. Local air pollution levels in many urban areas in China are several times higher than World Health Organization recommended levels, resulting in lost workdays, hospital and emergency room visits, and chronic bronchitis. The economic cost of these public health hazards is estimated to be more than \$20 billion annually. ~~Furthermore, Damage to China's agriculture and forestry sectors from air pollution has~~ been valued at more than \$4 billion annually. By taking advantage of its position as a low-cost producer in the global greenhouse gas emissions market, China could attract investment in the energy and industrial technologies necessary to significantly ~~address~~ reduce air pollution and improve public health in many Chinese localities.

The Kyoto Protocol's key market-based provisions include the Clean Development Mechanism (CDM) and international emissions trading. ~~Both These provisions would~~ allow countries with low emissions abatement costs to take advantage of the opportunity to "produce" emissions abatement and to "export" certified emissions reductions or tradable allowances to other higher-cost countries. Just as in the production of commodities or the sale of financial assets, low-cost producers could attract foreign direct investment to finance their emissions abatement industry.

Under the CDM, a country with ~~an a~~ a greenhouse gas emissions target under the Protocol can invest in projects that abate resulting in emissions abatement in countries without targets, thereby generating emissions credits ~~or allowances~~ that can be transferred to the first country and to be used to help meet its ~~comply with a target.~~ The CDM can leverage investment in clean energy and other similar projects that would not likely happen otherwise because the ~~The~~ additional economic value of the emissions ~~allowances~~ credits generated by the project ~~that a project generates~~ provides an incentive for investors; ~~meaning that.~~

International emissions trading holds even greater promise ~~both~~ as a vehicle for transferring capital and technology and for stimulating cost-effective emissions abatement. Under the Kyoto Protocol, each country with emissions targets has, in effect,

an emissions "budget" – a total amount of greenhouse gases that it is allowed to emit into the atmosphere over a given period of time. ~~two countries~~ One such country ~~with emissions targets~~ can ~~engage in trades of~~ transfer a portion of this emissions budget to another. ~~emissions allowances representing portions of the total amount of emissions a country has under its target.~~ The incentive to trade ~~these "emissions allowances"~~ will stem from the ~~potentially~~ large differences in marginal costs of emissions abatement across countries. Countries that have relatively inexpensive ways to control greenhouse gases have incentives to reduce emissions by more than their targets require, because they can ~~self-tradable~~ transfer to other countries the ~~emissions allowances~~ that they will not need. Countries facing the most expensive emissions abatement measures have incentives to buy less costly allowances from others. Thus, trading ~~will allow~~ the international community to achieve the same overall reduction in emissions at significantly lower cost. ~~and At the same time, both buyers and sellers will~~ countries stand to reap significant economic gains: Countries buying allowances save in abatement costs ~~while countries selling allowances and sellers would receive not only additional financial in-flows but also and~~ increased technology transfer.

~~however, The~~ Kyoto Protocol stipulates that a country must have ~~an a~~ greenhouse gas emissions target ~~in~~ order to participate in trading. It is broadly recognized that any such targets must be compatible with developing countries' legitimate needs and objectives for sustainable economic growth. Since the Kyoto Conference, several developing countries have expressed an interest in ~~adopting emissions targets that accommodate continued emissions growth, but at a slower rate than emissions are forecast to grow without additional abatement policies.~~ At the same time, these countries recognize the need for such targets to be consistent with their sustainable development objectives. ~~One way to do so would be for a country to set its target above current emissions levels, but below what emissions are forecast to be, during the Protocol's first commitment period which runs from 2008 to 2012. Such an "emissions growth target" could would provide for continued economic development but with a lower emissions growth rate.~~ To address economic forecasting uncertainties, ~~mitigate the risk that a that could cause a target could to end up being too stringent (or too lax), a target could be indexed to a country's economic performance between now and the start end of the 2008-2012 commitment period.~~ Thus, faster than expected economic growth would result in an upward adjustment in the target.

~~China is one~~ One of the nations that would stand to reap substantial benefits by participating in an international emissions market ~~is China.~~ Over the past two decades, China's economy has grown at an impressive rate and it is now the world's 7th largest. At the same time, its energy consumption has more than doubled and its greenhouse gas emissions have grown substantially. While China is making impressive strides towards lowering its greenhouse gas emissions intensity (the amount of emissions per unit of gross domestic product), ~~a~~ variety of economic analyses and modeling efforts indicate that there are many ~~additional~~ low-cost emissions abatement opportunities in China. ~~— indeed~~Indeed, some ~~analyses~~ suggest that China has lower abatement costs than virtually any other country in the world.

Consequently, it is expected that by participating in a global emissions market China would ~~achieve substantial gains from trade, greatly benefitting both its economy and its environment.~~ Results from a range of economic models indicate that by taking on an emissions target ~~some distance below emission levels that are otherwise projected for the 2008-2012 period, and by actively participating in international emissions trading, China would find it economic to reduce emissions 15 to 24% below projected 2010 emissions levels and would be able to sell emissions allowances valued at \$6 to \$14 billion annually.~~ Gains from trade would vary greatly depending on the extent to which China's growth target varied from the business as usual projection. ~~Targets set slightly below business as usual could generate substantial gains from trade. More stringent targets would reduce, and could eliminate, the gains from trade.~~

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CREATION DATE/TIME: 2-SEP-1999 14:35:55.00

SUBJECT: latest executive summary -Reply

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP [WHO])
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TO: Ian Bowles (CN=Ian Bowles/OU=CEQ/O=EOP [CEQ])
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TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])
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TO: mark.mazur@hq.doe.gov (mark.mazur@hq.doe.gov [UNKNOWN])
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TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: dmarsh@state.gov (dmarsh@state.gov [UNKNOWN])
READ:UNKNOWN

TO: miotkes@ix.netcom.com (miotkes@ix.netcom.com [UNKNOWN])
READ:UNKNOWN

TO: ROBERT.CUMBY@DO.treas.gov (ROBERT.CUMBY@DO.treas.gov [UNKNOWN])
READ:UNKNOWN

CC: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

CC: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TEXT:

Joe - This document is much improved. I have also seen Roger

Ballentine's comment regarding the environmental component. Attached are my line edits on the summary, on behalf of EPA, trying to effectuate Roger's suggestion and to help in other areas as an editor.

One minor point. We have placed some emphasis on using the term "abate" in lieu of "reduce". We should determine whether the terms translate differently into Chinese. While "abatement" is a common word in English, I find the term "abate" less clear.

I am about to turn to the draft cover letter. Without having looked at it yet, I think the suggestions in EPA's note from yesterday could be accommodated simply by stating, at an appropriate point in the cover letter, that the US side thinks these ideas may be of value to the Chinese both in trade terms (i.e., an additional export product) and in terms of raising additional financial and technology resources for air pollution abatement and sustainable growth. That plus a suggestion for a high-level follow-on discussion.

>>> <Joseph_E._Aldy@cea.eop.gov> 09/02/99 10:41am >>>

Here is a revised executive summary. Your thoughts as soon as possible are very much appreciated.

Joe

(See attached file: chinaes3.doc)

- CHINAE~1.WPD===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D12]ARMS20387054P.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

The Economics of Greenhouse Gas Emissions Abatement in China

Executive Summary

International ~~efforts~~ cooperation to address the risks associated with ~~reduce the risks of~~ climate change recognize the need to abate greenhouse gas emissions while sustaining economic development. Specifically, the Kyoto Protocol ~~establishes~~ includes market-based mechanisms that, if designed and implemented efficiently, would provide the foundation for a global market in greenhouse gas ~~abatement measures~~ emissions market. This market would offer substantial economic opportunities for countries where emissions abatement is relatively inexpensive, including China. Under an efficient global market for greenhouse gas ~~emissions abatement measures~~ market, low-cost opportunities in China to reduce greenhouse gases would attract foreign direct investment for ~~energy and industrial~~ abatement technologies in the energy sector and other industries, allowing China to generate billions of dollars in revenues annually, through the sale of emissions credits or allowances to countries with higher abatement costs.

Participating in an international greenhouse gas emissions market would also help China gain new technology transfer and investment resources to reduce the high levels of local air pollution affecting the Chinese people and economy. Attracting investment to develop cleaner energy sources of and more efficient energy use would also mean less air pollution in many Chinese localities, resulting in substantial public health benefits. ~~Efforts to abate carbon dioxide emissions will likely result in significant reductions in emissions of local air pollutants, such as sulfur dioxide and particulate matter, as well as greenhouse gases, since both kinds of emissions are by-products of fossil fuel combustion.~~ Local air pollution levels in many urban areas in China are several times higher than World Health Organization recommended levels, resulting in lost workdays, hospital and emergency room visits, and chronic bronchitis. The economic cost of these public health hazards is estimated to be more than \$20 billion annually. ~~Furthermore, Damage to China's agriculture and forestry sectors from air pollution has been valued at more than \$4 billion annually.~~ By taking advantage of its position as a low-cost producer in the global greenhouse gas emissions market, China could attract investment in the energy and industrial technologies necessary to significantly address reduce air pollution and improve public health in many Chinese localities.

The Kyoto Protocol's key market-based provisions include the Clean Development Mechanism (CDM) and international emissions trading. ~~Both These provisions would~~ allow countries with low emissions abatement costs to take advantage of the opportunity to "produce" emissions abatement and to "export" certified emissions reductions or tradable allowances to other higher-cost countries. Just as in the production of commodities or the sale of financial assets, low-cost producers could attract foreign direct investment to finance their emissions abatement industry.

Under the CDM, a country with ~~an~~ a greenhouse gas emissions target under the Protocol can invest in projects that abate resulting in emissions abatement in countries without targets, thereby generating emissions credits ~~or allowances~~ that can be transferred to the first country and to be used to help meet its ~~comply with a~~ target. The CDM can leverage investment in clean energy and other similar projects that would not likely happen otherwise because the ~~The~~ additional economic value of the emissions ~~allowances~~ credits generated by the project ~~that a project generates~~ provides an incentive for investors; ~~meaning that.~~

International emissions trading holds even greater promise ~~both~~ as a vehicle for transferring capital and technology and for stimulating cost-effective emissions abatement. Under the Kyoto Protocol, each country with emissions targets has, in effect,

an emissions "budget" — a total amount of greenhouse gases that it is allowed to emit into the atmosphere over a given period of time. ~~two countries~~ One such country ~~with emissions targets~~ can ~~engage in trades of~~ transfer a portion of this emissions budget to another. ~~emissions allowances representing portions of the total amount of emissions a country has under its target.~~ The incentive to trade ~~these "emissions allowances"~~ ~~will~~ stems from the ~~potentially~~ large differences in marginal costs of emissions abatement across countries. Countries that have relatively inexpensive ways to control greenhouse gases have incentives to reduce emissions by more than their targets require, because they can ~~sell tradable~~ transfer to other countries the ~~emissions allowances~~ that they will not need. Countries facing the most expensive emissions abatement measures have incentives to buy less costly allowances from others. Thus, trading ~~will allow~~ the international community to achieve the same overall reduction in emissions at significantly lower cost. ~~and~~ At the same time, both buyers and sellers ~~will~~ countries stand to reap significant economic gains. Countries buying allowances save in abatement costs while countries selling allowances ~~and sellers would receive not only~~ additional financial in-flows ~~but also~~ and increased technology transfer.

~~however,~~ The Kyoto Protocol stipulates that a country must have ~~an~~ a greenhouse gas emissions target in order to participate in trading. It is broadly recognized that any such targets must be compatible with developing countries' legitimate needs and objectives for sustainable economic growth. Since the Kyoto Conference, several developing countries have expressed an interest in adopting emissions targets that accommodate continued emissions growth, but at a slower rate than emissions are forecast to grow without additional abatement policies. ~~At the same time, these countries recognize the need for such targets to be consistent with their sustainable development objectives.~~ One way to do so would be for a country to set its target above current emissions levels, but below what emissions are forecast to be, during the Protocol's first commitment period ~~which runs from 2008 to 2012.~~ Such an "emissions growth target" ~~could~~ would provide for continued economic development but with a lower emissions growth rate. To address economic forecasting uncertainties ~~mitigate the risk that a~~ that could cause a target ~~could~~ to end up being too stringent (or too lax), a target could be indexed to a country's economic performance between now and the ~~start~~ end of the 2008-2012 commitment period. Thus, faster than expected economic growth would result in an upward adjustment in the target.

~~China is one~~ One of the nations that would stand to reap substantial benefits by participating in an international emissions market ~~is China.~~ Over the past two decades, China's economy has grown at an impressive rate and it is now the world's 7th largest. At the same time, its energy consumption has more than doubled and its greenhouse gas emissions have grown substantially. While China is making impressive strides towards lowering its greenhouse gas emissions intensity (the amount of emissions per unit of gross domestic product), ~~a~~ A variety of economic analyses and modeling efforts indicate that there are many additional low-cost emissions abatement opportunities in China. — ~~indeed~~ Indeed, some analyses suggest that China has lower abatement costs than virtually any other country in the world.

Consequently, it is expected that by participating in a global emissions market China would ~~achieve substantial gains from trade,~~ greatly benefitting both its economy and its environment. Results from a range of economic models indicate that by taking on an emissions target some distance below emission levels that are otherwise projected for the 2008-2012 period, and by actively participating in international emissions trading, China would find it economic to reduce emissions 15 to 24% below projected 2010 emissions levels and would be able to sell emissions allowances valued at \$6 to \$14 billion annually. ~~Gains from trade would vary greatly depending on the extent to which China's growth target varied from the business as usual projection.~~ Targets set slightly below business as usual could generate substantial gains from trade. ~~More stringent targets would reduce, and could eliminate, the gains from trade.~~

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 2-SEP-1999 10:41:59.00

SUBJECT: latest executive summary

TO: Ian Bowles (CN=Ian Bowles/OU=CEQ/O=EOP@EOP [CEQ])

READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TO: dmarsh@state.gov (dmarsh@state.gov [UNKNOWN])

READ:UNKNOWN

TO: mark.mazur@hq.doe.gov (mark.mazur@hq.doe.gov [UNKNOWN])

READ:UNKNOWN

TO: John D. Gibson (CN=John D. Gibson/OU=WHCCTF/O=EOP@EOP [WHCCTF])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: David B Sandalow (CN=David B Sandalow/OU=CEQ/O=EOP@EOP [CEQ])

READ:UNKNOWN

TO: ROBERT.CUMBY (ROBERT.CUMBY @ DO.treas.gov [UNKNOWN])

READ:UNKNOWN

TO: doniger.david@epa.gov (doniger.david@epa.gov [UNKNOWN])

READ:UNKNOWN

TO: miotkes (miotkes @ ix.netcom.com [UNKNOWN])

READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Here is a revised executive summary. Your thoughts as soon as possible are very much appreciated.

Joe

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D77]ARMS23846644O.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

The Economics of Greenhouse Gas Emissions Abatement in China

Executive Summary

International efforts to address the risks associated with climate change recognize the need to abate greenhouse gas emissions while sustaining economic development. Specifically, the Kyoto Protocol establishes market-based mechanisms that, if designed and implemented efficiently, would provide the foundation for a global greenhouse gas emissions market. This market would offer substantial economic opportunities for countries where emissions abatement is relatively inexpensive, including China. Under an efficient global greenhouse gas emissions market, low-cost opportunities in China to reduce greenhouse gases would attract foreign direct investment for energy and industrial abatement technologies, allowing China to generate billions of dollars in revenues annually through the sale of emissions credits or allowances to countries with higher abatement costs. Attracting investment to develop cleaner sources of energy would also mean less air pollution in many Chinese localities, resulting in substantial public health benefits.

The Kyoto Protocol's key market-based provisions include the Clean Development Mechanism (CDM) and international emissions trading. Both provisions would allow countries with low emissions abatement costs to take advantage of the opportunity to "produce" emissions abatement and to "export" certified emissions reductions or tradable allowances to other higher-cost countries. Just as in the production of commodities or the sale of financial assets, low-cost producers could attract foreign direct investment to finance their emissions abatement industry.

Under the CDM, a country with an emissions target under the Protocol can invest in projects resulting in emissions abatement in countries without targets, thereby generating emissions credits or allowances to be used to comply with a target. The additional economic value of the emissions allowances that a project generates provides an incentive for investors, meaning that the CDM can leverage investment in clean energy and other similar projects that would not likely happen otherwise.

International emissions trading holds even greater promise both as a vehicle for transferring capital and technology and for stimulating cost-effective emissions abatement. Under the Kyoto Protocol, two countries with emissions targets can engage in trades of emissions allowances representing portions of the total amount of emissions a country has under its target. The incentive to trade will stem from the potentially large differences in marginal costs of emissions abatement across countries. Countries that have relatively inexpensive ways to control greenhouse gases have incentives to reduce emissions by more than their targets require, because they can sell tradable allowances that they will not need. Countries facing the most expensive emissions abatement measures have incentives to buy less costly allowances from others. Thus, trading will allow the international community to achieve the same overall reduction in emissions at significantly lower cost and both buyers and sellers will stand to reap significant gains. Countries buying allowances save in abatement costs and sellers would receive not only financial in-flows but also increased technology transfer.

In order to participate in trading, however, the Kyoto Protocol stipulates that a country must have an emissions target. Since the Kyoto Conference, several developing countries have expressed

an interest in emissions targets. At the same time, these countries recognize the need for such targets to be consistent with their sustainable development objectives. One way to do so would be for a country to set its target above current emissions levels, but below what emissions are forecast to be, without additional abatement policies, during the Protocol's first commitment period which runs from 2008 to 2012. Such an emissions growth target could provide for continued economic development but with a lower emissions growth rate. To mitigate the risk that a target could end up being too stringent (or too lax), a target could be indexed to a country's economic performance between now and the start of the 2008-2012 commitment period. Thus, faster than expected economic growth would result in an upward adjustment in the target.

One of the nations that would stand to reap substantial benefits by participating in an international emissions market is China. Over the past two decades, China's economy has grown at an impressive rate and it is now the world's 7th largest. At the same time, its energy consumption has more than doubled and its greenhouse gas emissions have grown substantially. A variety of economic analyses and modeling efforts indicate that there are many low-cost emissions abatement opportunities in China – indeed, some suggest that China has lower abatement costs than virtually any other country in the world.

Consequently, it is expected that by participating in a global emissions market China would greatly benefit both its economy and its environment. Results from a range of economic models indicate that by taking on an emissions target and actively participating in international emissions trading, China would find it economic to reduce emissions 15 to 24% below projected 2010 emissions levels and would be able to sell emissions allowances valued at \$6 to \$14 billion annually. Gains from trade would vary greatly depending on the extent to which China's growth target varied from the business as usual projection. Targets set slightly below business as usual could generate substantial gains from trade. More stringent targets would reduce, and could eliminate, the gains from trade.

Participating in an international emissions market would also help China improve air quality and public health. Efforts to abate carbon dioxide emissions will likely result in significant reductions in emissions of local air pollutants, such as sulfur dioxide and particulate matter, since both kinds of emissions are by-products of fossil fuel combustion. Local air pollution levels in many urban areas in China are several times higher than World Health Organization recommended levels, resulting in lost workdays, hospital and emergency room visits, and chronic bronchitis. The economic cost of these public health hazards is estimated to be more than \$20 billion annually. Furthermore, damage to China's agriculture and forestry sectors from air pollution has been valued at more than \$4 billion annually. By taking advantage of its position as a low-cost producer in the global greenhouse gas emissions market, China could attract investment in the energy and industrial technologies necessary to significantly address the high levels of local air pollution affecting the Chinese people and economy.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:16-SEP-1999 17:56:35.00

SUBJECT: Deps Meeting 201 Wire Rod

TO: Gayle E. Smith (CN=Gayle E. Smith/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Ravic R. Huso (CN=Ravic R. Huso/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Bruce O. Riedel (CN=Bruce O. Riedel/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Carlos E. Pascual (CN=Carlos E. Pascual/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: samet_andrew@dol.gov (samet_andrew@dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Richard M. Saunders (CN=Richard M. Saunders/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: ebiel@doc.gov (ebiel@doc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Joshua Gotbaum (CN=Joshua Gotbaum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: mary.chaves@do.treas.gov (mary.chaves@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Nora B. Dempsey (CN=Nora B. Dempsey/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Arturo A. Valenzuela (CN=Arturo A. Valenzuela/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Charles L. Pritchard (CN=Charles L. Pritchard/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Antony J. Blinken (CN=Antony J. Blinken/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Bathsheba N. Crocker (CN=Bathsheba N. Crocker/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: andrew_stephens@ita.doc.gov (andrew_stephens@ita.doc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: samet-andrew@dol.gov (samet-andrew@dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ronald L. Silberman (CN=Ronald L. Silberman/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: ebtp@cais.com (ebtp@cais.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: Meg.Lundsager@do.treas.gov (Meg.Lundsager@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

CC: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

Lael will chair a deputies meeting Friday at 2:00 on steel wire rod.
President must make decision by September 25 (next saturday). Attached
is the USTR paper for the meeting. Need to hold meeting tomorrow to meet
the deadline. I will circulate domestic assistance options paper as soon
as I final pieces from agencies today. ML

----- Forwarded by Malcolm R. Lee/OPD/EOP on 09/16/99
05:44 PM -----

Gordana Earp <EARP_GORDANA@ustr.gov>
09/16/99 05:35:16 PM
Record Type: Record

To: Malcolm R. Lee/OPD/EOP
cc: n@ustr.gov

Subject: Whither TPSC Paper -Reply

just sent you the paer; I sent it interagency and asked for comments
in writing by noon tomorrow;

could you pass it to YuChin?

I am attaching again

- TPSCOP~1.WPD

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D40]ARMS26284006X.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Clinton Presidential Records Automated Records Management System [EMAIL]

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

Hex Dump file is not in a recognizable format, has been incorrectly decoded or is damaged.

File Name: p_w6004826_opd_html_1.doc

Attachment Number: [ATTACH.D40]ARMS26284006X.236

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:16-SEP-1999 18:00:43.00

SUBJECT: Deputies Meeting on Steel Wire Rod

TO: Bathsheba N. Crocker (CN=Bathsheba N. Crocker/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Ann E. Woolston (CN=Ann E. Woolston/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Richard M. Saunders (CN=Richard M. Saunders/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: donna_jackson@ita.doc.gov (donna_jackson@ita.doc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: esserman_sue@ustr.gov@INET@VAXGTWY (esserman_sue@ustr.gov@INET@VAXGTWY [UNKNOWN])
READ:UNKNOWN

TO: Marilyn L. Scott-Perez (CN=Marilyn L. Scott-Perez/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Joanne M. Hilty (CN=Joanne M. Hilty/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: carolyn.keene@do.treas.gov (carolyn.keene@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Andrew F. Schneider (CN=Andrew F. Schneider/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: earp_gordana@ustr.gov@INET@VAXGTWY (earp_gordana@ustr.gov@INET@VAXGTWY [UNKNOWN])

READ:UNKNOWN

TO: OBERDORFER_AMY@ustr.gov (OBERDORFER_AMY@ustr.gov @ inet [UNKNOWN])

READ:UNKNOWN

CC: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

SORRY. THE MEETING WILL BE AT 2:30 PM.

----- Forwarded by Sharon H. Yuan/OPD/EOP on 09/16/99

05:56 PM -----

Sharon H. Yuan

09/16/99 05:51:29 PM

Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Deputies Meeting on Steel Wire Rod

I apologize for the late notice. There will be a deputies meeting tomorrow at 2 pm (room tbd). Principals plus one only are welcome. Please let me know who will be attending from your office.

Thanks.

Sharon

Message Sent

To:

OBERDORFER_AMY@ustr.gov @ inet
esserman_sue@ustr.gov@INET@VAXGTWY
earp_gordana@ustr.gov@INET@VAXGTWY
Lisa D. Branch/CEA/EOP@EOP
Francine P. Obermiller/CEA/EOP@EOP
John G. Fernald/CEA/EOP@EOP
Victoria A. Greenfield/CEA/EOP@EOP
David W. Beier/OVP@OVP
Andrew F. Schneider/OVP@OVP
donna_jackson@ita.doc.gov @ inet
Carolyn T. Wu/WHO/EOP@EOP
Robert Z. Lawrence/CEA/EOP@EOP
carolyn.keene@do.treas.gov @ inet
Richard M. Saunders/OVP@OVP
Joanne M. Hilty/OVP@OVP

Bathsheba N. Crocker/NSC/EOP
Marilyn L. Scott-Perez/NSC/EOP
Ann E. Woolston/OVP@OVP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:16-SEP-1999 17:51:37.00

SUBJECT: Deputies Meeting on Steel Wire Rod

TO: Ann E. Woolston (CN=Ann E. Woolston/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Richard M. Saunders (CN=Richard M. Saunders/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: donna_jackson@ita.doc.gov (donna_jackson@ita.doc.gov [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: esserman_sue@ustr.gov@INET@VAXGTWY (esserman_sue@ustr.gov@INET@VAXGTWY [UNKNOWN])
READ:UNKNOWN

TO: Joanne M. Hilty (CN=Joanne M. Hilty/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: carolyn.keene@do.treas.gov (carolyn.keene@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Andrew F. Schneider (CN=Andrew F. Schneider/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: earp_gordana@ustr.gov@INET@VAXGTWY (earp_gordana@ustr.gov@INET@VAXGTWY [UNKNOWN])
READ:UNKNOWN

TO: OBERDORFER_AMY (OBERDORFER_AMY @ustr.gov [UNKNOWN])

READ:UNKNOWN

TEXT:

I apologize for the late notice. There will be a deputies meeting tomorrow at 2 pm (room tbd). Principals plus one only are welcome. Please let me know who will be attending from your office.

Thanks.

Sharon

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Reavie.Harvey@do.treas.gov (Reavie.Harvey@do.treas.gov [UNKNOWN])

CREATION DATE/TIME:16-SEP-1999 19:44:55.00

SUBJECT: Deputies Meeting on Steel Wire Rod -Reply

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Richard M. Saunders@OVP (Richard M. Saunders@OVP [UNKNOWN])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: esserman_sue@ustr.gov (esserman_sue@ustr.gov [UNKNOWN])
READ:UNKNOWN

TO: donna_jackson@ita.doc.gov (donna_jackson@ita.doc.gov [UNKNOWN])
READ:UNKNOWN

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP [WHO])
READ:UNKNOWN

TO: carolyn.keene@do.treas.gov (carolyn.keene@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Andrew F. Schneider@OVP (Andrew F. Schneider@OVP [UNKNOWN])
READ:UNKNOWN

TO: OBERDORFER_AMY@ustr.gov (OBERDORFER_AMY@ustr.gov [UNKNOWN])
READ:UNKNOWN

TO: Joanne M. Hilty@OVP (Joanne M. Hilty@OVP [UNKNOWN])
READ:UNKNOWN

TO: earp_gordana@ustr.gov (earp_gordana@ustr.gov [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier@OVP (David W. Beier@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ann E. Woolston@OVP (Ann E. Woolston@OVP [UNKNOWN])
READ:UNKNOWN

TO: Carolyn.Keene@do.treas.gov (Carolyn.Keene@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TEXT:

Date: 09/16/1999 07:28 pm (Thursday)

From: Reavie Harvey

To: KEENEC, ex.mail."Sharon_H._Yuan@opd.eop.gov",
ex.mail."Andrew_F._Schneider%OVP@oa.eop.gov",
ex.mail."Ann_E._Woolston%OVP@oa.eop.gov",
ex.mail."carolyn.keene", ex.mail."Carolyn_T._Wu@who.eop.gov",
ex.mail."David_W._Beier%OVP@oa.eop.gov",
ex.mail."donna_jackson@ita.doc.gov",
ex.mail."earp_gordana@ustr.gov", ex.mail."esserman_sue@ustr.gov",
ex.mail."Francine_P._Obermiller@cea.eop.gov",
ex.mail."Joanne_M._Hilty%OVP@oa.eop.gov",
ex.mail."John_G._Fernald@cea.eop.gov",
ex.mail."Lisa_D._Branch@cea.eop.gov",
ex.mail."OBERDORFER_AMY@ustr.gov",
ex.mail."Richard_M._Saunders%OVP@oa.eop.gov",
ex.mail."Robert_Z._Lawrence@cea.eop.gov",
ex.mail."Victoria_A._Greenfield@cea.eop.gov"

Subject: Deputies Meeting on Steel Wire Rod -Reply

**** High Priority ****

Sharon:

We are 99% sure the person accompanying Stu will be
Meg Lundsager. Please clear her in. If anything changes,
we will give you a call.

Thanks,
Reavie

>>> ex.mail."Sharon_H._Yuan@opd.eop.gov" 09/16/99
05:51pm >>>

I apologize for the late notice. There will be a deputies
meeting tomorrow
at 2 pm (room tbd). Principals plus one only are welcome.
Please let me
know who will be attending from your office.

Thanks.
Sharon

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:16-SEP-1999 21:40:58.00

SUBJECT: Domestic Assistance Options for Steel Wire Rod 201

TO: Nora B. Dempsey (CN=Nora B. Dempsey/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Arturo A. Valenzuela (CN=Arturo A. Valenzuela/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Charles L. Pritchard (CN=Charles L. Pritchard/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Antony J. Blinken (CN=Antony J. Blinken/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: samet-andrew@dol.gov (samet-andrew@dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ronald L. Silberman (CN=Ronald L. Silberman/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: meg.lundsager@do.treas.gov (meg.lundsager@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: bryant-kelly@dol.gov (bryant-kelly@dol.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Gayle E. Smith (CN=Gayle E. Smith/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Ravic R. Huso (CN=Ravic R. Huso/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Bruce O. Riedel (CN=Bruce O. Riedel/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: Carlos E. Pascual (CN=Carlos E. Pascual/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

TO: andrew_stephens@ita.doc.gov (andrew_stephens@ita.doc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Richard M. Saunders (CN=Richard M. Saunders/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: ebiel@doc.gov (ebiel@doc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Joshua Gotbaum (CN=Joshua Gotbaum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: mary.chaves@do.treas.gov (mary.chaves@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: ebtp@cais.com (ebtp@cais.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

Background for deputies meeting at 2:30 Friday. Still awaiting DOL input
on TAA and other worker training. This supplements the USTR's trade
options paper. ML===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D18]ARMS25528106C.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

DOMESTIC ASSISTANCE OPTIONS

TRADE ADJUSTMENT ASSISTANCE PROGRAM FOR FIRMS (Commerce)

The Economic Development Administration (EDA) at Commerce administers a Trade Adjustment Assistance Program that provides technical assistance to U.S. firms (typically small and medium-sized firms) adversely impacted by increased import competition. EDA funds a network of twelve Trade Adjustment Assistance Centers (TAACs); in FY 1999, EDA provided \$11.0 million to the TAACs, and also used \$1.5 million in defense adjustment funds. Authority for the Program lapsed on June 30; until the Program is reauthorized, EDA cannot certify the eligibility of any new firm to receive assistance or make any additional grants, although the TAACs may continue to provide technical assistance to firms certified as of June 30.

Once EDA certifies a firm's eligibility, the relevant TAAC assists the firm in preparing a comprehensive diagnostic and adjustment strategy, analyzing the firm's operations in comparison to other firms in the industry and identifying means to help the firm become more competitive. After the adjustment strategy is approved by EDA, the TAAC and the firm jointly select private consultants to provide the technical assistance. The firm and the TAAC each typically pay 50 percent of the costs of the assistance, with a \$75,000 maximum Federal share per firm. In FY1998, EDA certified 167 firms under the TAA program and approved 127 adjustment proposals for certified firms.

This program is small in scope, and most commonly used by small firms under great financial duress that have not modernized. Many steel wire rod firms have already modernized.

EMERGENCY STEEL AND OIL AND GAS LOAN GUARANTEE PROGRAM (Commerce)

On August 17, the President signed into law a new program that authorizes up to \$1 billion in loan guarantees for steel companies (with a maximum of \$250 million per company) and up to \$500 million in loan guarantees for oil and gas companies (with a maximum of \$10 million per company). The programs will be administered by a three-person Board, chaired by the Chairman of the Federal Reserve and including the Secretary of Commerce and the Chairman of the Securities and Exchange Commission. Implementing regulations must be issued by October 18; staff from Commerce, the Fed, and SEC, with assistance from Treasury, are currently drafting the regulations, and will be holding a public hearing on September 22 to solicit input from interested parties.

Companies eligible to apply for the steel program are those that have experienced layoffs, production losses, or financial losses since January 1998. There are several conditions for guarantees, including: (1) credit is not otherwise available under reasonable terms; (2) the company's prospective earning power and any security pledged furnish "reasonable assurance" of loan repayment; and (3) the guaranteed loan is at "reasonable" interest rate. A company receiving loan guarantee shall pay Treasury an administrative fee equal to 0.5 percent of outstanding principal balance of the loan.

Commerce believes at least one steel wire rod firm may apply for assistance under this program.

COMMUNITY ADJUSTMENT AND INVESTMENT PROGRAM (CAIP) (affiliated with the North American Development Bank)(Treasury)

The CAIP was created in conjunction with the passage of NAFTA and is affiliated with the North American Development Bank. The CAIP is governed by an inter-agency Finance Committee chaired by Treasury, which includes USDA, SBA, HUD, Labor, and Commerce/EDA representatives. The goal of the CAIP is to provide financial resources to assist in the creation or preservation of private sector jobs in US communities that need assistance to adjust to significant job losses attributable to changes in trade patterns with Canada or Mexico associated with NAFTA. The CAIP strives to achieve this goal by concentrating its financial resources in communities that have experienced the greatest difficulty in adjusting to disruptions of their economies attributable to NAFTA. The CAIP endeavors to leverage private sector business lending by making loans and loan guarantees available to private sector firms in such communities to assist them in creating or preserving jobs. In addition, the CAIP seeks to assist the development and/or operation of programs or projects designed to create or preserve private sector jobs in such communities by making loans, loan guarantees, and grants.

The CAIP provides financing in three ways: through loan guarantee programs run by participating federal agencies (currently USDA and SBA), through direct loans by the NADBank Los Angeles office, and through the newly-established CAIP grant and technical assistance program. As of September 17, 1999, the CAIP has facilitated the financing of \$188.3 million in loans and loan guarantees (at a cost of \$4.3 million to CAIP), helping to create or retain over 6,100 jobs.

CAIP financing is limited to counties which (1) have experienced significant job losses attributable to NAFTA and demonstrate a need for transition assistance to adjust economically to these losses (as set forth in the CAIP guidelines) or (2) are located in a US border area which is eligible for assistance from the NAD Bank San Antonio (are located within 100 kilometers of the border).

Of the 17 counties covered by the wire rod 201 petition, only Georgetown County, SC (where Georgetown Steel is located) meets these CAIP program requirements.

CAIP Limitations

While the CAIP program has resources, there are two main drawbacks to using it exclusively in this context. First, there are additional limits to receiving financing: the CAIP has internal guidelines for deciding whether to approve any individual loan/loan guarantee application; and the grant program awards grants through a nationwide competitive process. Second, the CAIP program is aimed at community lending, assistance, and development, not industry assistance.

TAX RELIEF – EXTENDING THE NET OPERATING LOSS CARRYBACK PERIOD FOR STEEL (Treasury)

As part of the Steel Report to Congress, the Administration agreed to include in its FY2000 Budget a proposal for tax relief for the steel industry. The Hill and industry have met it with intense indifference if not hostility. The proposal is designed to provide timely relief to help stave off job losses. Steel companies experiencing losses would be allowed to offset those losses against taxes paid during the prior five years, instead of the current law two-year carry-back period. That benefit will feed directly and immediately into a troubled steel company's cash flow. The original proposal applied to the entire steel industry, and Treasury estimates that the proposal would provide more than \$300 million in tax relief over

five years for the entire industry.

Treasury believes extending that tax relief to the steel wire rod industry (less than 5% of the total steel industry) would be difficult for several reasons. OMB is planning to use the money allocated for this proposal elsewhere in the budget. In addition, the program would require legislation that might be used as a precedent for relief from short-term profitability problems in other industries. Time limited tax incentives have a tendency to become "extenders" – that is, temporary provisions that are extended one or two years at a time as budgetary resources allow – so temporary relief under 201 might be extended past the intended period for relief.

TRADE ADJUSTMENT ASSISTANCE FOR WORKERS (Labor)

Awaiting entry from Department of Labor.

OTHER WORKER TRAINING (Labor)

Awaiting update from Department of Labor. Under the President's Steel Action Program, the Administration committed to explore federal funding as appropriate for steel worker training, including but not limited to funding for the Institute for Career Development, a work force training program for eligible members of the Steelworkers union. The Institute's emphasis is on teaching portable skills steelworkers can use to enhance their existing careers or take them beyond the steel mills.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Reavie.Harvey@do.treas.gov (Reavie.Harvey@do.treas.gov [UNKNOWN])

CREATION DATE/TIME:16-SEP-1999 19:43:30.00

SUBJECT: Deputies Meeting on Steel Wire Rod -Reply

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Richard M. Saunders@OVP (Richard M. Saunders@OVP [UNKNOWN])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: esserman_sue@ustr.gov (esserman_sue@ustr.gov [UNKNOWN])
READ:UNKNOWN

TO: donna_jackson@ita.doc.gov (donna_jackson@ita.doc.gov [UNKNOWN])
READ:UNKNOWN

TO: Carolyn T. Wu (CN=Carolyn T. Wu/OU=WHO/O=EOP [WHO])
READ:UNKNOWN

TO: carolyn.keene@do.treas.gov (carolyn.keene@do.treas.gov [UNKNOWN])
READ:UNKNOWN

TO: Andrew F. Schneider@OVP (Andrew F. Schneider@OVP [UNKNOWN])
READ:UNKNOWN

TO: OBERDORFER_AMY@ustr.gov (OBERDORFER_AMY@ustr.gov [UNKNOWN])
READ:UNKNOWN

TO: Joanne M. Hilty@OVP (Joanne M. Hilty@OVP [UNKNOWN])
READ:UNKNOWN

TO: earp_gordana@ustr.gov (earp_gordana@ustr.gov [UNKNOWN])
READ:UNKNOWN

TO: David W. Beier@OVP (David W. Beier@OVP [UNKNOWN])

READ:UNKNOWN

TO: Ann E. Woolston@OVP (Ann E. Woolston@OVP [UNKNOWN])

READ:UNKNOWN

TO: Carolyn.Keene@do.treas.gov (Carolyn.Keene@do.treas.gov [UNKNOWN])

READ:UNKNOWN

TEXT:

Date: 09/16/1999 07:28 pm (Thursday)

From: Reavie Harvey

To: KEENEC, ex.mail."Sharon_H._Yuan@opd.eop.gov",
ex.mail."Andrew_F._Schneider%OVP@oa.eop.gov",
ex.mail."Ann_E._Woolston%OVP@oa.eop.gov",
ex.mail."carolyn.keene", ex.mail."Carolyn_T._Wu@who.eop.gov",
ex.mail."David_W._Beier%OVP@oa.eop.gov",
ex.mail."donna_jackson@ita.doc.gov",
ex.mail."earp_gordana@ustr.gov", ex.mail."esserman_sue@ustr.gov",
ex.mail."Francine_P._Obermiller@cea.eop.gov",
ex.mail."Joanne_M._Hilty%OVP@oa.eop.gov",
ex.mail."John_G._Fernald@cea.eop.gov",
ex.mail."Lisa_D._Branch@cea.eop.gov",
ex.mail."OBERDORFER_AMY@ustr.gov",
ex.mail."Richard_M._Saunders%OVP@oa.eop.gov",
ex.mail."Robert_Z._Lawrence@cea.eop.gov",
ex.mail."Victoria_A._Greenfield@cea.eop.gov"

Subject: Deputies Meeting on Steel Wire Rod -Reply

**** High Priority ****

Sharon:

We are 99% sure the person accompanying Stu will be
Meg Lundsager. Please clear her in. If anything changes,
we will give you a call.

Thanks,
Reavie

>>> ex.mail."Sharon_H._Yuan@opd.eop.gov" 09/16/99

05:51pm >>>

I apologize for the late notice. There will be a deputies
meeting tomorrow
at 2 pm (room tbd). Principals plus one only are welcome.
Please let me
know who will be attending from your office.

Thanks.
Sharon

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jason Furman (CN=Jason Furman/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:20-SEP-1999 13:07:33.00

SUBJECT: Discretionary spending

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

FYI, spending on "Education, Training, Employment, and Social Services" grew from \$45 billion in 1992 to \$60 billion in 1999 (a 14 percent real increase). Spending on education rose from \$26 billion in 1992 to \$33 billion in 1999 (a 12 percent real increase). The "nearly doubled" I had in my head seems to have referred to some subset of these categories. (Total discretionary this year is \$304 billion, so this one-fifth of all spending.)

Also, I am personally less concerned about restraining non-defense discretionary spending than I am in preserving the credibility of the budget process. It seems to me that our major stretch in recent years has been assuming that discretionary spending levels will be lower than they end up being. This happens for three reasons: (1) we assume offsets that won't happen; (2) we submit budgets with reasonable spending plans for the current year but too low spending for future years; and (3) we don't assume emergencies. It seems to me that this is worse in a world where (1) unexpected news is as likely to be positive as negative, (2) defense is not being cut; and (3) you are trying to hit a razor-blade like \$0 each year.

The following is the past annual real growth in total, defense, and non-defense discretionary. It includes our total spending plans for the future (including spending funded with tobacco taxes and higher caps). You will see that we plan to do in the future what we have never done in the past -- restrain NDD. Note also the 5.7 percent NDD growth in FY 99. With our post-MSR proposals (Ag, foreign ops, etc.) the -0.4% cut in 2000 would also have to change.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:21-SEP-1999 12:54:33.00

SUBJECT: M. Haver to demo DLX 9/22 at 2 PM -- Please come!

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sarah M. Anderson (CN=Sarah M. Anderson/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jason A. Bernstein (CN=Jason A. Bernstein/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

CC: Jason Furman (CN=Jason Furman/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:
Here's the promised reminder and further details regarding Maurine Haver's
DLX demo.
John Williams has graciously agreed to host us for the demo,
so we should be able to cluster around his PC for a closer view as needed.

Please do try to fit this into your schedules,
whether you're a DLX beginner or want to learn some more advanced tricks
--
she'll cover whatever we like.

WHEN: 2:00 PM on Wednesday, September 22.

WHERE: John Williams' office, room 313

----- Forwarded by Susan P. Clements/CEA/EOP on 09/21/99
12:47 PM -----

From: Susan P. Clements on 09/02/99 07:31:00 PM
Record Type: Record

To: All CEA Users
cc: Jason Furman/CEA/EOP@EOP
Subject: Haver DLX demo Sept 22

Maurine Haver, president of Haver Analytics, will be coming to CEA
on Wednesday, September 22, at 2:00 p.m.
to demonstrate Haver DLX software.

As most of you are aware, CEA subscribes to several economic databases
from Haver.

These are accessible using software on your desktop:

DLX View & Graph (in DLX folder in Custom Applications folder)
allows you to view data in graphic and tabular form (and export graphs);
DLX add-ins in Excel

allow you to find and extract data into spreadsheets.

We are very fortunate to have Maurine come and personally demonstrate how to use the DLX software.

Even those of you already familiar with Haver DLX could probably benefit from the demonstration, as Maurine usually enlightens us about new features that we may not yet be using.

Please mark your calendars and try hard to attend.

(Exact room location to be determined.

I'll give you a reminder and room location after I return from vacation -- just before Maurine's visit.)

Meanwhile, I've printed copies of current documentation for DLX. Brian will be distributing it to your in-boxes tomorrow.

It is more current than similar documentation that some of you already have.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Daniel D. Heath (CN=Daniel D. Heath/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:23-SEP-1999 20:24:55.00

SUBJECT: URGENT Preliminary Draft on Sugar TRQ -- Coments?

TO: robert.baker@do.treas.gov@inet (robert.baker@do.treas.gov@inet [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: SamuelEB@State.gov@inet (SamuelEB@State.gov@inet [UNKNOWN])
READ:UNKNOWN

TO: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: D Holly Hammonds (CN=D Holly Hammonds/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Lori Hendricks (CN=Lori Hendricks/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

USDA is proposing to announce within days a controversial manoeuvre to manipulate the domestic sugar program and the import quota system. It raises immediate problems of administrative integrity, along with multi-year costs and threats to US trade agreements.

Background

The sugar program supports US prices at nearly three times the world price by limiting imports and by providing a price floor for producers through non-recourse loans to processors at a statutory loan rate. In the Uruguay Round agreement, the US committed to import 1.26 million tons of sugar annually, well below the US historic average import level. Current law protects this agreement level by requiring that USDA's non-recourse loan program shift to recourse loans when imports fall below 1.5 million tons and approach the Uruguay Round commitment level. Each year at this time the Administration announces the intended import level (called a TRQ, tariff rate quota).

The protected domestic sugar production has grown to the point where the US barely can import the agreed minimum level without US sugar prices falling. The Administration's public policy is to manage the program,

mainly through imports, so that the stocks-to-use ratio is 15.5. Growers have been happy with the resultant high domestic prices, and discouraged users have steadily switched to non-sugar sweeteners, thus exacerbating the excessive production. (Incidentally, most growers are not small struggling homesteaders, but have been represented as the wealthy Fanjul family, exploiting poor laborers and killing the Everglades.) A recent GAO report said the Administration should have lowered prices long ago, both to save consumers \$200 million annually and to avoid the artificially-excessive production that now threatens the program.

The dilemma for the growers is this: they want nonrecourse loans, which requires a TRQ above 1.5 million tons; but they want the high prices of the 15.5 ratio, which requires a TRQ of barely the 1.26 million tons.

USDA Proposal

USDA proposes to announce a TRQ above 1.5 million tons, to preserve nonrecourse loans, but allow imports of only the 1.26 million tons minimum, in order to maintain the 15.5 ratio and high domestic prices. The tonnage difference (actually 450,000 tons) would be "held in reserve" for allocation later in the year if needed. USDA's official estimates would be directed to use only the lower, realistic import figure rather than the announced TRQ, an extraordinary change in the estimating protocol.

USDA has publicly acknowledged that the proposed action is unusual, since the reserve sugar is unneeded and not likely to be needed. USDA's published sugar data show that the minimum TRQ would give a ratio of 16.6, already above the target ratio. It is widely known that the reserve portion is a contrivance to trigger nonrecourse loans, and will not be used absent a miracle.

Concerns

USDA's proposal is a short-term fix that exacerbates rather than solves long-term problems and sets the Administration up for budget and policy exposure.

Disingenuous: I can find no objective analyst who believes USDA will use the extra tonnage that USDA wants to announce in order to trigger nonrecourse loans. USDA's official estimates say those imports will not happen. But it argues it needs the "reserve" for administrative flexibility. If an unpredictable cataclysm causes the need for more sugar imports the Secretary of Agriculture has full authority to increase the TRQ at that point. This will be the first time the Administration knowingly announces a misleading TRQ figure.

Sends a misleading signal to markets: USDA's proposal indicates to the US sugar industry that they can expect high prices from USDA to continue. This is unlikely; USDA and other analysts widely expect a future of lower market prices. With US sugar production growing to the point where either prices will collapse or the US will face pressure to violate its Uruguay Round commitment, producers need an indication of imbalance and that something must be done before a crisis. The law provides a mechanism to trigger into recourse loans when markets are in such disequilibrium that processors are close to forfeiting sugar to USDA. USDA is proposing to circumvent that mechanism without having articulated a longer-term

strategy or policy goal. This appears not to be part of smooth transition to balanced markets, for instance.

Boosts budget exposure: With prices and imports falling because of expanding US production, the law warns the market of its disequilibrium by removing the price floor of nonrecourse loans. It reduces budget exposure by not allowing sugar processors to forfeit on their USDA loans. The USDA proposal would circumvent this budget protection just as it was needed.

To date, USDA has made \$140 million in sugar loans, but expects to lend about \$350 million in each of FY 2000 and 2001. USDA has not explained why the Administration should engage in a dubious action to take on additional cost exposure when following the law would reduce exposure.

Does not plan for import commitments: The Administration's side letter agreement to NAFTA granted Mexico imminent additional import access (up from 25,000 tons to 150,000 tons in 1999/2000 and 250,000 tons one year from now). USDA's proposal tends to obscure this reality rather than help prepare domestic producers for it. Moreover, growing US production even without more Mexican sugar will lead to collapsing US prices and/or to pressure for the Administration to abrogate its Uruguay Round commitment level and reduce its minimum imports. As the new trade negotiations get underway, the US could be reducing its sugar imports from many developing countries, who already have written to Amb. Barshefsky in alarm about this. The USDA proposal would not ameliorate this policy tension and could intensify it.

Recommendation

The TRQ announcement provides the Administration with a rare chance to press for responsible management of a difficult program before conditions make it impossible next year. The lawful choices are:

set the TRQ at 1.5 million tons, and abandon the Administration's internal 15.5 target ratio (the ratio would be 18.9, implying a price of 20.5 cents), and accept a small amount of forfeitures this year;

set the TRQ at the 1.26 million ton minimum, trigger in recourse loans, accept a ratio of 16.6, implying a price of 21.6 cents and no economic forfeitures this year while recourse loans prohibit forfeiture.

Either action would warn Congress to attend to more reform this year.

The second option is preferable (minimum TRQ, recourse loans) since it is the least manipulative, least costly, least disruptive to the US industry, and sends a broader signal to alter both price and loans. Either option is preferable to the USDA proposal.

Many Congressional interests are likely to favor USDA's proposal since it offers a way to dramatically boost Federal outlays on the sugar program by compromising current law rather than having to find a budget offset for new legislation.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:24-SEP-1999 17:35:13.00

SUBJECT: correction

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TEXT:

The quota level should be 1.58 instead of 1.53.

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D27]ARMS27841196N.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Global TRQ based on Pre-Crisis Full Year Import Level

This proposal aims to balance the need to: a) address the potential threat the industry is facing; b) recognize the difficulties the industry experienced in the second half of 1998; c) incur minimal damage to domestic downstream users; and d) minimize benefits/rents transferred to foreign suppliers for their behavior during the "crisis". The TRQ quota would be set at the level of the most recent pre-crisis full year, i.e., the second half of 1997 (proxied by half of the 1997 annual imports) to first half of 1998, and with a reasonable growth rate adjustment of 2% to accommodate increase in domestic demand. For the first year of the remedy, starting in October 1999, the quota level would be 1.58 million short tons. In addition, a 9 % tariff would be assessed on imports above this level from any covered source. The TRQ would be in effect for three years and the quota level would be increased by 2 % per year to accommodate growth in demand, while the tariff surcharge would be reduced by 2 percentage points per year. A spacing provision would reduce the risk of a "race" to fill this residual quota (*i.e.*, not more than a third of the annual TRQ may be imported free of a surcharge in any quarter). Customs would publish TRQ fill rates weekly.

The ITC would be asked to do a mid-point review of the remedy to assess whether the intended producer-user cost-benefit balance is being retained in light of market movements and to make recommendations on whether the adopted remedy should be tightened or relaxed.

This option would have the following advantages over other TRQ proposals:

- Protect the industry from import surges
- Avoid rewarding the foreigners for their behavior during the crisis
- Provide some assistance to the industry while causing little damage to the downstream industries
- Smaller chance of adverse reaction by trading partners

However, this option still imposes border restrictions and has similar disadvantages to the other TRQ option:

- Petitioners would consider the induced price increases not large enough
- Border measures introduce uncertainty into the market place
- Increase in protectionism
 - Could be harder to press for liberalization at the WTO Ministerial in Seattle
 - Too many exemptions (at 39%+ of imports) that it is open to WTO challenge.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:24-SEP-1999 16:30:29.00

SUBJECT: A TRQ scheme.

TO: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

CC: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

CC: Gene B. Sperling (CN=Gene B. Sperling/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

A proposal as asked for by Gene.

Set the quota at 1.531 for October 1999 through September 2000 with a nine percent tariff. This represents a two percent annual growth over the import level prior to the crisis -- i.e. the second half of 1997 and the first half of 1998. Allow for an annual increase of two percent and a rate reduction of two percentage points each year. This TRQ is easily defensible.

First, it gives the industry surge protection.

Second, by going back to the levels prior to the crisis, it means that the importers did not profit from their increased imports during the crisis.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Malcolm R. Lee (CN=Malcolm R. Lee/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:24-SEP-1999 23:22:59.00

SUBJECT: Liberal TRQ Option

TO: winter_audrey@ustr.gov@INET@VAXGTWY (winter_audrey@ustr.gov@INET@VAXGTWY [UNKNOWN])
READ:UNKNOWN

TO: esserman_sue@ustr.gov@INET@VAXGTWY@VAXGTWY (esserman_sue@ustr.gov@INET@VAXGTWY@VAXGTWY [UNKNOWN])
READ:UNKNOWN

TO: speckjg@state.gov (speckjg@state.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: mary.chaves@do.treas.gov (mary.chaves@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
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TO: Mmoke@ustr.gov (Mmoke@ustr.gov @ inet [UNKNOWN])
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TO: chris.macdonagh-dumler@do.treas.gov (chris.macdonagh-dumler@do.treas.gov @ inet [UNKNOWN])
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TO: ebiel@doc.gov (ebiel@doc.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP@EOP [OPD])
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TO: ebtp@cais.com (ebtp@cais.com @ inet [UNKNOWN])
READ:UNKNOWN

TO: meg.lundsager@do.treas.gov (meg.lundsager@do.treas.gov @ inet [UNKNOWN])

READ:UNKNOWN

TO: earp_gordana@ustr.gov@INET@VAXGTWY@VAXGTWY (
earp_gordana@ustr.gov@INET@VAXGTWY@VAXGTWY [UNKNOWN])

READ:UNKNOWN

TEXT:

Gordana/Marsha: Please incorporate this option and send me Charlene's
memo to the President with any other edits. I will discuss this with
NSC front office on Saturday morning, and then elminiare either Option 3A
or 3B. ML

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D86]ARMS29003296M.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Option 3: A Global TRQ Based on More Liberal Quota

This more liberal trade option is intended to minimize damage to domestic downstream users and to our trading partners, while providing wire rod producers effective surge protection over 1998 levels.

A. The TRQ quota would be set at the level of the most recent pre-crisis full year, i.e., the second half of 1997 (proxied by half of the 1997 annual imports) to first half of 1998, and with a reasonable growth rate adjustment of 2% to accommodate increase in domestic demand. For the first year of the remedy, starting in October 1999, the quota level would be 1.58 million short tons. In addition, a 9 % tariff [Note: Treasury would prefer 8%) would be assessed on imports above this level from any covered source. The TRQ would be in effect for three years and the quota level would be increased by 2 % per year to accommodate growth in demand, while the tariff surcharge would be reduced by 2 percentage points per year. Like Option 2, a spacing provision would reduce the risk of a "race" to fill this residual quota (*i.e.*, not more than a third of the annual TRQ may be imported free of a surcharge in any quarter). Customs would publish TRQ fill rates weekly.

The ITC would be asked to do a mid-point review of the remedy to assess whether the intended producer-user cost-benefit balance is being retained in light of market movements and to make recommendations on whether the adopted remedy should be tightened or relaxed.

Pros

- By capping imports at slightly above 1998 levels with reasonable allowance for growth, provides wire rod industry with protection from import surges
- Some agencies believe surge protection, rather than a rollback, is a more appropriate remedy to address a **threat** of injury.
- As compared to Option 2, higher quota and lower tariff will reduce detrimental effects on downstream industries as well as our trading partners.
- Countries that will benefit under this trade option will be those that would receive allocations less than their 1998 levels under a country specific allocation approach (Indonesia, Ukraine, Moldova, South Africa, Ukraine).

Cons

- The wire rod industry will consider the remedy inadequate.
- Countries that would receive an allocation greater than their 1998 import level under a country allocation approach (EU, Trinidad, Turkey) will be less pleased than with a country allocation approach, as they will have to compete on an equal basis with all other countries, albeit for a significantly enlarged pie.

- B. Identical to Option 3 A. above but the three countries that comprised the largest share of imports from 1996-1998, Europe, Trinidad and Tobago, Turkey would receive specific country allocations.

Pros

- These countries (in the case of EU their producers) have requested country specific allocations, and would receive larger allocations than their share of 1998 import levels.
- Europe has threatened to challenge us in the WTO (unclear this would prevent an EU challenge), the Congressional Black Caucus has requested an exemption for Trinidad and Tobago, and Turkey has just experienced a devastating earthquake. The President meets with the President of Turkey on Wednesday.

Cons (as compared to 3 A)

- Less efficient economically.
- From the perspective of India, Indonesia, Moldova, South Africa, and Ukraine, (as well as CEA and Treasury) would disproportionately reduce the residual quota available to them and other LDCs.
- Would reduce somewhat choice of downstream users.
- Customs feels strongly that allocated quotas cannot be administered effectively and would require substantial additional resources to minimize fraud and transshipment, although it has in the past administered such quotas.

Agency Positions

CEA and Treasury oppose any trade remedy, but, as between trade remedies, prefer Option 3 A over Option 2 (TRQ based on n 1997 level) or Option 3 B.

State opposes any trade remedy, but prefers Option 3A *or* 3B over Option 2.

USTR, Commerce, and Labor oppose Option 3 A and 3B, preferring Option 2.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:27-SEP-1999 11:43:55.00

SUBJECT: Preparation Materials

TO: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

Here is a memo we did for the first meeting. I have ohter materials I can

fax you===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D53]ARMS286338960.236 to ASCII,

The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

February 16, 1999

MEMORANDUM FOR JOHN PODESTA
KAREN TRAMONTANO

FROM: Janet Yellen

SUBJECT: Background information on unions, manufacturing, and trade
for your upcoming meeting with the AFL-CIO.

This memorandum presents data on union membership, wages, and employment and on unionized industries. It describes recent trends and places them in perspective. The key short term perspective is the overall strength of the U.S. labor market: key unionized sectors have been adversely affected by recent developments in the world economy, but the overall job market is the best it has been in a generation. The key long term perspective is the decline in manufacturing employment as a share of total employment associated with strong productivity growth (not trade). Studies suggest that growing demand for skilled workers rather than the impact of trade on unskilled workers has been the most important factor contributing to rising wage inequality over the past two to three decades.

I. Trends in union membership

- Declining membership share. The share of wage and salary workers who were union members fell to 13.9 percent in 1998, down from 14.1 percent in 1997 and 20.1 percent in 1983, the first year for which comparable data are available. Other data show that over a quarter of the entire labor force was unionized in the mid-1950s.
- Number of members. The number of wage and salary workers who were union members was 16.2 million in 1998, little changed from 1997 and down some from 17.7 million in 1983. Other data show that economy-wide union membership had reached roughly 20 million in the 1970s.
- Private versus public sector membership. About three-fifths of union members were in private nonagricultural industries in 1998 and about two-fifths worked in government.

II. The strong labor market in 1998

Overall the labor market has been very strong in the past few years.

- In 1998, nonagricultural employment rose by 2.8 million; unemployment fell to 4.3 percent, the lowest average level since 1969; average hourly earnings rose 3.8 percent.
- Disadvantaged groups (blacks, including young black men, Hispanics, and less educated

workers) saw significant real wage gains. Black and Hispanic unemployment rates are at historic lows.

- Moreover, evidence suggests that job displacement rates in 1995-97 were well below rates in 1993-95, the share of displaced workers finding work has risen, and reemployed workers are suffering the smallest wage losses on record. Survey evidence suggests that a very high fraction of workers feel that jobs are readily obtainable.

Nevertheless, some sectors were disproportionately and adversely affected by the Asian crisis and other special factors.

- Manufacturing (9.5 million union members, 15.8 percent unionization rate)
 - Total employment stood at 18.5 million in January 1999, down about 280,000 since January 1998 but only slightly (0.6 percent) below the level at the onset of the Asian crisis in July 1997.
 - Within manufacturing, employment declines during 1998 were especially large for primary metals (22,000 jobs lost, approximately 3 percent of the total employment) and industrial machinery and equipment and electronic and electrical equipment; even larger job losses were suffered in textile mills and apparel.
- Mining (72,000 union members, 12.2 percent unionization rate). Coal mining and oil and gas extraction experienced large job losses: employment in coal mining was down 6,000 (6.4 percent) and employment in oil and gas extraction was down 39,000 (11.5 percent).

Other heavily unionized sectors have experienced sizeable employment gains over the past year.

- Construction (1.1 million union members, 17.8 percent unionization rate) saw employment rise by 284,000 jobs (4.8 percent)
- Transportation and public utilities (1.8 million union members, 25.8 percent unionization rate) saw 3 percent job growth, with notable gains in trucking.

Available evidence suggests that workers displaced from manufacturing jobs have obtained other employment, due to the strong national labor market.

- During 1998, the unemployment rate in manufacturing has dropped slightly, from 3.8 to 3.5 percent, and it remains below the national average.
- The unemployment rate in mining, by contrast rose sharply, from 3.7 to 7.4 percent during 1998.

Workers in manufacturing and mining experienced slow earnings growth over the past

year in comparison with national average gains.

- Average hourly earnings in manufacturing rose 2 percent, compared with 4 percent for all workers. Average weekly earnings rose just 0.6 percent versus 3.4 percent for the economy as a whole due to a relative decline in weekly hours worked in manufacturing.
- In mining, average hourly earnings rose a healthy 4.2 percent, but with fewer hours worked, weekly pay declined by 1.6 percent.
- Construction workers saw pay gains of about 3.0 percent in hourly and 3.8 percent in weekly earnings.

Both the manufacturing and the service industries are highly diverse in terms of pay and job quality. Jobs lost in manufacturing have not uniformly been high paying and jobs gained in services have not uniformly been low-paying.

- Jobs in some impacted industries—mining and durable manufacturing, especially steel—pay well above average for workers in production and nonsupervisory positions. However, jobs in textiles and apparel pay substantially below average.
- Construction jobs pay high average hourly wages, close to those in mining; jobs in transportation and public utilities also offer high pay.
- Within the broad service sector, pay differs substantially across sectors. Previous work by the CEA suggests that, since 1993, job growth in the service sector has been disproportionately concentrated in occupations and sectors within services paying above average wages. Thus, it is misleading to caricature new service sector jobs as “hamburger flipping jobs.” For example, jobs in the high-paying finance, insurance and real estate sector grew especially rapidly in 1998 (this sector had 150,000 union jobs and a 2 percent unionization rate).

III. Longer term economic trends affecting manufacturing

The share of manufacturing (and mining) in total U.S. employment has been on a downward trend for several decades.

- Manufacturing’s share of non-farm payroll employment declined from about 24 percent to about 15 percent over the last two decades, a continuation of an even longer term trend. Mining’s share of total employment also fell. In contrast, construction’s employment share has been stable and the employment share of service producing industries has grown substantially.
- The total number of employees in manufacturing (18.7 million in 1998) has fluctuated within narrow bounds since the 1960s, rising from 16.8 million workers in 1960 to a peak of 21 million in 1979. Manufacturing employment rose 3.6 percent between 1993 and 1998. In mining, employment has been declining in absolute terms since 1980.

- Although the number of manufacturing jobs has been roughly constant, the amount of job creation and job destruction that goes on is remarkably large. Over a typical 12-month interval, about one in ten manufacturing jobs disappears and a comparable number of new manufacturing jobs open up at different locations.

Rapid productivity growth in manufacturing (and mining) has allowed an increasing proportion of the nation's productive resources to be devoted to producing other goods and services and has thus contributed to a rising standard of living. But it has also meant that a smaller fraction of the labor force is working in manufacturing.

- Since 1960, productivity (output per hour) has roughly tripled in manufacturing while doubling for the economy as whole. Productivity growth in manufacturing averaged 2.9 percent per year versus 1.8 percent in the economy as a whole.
- Since 1993, the productivity gap has widened with productivity in manufacturing growing at 3.9 percent per annum, almost three times as fast as the 1.4 percent pace for the economy as a whole.
- Within manufacturing, the annual pace of productivity growth has been far more rapid for durable than for nondurable manufacturing (3.4 percent per year versus 2.3 percent per year since 1960.)
- The share of manufacturing in total GDP has declined from 23 percent in 1977 to 17 percent in 1997. Manufactured goods account for a dwindling percentage of the spending of American households. As income rises, people typically spend an increasing fraction on health, education and other services. This long-term trend is apparent in other countries as well. Services are rising in importance in both developing and emerging market countries.

Studies suggest that foreign trade is not primarily responsible for the long-term decline in manufacturing employment, although the Asian crisis has played a role in manufacturing's recent performance.

- Calculations by Robert Lawrence and others suggest that if the entire trade deficit after 1975 had been eliminated through extra production of U.S. manufactured goods, manufacturing payrolls in 1994 would have been only 8 percent higher; manufacturing's share of total employment would have fallen by 14 rather than 15 percentage points.
- The U.S. is a net importer of manufactured goods and net imports have risen, but net imports have not increased enough to explain the decline in manufacturing employment.
 - Although manufacturing imports have risen, substantially in some sectors, exports have also risen substantially.

- Within manufacturing, many sectors have seen strong export gains.

IV. Trade and Wages

Over the last 25 years, real wage growth has been slow and the gap between the wages of skilled and unskilled workers has widened.

- Real hourly compensation closely mirrors the behavior of labor productivity. Between 1959 and 1973, productivity and hourly compensation both grew in excess of 2.5 percent annually. Since 1973, annual real compensation, properly measured, and productivity have both grown at about 1 percent. The post 1973 productivity slowdown is the main reason for slower growth in labor compensation.
- Since the 1970's earnings inequality (including the gap between the wages of skilled and unskilled workers) has risen substantially.
 - Between 1973 and 1993 the median hourly wages of men aged 20-64 with high school but no college actually fell 12 percent in real terms; the hourly wages of women fell 3 percent in real terms. Since 1993, there has been a modest improvement with the median hourly wages of men, aged 20-64, up 2 percent and those of women up 3 percent.
- It is not possible to pinpoint precisely the causes for the widening skill gap, but a large body of research attributes most to broad-based technological change that is biased in favor of skilled workers. Such inequality is evident in all sectors, not just in manufacturing. In today's increasingly high-tech economy, the payoff to skill and the ability to use computers has risen. That is one reason that the Administration's emphasis on education and lifelong skills upgrading is so critical.
 - The reduced demand for unskilled labor is broad based and has occurred throughout the economy. The utilization of unskilled (less than high school diploma) workers declined by even more in sectors sheltered from trade, including construction and retail trade, than in sectors exposed to trade (66 percent decline versus 59 percent decline.)
- About a fifth of the decline in real wages may be due to factors such as decreased unionization and the decline in the real value of the minimum wage. However, inequality has increased among groups of workers such as college graduates who are unlikely to belong to unions.
 - Unions have long provided wage premiums to less skilled workers. Studies suggest that, other factors equal, working in a unionized firm raises a worker's earnings by 10 to 15 percent.
 - During much of the 1980s, compensation grew more slowly in the unionized

sector than in the rest of the economy but more recently, the trends have been similar in both sectors.

- The share of employed workers belonging to unions has eroded from a peak of roughly 30 percent through much of the 1950s and 1960s to about 14 percent in 1996, a natural consequence of the rising employment share in less-unionized sectors (services), regions (the South), and demographic groups (women).

Most estimates find that international trade accounts for only between 10 and 15 percent of the increase in earnings inequality.

- This might understate the role of globalization, in that there is an interactive effect between the two factors: it is possible that education and technology would not be as important as they are if the U.S. were closed off from the rest of the world.
- But Americans on average would have lower real incomes in the absence of increased trade. Technological innovation and skills are our international comparative advantage; and international competition keeps industries like autos on their toes, which is one reason why Detroit produces better cars today than they did in the 1970s.

The wage gap may have stopped widening.

- A possible explanation is the large increase in the supply of highly educated workers that has responded to the demand for them.
- Another explanation is that the current economic expansion has progressed so far that even unskilled workers are in high demand. Over the last two years, the demand for less skilled workers as well as their wages have risen rapidly.

V. Thinking about international trade

The U.S. economy derives important benefits from high levels of international trade.

- Roughly a quarter of U.S. growth since 1993 represents the contribution of exports, and this includes the period since mid-1997 when exports have been hard hit by the Asian crisis.
 - The Commerce Department estimates that each \$1 million of exports supports about 13 jobs, so 1998's \$959 billion of exports supported about 12.5 million jobs.
- Imports have also increased strongly during this period—by more than exports, implying an increase in the trade deficit. But it would be wrong to assume that without the increase in the trade deficit, the U.S. economy would have grown much more rapidly than it actually did.

- For the last year or more the economy has been operating at “full employment.” Although the Asian crisis diminished demand for manufactured goods, interest rates also declined as a consequence of the crisis leading to offsetting increases in employment in other sectors, particularly housing and services.
- Imports are increasing as a *result* of increasing incomes. That is why trade balances are counter-cyclical.
- A country’s current account deficit equals the difference between its investment and saving. During the 1990s, national investment and national saving have both increased but investment increased faster, attracting foreign capital to the United States, resulting in a strong dollar and growing current account deficits. In the 1980s, growing current account deficits were the consequence of weak national investment and even weaker saving. Trade deficits due to an investment boom are less of concern because investment generates the payoff needed to finance foreign borrowing.
- If we do not buy goods from other countries, they cannot earn the dollars they need to buy goods from us. Erecting new barriers to imports would suppress imports but also end up depressing our own exports and curtailing job opportunities for Americans in high-paying export industries.
 - The current crisis in emerging market countries offers a dramatic illustration of this general principle. When investors suddenly cut East Asia off from capital inflows in 1997, those countries were no longer able to finance their trade deficits, and thus were forced to start running trade surpluses in 1998 and 1999. Hence the fall in U.S. exports to the region.
 - Our response to the crisis, working with the IMF and the rest of the international community, has worked to limit the fall in our sales, and lay the groundwork for a return to the preceding pattern of growth in the East Asians’ incomes and imports from us.
- A world in which everyone’s levels of exports and imports are high and rising (as opposed to the difference between them) together is more conducive to worldwide growth and income gains.
 - Both theoretical and empirical research shows that countries that are highly open to trade have higher income levels and growth rates. The benefits from openness result from deploying domestic workers in industries where they are relatively most productive, purchasing imported intermediate and final goods at lower costs than they could be produced domestically; in addition, trade increases competition resulting in more rapid innovation and expanded consumer choice.
 - According to one statistical estimate, every one-percentage-point increase in openness (controlling for such important determinants as investment and education) raises income by .34 per cent. U.S. openness (exports plus

imports as a share of GDP) has increased by 12 points since 1950, implying an estimated effect on income of about 4 percent.

- Export jobs are good jobs. Workers in export-oriented firms earn 13-18 percent more than other workers according to Commerce Dept. and other estimates. Even after adjusting for various worker characteristics, workers in export-oriented firms earn more than others (5 percent more within the category of skilled workers, 7 percent more within unskilled workers). And foreign trade barriers are often highest in the industries where America leads the world—agriculture, financial services, pharmaceuticals, aircraft and telecommunications.
- Popular conceptions exaggerate the extent to which patterns of trade and investment are driven by the influence of cheap labor in poor countries. More than half of U.S. imports come from trade partners that have wages at least 90 percent of the U.S. level. And more than one-third of U.S. foreign direct investment in manufacturing facilities went to countries with labor costs above the U.S. level. Often they have more rigorous labor standards as well.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:27-SEP-1999 11:45:42.00

SUBJECT: Re: Preparation Materials

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

that would be great if you could fax a few things you think would be helpful/ Thanks

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Melissa G. Green (CN=Melissa G. Green/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:27-SEP-1999 11:48:49.00

SUBJECT: Re: Preparation Materials

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Thanks a lot.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: D Holly Hammonds (CN=D Holly Hammonds/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:28-SEP-1999 19:44:32.00

SUBJECT: Re: CEA Views on p5

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Thanks!

In the last para, does "this idea" refer to US-Chile or P5?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:28-SEP-1999 19:16:40.00

SUBJECT: CEA Views on p5

TO: D Holly Hammonds (CN=D Holly Hammonds/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

CC: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Martin N. Baily (CN=Martin N. Baily/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

To Holly Hammonds

From Robert Lawrence.

Re: CEA views on P5

On purely economic grounds, the gains from this agreement would be small for the United States. These are all small, relatively open economies. To be sure, outside of agriculture the adjustment costs to the US would also be small but we believe the case for the agreement must rest on its ability to promote additional liberalization.

We are, however, skeptical about the potential of this agreement to act as a catalyst for progress in APEC or the FTAA and concerned that a failure to deliver it could be a serious setback. Since the agreement contains little for US farm exports, we are concerned that support from traditionally free-trade agricultural interests will be weak. At the same time, the gains to manufacturing export interests are likely to be very small.

We are also concerned that the desire to construct a template for including labor and environmental agreements could backfire because this high-wage group of countries is not representative of most other APEC and Western Hemisphere nations. It could thus easily be interpreted as indicating we are only prepared to conclude agreements with nations who are just like us.

We are also concerned that excluded nations will take offense. The agreement would have adverse consequences for economies like Hong Kong (which would become less attractive than Singapore). Thailand and Korea are also likely to feel unfairly excluded. We would prefer a process in which other interested nations are invited to join the group by a date certain.

We support going ahead with US-Chile as a long - standing commitment. We prefer a focus now on the new round and would keep this idea as a card to

play in the future, as we did with US-Canada, if the multilateral negotiations appear to be bogged down.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:29-SEP-1999 09:00:56.00

SUBJECT: Re: CEA Views on p5

TO: D Holly Hammonds (CN=D Holly Hammonds/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

Sorry I was not clear. I was trying to say that P5 should be kept in our arsenal and that we should proceed with US-Chile.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: D Holly Hammonds (CN=D Holly Hammonds/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:29-SEP-1999 09:26:39.00

SUBJECT: Re: CEA Views on p5

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Thanks (PS I agree!)hh

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Amy Squires (CN=Amy Squires/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:29-SEP-1999 09:12:35.00

SUBJECT: heads up memo--Forest Service proposed rule

TO: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Minyon Moore (CN=Minyon Moore/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Lawrence J. Stein (CN=Lawrence J. Stein/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Ann F. Lewis (CN=Ann F. Lewis/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Loretta M. Ucelli (CN=Loretta M. Ucelli/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Gene B. Sperling (CN=Gene B. Sperling/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Steve Ricchetti (CN=Steve Ricchetti/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Mickey Ibarra (CN=Mickey Ibarra/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Thurgood Marshall Jr (CN=Thurgood Marshall Jr/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Maria Echaveste (CN=Maria Echaveste/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Adrienne C. Erbach (CN=Adrienne C. Erbach/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Linda Ricci (CN=Linda Ricci/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Robert L. Nabors (CN=Robert L. Nabors/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: John Spotila (CN=John Spotila/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Charles E. Kieffer (CN=Charles E. Kieffer/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:
September 28, 1999

MEMORANDUM FOR THE CHIEF OF STAFF

THROUGH: Jack Lew
FROM: John T. Spotila
SUBJECT: USDA,s Proposed Rule on Forest Planning

We are prepared to conclude our review of a USDA/Forest Service proposed rule that would change the process for revising and amending National Forest System Land Management Plans. The rule seeks to increase public participation in the forest planning process and make &ecological sustainability8 a first priority when making decisions about forest use. USDA has indicated to us that Secretary Dan Glickman and Under Secretary Jim Lyons plan to announce this proposed rule publicly on Thursday, September 30. Beginning tomorrow afternoon, Wednesday, September 29, the Forest Service also plans to brief Members of Congress, western governors, environmental organizations, and representatives from the timber industry, the recreation industry, and the Carpenters, Union on the rule.

This proposed rule would establish a new process for forest planning. Although it does not directly address how we should use our national forests, the rule may generate significant public comment about the following issues:

abWhat effects will the emphasis on &ecological sustainability8 have on logging and recreation?

abIs the Forest Service correct in believing that it has adequate statutory authority to reshape the forest planning process in this manner?

The Forest Service tells us that it conducted extensive outreach on this new planning approach in 1998. We understand that this involved a series of public meetings nationally as well as briefings and hearings

with the Senate and House natural resource committees. We are told that it has consulted with the Western Governors, Association and the National Governors, Association. We are not aware of any previous consultation with potentially interested parties (localities, timber industry, recreation industry) other than the public meetings mentioned above. We understand that the only recent consultation with any element of Congress was a briefing with the staff director of the Senate Committee on Energy and Natural Resources.

Although CEQ and DOJ strongly support the rule, it may be met with suspicion by the timber industry. The Alaskan delegation in Congress could be concerned about the rule's impact on decisions affecting Tongass National Forest. Since Senator Craig (R-ID) this summer introduced a bill (S. 1253--Public Lands Planning and Management Improvement Act of 1999) that would rewrite the National Forest Management Act (the statutory authority for this proposed forest planning rule), he also may have concerns about the rule. We have alerted OMB Legislative Affairs accordingly.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Richard M. Samans (CN=Richard M. Samans/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:30-SEP-1999 18:43:08.00

SUBJECT: Sorry to have missed your meeting

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

I had a family emergency this morning and regret that I had to miss your meeting with our Labor friends. If there is any follow up work I could do that would be helpful, please let me know. Thanks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-OCT-1999 12:22:41.00

SUBJECT: contact info in Mexico City

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

I will be leaving for Mexico City around 3:30 today. I will return to the office between 4 and 5pm on Wednesday. Below is my contact info:

Maria Isabel Sheraton Hotel and Towers
525-207-3933
525-207-0684 (fax)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 6-OCT-1999 16:45:47.00

SUBJECT: CEA White Paper on WTO Round

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Sharon H. Yuan (CN=Sharon H. Yuan/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TEXT:

Where are you in process of drafting white paper? Do you have a draft available or even an outline?

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 7-OCT-1999 18:27:18.00

SUBJECT: Re: WTO Paper

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

thanks

Victoria A. Greenfield

10/07/99 05:39:34 PM

Record Type: Record

To: Lael Brainard/OPD/EOP@EOP

cc: Robert Z. Lawrence/CEA/EOP@EOP

Subject: WTO Paper

Attached is the overview and introduction + abbreviated outline.

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D6]ARMS28603228B.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

America's Interest in the World Trade Organization

I. Overview and Introduction

As America stands on the threshold of the 21st century, two features of our economy are particularly striking. First, we have never been more prosperous and, second, we have never been as integrated into the world economy. These features are related. The American economy provides its citizens with living standards that are higher than those of other major industrial economies. It does so not only because American workers and firms are among the world's most productive, but also because Americans engage extensively in international trade. Today, one in every five transactions undertaken by Americans involves a foreign buyer or seller.

The association of America's strong performance with increased economic integration is not surprising. Trade provides important economic benefits. By competing internationally, Americans are spurred to become more efficient and inventive. By selling on world markets, we earn higher incomes than we would if we only sold at home. By buying on world markets, we enjoy an array of products that is cheaper and more varied than if we could only purchase domestically. That America has been able to enjoy these benefits is due in no small measure to its participation in the General Agreement on Tariffs and Trade (GATT) and, more recently, its membership in the World Trade Organization (WTO).

Since international trade is beneficial, it is in the nation's interest to reduce the barriers that impede the free flow of goods and services. But the way we reduce those barriers will affect the gains we reap. The gains will be greatest if, when we lower barriers at home, we also open foreign markets, establish an effective "rule of law" to create an equitable and credible system of trade commitments and rules, and promote foreign economic growth. Although America would benefit from lowering its barriers unilaterally, as it has done at times in the past, the gains are even greater when other nations agree to open their markets in return. Indeed, since the United States is already among the world's least protected economies, we have a particular interest in promoting liberalization in our trading partners.

To fully realize the benefits of trade, however, requires more than an agreement to reduce barriers. An effective rule of law is necessary to provide equity and credibility. The system should ensure that participants play fair. That governments avoid policies which would nullify their market-opening commitments; that they not seek to gain advantage by subsidizing their producers unfairly or passing regulations which distort international trade unnecessarily. Fair trade also requires that neither governments, in the form of State Trading Enterprises, nor private firms can block competition or impede market access through restrictive practices. And, it requires that the gains from trade be shared widely – both within and among countries – and that these gains do not come at the expense of basic human rights or the environment.

The trading system must also be dependable. For firms to undertake the necessary investments to service foreign markets, they need to believe that new barriers will not be raised and that old ones will not reassert themselves. To rely on foreign suppliers, buyers need to believe likewise that market access will not be disrupted. Those who participate in trade need assurance that the commitments will be binding and that markets will remain open in the event of changed

circumstances. This requires effective mechanisms to enforce adherence to the rules and to settle disputes, whenever they might arise.

By creating a demand for our exports, growth abroad promotes growth in the United States. Foreign development also increases our opportunities to benefit from more efficient and innovative suppliers. Thus we have an interest in seeing our trading partners prosper. This means that a system that promotes trade among our trading partners, is beneficial, not only because it enhances their development but also because it is good for us.

For over half a century, therefore, America's interest in opening markets, establishing a rules-based system, and promoting foreign economic growth and development has guided our trade policies. While we have also advanced these interests through important bilateral and regional agreements, a focus on the multilateral trading system centered on the GATT and its successor the WTO, has been at the heart of our strategy. Throughout the second half of the 20th Century, the United States has demonstrated its leadership in efforts to liberalize markets. It was at the center of negotiations over the formation of the GATT in 1947 and it played a prominent role in establishing the WTO in the Uruguay Round of negotiations.

Through successive rounds of negotiations, the GATT has reduced trade barriers and strengthened rules of conduct for international trade. Over a fifty-year period, the average tariff on industrial products in developed countries has dropped from around 40 percent to less than 4 percent. The Uruguay Round, which established the WTO, further reduced tariffs, extended new rules to agriculture, textiles, services, and intellectual property, created a binding dispute settlement mechanism, and set forth a "built-in" agenda to promote liberalization between formal rounds. Assessing the effects of reducing tariffs and eliminating quotas, recent studies estimate that global income could increase by about \$170 to \$220 billion, by 2005 in 1992 dollars, of which the United States will obtain roughly 8 to 16 percent.

The system of binding commitments established at the WTO has not only fostered an expansion of trade over the long run. It has also fostered stability during periods of turbulence. The period under the GATT stands in marked contrast to the experience in the prior century. While there were times in the past when trade barriers were fairly low, these periods proved transitory. Nations typically reacted to troubled times, as they did in the 1930s, by adopting beggar-they-neighbor policies which raised new barriers. Under the GATT and the WTO, by contrast members have not only sustained liberalization but have also adhered to their commitments to avoid protectionism in the face of financial market turmoil. This has led to half a century in which world trade has grown much faster than world output. Likewise, the rule of law has been strengthened by the new dispute settlement system, which has proved extremely useful to the United States, its most frequent user.

The success of the trading system and its value in reinforcing outward oriented development strategies has become increasingly appreciated over time. Originally heavily dominated by the developed countries, participation has flowered as developing countries and those in transition have sought inclusion. Today the WTO has 134 members and another 32 observer governments, including China, are now seeking accession. By expanding both its negotiating agenda and its membership, the multilateral trading system is reaching out to an increasing share of the world's

economies and population. This allure of the trading system supports the view that international trade is not a zero-sum game. One country does not “win” at the expense of another. Both the United States and its trading partners reap the benefits of trade. In fact, the shared aspect of the gains from trade, between trading partners, is a core principle of economics.

The prospect of a new round of multilateral trade negotiations provides the United States with fresh opportunities to advance our interests in opening foreign markets, establishing an effective rule of law, and promoting economic development internationally. Barriers remain high in some sectors in which we are highly competitive. Accordingly, we would benefit from further liberalization in agriculture, services, and industry. The system of commitments and rules also needs to be strengthened, in part, through increased transparency. The relationship between trade and core labor standards requires further examination. And much work remains to be done to ensure that developing countries obtain the market access and technical assistance they require to realize the benefits that international trade can afford.

While an open multilateral trading system is beneficial, it is not a panacea for all the challenges facing America or the international community writ large. The WTO provides its members with some of the conditions that are necessary for successful economic performance, but the benefits it confers are not sufficient. To fully realize the benefits of trade, it is necessary to adopt complementary domestic policies to ensure that the resources that are displaced by trade are successfully re-employed. This requires effective mechanisms to smooth transitions and adjustments. The Clinton Administration has made opening markets at home and abroad a major pillar of its economic strategy, but it has also adopted the complementary strategies of investing in people and fiscal prudence.

II. America Benefits from Market Liberalization

- A. Where America Stands
- B. Economic Rationale for Market Opening

III. The Multilateral Trading System Promotes Market Opening

- A. Historical Perspectives on Market Opening
- B. Measuring the Effects of Market Liberalization
- C. Evaluating the Contributions of New Rules
- D. Reaching Out to Developing Countries

IV. Facing the Challenges of the 21st Century

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:12-OCT-1999 18:04:56.00

SUBJECT: Strategic Petroleum Reserve

TO: melanie.kenderdine@hq.doe.gov (melanie.kenderdine@hq.doe.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Gary L. Bennethum (CN=Gary L. Bennethum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: robert.cumby@do.treas.gov (robert.cumby@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Lori A. Krauss (CN=Lori A. Krauss/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

mark.mazur@hq.doe.gov (mark.mazur@hq.doe.gov [UNKNOWN])
READ:UNKNOWN

TEXT:

Attached to this e-mail is a draft memo addressing drawdown of the SPR.
Could you please review the draft ASAP (10:30 am Wednesday) and let me
know if your agency concurs. If not, please call me with specific
comments so that I may fix them immediately. I need to send the memo
tomorrow (Wednesday) afternoon.

Sorry for the short notice, but thanks for your help.

Ron===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D84]ARMS251894581.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEMORANDUM FOR

FROM:

SUBJECT: Drawdown of the Strategic Petroleum Reserve

DATE: October 13, 1999

Senator Schumer recently wrote to the President and Secretary Richardson requesting that the Administration sell oil from the Strategic Petroleum Reserve (SPR) in response to the recent increase in oil prices. He expressed particular concern about the rise in home heating oil prices as we head into the heating season.

The price of crude oil has climbed from about \$11.40 in February to over \$24 this last week. The February price, however, represented an all time low, on an inflation-adjusted basis, so notwithstanding the recent increase, current prices remain within the range of their historical average. Nevertheless, the price of petroleum based products has likewise risen, although by a much small percentage than the price of crude oil because the price a crude oil represents only one component of the cost of petroleum products, and the cost of other major components of the price (e.g., refining and taxes) have remains steady. For instance, the price of unleaded gasoline has risen from \$ in February to \$ last week. Likewise, the price for home heating oil has risen from \$ in February to \$ last week.

The Department of Energy (DOE) has publicly stated that is carefully reviewing Senator Schumer's request, just as it carefully reviews a proposal from any member of Congress. There is, however, a general consensus among the economic agencies and DOE that selling oil from the SPR would be an ineffective means of affecting the price of crude oil and crude oil products. Further, not only do the agencies believe that selling oil from the SPR in response to a simple price increase (albeit a rather large one by some measures) is a poor use of the SPR, but it would be difficult to justify under the SPR statutory guidelines.

The Energy Information Administration is reporting that supplies of heating oil and other crude oil products are in the high end of the normal range and that inventories of crude oil are well within the normal range. Accordingly, prices have risen not in response to a current supply shortage, but in response to expectations that inventories may decline over time if OPEC members comply with their March, 1999 output agreement. To the extent that supply shortages are not the cause of the price hikes, increasing supplies is unlikely to lower the price of oil and petroleum products in any meaningful manner, except to the extent that the markets believe that the drawdown may represent the beginning of government intervention in the oil markets. The primary means of influencing the price of oil would be to adjust market expectations of OPEC's future output, a goal that would not be accomplished by drawing down the SPR. Accordingly, the economic agencies and DOE believe that selling oil from the SPR would not be effective means of lowering the price of oil.

Under the SPR statute, it also would be difficult to justify an SPR drawdown in response to the current circumstances. The SPR was not intended to allow the government to interfere in the oil market whenever prices spiked, but was designed to serve as a cushion against serious supply disruptions that might have a significant effect on the national or a regional economy. Therefore, the governing statute contains narrow limitations on when SPR oil may be drawn down. The statute permits the President to draw from the SPR in the event of a "severe energy supply interruption" defined as a supply shortage that the President determines is, or is likely to be, of significant scope and duration, and of an emergency nature; may cause major adverse impact on national safety or the national economy; and results, or is likely to result, from an interruption in the supply of imported or domestic petroleum products, sabotage, or an act of God. The statute also allows a drawdown of the SPR if the President finds that other circumstances exist that are likely to lead to a domestic supply shortage of significant duration, and that the drawdown could prevent or reduce such shortage. Because there has been no interruption in the supply of foreign or domestic oil, and because current supplies of crude oil and oil products are all within normal ranges, the criteria for SPR drawdown probably have not been met.

Moreover, an SPR drawdown in response to the recent price increase would be inconsistent with past precedent. Since its creation, oil has been withdrawn from the SPR on only six occasions. In the mid 1980s and in the fall of 1990, DOE conducted test sales, as permitted by statute, to ensure that its system for drawing down oil from the SPR would work. In 1991, DOE sold oil after the beginning of the Gulf War. Finally, three times in 1996 DOE sold oil to fund the decommissioning of an SPR site, to provide an offset for education programs, and to pay for the SPR budget. Never has oil been sold from the SPR in response to an increase in oil prices, except in the event of a war. In fact, earlier this year DOE began adding oil to the SPR in response to low oil prices.

Nevertheless, the economic agencies and DOE remains very interested in following the price of home heating oil, particularly as it affects the ability of those least able to afford it to heat their homes. (That is why the Low Income Heating Assistance Programs and the Weatherization programs at DOE are important.) DOE has therefore committed to continuously monitor the supply and price of crude oil and crude oil products closely throughout the winter so that we may react as necessary to price volatility.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:13-OCT-1999 12:32:23.00

SUBJECT: Strategic Oil Reserve

TO: melanie.kenderdine@hq.doe.gov (melanie.kenderdine@hq.doe.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Gary L. Bennethum (CN=Gary L. Bennethum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: robert.cumby@do.treas.gov (robert.cumby@do.treas.gov @ inet [UNKNOWN])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Lori A. Krauss (CN=Lori A. Krauss/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: David A. Bernell (CN=David A. Bernell/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:

Attached is a revise memo based on the comments that I received for most of you.

I have tried to bold the areas of text that were changed, but offer no guarantee that I did so in every instance.

Please review quickly for further comments. I must get this out of here within an hour.

Ron===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D20]ARMS29132268F.236 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

MEMORANDUM FOR

FROM:

SUBJECT: Drawdown of the Strategic Petroleum Reserve

DATE: October 13, 1999

Senator Schumer recently wrote to the President and Secretary Richardson requesting that the Administration sell oil from the Strategic Petroleum Reserve (SPR) in response to the recent increase in oil prices. He expressed particular concern about the rise in home heating oil prices as we head into the heating season.

The price of crude oil has climbed from about \$11.40 per barrel in February to over \$24 this last week. The February price, however, represented an all time historic low, on an inflation-adjusted basis. Notwithstanding the recent increase, the price of crude oil remains within the range of its historical average. **The prices of petroleum based products have also risen, although by proportionately less than the price of crude oil. In part this is because the price of crude oil represents only one component of the cost of petroleum products, and the cost of other major components (e.g., refining and taxes) have remained steady. (For instance, the national average price of unleaded regular gasoline has risen from \$0.91 in late February to \$1.25 on Columbus Day. The average price of home heating oil in the East and the Midwest has risen from \$0.86 in mid-February \$1.00 in early October.)**

Secretary Richardson has publicly stated that the Department of Energy (DOE) is reviewing Senator Schumer's request, just as it reviews carefully a proposal from any member of Congress. There is, however, a general consensus among the economic agencies (*i.e.*, Treasury, Council of Economic Advisors and the Office of Management and Budget) and DOE that a limited sale of oil from the SPR would be an ineffective means of markedly affecting the price of crude oil and crude oil products **at this time. Therefore, the agencies believe that selling oil from the SPR in response to a simple price increase (albeit a rather large one by some measures) while inventories remain strong and the price remains near its historical average is a poor use of the SPR. Further, it could be difficult to justify under the SPR statutory guidelines.**

Oil prices have risen primarily in response to a March 1999 OPEC agreement to reduce production. Notwithstanding OPEC production cutbacks, the Energy Information Administration is reporting that current supplies of heating oil and other crude oil products are in the high end of the normal range and that inventories of crude oil are well within the normal range. **Accordingly, it is not acute current shortages but expectations that inventories may decline over time if oil producers, led by OPEC, continue to constrain output that has**

driven prices up. Increasing current supplies through a moderate release of SPR oil is unlikely to lower the price of oil and petroleum products in any meaningful manner, except to the extent that the markets believe that the drawdown may represent the beginning of government intervention in the oil markets. The primary means of influencing the price of oil would be to adjust market expectations of aggregate worldwide future output, a goal that would not be accomplished by drawing down the SPR. Accordingly, the economic agencies and DOE believe that selling oil from the SPR would not be effective means of lowering the price of oil at this time.

Under the SPR statute, it also could be difficult to justify an SPR drawdown in response to the current circumstances. The SPR was designed to serve as a cushion against serious supply disruptions that might have a significant effect on the national economy, not to allow the government to interfere in the oil market whenever prices fluctuated. Therefore, the governing statute contains narrow limitations on when SPR oil may be drawn down. The statute permits the President to draw from the SPR in the event of a "severe energy supply interruption" defined as a supply shortage that the President determines is, or is likely to be, of significant scope and duration, and of an emergency nature; may cause major adverse impact on national safety or the national economy; and results, or is likely to result, from an interruption in the supply of imported or domestic petroleum products, sabotage, or an act of God. The statute also allows a drawdown of the SPR if the President finds that other circumstances exist that are likely to lead to a domestic supply shortage of significant duration, and that the drawdown could prevent or reduce such shortage. **Finally, the statute permits the Secretary of Energy to drawdown a limited amount of oil in order to test the operation of the SPR. Because there has been no interruption in the supply of foreign or domestic oil, and because current supplies of crude oil and oil products are all within normal ranges, the criteria for SPR drawdown (other than to test the system) probably have not been met.**

Moreover, an SPR drawdown in response to the recent price increase would be inconsistent with past precedent. Since its creation, oil has been withdrawn from the SPR on only six occasions. In the mid-1980s and in the fall of 1990, DOE conducted test sales, as permitted by statute, to ensure that its system for selling oil from the SPR would work. In 1991, DOE sold oil after the beginning of the Gulf War. **In 1996, DOE recommended selling oil to fund the decommissioning of a structurally compromised SPR site at a time in the budget cycle when funds were otherwise unavailable. Subsequently, Congress directed two additional small sales that to provide an offset for education programs, and to pay for annual SPR operating expenses. A decision to sell oil from the SPR has not been made in response to oil prices except in the event of a war.**

In fact, earlier this year DOE began adding 35 million barrels of oil to the SPR through a royalty-in-kind program in response to low oil prices. **If the Administration wanted to take any steps with regard to the SPR, the economic agencies believe that the first logical step would be to stop or slow down additions to the SPR. It would seem illogical to be both adding oil to the SPR and selling oil from the SPR at the same time. Moreover, doing so could represent a middle ground by which the Administration could satisfy Senator Schumer's concerns without having to sell oil from the SPR.**

Nevertheless, the economic agencies and DOE remains very interested in following the price of home heating oil, particularly as it effects the ability of those least able to afford it to heat their homes. **That is why the Low Income Heating Assistance Programs at the Department of Health and Human Services and the Weatherization programs at DOE are important. (In 1995, there was a rise in home heating oil prices, and an interagency group successfully expedited the allocation of LIHEAP funds to the states most in need.)** DOE has therefore committed to continuously monitor the supply and price of crude oil and crude oil products closely throughout the winter so that we may react as necessary to price volatility.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:14-OCT-1999 15:50:18.00

SUBJECT: Share of transactions that are with foreigners?

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TEXT:

John G. just reminded me that his calculation was a more subtle (and sensible) than I had remembered, since it takes $(X+M)/(GDP+M)$ -- he has a clear discussion of the motivation that he emailed around earlier. But that doesn't get around the Hong Kong problem, where this figure still exceeds 1 because of the amount of trade in intermediate products.

On a second issue, he also reminded me that the wording he was emphasizing was share of final sales, or final transactions, not "transactions".

John

----- Forwarded by John G. Fernald/CEA/EOP on 10/14/99
03:47 PM -----

John G. Fernald
10/14/99 03:34:49 PM
Record Type: Record

To: Victoria A. Greenfield/CEA/EOP@EOP, Yu-Chin Chen/CEA/EOP@EOP,
John L. Goldie/CEA/EOP@EOP, Robert Z. Lawrence/CEA/EOP@EOP
cc:
Subject: Share of transactions that are with foreigners?

I want to note my objection to our occasional assertion that more than 1 in 5 transactions takes place with foreigners. We obtain that number by summing exports and imports and dividing by GDP. To see the fallacy, note that $X+M$ for small trade-oriented countries EXCEEDS GDP. For example, trade relative to GDP is 240 percent or so in Hong Kong.

This figure is obviously related to openness and hence is relevant, but we need to be careful how we explain it.

I asked Victoria to remove that assertion from the WTO paper.

John

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-OCT-1999 09:06:51.00

SUBJECT: REQUEST FOR DOCUMENTS re WACO

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Sarah Rosen Wartell (CN=Sarah Rosen Wartell/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

CC: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

Please check your files re the Waco documents and send an email to me confirming that you do not have anything by cob, today. Audrey must send a response to White House Counsel (see below).

----- Forwarded by Francine P. Obermiller/CEA/EOP on
10/15/99 09:03 AM -----

Audrey Choi
10/08/99 02:10:16 PM
Record Type: Record

To: All CEA Users
cc: Francine P. Obermiller/CEA/EOP@EOP
Subject: REQUEST FOR DOCUMENTS

Please read the request for documents below. If you have any responsive documents, please bring them to me. If you do not, please send an email to FRANCINE OBERMILLER confirming that you have searched your files and do not have any responsive documents. Thank you.

----- Forwarded by Audrey Choi/CEA/EOP on 10/08/99 02:09
PM -----

PostMaster 10/08/99 12:15:51 PM

Record Type: Record

To: All EOP Users, All USTR Users
cc:
Subject: REQUEST FOR DOCUMENTS

MEMORANDUM TO: EOP STAFF

FROM: BETH NOLAN
Counsel to the President

SUBJECT: REQUEST FOR DOCUMENTS

In an effort to comply fully with a federal court order, please conduct a thorough and complete search of all of your records -- whether in hard copy, computer form, or any other form -- for any of the following materials:

All items or documents in any way relevant to the events occurring at the Branch Davidian compound in Mt. Carmel, outside of Waco, Texas, in February - April, 1993 ("Waco"), including, but not limited to:

1. Travel vouchers, telephone bills, and other tangential administrative materials relevant to the presence of military personnel during Waco; or
2. Any investigative materials, such as reports or interviews, regardless of when they were created.

With respect to this search, please note the following instructions:

1. Materials clearly in the public domain, such as news clippings, tapes of news shows, published reports, books and similar materials such as trial transcripts and pleadings files need not be provided.
2. "Privacy related materials," such as those containing information subject to the Privacy Act that are not relevant to the performance of federal agents involved in Waco or that do not relate to the presence or absence of military personnel during Waco need not be submitted.
3. Non-investigative materials created after June 17, 1994 need not be submitted.
4. The originals of all items, whether they are documents, photos, audio/visual tapes, etc., should be provided.

Every employee is responsible for searching his or her own files and records to ensure a comprehensive search. The head of each office must provide a signed certification that all employees have searched their files and provided copies of any responsive documents in their possession.

In addition, if you believe that files from your office that have been sent to the Office of Records Management may contain responsive information, please advise us so that we may ensure that all responsive documents have been located.

Please send any responsive documents or materials to OEOB Room 400 by noon on Monday, October 18, 1999.

If you have any questions or anticipate any difficulty in meeting this deadline, please call Dimitri Nionakis at 456-5814. Thank you for your cooperation.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Amy Squires (CN=Amy Squires/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:15-OCT-1999 18:27:13.00

SUBJECT: heads up memo--radon in drinking water proposed rule

TO: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

TO: Minyon Moore (CN=Minyon Moore/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Lawrence J. Stein (CN=Lawrence J. Stein/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Ann F. Lewis (CN=Ann F. Lewis/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Loretta M. Ucelli (CN=Loretta M. Ucelli/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Gene B. Sperling (CN=Gene B. Sperling/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TO: Steve Ricchetti (CN=Steve Ricchetti/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: Mickey Ibarra (CN=Mickey Ibarra/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Thurgood Marshall Jr (CN=Thurgood Marshall Jr/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])

READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TO: Maria Echaveste (CN=Maria Echaveste/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

CC: Adrienne C. Erbach (CN=Adrienne C. Erbach/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Linda Ricci (CN=Linda Ricci/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Robert L. Nabors (CN=Robert L. Nabors/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: John Spotila (CN=John Spotila/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Charles E. Kieffer (CN=Charles E. Kieffer/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

Records Management@EOP (Records Management@EOP [UNKNOWN])
READ:UNKNOWN

Don Arbuckle (Don Arbuckle [UNKNOWN])
READ:UNKNOWN

John Spotila (CN=John Spotila/OU=OMB/O=EOP [OMB])
READ:UNKNOWN

TEXT:
October 13, 1999

MEMORANDUM FOR THE CHIEF OF STAFF

THROUGH: JACK LEW

FROM: JOHN T. SPOTILA

SUBJECT: Clearance of EPA,s Proposed Rule Setting Drinking Water
Standards for Radon

We are about to conclude review on a proposed EPA rule that would regulate radon in drinking water. EPA developed the proposal under requirements in the 1996 amendments to the Safe Drinking Water Act. Those statutory requirements were introduced specifically to address concerns about the possible regulatory impact on small water systems. The agency,s analysis shows that costs and benefits from the rule are comparable) estimated costs ranging from \$67 to \$400 million per year; estimated benefits, \$360 million per year. The rule primarily impacts those water systems that draw their water from underground aquifers (to which radon can be introduced from the surrounding geology). Such systems tend to be small.

As provided in the Act, EPA,s proposal would establish two levels for maximum radon contamination in drinking water: one level for water systems in states that do not have an approved program for reducing exposure to radon in indoor air (a more serious health problem); and a

second, much higher level for water systems in states that do have such programs. The proposed rule would help affected water systems comply by explicitly stating a regulatory expectation⁸ that their states will develop indoor air programs that trigger the less restrictive water standard. There is, however, no requirement for states to develop such programs. Even if such a program were developed, however, water systems in some states with high background levels (NH, VT, ME, and CT) still would have to install additional treatment facilities.

The proposed rule allows for a public comment period. EPA hopes to issue its final rule by August 2000.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:22-OCT-1999 17:10:06.00

SUBJECT: DLX preps for NIPA benchmark

TO: Yu-Chin Chen (CN=Yu-Chin Chen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: William H. Gillespie (CN=William H. Gillespie/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Victoria A. Greenfield (CN=Victoria A. Greenfield/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Susan P. Clements (CN=Susan P. Clements/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Steven N. Braun (CN=Steven N. Braun/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Stephen F. Lin (CN=Stephen F. Lin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah M. Anderson (CN=Sarah M. Anderson/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sarah L. Rosen (CN=Sarah L. Rosen/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Sandra F. Daigle (CN=Sandra F. Daigle/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rosalind V. Rasin (CN=Rosalind V. Rasin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robin L. Lumsdaine (CN=Robin L. Lumsdaine/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Noah Y. Weisberger (CN=Noah Y. Weisberger/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michael S. Kosoff (CN=Michael S. Kosoff/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michael J. Brien (CN=Michael J. Brien/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary E. Jones (CN=Mary E. Jones/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mary A. Thomas (CN=Mary A. Thomas/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Martin N. Bailly (CN=Martin N. Bailly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Mark N. Levine (CN=Mark N. Levine/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Lisa D. Branch (CN=Lisa D. Branch/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Linda A. Reilly (CN=Linda A. Reilly/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John L. Goldie (CN=John L. Goldie/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John G. Fernald (CN=John G. Fernald/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: John C. Williams (CN=John C. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Jason A. Bernstein (CN=Jason A. Bernstein/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Francine P. Obermiller (CN=Francine P. Obermiller/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Douglas V. Almond (CN=Douglas V. Almond/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Christel M. Sice (CN=Christel M. Sice/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Charles F. Stone (CN=Charles F. Stone/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Catherine H. Furlong (CN=Catherine H. Furlong/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Carol L. Capece (CN=Carol L. Capece/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Brian A. Amorosi (CN=Brian A. Amorosi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Audrey Choi (CN=Audrey Choi/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Andrew R. Feldman (CN=Andrew R. Feldman/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

TO: Alice H. Williams (CN=Alice H. Williams/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

CC: Jason Furman (CN=Jason Furman/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

CC: Laurence R. Jacobson (CN=Laurence R. Jacobson/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:

In preparation for next Thursday's release of benchmark revision NIPAs, the old Haver DLX database USNA has been renamed USNA92.

The file named USNA now has no data in it.

It does, however, have structure (mnemonics and descriptions) for the revised NIPAs.

Data will be filled in upon release next week.

USNA92 will remain unchanged, so that you can compare new to old.

There is also a new database named GDP92.

It contains the NIPA subset of USECON (i.e., the GDP press release series and the personal income series).

It will remain in place for your comparison with USECON data after the benchmark.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Amy Squires (CN=Amy Squires/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:26-OCT-1999 11:52:01.00

SUBJECT: heads up memo--stormwater phase II rule

TO: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TO: Minyon Moore (CN=Minyon Moore/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Lawrence J. Stein (CN=Lawrence J. Stein/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Ann F. Lewis (CN=Ann F. Lewis/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Loretta M. Ucelli (CN=Loretta M. Ucelli/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Gene B. Sperling (CN=Gene B. Sperling/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Steve Ricchetti (CN=Steve Ricchetti/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: Mickey Ibarra (CN=Mickey Ibarra/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Thurgood Marshall Jr (CN=Thurgood Marshall Jr/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: Bruce N. Reed (CN=Bruce N. Reed/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Maria Echaveste (CN=Maria Echaveste/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Adrienne C. Erbach (CN=Adrienne C. Erbach/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Linda Ricci (CN=Linda Ricci/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Robert L. Nabors (CN=Robert L. Nabors/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: John Spotila (CN=John Spotila/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Charles E. Kieffer (CN=Charles E. Kieffer/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

Records Management@EOP (Records Management@EOP [UNKNOWN])
READ:UNKNOWN

fraas (fraas [OMB])
READ:UNKNOWN

James A. Laity (CN=James A. Laity/OU=OMB/O=EOP [OMB])
READ:UNKNOWN

TEXT:
October 22, 1999

MEMORANDUM FOR THE CHIEF OF STAFF

THROUGH: Jack Lew

FROM: John T. Spotila

SUBJECT: Clearance of EPA,s Storm Water Phase II Final Rule

We are about to conclude review on a final EPA rule that will regulate storm water discharges from small municipalities (those with populations under 100,000) and small construction sites (those disturbing 1-5 acres of land). The judicial deadline for promulgation of this rule is October 29, 1999.

Phase I of the storm water program, promulgated in 1991, regulated discharges from large municipalities, large construction sites, and most industrial activities. This Phase II rule adopts a flexible approach that allows small municipalities and construction operators, subject to approval by State permit writers, to design their own storm water control programs, incorporating certain minimum requirements and using appropriate site-specific best management practices (BMPs). The rule will cover approximately 5,000 small municipalities and 100,000 construction starts annually, and will impose costs of about \$800 million per year. EPA estimates that the rule will yield annual benefits ranging from \$800 million to \$1.6 billion.

One element of the rule is deregulatory in nature. Those industrial facilities (captured under the Phase I rule) that have no materials or activities exposed to precipitation may provide a simple &no exposure8 certification once every five years, in lieu of obtaining a permit. This provision could result in substantial savings to the estimated 75,000 currently regulated facilities that will be eligible for the exemption.

EPA developed this rule with extensive input over several years from a Federal Advisory Committee representing all stakeholders. While the Committee did not reach consensus, the rule attempts to balance competing concerns. Construction operators and some municipalities have objected to the regulation of construction sites disturbing 1-5 acres (the enforcement of this requirement falls primarily on local governments). Because of these complaints, a rider on VA/HUD requires EPA to report to Congress, prior to promulgation of the rule, on the impact of the rule on local governments. EPA has submitted its draft report to OMB for review, and the RMO intends to clear it no later than the 28th. EPA then would sign the rule on the 29th.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John Spotila (CN=John Spotila/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 1-NOV-1999 18:12:18.00

SUBJECT: re-schedule: meeting on EPA analysis supporting Tier II

TO: Henry C. Kelly (CN=Henry C. Kelly/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: Rosina M. Bierbaum (CN=Rosina M. Bierbaum/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Morley A. Winograd (CN=Morley A. Winograd/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Linda Lance (CN=Linda Lance/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

CC: Kevin F. Neyland (CN=Kevin F. Neyland/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Eric M. Haxthausen (CN=Eric M. Haxthausen/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Arthur G. Fraas (CN=Arthur G. Fraas/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Joshua Gotbaum (CN=Joshua Gotbaum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Jennifer R. Muller (CN=Jennifer R. Muller/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: Robert S. Fairweather (CN=Robert S. Fairweather/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Richard P. Theroux (CN=Richard P. Theroux/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Amy Squires (CN=Amy Squires/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Sally Katzen (CN=Sally Katzen/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

Records Management@EOP (Records Management@EOP [UNKNOWN])
READ:UNKNOWN

TEXT:

Due to a scheduling problem at EPA, we will move the meeting to 9:30am, this Thursday, November 4, instead of 12:30pm. The meeting will still be held in 10103 NEOB.

Original memo is below.

MEMORANDUM

FROM: John T. Spotila

SUBJECT: EPA analysis supporting the Tier II/low sulfur gasoline rule

At Tuesday,s meeting with Carol Browner, we agreed to convene a technical level meeting to review the options EPA will be evaluating in its analysis of the final Tier 2 rule. (See the attached list) We are scheduling that meeting for next Thursday (November 4) at 12:30 p.m. in NEOB Room 10103 and would invite you to attend or send a representative. EPA staff report that they will begin delivering pieces of their analysis next week, perhaps as early as Monday.

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We also think it would be useful to discuss with EPA the specific

structure/options for analyzing the following:

--small refiner/Western Governor/regional fuel options

--use of additional bins for the auto standards

--assessment of the interim standards for autos

The Thursday meeting will give us an opportunity to talk about any alternatives or other options you believe should be evaluated in developing the final Tier 2 rule.

Please let us know if you have any questions. It would also be helpful if you would advise Eric Haxthausen (eric.haxthausen@omb.eop.gov) of OIRA as to whether you or a representative will be attending the meeting.

Attachment

Options for Analysis*

I. Sulfur in Fuel Options (2000 to 2030)

(1) EPA Proposal (30 ppm average/cap=80 ppm)

(2) More stringent option (e.g., 10 ppm average/cap=?)

II. Phase-in of 30 ppm Fuel Standards (2000 to 2010)

(1) EPA Proposal

(2) Revised EPA Option

(3) Revised DOE Option

(4) Regional/Western Governors/Small Refiners Options

III. Auto Standards (2000 to 2030)

(1) EPA Proposal

(2) Evaluation of the Use of One (or more) Additional Bins (e.g., a bin between .07 and .15)

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(1) EPA Proposal

(2) Delay LDV and LDT Standards One Year

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V. Sensitivity Analysis: Interaction with Other Key Fuel/Refinery Issues (2000 to 2010)

(1) EPA Rulemaking to Limit Sulfur in Diesel Fuel

(2) Phasedown of MTBE Use

(3) Potential EPA Action under Section 202(l)

* We have agreed that cost-effectiveness analysis -- that is, analysis of the costs and emission reductions achieved for each option -- is the best analytical tool available for much of the required analysis. EPA has also agreed to provide the information needed to carry out an incremental cost-effectiveness analysis. For options involving the phase-in of standards, some other form of analysis -- instead of cost-effectiveness analysis -- may be appropriate. Finally, we agreed that it may be sufficient to do a qualitative sensitivity analysis of MTBE phasedown and potential Section 202(l) action to address hazardous air pollution from mobile sources.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John Spotila (CN=John Spotila/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 1-NOV-1999 12:35:30.00

SUBJECT: meeting on EPA analysis supporting Tier II

TO: Henry C. Kelly (CN=Henry C. Kelly/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: Rosina M. Bierbaum (CN=Rosina M. Bierbaum/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Morley A. Winograd (CN=Morley A. Winograd/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Linda Lance (CN=Linda Lance/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

CC: Kevin F. Neyland (CN=Kevin F. Neyland/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Eric M. Haxthausen (CN=Eric M. Haxthausen/OU=OMB/O=EOP@EOP [OMB])
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CC: Arthur G. Fraas (CN=Arthur G. Fraas/OU=OMB/O=EOP@EOP [OMB])
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CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])
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CC: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Jennifer R. Muller (CN=Jennifer R. Muller/O=OVP@OVP [UNKNOWN])
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CC: Robert S. Fairweather (CN=Robert S. Fairweather/OU=OMB/O=EOP@EOP [OMB])
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CC: Richard P. Theroux (CN=Richard P. Theroux/OU=OMB/O=EOP@EOP [OMB])
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CC: Amy Squires (CN=Amy Squires/OU=OMB/O=EOP@EOP [OMB])
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CC: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Sally Katzen (CN=Sally Katzen/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:
MEMORANDUM

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: John Spotila (CN=John Spotila/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 2-NOV-1999 16:16:19.00

SUBJECT: regarding the Thursday meeting on EPA analysis supporting Tier II

TO: Henry C. Kelly (CN=Henry C. Kelly/OU=OSTP/O=EOP@EOP [OSTP])

READ:UNKNOWN

TO: Rosina M. Bierbaum (CN=Rosina M. Bierbaum/OU=OSTP/O=EOP@EOP [OSTP])

READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP@EOP [WHO])

READ:UNKNOWN

TO: Morley A. Winograd (CN=Morley A. Winograd/O=OVP@OVP [UNKNOWN])

READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])

READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])

READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])

READ:UNKNOWN

CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])

READ:UNKNOWN

Records Management@EOP (Records Management@EOP [UNKNOWN])

READ:UNKNOWN

TEXT:

We just wanted to follow up with you about this meeting. After the policy level meeting last week, this week's meeting will be technical in nature. Your appropriate staff are strongly encouraged to attend. You of course are welcome to attend if you are interested.

Again, the meeting will be Thursday, 9:30am, in room 10103.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Eric M. Haxthausen (CN=Eric M. Haxthausen/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME: 2-NOV-1999 12:12:36.00

SUBJECT: EPA Tier 2 Outreach with States

TO: Henry C. Kelly (CN=Henry C. Kelly/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: Rosina M. Bierbaum (CN=Rosina M. Bierbaum/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

TO: Roger S. Ballentine (CN=Roger S. Ballentine/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

TO: Morley A. Winograd (CN=Morley A. Winograd/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

TO: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP@EOP [OPD])
READ:UNKNOWN

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

TO: George T. Frampton (CN=George T. Frampton/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

TO: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

CC: Kelly Kirkpatrick (CN=Kelly Kirkpatrick/OU=OSTP/O=EOP@EOP [OSTP])
READ:UNKNOWN

CC: Leigh L. Linden (CN=Leigh L. Linden/OU=CEA/O=EOP@EOP [CEA])
READ:UNKNOWN

CC: Linda Lance (CN=Linda Lance/OU=CEQ/O=EOP@EOP [CEQ])
READ:UNKNOWN

CC: Kevin F. Neyland (CN=Kevin F. Neyland/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Richard P. Theroux (CN=Richard P. Theroux/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Amy Squires (CN=Amy Squires/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Elwood Holstein (CN=Elwood Holstein/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Sally Katzen (CN=Sally Katzen/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Frances Sharples (CN=Frances Sharples/OU=OSTP/O=EOP@EOP [OSTP])
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CC: Joseph E. Aldy (CN=Joseph E. Aldy/OU=CEA/O=EOP@EOP [CEA])
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CC: Jennifer R. Muller (CN=Jennifer R. Muller/O=OVP@OVP [UNKNOWN])
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CC: Robert S. Fairweather (CN=Robert S. Fairweather/OU=OMB/O=EOP@EOP [OMB])
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CC: Arthur G. Fraas (CN=Arthur G. Fraas/OU=OMB/O=EOP@EOP [OMB])
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CC: Donald R. Arbuckle (CN=Donald R. Arbuckle/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: Joshua Gotbaum (CN=Joshua Gotbaum/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

CC: John Spotila (CN=John Spotila/OU=OMB/O=EOP@EOP [OMB])
READ:UNKNOWN

TEXT:

At last Tuesday's meeting on Tier 2, Administrator Browner extended an invitation to interested persons in the EOP to sit in on her Tier 2 outreach meetings with stakeholders. The next scheduled meeting is this Friday from 2 to 4 with representatives of the States (generally, environmental commissioners or their deputies).

EPA has asked for a list of likely EOP attendees. To that end, please let me know by COB Wednesday if you or your staff expect to attend.

We will let you know of additional Tier 2 outreach meetings as soon as they are scheduled.

Eric Haxthausen
OMB/OIRA
x55870

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 3-NOV-1999 12:12:12.00

SUBJECT: An Update on Steel.

TO: Karen Tramontano (CN=Karen Tramontano/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: David W. Beier (CN=David W. Beier/O=OVP@OVP [UNKNOWN])
READ:UNKNOWN

Lael Brainard (CN=Lael Brainard/OU=OPD/O=EOP [OPD])
READ:UNKNOWN

TEXT:

===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D87]ARMS26777541B.336 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Current Conditions of the U.S. Steel Industry

While the import surge of last year has subsided and signs of recovery have surfaced, the steel industry is still in a weakened state overall. The industry's problems have not gone away entirely. Despite recent improvements in production, capacity utilization, and steel prices, these indicators remain below the 1997 pre-crisis levels. Moreover, this recovery has yet to show up throughout the industry's bottom line (based on Q2 earnings report).

- **The steel import surge has stopped.** Preliminary figures for September 1999 show that monthly imports declined further from previous months, to 2.66 billion metric tons. The total volume of imports for the third quarter of 1999 declined by 23 percent from the same period in 1998. The nine-month cumulative imports were down by 14 percent from last year's figure, though remained 9 percent higher than the 1997 level. Import penetration ratio dropped from its 33 percent peak in November 1998 to around 23 percent in recent months; the 1997 average was 20 percent.
- **Domestic raw steel production and capacity utilization rates have recovered partially from their lowest levels in November 1998, but remain lower than pre-crisis levels.** Production expanded by 13 percent since bottoming in November 1998. The ten-month cumulative production, however, remained 7 percent below the last year's level. Capacity utilization rate increased to 85 percent, up from last November's 75 percent but not back above 90 percent yet.
- **Inventories have fallen dramatically as new orders have increased.** After reaching a 16-year high in 1998, inventories dropped down to a level unmatched since 1995. New orders increased by 20 percent and monthly shipments by 7 percent from the beginning of this year. However, stocks held by distributors remained high despite a 6 percent drop since the crisis.
- **Employment level showed recovery in July and August, but declined in Sept and remained well below previous years.** The September figure shows 220,700 total employees in blast furnaces and basic steel products, amounting to 1 percent drop from August. The corresponding numbers for 1997 and 1998 were 234,600 and 230,600 respectively.
- **After falling throughout 1998 and the first quarter of 1999, steel prices stabilized and showed slight signs of recovery.** The September import price index was up by 2 percent since hitting rock bottom in March. However, both import and domestic steel prices remained about 10 percent below their levels in 1997.
- **Although some major U.S. steel producers showed signs of improved profitability in the second quarter of 1999, others continue to struggle.** Based on a limited sample of earnings results for Q2, minimills appear to be weathering the steel crisis far better than integrated mills and remained profitable. Integrated mills, on the other hand, still suffered significant losses in earnings.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ronald Minsk (CN=Ronald Minsk/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 9-NOV-1999 09:57:09.00

SUBJECT: Issues Document: Small Business and Brownfields Bills.

TO: Robert Z. Lawrence (CN=Robert Z. Lawrence/OU=CEA/O=EOP@EOP [CEA])

READ:UNKNOWN

TEXT:

----- Forwarded by Ronald Minsk/OPD/EOP on 11/09/99 09:56
AM -----

Bradley M. Campbell
11/08/99 09:57:32 PM
Record Type: Record

To: See the distribution list at the bottom of this message

cc:

Subject: Issues Document: Small Business and Brownfields Bills.

Herewith my quick cut on an outline of the issues presented by last night's call. I omitted those issues that were raised but without firm assertion of an objection (e.g. the "other statutes" issue), or those that appeared likely to be resolved (e.g. the imminent and substantial 'taking the cleanup into account' issue). My summary is obviously without prejudice either to the presentation of different issues or to your ability to comment on how the issues are framed. I welcome your comments, but ask that you bear in mind that the ultimate readers of this document will not be Supefund cognoscenti

Message Sent

To: _____

edward_cohen@doi.gov

Elwood Holstein/OMB/EOP@EOP

Terry.garcia@noaa.gov @ inet

david.wilcox@do.treas.gov @ inet

rosemary.flanagan@do.treas.gov @ inet

CLIFF OSWER-ROTHENSTEIN <ROTHENSTEIN.CLIFF @ epamail.epa.gov> (CLIFF

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willie_taylor@ios.doi.gov@INET@LNGTWY

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Bicky Corman <Bicky.Corman @ usdoj.gov> @ inet

RANDY DEITZ <DEITZ.RANDY @ epamail.epa.gov> @ inet

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THOMAS FOX <Thomas.FOX@usda.gov>
REID WILSON <WILSON.REID@epamail.epa.gov>
Ronald Minsk/OPD/EOP@EOP

===== ATTACHMENT 1 =====

ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D70]ARMS20019112H.336 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 1 =====

Small Business Proposal

Issue 1: Prospective Relief. The proposal would provide a liability exemption to small businesses that contributed small amounts of waste to a Superfund site (a two-barrel exemption). The provision is prospective as well as retrospective.

Pros:

- The inability of small businesses to contribute to cleanups, and the costs of including small businesses in Superfund's liability regime, are the same regardless of when disposal occurred
- RCRA and other laws environmental requirements provide a safeguard against improper disposal.

Cons:

- Prospective relief would significantly weaken incentives for small businesses to dispose of wastes properly.
- Small amounts of waste from small businesses (e.g. two barrels of TCE from a dry cleaner) can often lead to major and costly environmental problems.
- Prospective relief would create an exemption that is inconsistent with other environmental laws.

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Issue 2: Burden of Proof. The proposal would shift to the United States the burden of proving that a small business is not within the protection of the liability exemption.

Pros:

- Given the impact of litigation on a small business and the limited contribution small businesses can make to cleanup costs, it is appropriate for the Federal government to bear the burden of establishing that the exemption is not applicable.
- The proposal requires small business to respond to government information requests or risk losing the exemption, so the government will be able to gather the information needed to meet this new burden in appropriate cases.

Cons:

- The burden of establishing a defense to liability typically rests with the defendant, who is in the best position to produce evidence on the issue.

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Issue 3: De Minimis Settlements. The proposal requires the government to make "de minimis" settlement offers to those parties who contributed one percent of the waste or less to the site.

Pros:

- This is consistent with, and simply elaborates on, a longstanding Administration policy and statutory mandate to expedite settlements with *de minimis* parties.
- The Administration previously has endorsed Superfund bills with a nearly identical "one percent" settlement provision.

Cons:

- It may be impossible in many cases to make a plausible determination of which parties are "one percent" parties, since the total amount of waste at a site is often unknown.
- Recent Administration testimony opposed the "one percent" approach as unworkable

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Issue 4: Attorneys Fees. The proposal entitles small businesses to recover attorney's fees if the small business is sued and later establishes that it was entitled to the protection of the exemption. This would apply even where the United States, as a liable party, brings suit against a small business.

Pros:

- President Clinton consistently has taken the position that Federal agencies should be subject to the same environmental and liability standards as private parties, and there is no basis to distinguish this attorneys fee provision from other aspects of liability from others.
- The Administration has previously endorsed Superfund bills with an identical provision.

Cons:

- Agencies may be deterred from filing suit against liable parties, undermining the "polluter pays" principle.

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Issue 5: Ability to Pay. The proposal mandates that EPA perform an "ability to pay" analysis for certain classes of smaller businesses if those businesses do not qualify for the liability exemption.

Pros:

- Largely codifies current practice of offering "ability to pay" compromise settlements where appropriate.

Cons:

- There is no reason to treat the specified class of small businesses differently, because all businesses should be able to settle based on ability to pay.

- Fairness would be served by treating all businesses the same for this purpose.
- Making the analysis mandatory compounds the unfairness by removing discretion to decide on the facts which parties are most appropriately considered for an "ability to pay" settlement

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Brownfields Proposal

Issue 1: Finality. The proposal would provide developers who conduct state-overseen cleanups with protection from EPA orders to perform additional cleanup, unless EPA could establish that there is an imminent and substantial threat to public health or the environment. For states with EPA-approved programs, this protection could extend even to those sites that would be candidates for listing on the National Priority List (NPL). States without EPA approved programs could provide this protection for cleanups at all sites except NPL-caliber sites.

Pros:

- Broader protection creates incentives for cleanup and redevelopment at sites that otherwise would remain idle.
- Protection is limited to developers who acquire sites after enactment.
- EPA's ability to order more cleanup in the presence of an imminent and substantial endangerment, and preservation of EPA authority to respond to other risks using Superfund monies, preserves an adequate safety net.
- This relief is far narrower than that sought by state and local governments.

Cons:

- Many states lack the resources and the institutional competence to provide appropriate oversight of cleanups.
- Limits in EPA's authority (which weaken incentives for states to require, or developers to agree to, protective cleanups) are inappropriate for either NPL-caliber sites or for states with unapproved programs.
- Recent Administration testimony has opposed finality provisions that encompass NPL sites or that extend to cleanups overseen by states whose programs have not been approved by EPA.

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Issue 2: Administrative Review. The proposal provides that if EPA issues a cleanup order to a developer who believes that he is protected by the finality provisions, that developer has a right to an expedited review before EPA's Environmental Appeals Board (EAB) before the developer can be subject to penalties for failure to comply with the order. The EAB's decision would not be subject to judicial review beyond that provided for cleanup orders under current law.

Pros:

- Provides a reasonable check on agency discretion without unduly delaying cleanup or increasing litigation.

Cons:

- EAB has never administered an expedited review process.
- The United States will have little ability to prevail in expedited proceedings because of the limited availability of information.

Agency Positions: EPA, [OTHERS] support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

Issue 3: Federal Lands. Due to the "checkerboard" pattern of Federal land ownership in the west, the finality provisions may adversely affect the ability of land manager agencies to ask EPA to take enforcement action against developers responsible for toxic waste on Federal lands.

Pros:

- The enforcement bar only limits EPA's authority, and President Clinton has delegated to Federal land managers independent authority to issue cleanup orders under Superfund.
- It would be unfair to deny the benefit of the finality provisions to developers of sites that happen to be located on land adjacent to Federal land.
- There are often good policy reasons to encourage development on properties adjacent to Federal facilities (e.g. closing bases).

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Cons:

- Lack of EPA enforcement could have significant fiscal impact on budgets of land management agencies.
- Limits on ability to compel developers to perform additional cleanup could further impede the already laggard pace of cleanups on Federal lands by agencies facing resource constraints.

Agency Positions: EPA, [OTHERS] would support this aspect of the proposal. DOJ [OTHERS] oppose this aspect of the proposal.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Eric M. Haxthausen (CN=Eric M. Haxthausen/OU=OMB/O=EOP [OMB])

CREATION DATE/TIME:10-NOV-1999 10:46:41.00

SUBJECT: EPA Tier 2 Outreach meeting with autos

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TEXT:

EPA Assistant Administrator for Air and Radiation Bob Perciasepe is having an outreach meeting with the Alliance of Auto Manufacturers TODAY from 4:30 to 6 pm on EPA's Tier 2 rulemaking for vehicle and fuel emission standards. EPA has invited interested EOP staff to sit in on these outreach meetings. Please let me know by 3 pm if you would like to attend. I will let you know the location as soon as I know it. Thanks --
I apologize for the short notice.