

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	To R. Lawrence, re Your Trip (1 page)	04/16/1999	P6/b(6)
002. email	L. Branch to R. Lawrence re Briefing [partial] (1 page)	04/16/1999	P3/b(3)
003. email	D. Elmendorf to R. Lawrence, re Hiring [nonselection] (1 page)	04/16/1999	P6/b(6)
004. email	F. Anova to R. Lawrence at M. Fibich, re Travel Claim [personal finances] (1 page)	04/19/1999	P6/b(6)
005. email	M. Jolin to J. Yellen et al., re Additional Resumes [nonselection] (1 page)	04/19/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System
CEA (Robert Z. Lawrence)
OA/Box Number: 950000

FOLDER TITLE:

[04/15/1999 - 04/19/1999]

2014-0316-F

wr10736

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-APR-1999 11:00:14.00

SUBJECT: Found Metrocards

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

READ:UNKNOWN

TO: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Robert P. Bamsey (CN=Robert P. Bamsey/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nora E. Gordon (CN=Nora E. Gordon/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

TEXT:

Did anyone lose a dark red holder with metrocards in it? If so, you may pick it up in room 328.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-APR-1999 11:38:46.00

SUBJECT: Phone Message from Paul Epstein

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

TEXT:

Contact: Paul Epstein Company: Phone: 617-432-0493 FAX: Message: H: 617-731-3167

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-APR-1999 09:51:42.00

SUBJECT: Re: Japan memo

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

READ:UNKNOWN

TEXT:

I will do that.

Nouriel

Robert Z. Lawrence

04/15/99 09:22:16 AM

Record Type: Record

To: Nouriel Roubini/CEA/EOP

cc:

Subject: Japan memo

We should circulate your memo minus the last section to the agencies for comment. I suggest you send a copy to Lael.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-APR-1999 10:32:41.00

SUBJECT: Phone Message from Noah Weisberg

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

READ:UNKNOWN

TEXT:

Contact: Noah WeisbergCompany: Phone: 617-588-1481FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-APR-1999 12:15:55.00

SUBJECT: Paper on Eurobond Restructuring

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

READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

CC: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

Tim Geithner and Ted Truman asked me to start working on their Eurobond Restructuring project. So, I wrote a paper with some initial ideas that I attach to this message. Matt has been most helpful in disussing the ideas, helping me write it up and putting an all niter so that we could finish it. Was sent to Treasury folks yesterday.

Nouriel

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

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D51]ARMS15408302S.136 to ASCII,
The following is a HEX DUMP:

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

Restructuring Eurobonds according to a Comparability Principle. CEA 4/14/98

Problems with the Notion of “NPV neutrality”

Any attempt to reschedule Eurobonds or sovereign bonds must begin with a determination of what “comparability” means. In some discussions, this concept has focused upon being “NPV zero” or “NPV neutral,” since Pakistan’s Paris Club debt has been restructured on terms that, at least formally, imply no debt relief. Unfortunately, however, this concept is imprecise. It has at least two logically distinct but interdependent dimensions. The first relates to the economic (or market) value of the payment made to Eurobond holders,¹ and is thus independent of whether cash or restructured securities are offered. The second dimension of “NPV neutrality,” on the other hand, explicitly addresses the valuation of promised future payments in the event that the Eurobonds are exchanged for new debt securities rather than a cash payment of principal.

We consider explicitly comparability with the Paris Club rescheduling in terms of these two dimensions. Perhaps ironically, we argue that this rescheduling has no bearing on either dimension of “NPV neutrality,” despite the fact that it seems to have motivated the need to achieve it. We argue, *inter alia*, that Paris Club rescheduling generally entails at least some component of debt relief (and thus are *not* NPV neutral along the first dimension). This implicit relief in the Paris Club restructuring affects importantly the discussion of what NPV neutrality means when we try to achieve comparability. Unfortunately, the amount of this official debt relief is unobservable and thus offers little guidance for the Eurobond restructuring exercise.

We proceed with both aspects of “NPV neutrality” in turn.

How much should the bondholders be given in net present value terms? Full face value, current market value or something in between?

¹A distinction between economic and market value may be drawn because of the likelihood that limited liquidity might either bias or preclude true market prices.

Suppose, for simplicity, that the bonds to be rescheduled have no more coupons to be paid and are close to maturity with a face value of 100. This represents fairly well the situation of the Pakistani eurobonds.² Note also that, while the face value is 100, such bonds are currently trading well below par, reflecting the market's assessment of a substantial probability of default.³ Current market prices for Eurobonds maturing at the end of 1999 are close to 70 cents on the dollar.⁴ With the simplifying assumption that the risk-free yield on instruments near maturity is close to zero, these prices suggest a default probability close to 30%.⁵ Deferring the issue of whether cash or restructured debt is offered in exchange for the Eurobonds, what is the economic value of the compensation required to be "NPV neutral?"

If NPV neutral is taken to mean something with a true economic value of 100 cents on the dollar, this inevitably entails a sizable transfer to current bondholders. If the compensation comes in the form of a cash settlement (obviously a counter-factual supposition), the transfer is readily apparent. Even if it comes in the form of new bonds with *economic value* of 100, however, the same transfer takes place (absent restrictions upon trading). Why? Simply because as soon as bondholders receive the new instrument (with economic value 100) they can sell it immediately at that price. It can be inferred from historic trading volumes that most current bondholders are not the *original* bondholders. Thus, such a policy would *de facto* reward international sovereign debt "vultures" with very large capital gains, and certainly would entail no "bail-in" of current investors.

There is a further reason why it seems inappropriate to exchange current bonds for cash or instruments valued at 100. Since inception the bonds have traded at a premium over US

² Technically, there is still some coupon payments left in some of these issues but to simplify the discussion we can think of the Pakistan Eurobonds maturing this year as effectively zero-yield bonds.

³ For clarity in exposition, we implicitly assume zero payment in the event of default. As such we refer to the "default probability" rather than the default probability multiplied by the recovery value in default. Since both are unknown, the default probability *per se* is indeterminate.

⁴ More precisely, the latest prices for these bonds are in the 72 to 73 range. Similarly, a floating rate Pakistan Eurobond maturing at the end of 2000 is currently trading in a price range of 51 1/4 to 53 7/8 indicating high default probabilities for a broad range of Pakistan bonds coming to maturity in the foreseeable future.

⁵ As explained in Appendix 3, when the default probability is high and the current implied spreads very high, the bond starts to display characteristics of markets that trade on a "price basis": as the market adjusts its expectation of default likelihood, assets begin to trade more as a function of their recovery value in default, a price-based concept. In this case, it is possible to show that sharp increases in the default probability lead to a curve inversion with spreads on short-term bond increasing much more than spreads over longer term bonds.

treasuries, and generally a sizable one. Thus, the debtor (Pakistan) has *already* paid a *de facto* insurance premium as compensation for a potential default. From Pakistan's perspective, then, forcing it to "make good" on the full value of its principal is tantamount to requiring that it provide an "excessive" return to Eurobond investors (i.e. that it give them a risk-augmented return on an asset that is *ex-post* risk-free). Even so, this policy can be defended as "NPV neutral" from a certain point of view. For reasons we explore further below, the validity of this point of view remains an open question.⁶

On the other hand, investors could also be given cash or a restructured instrument with a present value equal to the current market value of their bonds, about 70 given current market prices. One justification for such a policy is the view that eurobond holders took their "haircut" when the perceived probability of default on their bonds increased, and their bond prices fell to 70 as a result. If some bondholders sold out at this price, then their haircut is irreversible. Similarly, if some marked their bonds to market, then again their decrease in value has already been absorbed. Undoing this loss in many cases would thus be either impossible or unnecessary. In any case, it would entail either Pakistan or its official creditors footing the bill to undo what was essentially a market phenomenon.

⁶ As we shall see, whether such a payout is too much, too little, or just right depends critically upon the probability of default and the appropriate compensation for bearing default risk. Intuitively, if the probability of default is 30%, it is defensible to argue that full payment is just compensation for investors willing to bear the risk of getting nothing at all.

We believe the right (NPV neutral) value to choose is close to the current market value (i.e about 70 in our Pakistan example): this provides the “cleanest” zero NPV swap for a number of reasons. First, this represents the true economic value of the asset, given current circumstances, default probabilities and expected ability/willingness to pay of the debtor.⁷ Second, in so far as the majority of bondholders are international debt “vultures,” it also provides them with exactly their expected return. Imagine, for example, such a vulture fund purchased 10,000 independent Eurobonds at 70 (reflecting, as above, a 30% probability of default) just prior to their maturity. The vulture fund expects to receive -- on average -- \$700,000 for its investment as 30% of the bonds default and pay nothing and the rest are paid in full. Third, altering the payout of the bonds changes the portfolio’s *ex post* distribution (and is thus likely to lead to tremendous moral hazard). If payouts conform to *ex ante* expectations, however, such alterations do not change expected returns.⁸

A third logical alternative also exists to exchanging Pakistani Eurobonds for either their full face or current market values. It is to provide a restructured asset with a market value that is in between the face value and the current market value of the old bond. One way this middle price could be achieved is by making an investor’s *ex post* return consistent with the *ex ante* default probabilities which was incorporated in the bond’s price at the time of purchase. In principle, this could be done for all investors. Since all Paris Club creditors have (in effect) held their credits since inception, however, it might be most sensible to consider a hypothetical investor who has held a Pakistani eurobond since its inception.

⁷ We discuss below how the argument is modified if a successful restructuring and IMF reduces the default probability and increases the country’s ability to pay.

⁸ One caveat. Current Pakistan Eurobonds maturing in 1999 are highly illiquid for three reasons: 1. bonds with a residual maturity of less than a year are usually not highly traded; 2. Bonds with a face value of less than half a billion \$ are lightly traded (The four Pakistan Eurobonds under consideration have on average a face value of less than \$200); 3. Pakistan has a relatively small amount of external debt that is traded. Thus, the Pakistan Eurobonds we are considering are traded by appointment only. This illiquidity suggest that the current low market price may reflect not just the large default probability but also some illiquidity premium. This complicates the analysis of how estimate true default probabilities.

In other words, the economic value of the cash or instruments exchanged for a eurobond should be that payment that is required to achieve an *ex post* return equal to the risk-free rate. The logic of this approach, as discussed in Appendix 2, is that equilibrium returns on risky bonds should be equal to the risk-free rate.⁹ What total payment would this entail? The answer is *not* full payment of principal at maturity. It is likely to be above the Eurobonds' current market price but below their face value. Calculating it is a simple exercise (but not one that we have taken the time to do), requiring only the original issue yield and the value of US Treasury strips at the time of issue. The intuition is straightforward -- by paying an additional yield on its Eurobonds Pakistan has "earned" the right to pay less than full face value at maturity. In fact, its payment at maturity "should" be reduced by exactly the same value as its over-payment (in present value terms.)¹⁰

It can be argued, of course, that "locking in" the expected default probabilities that prevailed at the time of issue is artificial. To a large degree this criticism is fair. In an environment of rapidly changing default expectations, however, the same criticism can also be leveled at "locking in" the default probabilities implied in current market prices or at ignoring them altogether and paying out a value of 100.¹¹

⁹This proposition, of course, is necessitates an underlying equilibrium asset pricing model, and no one model enjoys consensus approval among financial economists and practitioners. Virtually all, however (including the CAPM and APT), model default risk as diversifiable and, hence, un-priced in equilibrium.

¹⁰ One problem with the approach suggested in the text. Since it is highly unlikely that current holders of the bonds are the original holders (given trading over time), one could argue that the risk free return should be given based on the fact that the last marginal investor bought the asset at 70. In this case, the original bondholders have already taken the loss and we do not want to over-reward investors that bought the asset on the basis of the expected recovery value. As discussed above in the text, such investors should be rewarded only with the risk-free rate as they cannot expect more than the risk free return on their default recovery bet.

¹¹ Conceptually, exchanging maturing Eurobonds for instruments valued at either 100, 70, or somewhere in between could all be in principle justified as "NPV neutral." NPV neutrality is inevitably an *ex ante* concept. A bond is a zero NPV investment as long as its true default probability is accurately reflected in its price. Unfortunately, individual realizations provide no information about underlying probabilities, just as "rain" and "sunshine" are both consistent with any (non zero) probabilistic weather forecast. Therein lies the problem.

We argued above that an economically meaningful comparability principle might suggest that the new instrument should have a market value close to the market value of the old debt. However, providing Eurobond holders with anything less than 100 might seem inconsistent with the principle of comparability, since the terms of the Paris club rescheduling ostensibly preserve the full value of the loans at the time of their restructuring.¹² This is a misconception, however, because the Paris Club's official debt rescheduling is only "NPV neutral" because it ignores default risk and discounts promised payments at risk-free rates. As a result, even when Paris Club rescheduling entails an economic "haircut," its terms are unobservable. Unfortunately, this means it offers no guidance for how to select the right "NPV neutral" value. These issues are explored further below.

Comparability with the Paris Club Rescheduling

An important characteristic of Paris Club debt -- the fact that it is not traded in secondary markets -- ensures that true comparability with any proposed Eurobond restructuring will be difficult or impossible to achieve. As mentioned above, the Paris Club rescheduling is considered to be NPV neutral as a result of the maintained assumption (fiction?) that Paris Club debt is risk-free. It is illustrative to examine both the cases in which this is, and is not, accurate.

Consider first the case in which Paris Club debt is not actually risk-free. In this case, the fact that it is not traded still prevents it from providing any guidance on the appropriate terms of the eurobond restructuring. Why? Because absent secondary market trading, there is no transparent way for changes in perceived default risk to affect loan (or bond) prices. Since their claims are not traded (and thus their prices cannot be observed) Paris club creditors are always free to maintain the illusion that their loans have been rescheduled rather than reduced, by maintaining an equivalent present value at risk-free interest rates. After the 1980s debt crisis, some commercial banks chose, in effect, to do the same thing: those with weak balance sheets simply maintained loans on their books at artificially high asset values by "pretending" that very low spreads were the appropriate rates at which to discount them. Eurobond holders, however, do not have this luxury. Secondary market trading renders such sleight of hand infeasible.¹³

It is also important to consider (if only for completeness) the case in which Paris Club debt truly *is* risk-free. If so, all creditors' loans are paid in full under every conceivable set of circumstances (not *if* but simply *when*). Accordingly, the risk-free rate is the right discount rate to use, and Paris Club reschedulings are, in fact, NPV neutral. The original economic value of the Paris Club debts is maintained, however, precisely because it must be *by assumption*. The

¹² Rhetorically, why is "comparable" for private bondholders to get a new instrument with market value of 70 if the official sector gets something with an expected value of 100?

¹³ When, in the 1980s, restructured bank loans were securitized (before formal Brady deals), they sold at discounts relative to their full "present values." In the 1980s crisis, many of the "haircuts" entailed by the Paris and London Club debt restructuring remained hidden until the 1989 Brady plans. The subsequent development of secondary markets in which such loans traded at a discount rendered it impossible to maintain this illusion.

probability of default is *always zero* and thus Paris Club debt has no bearing on the appropriate treatment of risky Eurobonds.

Paris Club debt also provides little guidance for the second dimension of “NPV neutrality,” how to value newly issued securities. Again, the key problem with the concept of Paris Club “comparability” is that default probabilities -- the primary drivers of Eurobond values -- are either hidden or non-existent in Paris Club debt. As we will discuss below, determining the “right” default probability is the key to achieving “NPV neutrality” in the valuation of newly created securities. And, since the maturing Eurobonds will undoubtedly be exchanged for longer-maturity securities, valuing these instruments correctly is likely to be at least as important as determining the right market value to target.

Correctly Valuing Future Payments: Identifying the Right Default Probability.

Most of the debate above has focused upon the appropriate value of the instruments to be exchanged for the Eurobonds upon maturity. As a result, the discussion has been invariant to whether these “instruments” are thought of as a cash settlement or a newly-issued bond. This abstraction, however, ignores the second dimension of “NPV neutrality” asserted in the introduction to this memo. And “picking the right value” is of no use if the securities subsequently offered do not actually achieve it.

Valuing these securities requires providing appropriate compensation for their default risk. Mechanically, of course, the compensation for this risk is reflected in the “discount rate”¹⁴ applied to the bond’s promised cash flows. Unfortunately, as discussed above, the Paris Club rescheduling sheds no light on future default probabilities. Even the information contained in market prices is ambiguous, as illustrated in the following example.

Once again, consider the stylized example presented above of a bond which has already made its final coupon payment and is trading at a market value of 70. Since the bond is close to maturity, the risk-free required return can be assumed to be zero. As a result, the market price implies (roughly) a 30% probability of default.¹⁵ Because the bond is in its final period, this default probability is both the per-period and cumulative default probability.¹⁶ Now, what happens to

¹⁴ For bonds, this “discount” rate results from applying the risk-free rate to a range of outcomes (“states of the world”). Additional risk is incorporated by increasing the number of states in which zero or partial payment is made. The “discount rate” is thus only *indirectly* affected by changing risk profiles, unlike the case most approaches to valuing equities.

¹⁵ For the sake of clarity in exposition, this ignores illiquidity premia which are likely to be quite large in some near-default situations.

¹⁶ See Appendix 1 for the distinction between cumulative and annualized default probability.

the value of the investor's claim if this bond is exchanged for a new two-year zero-coupon bond with face value of 100.¹⁷

¹⁷ To avoid mathematical complexity we consider the case of restructuring claims into longer maturity zero coupon bonds. Otherwise it is necessary to account for coupon payments made prior to default and the convenient link between prices and default probabilities is broken. For clarity, we also consider a two year zero-coupon bond despite the usual Paris Club terms which imply much longer restructuring periods.

Assume that market perceptions are correct, and they represent the *cumulative* probability of default. If this cumulative default probability remains unchanged, the restructured bond should still be priced to reflect a 30% default probability. Since it is a two period bond, however, this entails a *per period (or annualized)* default risk of a little over 16% (due to compounding) for which investors must be compensated. The new instrument provides this level of compensation by maintaining a market value which is unchanged at 70.¹⁸ If the risk free rate is not zero (say 5% instead), then the new bond's *spread* over the risk-free rate should be 15% and the implied yield about 20% per year. In this case, a new zero coupon bond with a 30% cumulative default risk would need to have a face value of approximately 110 (rather than 100) to achieve a present value of 70.

On the other hand, what happens to the bond's value if the 30% implied default probability is considered *annual* versus *cumulative*? If this probability is factored into the bond's price, its price will be just under 50¹⁹. Clearly, this is very different (both for investors and for Pakistan) than the case in which the 30% probability is considered the *cumulative* default risk. The difference becomes more pronounced the further maturities are stretched for the restructured bonds. Thus, any valuation must take into account the fact that seemingly innocuous changes in assumptions can have pronounced effects upon the value of restructured claims.

Further Considerations and Proposals

The decision of how to restructure Eurobonds following a Paris Club rescheduling is best decomposed into two parts. First, it is necessary to determine the economic value of the restructured claims. We argued that a whole range of values may be conceptually consistent with "NPV neutrality," both because of the *ex ante* nature of the NPV concept and the complications arising from Eurobond tradability. We also explored the issues relating to "getting the value right" of any securities exchanged for the maturing Eurobonds. In this case it is pivotal to price in the "correct" default probability. Unfortunately, neither Paris Club debt nor observable market prices are likely to provide much guidance. In addition, this probability is likely to be a moving target, as the very purpose of the rescheduling exercise is to dramatically reduce it.

For a number of reasons discussed above, we believe the right value to choose is the current market price of the bond (i.e. 70 sticking with our maintained example). This provides the "cleanest" and economically more meaningful zero NPV swap. The same benchmark sheds some light on the second dimension of "NPV neutrality" -- though we believe this remains much more of an open question. Specifically, given the current large discounts observed in the market, we believe Pakistan's Eurobonds are trading on expected recovery value. As a result, we believe a modest increase in maturities is unlikely to radically change their prices. To see

¹⁸This seems counterintuitive, and is largely driven by the unusual behavior of bonds trading on price. The intuition is simply that the cost of postponing the receipt of the bond's liquidation value is very small (only the risk-free opportunity cost of funds).

¹⁹ Precisely 49, with a no-default probability of 0.7.

why, again consider the vulture fund. If its portfolio of bonds were suddenly transformed into two year zero-coupons with a face value of 100, it would expect to receive the same \$700,000, i.e. a market price for the bond of 70. Since this payment would be two years in the future, however, it would discount this amount by the risk free rate (as discussed above, a higher rate is inappropriate -- especially since the bonds are already expected to default) In equilibrium, then, the market value of such bonds would actually be approximately 10% less than 70.

While we argued that it make sense to create new bonds that have a market value (at issuance) equal to the current market value of the old bonds, an important caveat should be kept in mind. If the restructuring exercise does not *significantly* lower post-restructuring default probabilities, the implied return or spread on the new bonds will have to be so high that, eventually, the new instruments will be defaulted as well, i.e. not paid in full. For example, a new restructured one-year zero bond trading at 70 with face value of 100 implies an annual yield of over 42%, still an unsustainably high real interest rate for the debtor. So the spreads on the restructured bonds need to be low enough and reflect sensible assumptions about long-run default probabilities to avoid an equilibrium in which the new bonds are defaulted again in a self-fulfilling way, just because excessively high spreads were imposed on the new instruments.

As for determining what the correct default probabilities are, and hence, what the correct discount rates are to apply to promised future cash flows, we have to be agnostic. In an important sense, we simply do not know. Further, whatever values we determine -- economically rational or not -- are subject to the market as final arbiter. If the market assesses a higher default risk than we price into restructured securities, then their price will drop. If the market assesses a lower probability, then their value will increase.

In this respect, regardless of the particular decisions made, the choices must be informed by two dominant considerations. The first is the environment of uncertainty in which the issue takes place -- unless restrictions are placed on trading (something that should certainly be avoided), this environment will determine the market prices and yields. Specifically, current prices may be excessively depressed because of the perception of a unjustified high probability of default, given current economic conditions. Thus, for Pakistan to commit to medium- to long-term yields based upon current market conditions would be exceedingly costly if the environment improved. And second, this environment is very likely to be changing. One could argue that, if an IMF stabilization plan would be implemented (together with a Paris and London Clubs restructuring) the ability and willingness to pay by the country would be increased and the old bond would be worth more than the current market price (about 70). In this regard, there may be some wiggling room to devise a new instrument that has a market value greater than the current market value of the old instrument at yields that remain feasible for Pakistan.

An extreme variant of argument about the reduced default probabilities (deriving from a successful adjustment and restructuring package) would be to argue that the current episode of debt-payment difficulty is a simple liquidity crisis, rather than a solvency one. In that case one could defend the view of stretching the terms of the bonds over time (restructuring) but paying 100 (in present value terms) to all investors to make certain that a panic is not sparked and the liquidity crisis subsides. In this ideal liquidity crisis scenario, the combination of a Paris Club and

Eurobond restructuring together with a successful IMF plan fully restores the country's ability to pay and allows all creditors to get the full value of their claim (in present value terms). So no haircut would not be required either ex-ante or ex-post; but all creditors will have to patiently stretch their claims for a while and still get full payment in a NPV neutral way. The problems with such a scenario are several. First, we are in a world of uncertainty in which we cannot know for sure ex-ante if haircuts are required or not; ruling them out altogether by making private creditors whole on an ex-ante basis (by giving them a new bond with market value of 100) does not represent a probabilistically fair burden sharing. If there is uncertainty and the country does not recover someone will have to pay: either the debtor, or the official creditors or the holders of the new restructured bonds. But there is no reason to fully bail-out ex-ante the holders of the current bonds; they should participate in the bail-in process by taking their ex-ante haircut. Second, there is a problem in determining what interest rate to attach to the restructured securities. If the liquidity crisis does not instantly abate (due to, for example, the announcement of the policy itself), then expected default probabilities will remain high for at least some period of time. To achieve a market value of 100, then, the new instruments must commit to paying (again at least temporarily) exceptionally high spreads as compensation for the expected probability of default. But, such spreads themselves might heighten concerns about liquidity, prolong the panic and lead to a self-fulfilling default scenario.²⁰ Issuing securities with economic or market values of 100 is thus an inherently problematic; given current default probabilities (and even much lower post-restructuring default probabilities) uncertainty will imply spreads that are so high that the debt path for the debtor may be unsustainable.²¹

²⁰ See the end of Appendix 2 for more on this self-fulfilling default scenario.

²¹ There is a further complication. It is clear that part of the current market value of the bond reflects the net present of value of what the country is likely to be able/willing to pay on its own over time given its macroeconomic prospects and IMF stabilization packages. But part of the current market value reflects market estimates of the probability that the official sector will help to repay debt that could not be repaid with the countries own resources. In this regard, the Paris Club request that comparability be applied to Pakistan's Eurobonds increased the probability of no full payment at maturity on these claims and thus reduced the market price of the bonds. How to address this issue is complex and we do not pursue it in detail now. One view is that the increased default probability triggered by the Paris Club request just reflect the worsening in the macro conditions of the debtor. In this view, the lower post Paris Club price of the Eurobonds truly reflects the economic value of such assets.

The difficulty here is to determine whether a specific country has a liquidity problem or a solvency problem, the latter broadly defined to consider both the ability and the willingness to pay of the sovereign. One simple answer is to look at current market prices of the bonds coming to maturity; if they are substantially below par, it means that markets expect, on the basis of all available information, that repayment is not going to be in full. This is a useful benchmark as it impose some discipline. Arguing that the value of the bond should be different from what is implied by current market prices requires arguing convincingly that the market is mispricing the country ability/willingness to pay. Arguing ex-ante that the creditor should be made whole (in present value terms) in a restructuring exercise thus requires proving ex-ante that the problem that the country suffers of, is for sure a liquidity one. Based on historical experience, it would be hard to argue that Pakistan, Ukraine, Romania, Russia and Ecuador will be eventually able to pay in full. So, if a haircut will have to be eventually occurring, the current bond holders will have to take a hit. And, unlike the 1980s bank restructuring episodes, the bond restructuring cannot intertemporally fudge this loss (by pretending for a while that the present value of the loans is par) as, unlike bank loans, the Eurobonds are tradable.²²

“Bailing in” investors, in general, is tantamount to convincing them that they are getting a “fair deal.” If they believe that the market will come to decrease its assessment of default risk (driven, for example, by a *true* decrease in default probabilities resulting from the restructuring), then they will hold onto their bonds in hope of capital gains. If they think the market is likely to revise further downward its expectations, then they will obviously unload them.²³

There is a potential way to address the problem that post-restructuring default probabilities may be too uncertain and variable to be able to determine ex-ante what the spreads and terms of the new bonds should be. One could have “variable spreads” on the restructured bonds indexed to the spreads on comparable instruments that have not been restructured. Indeed, such type of instruments were, for a short period, popular in 1998 as a way to address the volatility in spreads and country default probabilities. This solution has however, serious shortcomings. First, such instruments went rapidly out of favor with debtors when sovereign emerging market spreads

²² One could argue that Romania and Ukraine suffer of a liquidity problem as they currently do not have much foreign debt (the former having draconianly repaid most of it in the 1980s and the latter having dumped its Soviet debt on Russia). However, the significant macroeconomic problems they face and the cumulative output loss they suffered in the post-transition period suggest that debt relief may be warranted in both cases even if the stock of foreign debt is currently low. It would be hard to argue that they suffer only of a liquidity problem. Similarly, a country like Bulgaria probably got a bad deal in its Brady restructuring (an haircut that was too small relative to its needs) and might eventually be forced to (“restructure”) default on part of its Bradies to maintain its long run sustainability.

²³ There may be ways to make the restructured bonds more appealing to both debtors and creditors by attaching option features to them. In designing such options one should consider incentive compatibility issues. For example, the options should maximize the incentives of debtors to improve their macro conditions and ability to pay by rewarding them for successful adjustment.

sharply spiked after the Russian default for the whole class of EM debt. If contagion and/or higher risk aversion by creditors implies sharply higher spreads than what the debtor believes to be warranted on the basis of true default probabilities, the real interest burden of instruments linked to current spreads would be very high and the debtor would not want to go for them. Second, in an environment with great uncertainty about default probabilities, about the relative seniority of different Eurobonds (those already restructured and those to be restructured) and even about whether non-restructured Eurobonds will be restructured down the line, it would be hard to link spreads on restructured instruments to market spreads on non-restructured instruments.

Other proposals are obviously defensible. One proposal, for example, interprets “comparability” in a different though apparently sensible way. Since Paris Club creditors were expected to lengthen their maturities without changing the terms of their loans, the same should be expected of Eurobond holders.²⁴ In this scenario both Paris Club and Eurobond holders would stretch their claims with a coupon (or spread over Treasuries) that is identical to that of the original instruments. So, if the current Pakistan Eurobonds had a original spread of only 500 basis points over Treasuries, the same spread would be maintained on the restructured instruments.

This solution, however, abstracts away from the pivotal issue regarding default risk (specifically its potential changes through time and its inevitable differences between Paris Club creditors and Eurobond holders). Specifically, if current market prices of bonds reflect a much higher default probability than the one implied by the original low spreads, the loss in market value of the restructured instruments would be massive: the new instruments may trade at an even larger price discount relative to par than the current market value of the old bonds. Think of a value of a restructured bond with a 500 basis points spread that is discounted by the market on the basis of current high default probabilities; its price would be well below the 70 embedded in the current value of the old bonds. The creditors would end up getting an even larger haircut than currently priced by the market. Even in a scenario where post-restructuring default probabilities are lower, the difference between the old spreads and the new default probabilities may large enough that the new instruments may again end up trading at a discount relative to the old instruments.

The above example suggests that one should be a little wary of an analysis of restructuring scenarios that does not consider explicitly what current default probabilities are and how they may change following restructuring. For example, we can think of measuring the potential market value of restructured bond by doing the following: decide a spread on the new instruments (the old spread or any other we like), compute the implied stream of cash flows over time and discount such stream with different alternative discount rates. If the rate we use to discount the stream is very different from the one implied by the true post-restructuring default probabilities, our estimate of the present value of the cash flow stream will end up being very different from the market value of the new instruments, once these are issued. Again, the haircut

²⁴ See Appendix 4 on whether it make sense to use the concept of duration to determine the comparability of restructuring of Paris Club debt and Eurobonds.

taken by bondholders may end up being higher than the one implied by current market prices of the bond.

Appendix 1. Estimating Default Probabilities on Emerging Markets Sovereign Bonds from Spreads over Treasuries

There are several alternative methodologies in the literature to estimate of (cumulative and annualized) default probabilities on sovereign emerging market bonds derived from emerging market spreads over U.S. Treasuries. a simple approach is the one taken in Cline and Barnes (1997) for measuring Loss Equivalent Probabilities (LEP) for emerging markets obligations.

The methodology is as follows. It assumes that the expected present value of interest and principal on a risky emerging market bond equals the corresponding expected present value of risk-free U.S. Treasury of same maturity. Then it calculates a “loss-equivalent probability”, which is the ratio of the present value of the spread to the present value of the bond, assuming full repayment. Intuitively, that measures the excess return needed to compensate for riskiness. If we assume there is no recovery after default, the LEP provides a lower bound to the default probability.²⁵ If we assume a 50% recovery rate, the implied default probability is twice the loss-equivalent probability, etc. So:

$$\text{LEP} = (\text{PVS}/\text{PVB})$$

where PVS is the present value of the spread and PVB is the present value of the bond if fully paid.

From the LEP, one can also derive a *annualized default probability*. Conceptually, while LEP represents the ‘cumulative’ probability that the bond will default over its entire lifetime, the annualized default probability represent the probability each year that the bond will default. We can derive annualized default probabilities by assuming that such probability is constant and that there is statistical independence of such probabilities over time. In this case, we have:

$$\text{LEP} = 1 - (1 - \text{ADP})^t$$

so that:

$$\text{ADP} = 1 - (1 - \text{LEP})^{(1/t)}$$

²⁵ An example clarifies the procedure. If the bond has the maturity of one year and the spread is 500 basis point, the expected loss from face value of the instrument would be 5%. The additional five hundred basis point paid on the instrument relative to U.S. Treasuries can be thought of as the premium that compensates a risk neutral investor for taking the chance that is equivalent to a 5% probability of complete loss and a 95% probability of complete payment.

where ADP is the annualized default probability and I the maturity of the bond.

a few caveats:

1. While the derived LEPs represent the probability of a complete loss, past 'defaults' have involved workouts that did not lead a complete loss (for example the average writedown in the case of the Brady bonds was 30%). As the derived LEPs measures a full default, the actual implied default probabilities are higher as default is not complete. So the default probabilities are twice as large (relative to the no recovery case) if we assume a 50% recovery rate. In the case of partial recovery, the correct default probability P is given by the following expression:

$P = LEP / (1 - d)$ where d is the % default rate (if default occurs) and (1-d) is the recovery rate.

2. If the spreads are high enough, the LEP formula implies that the default probability is greater than one. This obviously does not make sense. a better way to think about this case is to consider that the LEP imposes a limit on the maximum recovery rate that the investors can expect to receive. For example, suppose that the current spread implies that there is a 60% chance that the debtor will default over the life of the bond. The same spread implies that the investors cannot expect to recover more than 40%, since that would require a default probability of more than one. In other terms, with a recovery of more than 40%, given the current spread and risk-free yield, investors would prefer the debtor bond over the risk-free investment even if there were a 100% chance of default.

3. The analysis assumes risk neutrality. If investors are risk averse, part of the spread may capture the risk premium to be paid to the risk-averse investor; in this case the default probabilities represent an overestimate of the true default probabilities.

4. The implied probabilities from the methodology used are conservative since, with default in period $t+X$ with X greater than one, bondholder has already recovered some of her capital. One way to go would be to assume constant default probability in every period and then set the expected present value of Eurobond equal to expected present value of emerging market bond on that assumption, then solve for that constant probability and then figure out probability of default by any period. That approach has the demerit that it requires to impose specific structure on problem.

5. Assets, which trade at very high spreads because of a high and increasing default probability start to display characteristics of markets that trade on a "price basis": as the market adjusts its expectation of default likelihood, assets begin to trade more as a function of their recovery value in default, a price-based concept. In this case, it is possible to show that sharp increases in the default probability lead to a curve inversion with spreads on short-term bond increasing much more than spreads over longer term bonds, exactly what we one saw for Russia in the summer of 1998 right before the GKO default. See Appendix 3 for more on this.

6. It is generally assumed that the default probability is constant over the lifetime of the bond to derive the LEP and the annualized default probabilities. So, one can bypass the issue of how the

default probability is distributed over the maturity of the bond (which also affects the present value calculations). Some investment houses compute the default probability in periods of crisis under the assumption that the annualized probability is much higher in the short run (say two years) and falling over time. Again, that approach would require to impose a more complex structure on the problem.

7. There is a question of which instruments we should use in deriving such default probabilities. Generally, it is better to use uncollateralized Eurobonds than Brady bonds, since the spreads tend to be higher on the latter, reflecting their unusual nature of mixing emerging market risk and U.S. treasury risk due to U.S. Treasury strip collateral. However, for some countries only Brady instruments are sufficiently liquid. In these cases one needs to use the “stripped spread” (rather than the “cash flow” spread) on these instruments to capture the component of yield that is due to default risk, i.e. the non-collateralized component of the return.

Appendix 2. How much of each sovereign claim should be paid, in NPV?

The basic idea is: while we prefer a world in which countries have strong incentives to pay in full their obligations, the sovereign spread includes the probability of default. Thus, in equilibrium default will on average occur from time to time in such a manner that the net of default return to the investor equals the return to a safe asset (say US Treasuries).

Logic: take a risk neutral investor (lender). The spread over Treasuries of a emerging market (EM) sovereign bond depends on the probability that the obligation will not be paid in full. Approximately, suppose that face value is paid in full but you may default on some part of the interest payment. Then:

$$1+r = (1-p)(1+r+s) + p(1+r+s)(1-d)$$

that gives:

$$s = [(1+r)pd] / (1-pd)$$

and:

$$p = s / [(1+r+s)d]$$

where:

r = risk free rate (US Treasuries)

p = probability of default

$(1-p)$ = probability of full payment of principal and interest

s = sovereign spread over risk free rate

d = % default rate if default occurs

$(1-d)$ = recovery rate

In equilibrium the spread depends on the default probability, the default rate and the risk free rate.

So, if markets price correctly bonds, given a spread s , on average the partial default should occur with frequency p ; otherwise the expected return to investors would be excessive.

Of course, the formula depends on the assumption of risk neutrality. If investors are risk averse (and cannot diversify away the risk of default), the spread would be higher, for any given r , d and p . However, internationally diversified investors should be approximately risk neutral. If they are risk averse, the determination of the risk premium will depend on your portfolio model. In a CAPM setup, the premium will depend on the investor risk aversion coefficient and the beta of that particular asset, i.e. the covariance of its return with the market portfolio.

Other considerations that will affect return are bankruptcy and/or restructuring costs. The higher they are the higher the spread, given all the other parameters.

While the logic above suggests that debtors will partially default on average to equalize expected returns, in equilibrium it does not make sense to have higher sovereign spreads and then expect that the debtor pays in full in all circumstances and for every bond. If it did so, the ex-post systematic real cost of borrowing will be extremely high and markets would be mispricing the

assets. I.e. if there is a default premium, the asset has to default accordingly in a probabilistic sense. If Russia had paid in full the GKO's at 70% nominal return, the real borrowing costs would have been ridiculously prohibitive.²⁶

Of course, workouts are very messy and costly and they are not usually orderly but we will have to make them orderly. This is not to justify default; it is to argue that, as bonds become a larger fraction of lending, partial defaults will occur on a more regular basis rather than being the exception especially when there are conditions of debt overhang. Also, we are not favoring here the idea that countries should default on a regular basis: if obtaining debt relief is too easy, there is a risk of creating incentives for countries not to pay, i.e. debtor moral hazard. What we are suggesting is, instead, that sovereign spreads on foreign currency borrowing reflect the probability that the investment will not be paid in full. If markets are pricing risk correctly, a high spread implies a high risk of default and, in equilibrium, defaults will occur from time to time.

The point above is confirmed by the ex-post returns on sovereign bonds in the early 20th century default episodes. The ex-post internal rate of return on foreign dollar bonds issues in the 1920s was 4% and on sterling bonds 5%. Instead, ex-ante returns were in the 7-8% range (Eichengreen and Portes (1989)). Lending to 10 major sovereign borrowers gave a real rate of return of 2.1% in 1850-1914 and 3.8% for loans extended in the interwar period, exceeding only by 1% in both cases the domestic safe (sterling or dollar) government bond real return (Lindert and Morton (1990)). Bank lending to sovereign countries between 1970 and 1992 implied an average nominal rate of return of 8% (1.8% below the average Libor) implying an average real rate of 2.1% (Klingen (1995)). "Thus, across a long historical sweep, with many defaults and reschedulings and under a variety of different institutional arrangements, the average ex-post real rate of return on lending to sovereigns has remained remarkably similar: about 2-3% not much different from that on "riskless" lending (Eichengreen and Portes (1995)).

Of course, sovereign defaults were usually very messy and often, like after the 1930s, it took decades until the sovereign regained access to capital markets. But 200 years of history show that sovereign defaults are the rule rather than the exception, both under bank and bond financing. As bonds become the norm, rather than bank loans, we should do the best to make such orderly workouts easier. The argument that this will make defaults more likely is not very tight. Since ex-post returns will be approximately equal to riskless rates, creditors will accept defaults whether they like it or not; that is why they require sovereign premia in the first place. It may seem dangerous to pursue policies that accommodate defaults but the alternative, messy workouts that lead to lost decades of growth are not a good alternative. Like in domestic junk bonds, domestic corporate default and chapter 11 restructuring, investors assess default risk and price firm bonds accordingly under the expectation that defaults will occur and they will not get ex-post the full NPV of the obligation. Same should be the case for sovereign bonds with the caveat that institutions for efficient debt restructurings should be in place.

²⁶ If spreads are that high it is clear that payment in full will not occur; you have to default. As the chief trader of Soros (who lost \$2 billion) said to the investors upset about Russia default: they should stop whining and grow up. They were betting on 80% returns did they expect to be paid in full?

In the US, debt writedowns under Chapter 11 average 50% while in out of court workout process they average only 20%. The difference is due to the fact that more solvent firms avoid Chapter 11 and to do out of court workouts. The latter take on average 17 months to conclude while Chapter 11 workout average 27 months in duration (see Franks and Toulos (1994)). If the average Chapter 11 US firm gets a 50% debt writedown, should we expect much less for a sovereign that is seriously distressed?

The debtor moral hazard argument is not very strong: yes, making default easier may lead to more default but the alternative (a protracted debt overhang) is worse for all parties. Countries that want to avoid being cut off from lending, going through messy and lengthy workouts and lose years of growth, have in the first place all the incentives to try to stay current on their obligation, build credibility and reputation over time and end up with low sovereign spreads to begin with. Countries that are more likely to default for lots of reasons will end up paying high spreads in the first place and partially default ex-post. Of course, we should support the former rather than the latter. But that should not prevent the need to make the latter workout as little costly to both borrowers and lenders. There is a large inefficiency cost in messy workouts, long-term debt overhang and lost decades of growth.

Final caveat. What we should maybe avoid in practice is what I will call the self-fulfilling multiple equilibria default conjecture. I.e., suppose that investors exogenously and arbitrarily increase their probability of default on a sovereign debtor that would otherwise have a lower objective default probability. Then, the sovereign spread will accordingly increase to reflect that higher subjective probability. In that case, in equilibrium the borrower should default according to the higher probability even if such an increase in default probability was not justified in the first place. If the borrower did not default, the ex-post real cost of borrowing would be prohibitively high. So, you can get multiple equilibria in which any subjective probability of default is self-justified even if not justified by underlying fundamentals: the higher probability leads to higher sovereign spread and this in turn forces the borrower to default to justify having committed to such high ex-ante premia. How to avoid such bad equilibria? Hard question with no simple answer.

Appendix 3. Asset Pricing Behavior When Default Probabilities are High

When bonds are near default, they often began to display characteristics of “trading on price.” In other words, they no longer adhere to standard pricing relationships approximated by duration and convexity. It is still necessary to analyze pricing with a discounted cash flow methodology. The results, however, are not always intuitive.

To perform such an analysis, begin with the cash flows in both the default and no-default states of the world. For clarity, a zero cash flow is often assumed in default states to derive an explicit relationship between spreads and default probabilities. If non-zero default state cash flows are maintained, then spreads can only be expressed in terms of the product of default probabilities and recovery values.

Then, since the cash flows are known, they are appropriately discounted at the risk-free rate of return. Now, an assumption must be made about the default probabilities. It is typical (but almost certainly not correct!) to assume a constant default probability through time. The simplest example is then constructed from zero coupon bonds, otherwise coupon payments made prior to default must be discounted and included in the analysis. For short duration bonds (as in the case of the Pakistani bonds maturing in December 1999), the implied default probability can be readily inferred. Consider the following stylized depiction. a one year zero bond with 15% annualized default probability should have a price of $80.1 = (0.85) \times 100 / (1 + 0.06)$ where the risk-free rate is 6%.

The same exercise can be performed with longer duration bonds. Again, however, if the bonds pay a coupon, it is important to keep track of their cash flows. a straight-forward payout tree can be drawn, in which every period the government either defaults or does not default. If it does not default, the coupon payment is made, and should be discounted. Again, the appropriate rate is the risk free rate, for two reasons. First, the “cost” of default is accounted for by means of the reduced (or zero) cash flows in default states. And second, the risk of default is either ignored by (a sufficiently large) risk neutral investor or capable of being fully diversified away.

Thus, for even very long term bonds, the assumption is that every period the government has a probability of defaulting given by p . Thus, for an n period bond, the probability of reaching maturity without defaulting is only $(1-p)^n$. In other words, for even modest per period default probabilities, a near certain default is assumed to occur some time during the life of very long term bonds. Using again, recovery value analysis, a 30 zero coupon bond with an annualized default probability of 15% will be priced at $0.13 = (0.85)^{30} \times 100 / (1 + 0.06)^{30}$

A natural question arises: specifically, what happens to the prices of the short and long term bonds if the perceived probability of default increases? The answer is perhaps counter-intuitive. If we double the default probabilities above, the price of the short term bond plummets (and thus its spread sky-rockets) while the price of the long term bond remains about the same.

The key to the intuition was already presented above -- with even modest default probabilities, the government is already *de facto* expected to default on its long term bond. Thus, increasing the probability of this occurring does not “cost” very much. On the other hand, the short term bond’s price reflects the changes both directly and dramatically.

Consider, also, the impact of stretching the maturity of the short-term zero coupon bond with a high default probability. If, for example, the bond above was transformed into a two-year maturity, its price would change very little. This is why such bonds are referred to as “trading on price” -- their value, rather than being driven by the time value of money, are instead predicated on their recovery value in liquidation. As a result, the only difference between getting the liquidation value today and one year from now is an additional period of discounting at the risk free rate.

As we saw above, however, the bond’s value changed dramatically when the default probability doubled. This is why it is so crucial to determine whether the default probabilities reflected in short maturity bond prices are cumulative or per-period, as discussed in the text.

Appendix 4. On the use of duration in bonds restructuring with comparability

Duration is a very useful tool. Like all approximations, however, it has its limitations, and it is crucially important to know what they are. The mathematics are very straightforward, and the intuition is even simpler. We wish to forecast how a bond's value (it's market price) will change with changes in interest rates (technically, *yields*). It is fairly intuitive that bonds with longer maturities decline in price more than comparable bonds with shorter maturities for a given increase in interest rates. This intuition is correct for zero coupon bonds. For coupon bearing instruments more generally, however, the relevant concept is not maturity but the related concept of "duration."

Intuitively, duration can be thought of as a weighted average of the periods in which a bond makes payments, with the "weights" given by the percentage of the bond's total present value that is paid out in any period. Thus, a zero coupon bond, which makes only one payment at maturity, has a duration equal to its maturity. a coupon bearing bond has duration less than its maturity since it also makes payments in each period leading up to maturity. As a result, the coupon bearing instrument, all else being equal, will have a shorter duration than the zero coupon bond.

Mathematically, the concept of duration comes from a Taylor series approximation to the present value of a bond's cash flows. They begin with an initial observation of market prices and yields. Then, to forecast the price impact of a small change in yields, this hypothetical change in yields is multiplied by the first derivative of the bond's present value equation. This first derivative is what is called duration. It actually sounds much harder than it is. To be even more precise, one includes a term which multiplies the square of the change in yield by the second derivative (called the "convexity.")

As with all Taylor expansions, the approximation gets more precise the more higher-order derivatives that are included, and remains applicable only for small changes in yields. More importantly in the present context, the entire methodology is also predicated upon *parallel shifts in the yield curve*. Quite simply, this means that the small changes in yields mentioned above must be uniform across all maturities. If a shock raises short rates by 100 basis points and long rates by 25, for example, bond price estimates based upon duration are likely to be seriously flawed.

In near-default situations, unfortunately, non-parallel shifts in the yield curve are the rule rather than the exception. As default becomes likely, bonds begin to trade more as a function of their recovery value than the discounted value of their promised cash flows (they are said to "trade on price"). And, for given (percentage) price decreases, longer duration bonds experience much smaller increases in spreads than shorter duration bonds. Estimates based on Taylor series approximations are thus going to have little bearing on the behavior of actual bond prices when expectations about default probabilities are rapidly changing. More concretely, within such an environment, the prices of two bonds with different cash flows but identical durations could well react very differently -- both from each other and from their predicted behavior.

In general, then, duration is a useful but limited tool. It provides us with a much better benchmark than simple maturity for thinking about bond "comparability." At the same time, however, its underlying assumptions make it most applicable in situations in which the key risks facing bondholders are small changes in prevailing interest rates. When the key source of risk is instead rather large changes in default probabilities, the concept is of much more limited use.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-APR-1999 16:56:00.00

SUBJECT: Phone Message from Victoria Greenfield

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

READ:UNKNOWN

TEXT:

Contact: Victoria GreenfieldCompany: Phone: FAX: Message: FYI, she has submitted commits to Dave Sandalow. He plans not to circulate latest draft and ask that you also not distribute the document .

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-APR-1999 19:36:11.00

SUBJECT: update

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

READ:UNKNOWN

TEXT:

Robert: glad to hear you got into Friday's developing country meeting. I will be at an NSF panel all morning- and given the struggle to get you in, it doesn't sound like it is worth trying to get me in to the meeting.

Two updates: both Tier II and Regional Haze rules are moving full speed ahead for release next week. We used the fact that CEA didn't like the no-lag on exposures with Josh Gotbaum (OMB), however, even with this additional push he didn't seem inclined to push EPA on this issue. EPA is pushing the Regional Haze rule so that it can be announced at an event on Earth Day (next Thursday). I am not sure there is much we can do about this- but it is not a sensible rule. If you have a few moments to spare late in the day tomorrow it would help me to discuss the basics of the rule and see if you have any suggestions for improvements. Thanks.
Steve

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-APR-1999 13:40:40.00

SUBJECT: TPSC PAPER FOR Friday's TPSC Meeting

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Robert and Nouriel,

Attached is the TPSC paper for Special 301. This forum is basically senior staff, and at this level seeks to get approval for a staff level proposal. This proposal then metamorphosizes into a beautiful TPRG (deputies' level) paper (if I have my bureaucracy and acronyms right) before it is written in stone. At this point, though, positions are more malleable -- so, if we have strong views then we should air them.

I'm double booked for Friday (we have the preliminary meeting for the Beef Hormone hearings), so please let me know our priorities. I have thrown very little (of my very little) spare capacity in the direction of Special 301. Like most USTR mediated staff groups, there are many people whose job it is to cover this stuff, and I have generally felt that it is not my (or CEA's) comparative advantage. But, I would be more than happy to carry the flag and champion causes that we feel are important.

Let me know.

Matt

----- Forwarded by Matthew R. McBrady/CEA/EOP on 04/15/99
02:25 PM -----

Andrew Bowen <ABOWEN @ ustr.gov>

04/14/99 06:08:17 PM

Record Type: Record

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

cc:

Subject: TPSC PAPER FOR Friday's TPSC Meeting

attached is an advance copy of the TPSC paper for Friday's meeting. Andy

- TPSCME~2.WPD

Message Sent

To:

Matthew R. McBrady/CEA/EOP

Jmaster1 @ doc.gov

kbryant @ dol.gov

pettis-maureen @ dol.gov

wanamaker @ fas.usda.gov

Deborah_Lashley @ ita.doc.gov

Jason_Buntin @ ita.doc.gov

csae @ loc.gov

Jfed @ loc.gov

rgos @ loc.gov

ssra @ loc.gov

FinstonSK @ ms6820wpoa.us-state.gov

Matthew P. Schaefer/NSC/EOP

CroninSP @ State.gov

robert.baker @ treas.sprint.com

Susan.Wilson @ usdoj.gov

dkriz @ usitc.gov

dshepherdson @ usitc.gov

mschultz @ usitc.gov

Joellen.urban @ uspto.gov

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

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D80]ARMS14470502V.136 to ASCII,

The following is a HEX DUMP:

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

TRADE POLICY STAFF COMMITTEE

Special 301 Provisions of the Trade Act of 1974

ISSUE

USTR must announce no later than April 30, 1999, which trading partners (A) deny adequate protection of intellectual property rights, or (B) deny fair and equitable market access to United States persons that rely upon intellectual property protection. Of these trading partners, those whose practices are most egregious or onerous and have the greatest adverse effect on the United States are to be identified as "priority foreign countries" under the "Special" 301 provisions of the Trade Act of 1974, as amended (Trade Act). As part of this announcement, the USTR announces those countries that have been placed on the Special 301 "priority watch list" and "watch list," and will make "other observations" of certain other countries. This year consideration is being given to eliminate the "other observations" category. In addition, USTR uses this occasion to announce initiation of IPR-related dispute settlement under the World Trade Organization.

RECOMMENDATION

That the TPSC agree to the attached list of countries to be placed on the priority watch list or watch list. Finally, that the TPSC agree to recommend that USTR announce that it will initiate dispute settlement proceedings with respect to the countries identified in TPSC Document 1999-43.

PRIVATE SECTOR VIEWS

In response to the notice for public comment which was published in the Federal Register on January 15, 1999, USTR received 11 submissions from U.S. firms and business groups and two submissions from a foreign government. USTR has held extensive consultations with industry representatives, at the staff and policy levels, concerning countries being considered under the special 301 review. Views of industry have been considered in drawing up the above list of recommendations.

BACKGROUND

Section 182 of the Trade Act of 1974 (Special 301) mandates that USTR identify annually "those foreign countries that (A) deny adequate protection of intellectual property rights, or (B) deny fair and equitable market access to United States persons that rely upon intellectual property protection." The statute requires that the identification be made within 30 days of the publication of the National Trade Estimates Report, which took place this year on March 1, 1999. The USTR announcement has been scheduled for April 30, 1999.

Accordingly, this paper discusses which trading partners should be placed in the non-statutory categories of priority watch list and watch list or made the subject of "other observations" in the press release. Placement on the above lists has been determined after review of private sector submissions, the National Trade Estimates Report, and consultations with the TPSC Agencies, the Patent and Trademark Office and the Copyright Office. The 71 countries, territories, or groups of countries named in the Special 301 submissions were considered by the TPSC Special 301 subcommittee, which reached a consensus on identification or placement of the majority of those countries. The attachment provides specific information on each country under review.

RELATIONSHIP WITH URUGUAY ROUND/TRIPS AGREEMENT

In the Uruguay Round Agreement Act (URAA), Congress amended Section 182 of the Trade Act of 1974 to provide that a country may be determined to deny adequate and effective protection of intellectual property rights, notwithstanding the fact that the foreign country may be in compliance with the specific obligations of the Agreement on Trade-Related Aspects of Intellectual Property Rights.

TRIPS obligations regarding a general "standstill" and a "mailbox" provision became effective as of January 1, 1995. Obligations for developed countries came into effect on January 1, 1996. Developing countries, and countries whose economies are in transition to a market system, have until January 1, 2000, to implement TRIPS obligations, with certain exceptions: (1) the MFN and national treatment provisions are binding on all WTO members as of January 1, 1996; (2) developing countries and, under certain conditions, "economies in transition" have until January 1, 2005, to provide full product patent protection including for pharmaceuticals and agricultural chemicals; and the standstill and mailbox provisions cited above. For least developed countries, the January 1, 2000, transition date is extended to January 1, 2006.

The subcommittee has examined the non-compliance practices identified in the public submissions and decided to recommend that the USTR use the occasion of her Special 301 determination to announce that USTR will invoke formal dispute resolution procedures with respect to certain of these practices in the context of section 301 (See TPSC Document 1999-43):

NEW CHALLENGES IN 1999

In addition to providing recommendations on 58 countries for placement on the various Special 301 lists, in its 1999 Special 301 submission, IIPA also identified several priority areas which we have made a priority to address new challenges as we enter the 21st century. These priority areas were announced by Ambassador Barshefsky in 1998 and were specifically identified as a focus of this year's Special 301 Review. Specifically, they include: progress by countries, and particularly developing countries, have made toward proper and timely implementation of the WTO TRIPS agreement, progress toward reducing piracy of optical media (music CDs, Video

CDs, CD-ROMs, and DVDs), acquisition and use of only legal software by government agencies, and implementation of the WIPO copyright treaties to address on-line piracy.

1. Developing Country Implementation of the WTO TRIPS agreement.

TRIPS implementation is a major USG priority that we have highlighted in our annual Special 301 announcement since the TRIPS agreement came into force, and emphasized particularly strongly this year in our discussions with foreign governments and guidance to our embassies. Since 1996, we have been very aggressive in pursuing a significant number of TRIPS dispute settlement cases against developed and developing countries, including India, Greece, Pakistan, Japan, Portugal, Denmark, Sweden, and Ireland. This year, we again anticipate announcing several new dispute settlement cases. We are currently reviewing five potential cases, all of which relate to patent or trademark cases. In addition, we are currently working with IIPA and others to prepare a number of targeted, precedent-setting dispute settlement cases to file on 1/1/2000 against LDCs which have not complied, and will begin informal consultations with a number of priority countries before that date. Aside from dispute settlement activities, we continue to work to assist countries to comply with their obligations. Last summer we persuaded WTO and WIPO to launch a major training initiative to help developing countries meet the 1/1/2000 deadline for full TRIPS compliance. Industry is enthusiastic about the initiative, and we have been pressing developing countries to avail themselves of the program.

2. Reducing Optical Media Piracy.

We have successfully worked with a number of countries including China, Hong Kong, Macao, and Bulgaria to adopt optical media controls, and have made the reduction of optical media piracy a focus of this year's Special 301 exercise. We are currently pressing Israel, Malaysia, and other ASEAN countries to adopt such controls and have shared with those governments an IIPA designed concept paper. In the case of Malaysia, PM Majahtir has ordered his bureaucracy to "fix the problem" and the GOM has committed to an optical media law by July 1.

3. Ensuring proper Government Use of Software.

We have been urging a number of governments to issue directives to ensure that their agencies use only legitimate computer software and that such software be used only as authorized, and have made it a focus of this year's Special 301 review. We have worked closely with BSA on our efforts, and can count China, Paraguay, the Philippines, Thailand, and Jordan as countries which have recently issued such directives. Other countries that are actively considering such decrees include Taiwan, Spain and Israel.

4. WIPO "Digital" Treaties.

With the recent ratification by the U.S. Senate of the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, the USG will be working at all levels to encourage countries to sign, ratify and implement these agreements. These treaties provide the essential

legal framework for the continued spectacular growth of e-commerce in the next years by ensuring that valuable content is fully protected from piracy on the Internet. Of the 159 members of WIPO, 51 have signed and 4 have ratified the copyright treaty, and 50 have signed and 2 have ratified the performances and phonograms treaty.

PRIORITY FOREIGN COUNTRY

There is no TPSC priority foreign country recommendation this year.

SECTION 306 MONITORING

China
Paraguay

PRIORITY WATCH LIST

Argentina	India	*Peru
Dominican Republic	Indonesia	Russia
EU	Israel (TRIPS OCR)	*South Africa
*Ecuador (WL if GOE clarifies test data protection)	Italy	Turkey
Egypt	*Jordan (WL if Jordan joins Berne)	Ukraine
Greece	Kuwait (TRIPS OCR)	
Guatemala	Macao	

WATCH LIST

*Australia	Japan	Romania
Belarus	Korea	Saudi Arabia
Bolivia	Lebanon	Singapore
*Brazil	*Malaysia(Revised industry recommendation. September OCR)	Sweden
Canada	*Mexico	Taiwan
Chile	*New Zealand	Thailand
Colombia (OCR)	Oman	Uruguay
Costa Rica	Pakistan	Venezuela
Czech Republic (OCR)	Philippines	Vietnam
Denmark	Poland (TRIPS OCR)	
*Hong Kong	Qatar	
Ireland		
Jamaica		

OTHER OBSERVATIONS: Consideration is being given to eliminating this category. The majority of agencies support elimination of the category and support moving some countries to the Watch List and not listing other countries. The TPSC needs to reach consensus on this issue.

Bahrain (no list)
Estonia (no list)
Hungary (WL)
Kazakhstan (no list)

Panama (no list)
Romania (WL)
Slovenia (no list)
Spain (WL)

Tunisia (NL)

UAE (WL)

CONSIDERED BUT NOT LISTED

Austria
Bulgaria
Cyprus
El Salvador

Finland
Germany
Honduras
Nicaragua
Palestinian Authority

Note: Asterisk (*) denotes countries on which there is, as yet, no certainty regarding interagency consensus.

Attachment: Justification for Recommendations on those countries on which there was no interagency consensus at the Special 301 subcommittee level.

PRIORITY WATCH LIST

ECUADOR

RECOMMENDATION:

Move Ecuador from the Priority Watch List to the Watch List, pending clarification from the GOE of the recently passed regulations.

PRIVATE SECTOR VIEWS:

IIPA did not recommend that Ecuador be placed on a Special 301 list this year. PhRMA recommends maintaining Ecuador on the Priority Watch List unless clarification can be obtained from the Government of Ecuador that its law with respect to data protection will be interpreted in a manner consistent with the TRIPS Agreement and pledge to work toward resolving the remaining pipeline applications. Specifically PhRMA requests that Ecuador state that:

“Articles 188, 191, 192 and 286 of the law require the protection of confidential data, including data submitted to the government authorities for marketing approval. The intent of these articles is to fully protect the originator's ownership interest in the data, and in particular to preclude any use of or reliance on such data for the benefit of a third party seeking marketing approval for the same or a similar product.

Article 191 and 192 are intended to work together. The purpose is to exclude the awarding of an abridged application to everyone except the originator. Consistent with Decision 344, the period of protection is 5 years from grant of the period of exclusivity given to the originator's product in that country.”

AGENCY POSITIONS:

The majority of agencies support moving Ecuador from the PWL to the WL if the GOE provides the necessary clarification.

BACKGROUND:

Ecuador's enacted major legislation in May 1999 which on the whole met TRIPS requirements but is deficient in a number of areas and is unclear with respect to test data protection as required by Article 39.3 of TRIPS. Ecuador recently established an IPR institute, though it is not yet

fully functional. While the GOE began acting on pharmaceutical pipeline patents applications in the spring of 1997, progress has stopped in that area. Dealers' Act cases continued to be brought and to progress in the courts against U.S. companies. Ecuador's current financial crisis limits what can be achieved on IPR by April 30, but it may be possible to extract a series of achievable commitments from the GOE during that period. Commitments could relate to the operation of the new institute, continued opposition to Andean Community pressure on pipeline and regulatory fixes to the legislation.

In October 1993, Ecuador and the United States signed the bilateral intellectual property rights agreement (IPRA) that mandates full protection for copyrights, trademarks, patents, satellite signals, computer software, integrated circuit layout designs and trade secrets. However, the agreement has not been ratified by the Ecuadorean Congress. The IPRA obligates Ecuador to establish criminal and border enforcement systems. Many of the areas covered by the IPRA have been addressed by the new IPR law, except for the pending pharmaceutical "pipeline" applications held by U.S. and other foreign companies.

In response to a November 1996 decision by the Andean Pact Tribunal, Ecuador repealed its implementing regulations for Andean Pact Decision 344 on industrial property, which included provisions for "pipeline" protection for previously unpatentable products. In December 1996, another decree re-established the National Directorate of Industrial Property (DNPI) as the competent patent and trademark authority and authorized the DNPI only to administer decision 344 as written. In mid-1998, the Government of Ecuador issued 12 "pipeline" applications, but declined to take action on more than 140 other "pipeline" applications, citing, inter alia, Andean Community prohibitions and its intention to abolish the DNPI.

Before its September 1997 prospective repeal, the Dealers' Act prevented U.S. and other foreign suppliers from terminating distributorship contracts without mutual consent and judicial approval, even if there was a termination clause in the contract that allowed either party to unilaterally terminate the contract. The law violated national treatment guarantees of both the WTO and the U.S.-Ecuador Bilateral Investment Treaty, and was applied in ways that appeared to contravene Ecuador's obligations under the TRIPs Agreement. The Act has continued to form the basis for judicial decisions involving contracts signed before the repeal and for cases in the judicial system before the repeal. As of the date of this report, several court cases against U.S. firms remain pending, with very large potential claims that bear no relation to alleged damages.

Despite improvements, enforcement of intellectual property rights remains a serious problem in Ecuador. The national police and the customs service are responsible for carrying out IPR enforcement orders, but there has sometimes been difficulty getting court orders enforced. There is a widespread local trade in pirated audio and video recordings, computer software and clothing. Local registration of unauthorized copies of well-known trademarks has been reduced. Some local pharmaceutical companies produce or import pirated drugs and have sought to block improvements in patent protection.

JORDAN

Jordan has made only limited progress on the May 1998 action plan to comply with TRIPS within two years. U.S. copyrighted works remain unprotected until Jordan accedes to Berne. Jordan does not provide patent protection for pharmaceuticals.

RECOMMENDATION:

Should Jordan not accede to the Berne Convention by April 30, we recommend that the TPSC approve elevating Jordan to the Priority Watch.

PRIVATE SECTOR ADVICE:

IIPA: *Watch List*

PhRMA: Priority Watch List

AGENCY POSITIONS:

The majority of agencies support this approach.

BACKGROUND:

Jordan has made only limited progress on the May 1998 Action Plan to comply with TRIPS within two years, and has made no progress on the action plan's benchmarks since the December out-of-cycle review. U.S. copyrighted works remain unprotected with piracy levels approaching 100 percent; Jordan does not provide patent protection for pharmaceuticals and companies continue to register unauthorized copies of internationally patented pharmaceuticals; Jordan's draft patent and trademark laws contain serious flaws, and enforcement efforts are virtually nonexistent.

Jordan's Working Party for accession to the World Trade Organization (WTO) was established in January of 1994. In September of 1997, a U.S.-Jordan working group for intellectual property was created and an Action Plan adopted in May 1998 to enable Jordan to make improvements in its intellectual property and enforcement regimes. Despite several dialogues and exchanges of the working group, Jordan has yet to provide meaningful steps toward enacting TRIPs consistent intellectual property and enforcement laws.

In 1998, the Jordanian Parliament passed a series of amendments to the Copyright Law, effective October 1998, which, however, still do not meet international standards for protection of copyright. As Jordan is not yet a member of the WTO, the Berne Convention for the Protection of Literary and Artistic Works, or the Geneva Phonograms Convention, this new law does not explicitly extend to protect U.S. works, leaving U.S. copyright owners with little legal recourse to fight piracy. The Jordanian Cabinet recently approved a decision to accede to Berne, and we understand the GOJ is moving rapidly to deposit its instrument of accession.

Jordan's draft patent law does not meet TRIPs standards in a number of areas, most significantly protection for pharmaceutical and agricultural chemical products without transition and compulsory licensing. Jordan's current trademark law and draft laws to amend the existing law fall short of TRIPs standards especially with regard to the protection of unregistered well-known marks.

Very little progress has been made on the enforcement against trademark infringement and copyright piracy with the exception of end-user software piracy.

PERU

Peru has relatively strong IPR legislation in place, but is not yet at the TRIPS-level. While enforcement actions are being brought, the weak link in the system continues to be INDECOPI's Appellate Tribunal, which regularly reduces penalties or takes long periods to act. This problem was also the focus of U.S. concern in the 1998 Special 301 review. The sound recording industry is especially concerned this year about growing losses due to piracy. However, Peru's administrative and judicial apparatus available to enforce IPR otherwise compare favorably to those of its neighbors and overall piracy rates appear to be no higher than in the other Andean countries.

In response to industry's central complaint about the performance of INDECOPI, the GOP provided a detailed reply stating that "by and large, these complaints are unwarranted. And when in fact difficulties have arisen, Peru has taken and continues to take steps to correct them in a timely fashion." The GOP goes on to state that the supposed problem of reduced fines is now clearly reversed by a decision in 1998 which resulted in an increase in fines set. The GOP also states that with respect to INDECOPI's case backlog that 1) it recognized that software case appeals were decided too slowly in 1998 and that it is taking the steps necessary to return to efficient case resolution in 1999; 2) that the backlogged appeals comprise a very small percentage of INDECOPI's matters; and 3) it explains the primary reason for some of the delay is a lack of evidence from industry.

IIPA provided a similarly detailed response noting the twofold problem of 1) an anti-enforcement message disseminated by INDECOPI at the very highest level, and 2) a Tribunal that generally fails to render decisions, and then renders legally weak decision in the few instances where it finally acts. IIPA points out that the only decision rendered by the Tribunal in 1998 was a case in which the BSA signed a settlement agreement with the defendant so the case was withdrawn. IIPA goes on to repeat its concern about INDECOPI's Appellate Tribunal, which regularly reduces penalties or takes long periods to act.

RECOMMENDATION

Elevate to the Priority Watch List

PRIVATE SECTOR ADVICE

IIPA recommends elevation to Priority Watch List followed by an out-of-cycle review. PhRMA recommends PWL, but due to Andean-wide issues rather than Peru-specific problems. IIPA estimates 1998 trade losses due to piracy at \$93.9 million, up from \$85.2 million in 1997. PhRMA estimates lost market potential in the Andean market as a whole in the \$100 million to \$500 million range.

AGENCY POSITIONS

Some agencies support Priority Watch List and other agencies have reserved pending a review of the correspondence from the GOP and subsequent correspondence from IIPA.

BACKGROUND

Peru has been on the "Watch List" under the Special 301 provisions of the 1988 Trade Act since 1992. Peru passed two laws in April 1996 which improved the country's IPR regime and brought national laws into conformity with Andean Community decisions; and, in June 1997, the government issued an executive decree improving several aspects of its industrial property rights law. However, the Government will still need to make further improvements to these laws -- to be in compliance with TRIPS -- by the year 2000, when the transition period for developing countries ends.

Enforcement of intellectual property rights continues to improve. Although piracy continues to be a serious problem in Peru, two important indexes of the levels of piracy -- those for video and software piracy -- have dropped significantly in recent years; however, software and sound recording losses have increased since last year.

Copyrights

Peru's 1996 copyright decree is generally consistent with TRIPS; however, it also contains provisions covering reciprocity, which appear to violate the MFN provisions in Article 4 of the TRIPS agreement. Textbooks, books on technical subjects, audio cassettes, motion picture videos, and software are widely pirated.

Losses to U.S. copyright owners and pharmaceutical companies in Peru are extensive, despite improvement in IPR protection under the new laws and better enforcement. U.S. companies have become more active in defending their interests in Peru by retaining local representation, conducting anti-piracy campaigns and investigations, and filing complaints with the National Institute for the Defense of Competition and Protection of Intellectual Property (INDECOPI) and the courts. However, industry reports long delays by INDECOPI's appellate tribunal in deciding

cases. Also, on a number of occasions the appellate tribunal has severely reduced administrative fines imposed by the copyright office. U.S. industry has collaborated actively with the U.S. Embassy in sponsoring conferences and in meeting with the Peruvian Government to raise awareness of the negative economic impact of lax IPR enforcement.

Patents and Trademarks

Peru's April 1996 industrial property decree provides an effective term of protection for patents, prohibits devices that decode encrypted satellite signals, and contains other improvements, such as increasing the term of protection for industrial designs. In June 1997, based on an agreement reached with the U.S. Government, the Government of Peru published an executive decree resolving several inconsistencies in the patent area between its 1996 industrial property law and the TRIPs agreement. The Government has also introduced legislation confirming its decree. Peruvian law does not provide for transitional ("pipeline") protection for pharmaceutical product patents or protection against parallel imports. Trademark violations are also widespread.

SOUTH AFRICA

U.S. companies face major problems in marketing pharmaceutical products in South Africa. One stems from a law that affects patent rights and another stems from lack of provisions to protect certain confidential data from being used unfairly by competitors. In addition, the South African Government seeks in other fora such as the World Health Organization to reduce the level of protection now provided by the WTO Agreement on Trade-Related Aspects of Intellectual Property (the TRIPs Agreement). Furthermore, the U.S. Government seeks a commitment by the South African Government that its agencies will use copyrighted computer programs only when authorized by the copyright owner to do so.

RECOMMENDATION:

Name South Africa to the Priority Watch List. While a majority of agencies support this approach, several have reserved their positions, and others oppose.

PRIVATE SECTOR ADVICE:

PhRMA has recommended that South Africa be designated a Priority Foreign Country.
IIPA has recommended that South Africa be maintained on the Watch List.

BACKGROUND:

Despite repeated efforts and overtures by the USG and industry over the last year to modify provisions in the "Medicines Act" that threaten to fundamentally undermine pharmaceutical

patent protection, the SAG remains intransigent. Article 15(C) of the Medicines Act gives the Health Minister broad discretion to parallel import, issue compulsory licenses or possibly even abrogate patent rights with respect to patented drugs. The legislation provides no disciplines on the authority of the Health Minister to undertake such measures. Implementation of the law is held in abeyance pending resolution of the court challenge between industry and the SAG. The SAG is, however, continuing to draft regulations to implement article 15(C). This issue has been PhRMA's leading priority worldwide because the legislation appears to seriously undermine the TRIPS standards and provides a model for developing countries to weaken patent protection in the name of cheaper health care. South Africa's Patent law also has some TRIPS inconsistencies in its compulsory licensing provisions, and the South Africans recently revealed that they do not currently provide TRIPS consistent protection for confidential test data.

Over the past year in assuming leadership of the "non-aligned" movement, South Africa has advocated positions in the WHO that seek to reduce the level of patent protection now provided by the TRIPS agreement. It is clear that there is political or philosophical opposition within the SAG to protection for pharmaceutical products.

USG efforts to seek a commitment by the SAG in the form of a decree/executive order that its agencies will not use pirated software and only use legal software in an authorized manner have been rebuffed to date. Despite initial interest on the part of the SAG and a substantial offer of assistance by industry, the SAG refused to commit to such a decree at the February 1999 Binational Committee Meeting.

Our copyright industry estimates that trade losses due to piracy of copyrighted works increased more than 35% between 1997 and 1998, to \$142.1 million. This followed a substantial increase (26%) between 1996 and 1997. Piracy grew most rapidly in business software and sound recordings with substantial increases in piracy in the entertainment software sector. Book and video piracy continued to be areas of substantial concerns.

WATCH LIST

AUSTRALIA

In general, Australia provides sound intellectual property protection, including for copyrights, patents, trademarks, designs and integrated circuits, and plant breeders' rights. However, the United States is seriously concerned with the recent Australian minimalist approach toward intellectual property protection. We have made these concerns clear to the Australian government.

Since the 1998 Special 301 review, despite U.S. demarches in all fora and at all levels, Australia has chosen to ignore United States concerns on a number of IP issues. Since last year, we have made no headway on issues of utmost concern to the United States. In fact, we seem to be moving backwards despite our vigilance and our constant communication.

RECOMMENDATION:

That Australia remain on the Special 301 "Watch List".

PRIVATE SECTOR ADVICE:

PhRMA and IIPA recommend that Australia remain on the Watch List.

AGENCY POSITIONS:

The majority of agencies supported WL at the subcommittee level.

BACKGROUND:

Only in April 1998 did Australia begin institute a regime to protect test data submitted to regulatory authorities for marketing approval of pharmaceuticals. This regime is a minimalist one, providing protection only for new chemical compounds. No protection is provided for new uses and new formulations for existing compounds. Legislation to provide the same level of protection for agricultural chemicals and veterinary medicines is still pending and is an over due TRIPS obligation.

Consonant with this minimalist approach to intellectual property, the Australian government has not updated its laws to impose stiffer fines on pirated goods. U.S. industry has seen measurable losses as a result.

Over the strong objection of the United States, in 1998 Australia passed legislation to abolish the importation right for sound recordings. The Government of Australia is also considering abolishing the importation right for other copyrighted works including software, electronic games and gaming equipment. Steadily growing importation of DVDs without authorization of the right holder is of increasing concern to the motion picture industry. In addition, U.S. industry advises that annual losses to the U.S. motion picture industry due to audiovisual piracy in Australia were about \$21 million in 1998.

The Australian Copyright Act, its interpretation by Australian courts in certain instances, and the position taken by the Australian Federal Police not to pursue criminal prosecution where civil remedies are available, have created costly and burdensome obstacles to the enforcement of intellectual property rights against piracy. The civil remedies, however, have not proven an effective deterrent to piracy.

The Australian government has announced that it will introduce legislation to allow software decompilation under certain circumstances. The U.S. software industry has recently provided the GOA with its comments on the proposal noting that they are extremely concerned that it goes far beyond both U.S. and EC law in this area. The U.S. Government continues to advise the Australians of our ongoing serious concerns with decompilation.

BRAZIL

Brazil has made limited progress on its April 1998 commitments to: a) process priority pipeline applications in an expedited manner; and b) effectively address the growing piracy problem in Brazil through the development and implementation of an enforcement action plan. The lack of focus by the GOB on the piracy issue helped lead to a dramatic increase in CD piracy in Brazil during 1998. In bilateral discussions over the course of the year, including trips by a U.S. delegation in July and by DUSTR Fisher in September, the GOB did not appear willing to take actions to address this problem in the near term. In addition, Brazil is not in full compliance with the WTO TRIPs Agreement, notably with regard to patent, test data, enforcement and other obligations. Progress on legislation in recent years and the aforementioned commitments resulted in Brazil being removed from the Watch List in 1998.

RECOMMENDATION:

Elevate Brazil to the Watch List, with an unpublicized OCR tied to 1/1/2000. A private OCR would give us a mechanism for monitoring progress on enforcement and on elimination of the local working requirement. This allows us to keep the pressure on the Brazilian Government, without subjecting it to the public – and potentially ineffective – review involved in a public OCR. Also, we believe that Brazil will be more responsive to a review date of 1/1/2000, with origin in the TRIPs Agreement, than to April 30, a date the GOB sees as arbitrary.

PRIVATE SECTOR ADVICE:

PhRMA recommends that Brazil be placed on the Watch List. It praises the improvements made by the 1996 Industrial Property Code, but notes that the domestic working requirement and the associated proviso on parallel importation are inconsistent with TRIPs Article 27.1. It also supports efforts to provide INPI with technical assistance to address its institutional challenges. The IPC suggests initial consultations with Brazil with a view toward initiating a WTO dispute settlement case in 2000. It notes the problem with the local working requirement, failure to provide protection against “unfair commercial use” of certain test data, and failure to permit patent applications to add “product” claims to applications that contain “process” claims but were filed before the effective date of the new Code.

IIPA strongly supports placing Brazil on the Priority Watch List for its lack of effective enforcement actions. While IIPA recognizes the achievements Brazil has made in adopting modern copyright legislation, the lack of effective enforcement for copyrighted works seriously undermines rights granted by the legislation.

AGENCY POSITIONS:

The majority of agencies support placing Brazil on the Watch List.

BACKGROUND:

The U.S. Government has advocated improvements to Brazil's intellectual property regime for over a decade. A Section 301 investigation of Brazil's intellectual property regime resulted in retaliation in 1988. We terminated the retaliation in 1990 following a commitment by the Government of Brazil to address our concerns, especially for pharmaceuticals. Because these commitments were not fulfilled, and significant additional inadequacies existed in areas beyond the patent regime, Brazil was identified as a Priority Foreign Country (PFC) and a Special 301 investigation was initiated in May of 1993. In February 1994, the investigation concluded when the Brazilian Government unilaterally announced that it would undertake a series of initiatives to improve its intellectual property regime. (The text of that unilateral announcement was the product of intense negotiations with the U.S. Government.) Due to its failure to complete the initiatives within the stated periods successfully, Brazil was placed on the Priority Watch List in April 1995.

In April 1996, Brazil enacted a new industrial property code providing, among other things, patent protection for pharmaceutical products and processes as well as pipeline patent protection.

As a result, the Administration moved Brazil from the Priority Watch List to the Watch List. During the April 1997 Special 301 review, the delay in fulfilling remaining 1994 commitments caused the Administration to consider placing Brazil back on the priority watch list. The U.S. Government informed Brazil, but did not announce publicly, that it would conduct an out-of-cycle review before the end of the year to review any progress. Consequently, Brazil enacted improvements to their laws to protect computer software and copyrighted works before the 1998 Special 301 review. The Brazilian software law now includes a provision that makes software piracy a fiscal crime, making Brazil the only country in Latin America with such enforcement authority. In addition, a law to protect plant varieties was enacted.

In return for removal from all Special 301 lists in 1998, the Government of Brazil agreed to process a priority list of U.S.-origin pipeline applications for patent protection for pharmaceutical products. In addition, the Government of Brazil agreed to prepare an Action Plan on enforcement to resolve our concerns about piracy (especially of sound recordings) and counterfeiting in Brazil. The USG has consistently expressed its concerns that the patent backlog at INPI, currently over 16,250, be addressed while processing the priority pipeline patents. Much remains to be done, but the Brazilians seem to acknowledge that INPI's shortcomings are a problem. The main concern is the inattention by the GOB to the issue of piracy. The Action Plan submitted by the GOB last year was weak, and this weakness was not overcome by a serious effort by the Brazilian Government to confront the challenges related to enforcing its copyright law. In fact, after months of intense lobbying and the launch of a \$3 million anti-piracy campaign by the sound recording industry – combined w/ USG pressure – we still see expanding industry losses in Brazil.

HONG KONG

RECOMMENDATION:

Restore Hong Kong to the Watch List

PRIVATE SECTOR ADVICE:

IIPA recommends that Hong Kong be restored to the Watch List unless it is evident by the end of the Special 301 review that all of the additional steps identified by the U.S. are being taken. In a subsequent communication from RIAA, it was suggested that Watch List was no longer appropriate given that production capacity may have reach 2 billion units annually. There has been some indication recently that the industry may revise its position but without a commitment by HK to increase manpower a change in the industry recommendation is unlikely.

AGENCY POSITIONS:

A majority of agencies favored returning Hong Kong to the Watch List at the subcommittee level.

BACKGROUND:

As a result of a December 1998 out-of-cycle review, Ambassador Barshefsky announced Hong Kong was removed from the Watch List. The Hong Kong government took significant steps to bring about its removal from the Watch List. These steps included the passage of the Prevention of Copyright Piracy Ordinance (which has become a model for the region), as well as the addition of resources to the intellectual property branch of the Hong Kong Customs & Excise Department.

Nevertheless, Ambassador Barshefsky noted the level of copyright piracy in Hong Kong remains a serious problem and that significant additional steps must be taken if the rate of piracy in Hong Kong is to be lowered. These steps were to include: authorizing the police to more actively assist customs in enforcement, making piracy a serious and organized crime, and prosecuting criminal corporate end user software piracy cases and criminal hard disc loading piracy cases. Hong Kong was put on notice that if it failed to make significant progress toward implementation of these goals by the end of the Special 301 annual review in April and the problem of piracy remained a serious concern, Hong Kong would be returned to the Watch List.

In an unprecedented event, more than 1000 people affiliated with HK's software and entertainment industry rallied March 17 to demand greater government efforts to control piracy.

In the view of U.S. and local industry, key steps need to be taken to further improve IPR protection in Hong Kong: authorizing the police to assist customs in enforcement, making piracy a serious and organized crime, enhanced legal tools, and immediate enforcement against

criminal business software piracy.

Despite increasing awareness of IPR issues within the Hong Kong Government, officials have agreed to some but not yet all of the actions we believe are necessary to deal effectively with the issue: (1) Hong Kong has agreed to bring IPR crimes under the Organized and Serious Crimes statutes; however, there is a lot of disagreement within the government and even within industry on what it means. Some say it automatically brings in the police; others say no, that it's just a tool that can be used by any law enforcement agency. (2) Dedicate increased resources to anti-piracy enforcement. In industry's view more manpower on the street, whether it's police or customs, is necessary. It remains unclear whether HK is going to commit to this. They've been saying that they are boosting Customs manpower, but so far the "boosts" have not been substantial enough. (3) Move ahead on prosecutions of hard disc loading and end-user piracy cases. On dealer hard-disc loading cases, industry is working with Customs to try to put together a couple of cases for prosecution. On corporate end-users, the picture is much less positive. Industry feels it has been getting the run-around, with various government officials alternately saying they were willing to prosecute or they could not. Industry has had regular talks with senior Customs officials, but they're not close to initiating any prosecutions.

Removing Hong Kong from the Watch List in the Out-of-Cycle Review was a sufficient compliment for the efforts of the Government so far. Restoring Hong Kong to the Watch List will make the point the Hong Kong must move quickly and decisively to implement additional measures to reduce piracy.

Hong Kong Customs appears to be working hard to convince the Hong Kong leadership, including the Chief Executive, that direct police support is not necessary. HK Customs staged major, well-publicized raids on dozens of retail shops beginning on March 16. The five day territory wide "Operation Thunderbolt" series of retail raids struck 166 shops and resulted in the seizure of 710,000 pirated discs and the arrest of 91 people.

Nevertheless, there are simply not enough officers now in C&E to get an adequate handle on the piracy problem in Hong Kong, and the problem will continue to worsen as the notorious arcades are shut down and pirate retailers become more dispersed. The additional resources, whether through greater C&E manpower or through the immediate empowerment of the Hong Kong Police to take action against retail piracy, will allow the Customs to place more focus on border control, optical disk plant management, pirate production and pirate distribution networks.

MALAYSIA

RECOMMENDATION:

Interagency consensus was reached that Malaysia should be placed on the Watch List with an

out-of-cycle review in September to assess efforts to suppress optical disc (OD) piracy. However, in view of the GOM's recent high level political commitment to address piracy and have an OD regime in place by July, industry is recommending that Malaysia not be listed in the April announcement but that an out-of-cycle review (OCR) be held in September to assess progress. Industry believes that listing Malaysia at this stage could be counterproductive. **In view of this development, we recommend that Malaysia not be listed in the April announcement but that an OCR be held in September to assess progress.**

BACKGROUND:

During March 1999 USTR led consultations in Kuala Lumpur, Malaysian officials explained that the Prime Minister is concerned over Malaysian evolving reputation as a principal source of pirated goods in the region. The PM has instructed Malaysian officials to form a task force to address IPR piracy and to develop a proposal to implement an effective OD control regime. Consequently, the GOM intends to have a system similar to the Hong Kong model "in place" by July. The GOM also intends to legislatively address concerns over the Section 42 affidavit requirement. U.S. officials urged the GOM to use available authority to undertake at least one raid against pirated OD production before April 30 and to initiate retail raids. So far, GOM authorities are moving forward with this effort.

Police and legal authorities are generally responsive to requests from U.S. firms for the investigation and prosecution of retail-level copyright infringement cases. However, enforcement actions against organized, pirated production have served only to interrupt and not deter commercial-scale copyright infringement. In contrast, Malaysian officials have been responsive in working with industry to suppress end-user piracy of software. Joint government-industry end user anti-piracy campaigns and increased enforcement efforts reduced packaged computer software piracy to 70 percent in 1997, a 10 percent decline from 1996. Nevertheless, the widespread presence and frequency of pirated copyrighted works fixed on optical disks (including music and video CDs and CD-ROMs) has increased. U.S. industry reports that there are currently 22 optical disk factories with 90 production lines operating in Malaysia, with an estimated annual production capacity of 315 million units -- a figure that far exceeds local demand and authorized exports. Pirated OD production has resulted in a flood of infringing products throughout Southeast Asia, and as far away as Europe and Latin America. The United States strongly urged the Malaysian Government to make combating optical disk piracy a top priority and to establish a legal framework for the effective regulation of OD production.

PRIVATE SECTOR ADVICE:

IIPA's February Special 301 submission lists Malaysia as an "open recommendation." This action was taken because there was not a consensus within the copyright community as to whether a high profile Special 301 listing will result in progress or resistance on the part of the Malaysian government. Privately, the majority of IIPA member groups were indicating that pirated optical disk production rates in Malaysia may warrant a Priority Foreign Country

designation. Given recent positive developments, industry is now recommending that we not list Malaysia in the April announcement but conduct an OCR in September to evaluate progress.

MEXICO

As a member of the NAFTA and the World Trade Organization (WTO), Mexico has committed to implement and enforce advanced levels of intellectual property protection. However, Mexico is not yet in full compliance with the NAFTA or with the TRIPs Agreement in a number of areas, including copyright, protection of test data, plant varieties and enforcement. The failure to make progress on enforcement in recent years is of utmost concern to the copyright industry which faces losses of approximately \$500 million annually.

RECOMMENDATION:

Elevate Mexico to the Watch List.

PRIVATE SECTOR ADVICE:

The copyright industry states that the Mexican government's enforcement efforts in 1998 continue to be inadequate and had no significant impact on video, audio, computer software and book piracy in that country. It reports that "spates of significant raiding activity and the usual seizures of massive amounts of pirated products, especially video and audio products" occurred. However, there remains a complete break-down in the criminal enforcement system beyond the initial investigative stages of the case, and particularly at the prosecutorial and judicial level. Most infringers are never indicted, tried, or convicted. And if convicted, the penalty imposed on the perpetrator is usually too minimal to deter further infringing activity. Industry states that in all of 1998, there was only one conviction, and the perpetrator was assessed a small non-deterrent fine.

Industry further reports that piracy rates in Mexico remain above 50% for all copyright industries. More than three-quarters of the losses affect the entertainment software industry. According to IIPA estimates, 1998 U.S. industry losses due to piracy in the motion picture sector amounted to \$ 62 million, in the recording industry \$ 80 million, business computer programs \$ 122 million, and entertainment software \$ 170 million. The U.S. recording industry reports 270 raids were conducted in 1998, resulting in the seizure of nearly 2.28 million pirated cassettes and 7,002 pirated CDs. The U.S. motion picture industry claims that video rental outlets engaged in piracy of 55% on video cassettes. The Mexican National Chamber of Commerce estimates that street sales account for 40% of all retail sales. Only 37 inspections were conducted for computer programs in 1998, according to BSA. BSA and SPA estimate the piracy rate in the business software market was 61% in 1998, down from 67% in 1996, but about stable from 1997. However, between 1996 and 1997, the estimated piracy rate for entertainment software increased

from 75% to 82%.

The pharmaceutical industry has commented that the lack of the adequate implementation of protection for company proprietary information against unfair commercial use *poses a problem in Mexico*. In addition to a lack of adequate and full implementation, also lacking is a link between the Mexican Industrial Property Office and the Mexican entities to which information is submitted for marketing approval, and a lack of assurances that data submitted will be protected against disclosure. Both the pharmaceutical and agricultural chemical industries have noted concerns about the allowance of “me too” registrations by the GOM.

IIPA requests Mexico be placed on the Priority Watch List for the GOM’s failure to take actions to reduce continuing high levels of piracy. PhRMA and the trademark industry recommend Watch List.

AGENCY POSITIONS:

The majority of agencies support placing Mexico on either the Watch List or Priority Watch List.

BACKGROUND:

In 1997, Mexico amended its copyright law to protect certain types of sound recordings. However, a number of issues remain unaddressed in both the law and the implementing regulations. Mexico is a member of the 1978 Act of the UPOV Convention and the Patent Cooperation Treaty. Regulations for Mexico’s 1996 plant variety law have been pending for two years and therefore, U.S. industry is concerned about Mexico’s lack of TRIPS and NAFTA level protection in this area. Mexico has not fully implemented Article 39 which calls for protection of undisclosed information (trade secrets), and in particular, undisclosed information submitted to obtain marketing approval for pharmaceutical or agricultural chemical products involving new chemical entities. In December 1997, Mexico passed legislation protecting semiconductor maskwork design as mandated by the NAFTA.

In 1996, Mexico’s President established an Interministerial Commission for the protection of intellectual property rights. The number of search and seizure actions undertaken by the PGR in recent years has increased. However, prosecutions of these cases remain minimal and the piracy and counterfeiting rates in Mexico continue to climb. U.S. industry estimates its losses are increasing; piracy rates remain above 50% in all copyright industries. In November 1998, SECOFI and Hacienda announced a National Campaign Against Piracy on behalf of the GOM.

Enforcement

Mexico’s current IP enforcement procedures fall short of the TRIPS and NAFTA-level requirements. However, after 4 years of little action, the government took an important first step

in November, 1998, when Secretary of Commerce, Herminio Blanco, and a representative of Hacienda (Ministry of Treasury), announced a National Campaign Against Piracy, under orders from the President. The Campaign has three prongs:

- (1) for the President to introduce a package of legislative reforms to increase criminal penalties and classify infringements as "grave" offenses.
- (2) to intensify actions and operations against piracy, which requires increased funding and resources, especially for IMPI and PGR (n.b. it sounds like the prong is to take action but its strength is undercut by the resources point);
- (3) improve public awareness/education and training for officials.

It was further announced that at the end of the first three months of 1999, the commission) would submit a report of the actions taken. Future reports are to be released every three months on the actions and results of this campaign. In addition, Blanco stated that he believed the most fundamental part of protecting IP is the penalty, and that it is fundamental that those who infringe should go to jail if they are found culpable and should not be let go on bail. "That is what is most important." We are not aware of any report being issued by the commission.

The GOM has forwarded to Congress a package of criminal reforms containing proposals to amend Mexico's penal code, industrial property law and code for penal procedures. If enacted, the amendments would increase the penalties for certain trademark and copyright violations and make these acts serious crimes (e.g. felonies). The legislative package is currently under review by the Mexican Congress but has run into problems with respect to criminalizing retail piracy. A compromise between Congress and the Administration is reportedly in the works.

NEW ZEALAND

RECOMMENDATION:

Place New Zealand on the Watch List.

PRIVATE SECTOR ADVICE:

IIPA recommends that "USTR should resolve its pending out-of-cycle review by placing New Zealand on the Watch List for 1999." PhRMA believes we should list New Zealand as a Priority Watch Country as a result of its Pharmac policies and practices.

AGENCY POSITIONS:

The majority of agencies support placing New Zealand on the Watch List.

BACKGROUND:

On May 16, 1998 the New Zealand government passed an amendment to the Copyright Act abolishing the importation right for all copyright owners. New Zealand's laws do not effectively deter against piracy. While the GNZ is studying improvements, no action has been taken. U.S. firms have reported no success in bringing criminal cases against pirated works, and New Zealand needs to update its laws to provide better protection.

On May 26, 1998, United States Trade Representative Charlene Barshefsky announced the immediate initiation of an out-of-cycle review of the adequacy and effectiveness of New Zealand's intellectual property regime. In announcing this review, Ambassador Barshefsky said,

"We are seriously concerned by the Government of New Zealand's recent decision to reduce the level of intellectual property protection in New Zealand by eliminating parallel import protection for copyrighted works. We are troubled that this far reaching decision would be taken with such haste and with so little consultation with concerned interests, both foreign and domestic."

Piracy Concerns

Since New Zealand announced this decision, evidence has emerged that, particularly in the software industry, additional counterfeit product is entering the country disguised as genuine parallel import. Industry estimates New Zealand's software piracy rate at 35 per cent in 1998 and losses of approximately \$54.3 million. The software industry is pursuing a number of prosecutions to address what it sees as an alarming trend toward more software piracy in New Zealand. Microsoft has reported to the New Zealand government several instances of importation into New Zealand of counterfeit shipments of Office 97 Professional, in lots as large as 100 units, purporting to be legitimate parallel imports.

There are also specific problems with entertainment software piracy. Game software for use on PlayStation consoles is regionally coded, both for the purpose of controlling the timing or rollout in different markets, and because of incompatible regional TV formats (PAL v. NTSC). Small operators have begun to import and sell within New Zealand both parallel and pirate material in mixed shipments from European and North American markets. The same importers are also apparently involved in small-scale piratical copying of these products for distribution (through "trade and exchange" magazines) within New Zealand (at one-third of the New Zealand retail price).

Furthermore, some retailers have begun selling modified PlayStation consoles that override regional coding (ostensibly to serve customers who have acquired parallel product from other

regions); the “mod chips” that circumvent Sony’s regional coding also override security codes, and thus allow the use of pirate copies of PlayStation software. Sales of these “mod chips” within New Zealand appear to have increased markedly since the elimination of parallel import protection.

Insufficient Anti-Piracy Laws

A report recently released by the Government of New Zealand “Theft of Intellectual Property: Piracy and Counterfeiting” identifies some of the steps necessary to improve anti-piracy enforcement in New Zealand. The Report itself quite carefully points out that, regardless of the merits of providing copyright owners with an exclusive importation right or its practical equivalent, the elimination of protection against parallel imports “increases the risk of covert import of counterfeit goods.” On January 23, the USG and U.S. industry provided comments to the government on this report and urged the government to follow through with prompt legislative action to adopt the principle recommendations of the report and thereby strengthen its law and bring it into closer compliance with the WTO TRIPS Agreement.

PHRMAC

The operation of New Zealand’s health care system has created market access problems for U.S. pharmaceutical manufacturers. Onerous listing requirements, reference pricing, and lack of transparency are the issues of concern to U.S. industry. We do not believe that New Zealand is violating its TRIPS obligations.

As long as New Zealand forces the pharmaceutical companies to price at the “lowest common denominator” or face “delisting” from the national pharmaceutical schedule (which controls 80 percent of the market), U.S. pharmaceutical manufacturers argue that they have great difficulty accessing New Zealand's market with concomitant IPR ramifications. We have succeeded in entering into a dialogue on the Pharmac system and have now had two rounds of discussions with health *and* trade officials. There has been some slight movement on transparency and process.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-APR-1999 10:30:16.00

SUBJECT: Mexico/Taiwan Roundup

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

READ:UNKNOWN

TEXT:

Robert -

I am struggling to find sources for the Taiwan - US dumping /
Mexico poultry
roundup. Do you have any suggestions?

Raymond

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: robert lawrence <lawdorf@erols.com> (robert lawrence <lawdorf@erols.com> [UNKNOWN])

CREATION DATE/TIME:15-APR-1999 19:59:49.00

SUBJECT: Re: adderesses.

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

READ:UNKNOWN

TEXT:

Robert_Z._Lawrence@cea.eop.gov wrote:

>

> martin_goldblatt@hotmail.com

> colin in england 1716962600 w

> 1814557966 h

why would I want Colin's numbers in England? He lives in NY.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: peter_cohn@Harvard.Edu (peter_cohn@Harvard.Edu [UNKNOWN])

CREATION DATE/TIME:15-APR-1999 13:03:21.00

SUBJECT: Re: Greetings from your Library Liaison

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

READ:UNKNOWN

TEXT:

Hello:

Thanks for getting back to me. I didn't realize you were in Washington.
Hopefully, we'll meet when you return.

Sincerely,

-Peter Cohn

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:15-APR-1999 09:21:51.00

SUBJECT: Japan memo

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

We should circulate your memo minus the last section to the agencies for comment. I suggest you send a copy to Lael.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:15-APR-1999 19:22:52.00

SUBJECT: Pizza is here

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

READ:UNKNOWN

TO: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Robert P. Bamsey (CN=Robert P. Bamsey/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nora E. Gordon (CN=Nora E. Gordon/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

TEXT:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-APR-1999 13:38:06.00

SUBJECT: Phone Message from Noah Wiseberger

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

READ:UNKNOWN

TEXT:

Contact: Noah WisebergerCompany: Phone: FAX: Message: He will call you again at 2pm; if unsuccessful he will call again at 6pm. He's traveling around and it's best that he call you.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-APR-1999 09:11:30.00

SUBJECT: Coffee & Lots of Bagels are now in Rm 324

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

READ:UNKNOWN

TO: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Robert P. Bamsey (CN=Robert P. Bamsey/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nora E. Gordon (CN=Nora E. Gordon/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

TEXT:

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	To R. Lawrence, re Your Trip (1 page)	04/16/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System
CEA (Robert Z. Lawrence)
OA/Box Number: 950000

FOLDER TITLE:

[04/15/1999 - 04/19/1999]

2014-0316-F
wr10736

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-APR-1999 14:37:45.00

SUBJECT: Joe Stiglitz home address

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

READ:UNKNOWN

TEXT:

2942 Ordway Str, NW, Wash, DC

202-237-7606

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-APR-1999 10:40:07.00

SUBJECT: Re: hiring

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

we're getting close. We should be able to do this on Monday.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. email	L. Branch to R. Lawrence re Briefing [partial] (1 page)	04/16/1999	P3/b(3)

COLLECTION:

Clinton Presidential Records
Automated Records Management System
CEA (Robert Z. Lawrence)
OA/Box Number: 950000

FOLDER TITLE:

[04/15/1999 - 04/19/1999]

2014-0316-F

wr10736

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-APR-1999 09:35:13.00

SUBJECT: Briefing by (b)(3)

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

READ:UNKNOWN

TEXT:

Per Alice's request (attached), (b)(3) is scheduled to talk to you
next Wed, 4/21, at 10am, your office.

----- Forwarded by Lisa D. Branch/CEA/EOP on 04/16/99

09:35 AM -----

[002]

Alice H. Williams

04/09/99 09:33:09 AM

Record Type: Record

To: Lisa D. Branch/CEA/EOP

cc:

(b)(3)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: David W. Beier (CN=David W. Beier/O=OVP [UNKNOWN])

CREATION DATE/TIME:16-APR-1999 14:39:58.00

SUBJECT: Re: Wage Insurance Memo

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

READ:UNKNOWN

TEXT:

thanks

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Fiqbal@worldbank.org (Fiqbal@worldbank.org [UNKNOWN])

CREATION DATE/TIME:16-APR-1999 17:46:35.00

SUBJECT: Houses for rent

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

READ:UNKNOWN

TEXT:

Robert,

Here's what I came across today.

Title:

Chevy Chase, MD

Category:

Rental/Lease

Contact Name:

Sami Haddad

Telephone No.:

(301) 718-9785

Email Address: (Eg. Jdoe@worldbank.org)

Shaddad@ifc.org

Comments/Item Description:

Colonial, 4 bedrooms, 2.5 baths. Beautiful new kitchen with view on the park.

Walking distance to Friendship Heights metro and shopping.

US\$3,500/month. Available September 1.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. email	D. Elmendorf to R. Lawrence, re Hiring [nonselection] (1 page)	04/16/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System
CEA (Robert Z. Lawrence)
OA/Box Number: 950000

FOLDER TITLE:

[04/15/1999 - 04/19/1999]

2014-0316-F

wr10736

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Bert I. Huang (CN=Bert I. Huang/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME:16-APR-1999 18:59:36.00

SUBJECT: Re: MIT

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

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

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

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

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

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

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

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

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

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

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

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

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

CC: afinkels (afinkels @ nber.org @ inet [UNKNOWN])
READ:UNKNOWN

TEXT:
Anyone thinking about subletting during part of the summer -- July and August? (A request below from CEA alum Amy Finkelstein.)

----- Forwarded by Bert I. Huang/CEA/EOP on 04/16/99
06:59 PM -----

Amy Finkelstein <afinkels @ nber.org>
04/16/99 04:37:06 PM

Please respond to Amy Finkelstein <afinkels@nber.org>
Record Type: Record

To: Bert I. Huang/CEA/EOP
cc: lakshmi @ mit.edu
Subject: Re: MIT

Bert --

A friend of mine (Lakshmi -- she was in IO the day you were visiting, I think you met her) is going to be working for the world bank for july and august and is trying to find housing in dc. will you be subletting your place? if not, can you send an email around cea -- i'm sure a lot of people are looking for subleetees. They can write back either to me or to her directly (lakshmi@mit.edu)

Thanks!

Amy

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:16-APR-1999 14:32:26.00

SUBJECT: Wage Insurance Memo

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

READ:UNKNOWN

TEXT:

I know I owe you memos on wage insurance and training distribution requirements. We're working on them and they should be done by the end of next week.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 10:57:54.00

SUBJECT: Re: Gov't Car to 4/21 Summit w/Japanese

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

TEXT:

What is the make and model of your car?

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. email	F. Anova to R. Lawrence at M. Fibich, re Travel Claim [personal finances] (1 page)	04/19/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System
CEA (Robert Z. Lawrence)
OA/Box Number: 950000

FOLDER TITLE:

[04/15/1999 - 04/19/1999]

2014-0316-F

wr10736

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

- b(1) National security classified information [(b)(1) of the FOIA]
- b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
- b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 03:59:21.00

SUBJECT: Staff meeting

TO: Alan S. Polasky (CN=Alan S. Polasky/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Bert I. Huang (CN=Bert I. Huang/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Douglas W. Elmendorf (CN=Douglas W. Elmendorf/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Elise H. Golan (CN=Elise H. Golan/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

TO: Heather L. Jambrosic (CN=Heather L. Jambrosic/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Howard A. Shelanski (CN=Howard A. Shelanski/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

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

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

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

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

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])
READ:UNKNOWN

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

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

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

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

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

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

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

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

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

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

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

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

TEXT:
The staff meeting will begin at 9:30 a.m.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 14:07:17.00

SUBJECT: 4pm climate change meeting at State

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Robert,

I spoke with Nigel Purvis at State regarding the agenda for today's meeting. He said the meeting will focus more on procedural and strategic issues, and less on the kind of substance that would likely be of interest for us. I will cover the meeting, but it doesn't appear to be imperative that you attend. If you don't wish to go to the meeting, I will provide you with an update later.

Joe

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 09:31:59.00

SUBJECT: IMPORTANT re LUNCH TODAY

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

READ:UNKNOWN

TO: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Robert P. Bamsey (CN=Robert P. Bamsey/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nora E. Gordon (CN=Nora E. Gordon/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

TEXT:

Alice has agreed to be our accountant for today's lunch! To make things easier on everyone, please bring your \$17 to Alice BEFORE we go out to the hotel.....by 11:30 please. That way, we will be able to enjoy our lunch a little more, and spend less time figuring out the bill.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 00:58:51.00

SUBJECT:

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: Ron Klain (CN=Ron Klain/O=OVP @ OVP [UNKNOWN])
READ:UNKNOWN

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

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

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

Elliot J. Diringer (CN=Elliot J. Diringer/OU=CEQ/O=EOP [CEQ])
READ:UNKNOWN

TEXT:

Attached memos reflect discussion at Friday's meeting. State is hoping
for decisions by Wednesday, to inform Ministerial-level discussions in New
York Thursday and Friday.

COP-6 piece may need to be styled as decision memo. Any and all comments,
pls let me know.===== ATTACHMENT 1 =====
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D23]ARMS29775742D.136 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 2 =====

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN
GEORGE FRAMPTON
JIM STEINBERG

SUBJECT: Climate Change/Developing Countries

This memorandum seeks your approval of a change in our developing country policy under the climate treaty.

BACKGROUND

No effort to address climate change can succeed without the participation of developing countries. Greenhouse gas emissions from developing countries are climbing sharply and will soon exceed those from the industrialized world. Emissions trading with developing countries could help keep costs of addressing climate change to politically acceptable levels in the United States. The U.S. Senate set a high bar for developing country participation in the Byrd-Hagel resolution, which passed 95-0 in July 1997. The resolution calls on the administration not to sign any climate change treaty unless developing countries accept "new specific scheduled commitments ... in the same compliance period" as industrialized nations.

Our current policy focuses on urging developing countries to take binding emissions growth targets (under which emissions could increase from current levels, but would stay below business-as-usual projections). Consistent with the Byrd-Hagel resolution, we insist that these targets apply during the first Kyoto commitment period (2008-2012). We point out that developing countries can benefit economically by agreeing to take targets and then participating in international emissions trading. We also urge countries to participate in Clean Development Mechanism projects, develop national action plans for controlling emissions and adopt other policies that will slow emissions growth.

Our policy has met with very limited success. To date, only two developing countries -- Argentina and Kazakhstan -- have publicly expressed a willingness to adopt binding emissions targets. Many developing countries -- most notably China and India -- are so hostile to the idea that they refuse even to discuss it. In general, developing countries resent the effort to have them take emissions targets, arguing that: (1) economic development is their top priority and emissions limits are more likely to hurt than help; (2) industrialized nations caused this problem, by emitting carbon that stays in the atmosphere for more than 100 years; (3) at the Rio Earth Summit, industrialized nations promised to lead the way in reducing emissions, but still haven't

done so; and (4) the volatile nature of developing world economies make it too difficult to commit to emissions limits for a period 10 years hence.

Significantly, we lack strong allies in the industrialized world in our effort to engage developing countries. Even our “Umbrella Group” partners (including Canada, Australia, Japan and New Zealand) consider developing country participation to be a U.S. priority driven mainly by domestic political concerns.

In light of the foregoing, we face the real possibility of not making much progress in engaging developing countries under the climate treaty during your term. As we have identified the lack of developing country participation as the major shortcoming of the Kyoto agreement, this obviously would not be desirable. Of course, there are other important issues racked up for consideration during the next two years (emissions trading, the CDM, sinks, compliance), so lack of progress on developing countries would not necessarily be equated with stasis in the Kyoto process. Still, developing country participation is the largest looming issue, and if we appear to be getting nowhere in the next two years serious questions will be asked about Kyoto’s continued viability.

The question therefore arises whether we want to consider additional developing country options. Your advisers have explored a range of ideas, from sticking with the status quo to shifting toward an emphasis on non-binding “Plans of Action.” In general, as one moves on the spectrum toward positions that are more likely to engage a wider range of developing countries, we open ourselves up to attacks from the Congressional majority.

NEW APPROACH

Your advisers recommend that the United States support two ideas we have not to date embraced: “adjustable targets” and “transitional targets.” These are described in more detail below.

A. Adjustable Targets. Under this approach, developing country targets would be adjustable based on future economic performance. For example, a country might agree to a target in 2001, with an understanding that the target would be increased in 2007 if that country’s GDP were higher than projected. (Targets could be adjusted downward for lower GDP as well.) One way of expressing roughly the same idea would be for a country to commit itself to achieving a given ratio of emissions to GDP (e.g., X tons of greenhouse gas emissions per dollar of GDP). As GDP increases, allowable emissions would automatically increase as well.

The rationale for this approach is straightforward: it largely eliminates the risk that a target would inadvertently constrain economic growth. This both responds to concerns voiced by developing countries and reflects our own rhetoric on this topic (in particular the assertion that we are not asking developing countries to limit growth to address the problem of climate change). Targets of this type might induce several countries to participate more fully in the climate treaty.

There are two downsides to adjustable targets. First, from a technical standpoint, they may be too complex to be workable. In general, only very simple ideas can gain acceptance and be implemented among the more than 160 nations that are parties to the climate treaty. Second, if we support adjustable targets for developing countries, some critics of our climate policy will complain that these countries are getting a better deal than the United States, which agreed to a non-adjustable target. Public discussion of the adjustable targets could underscore the risk the United States has accepted should economic growth exceed projections during the decade ahead.

On balance, however, we believe this idea is worth pursuing. The technical issues are worth exploring internationally, and we do not expect domestic criticism of the idea to be intense. Senator Byrd, for example, has several times stated his view that developing country commitments under the climate treaty may be of a different type than those of industrialized nations.

B. Transitional Targets. A more significant departure from our position to date would be to support “transitional targets.” Under this approach:

- Developing countries would take a *non-binding* target for the first Kyoto commitment period. If actual emissions ended up being lower than the non-binding target, countries could sell the excess on the international market. If actual emissions were more than the target, countries would not be required to make up the shortfall.
- Countries would also agree to take on a binding target for the second Kyoto commitment period (2013-2017). This target would be negotiated at the same time second budget period targets are negotiated for industrialized countries (2005, under the Kyoto Protocol).

This approach could provide developing countries with considerable incentive to limit emissions, without incurring the risk that has been a major factor in their reluctance to date. It could also help reduce costs in the United States, by creating a larger pool of emissions allowances for sale. “Transitional targets” would be consistent with the experience of industrialized nations, which took non-binding targets under the climate treaty before agreeing to binding targets.

However, this approach would be criticized by the Congressional majority (and by some coal-state Democrats). They would complain that “transitional targets” are inconsistent with the Byrd-Hagel resolution, which calls for developing countries to make “new specific scheduled commitments...in the same compliance period” as industrializ nations. We would respond (1) that these transitional targets meet the literal terms of the Byrd-Hagel resolution (which does not use the word “binding”) and (2) that insisting on binding targets for developing countries in the first commitment period would be to insist on tougher requirements for poor countries than rich ones (since, as noted above, industrialized nations started with non-binding targets under the climate treaty. But Congressional critics would still complain, some sharply.

On balance, we believe this approach is worth pursuing, provided we do so carefully. Although

we do not expect that this approach will draw in the large emitters (China, India, Brazil) in the short-term, it has the potential to attract a number of Latin and African countries. This could change the dynamic of discussions with developing countries and create the prospect for real progress on this issue in the years ahead.

RECOMMENDATION

We recommend that the United States support “adjustable targets” and “transitional targets” as tools for engaging developing countries under the climate treaty. We would move forward carefully, exploring this idea quietly in private diplomatic discussions. Before deciding whether to align ourselves more closely with the idea, we would gauge the initial reaction from key countries. We would move toward more public support only if events dictate.

[Gene Sperling, Janet Yellen, Bill Richardson, Carol Browner, Brian Atwood and Frank Loy concur in this recommendation.]

_____ Approve

_____ Do Not Approve

_____ Let's Discuss

ROUGH DRAFT 4/18

INFORMATION

MEMORANDUM FOR THE PRESIDENT
THE VICE PRESIDENT

FROM: TODD STERN
GEORGE FRAMPTON
JIM STEINBERG

SUBJECT: Climate Change

The Sixth Conference of Parties to the Climate Convention ("COP-6") is currently scheduled for November or December 2000. We wanted you to know that we are working to reschedule the meeting for March 2001, for the reasons set forth below.

BACKGROUND

The Parties to the Climate Convention meet annually. Meetings typically last 10-12 days. The next Conference of Parties will be held in October 1999.

COP-6 will be an important meeting. It is the deadline for further work on the major open issues under the Kyoto Protocol. In the best circumstance, Parties would agree at COP-6 on rules for emissions trading and the Clean Development Mechanism, on the elements of a compliance regime for the Protocol and on additional guidance concerning the role of carbon sinks (e.g. forests). Then, if sufficient progress is also made in engaging developing countries in efforts to address climate change, the treaty could be submitted to the Senate for advice and consent to ratification in 2001.

COP-6 will also be an extremely difficult meeting. We expect tough, last-minute bargaining with the Europeans and others on efforts to restrict emissions trading; resistance from many countries on U.S. efforts to provide an expansive role for carbon sinks; continued efforts by Saudi Arabia and others to block any progress on the treaty; and substantially less engagement from developing countries than certain domestic constituencies have insisted is necessary. To achieve a successful outcome, we must clear significant hurdles.

At the same time, the motivation of many Parties to reach an agreement at COP-6 may be high. Unless key countries (including the United States) ratify the Kyoto Protocol during the first few years of the next decade, the treaty will need to be renegotiated. (The Protocol's binding emissions targets start to apply in 2008.) Parties may see COP-6 as the last opportunity to shape a package built on the Protocol that could be accepted here and in other capitals.

SCHEDULE OF COP-6

Unfortunately, the calendar leaves no good options for scheduling COP-6. Any dates before the Presidential election present obvious challenges. In addition, the entire month of December 2000 is unavailable due to Ramadan. (Major multilateral negotiations are almost never held during Ramadan. Arab delegations would object heatedly to -- and probably disrupt -- any climate change meeting held during the holiday.)

At Buenos Aires, the Parties tentatively agreed to hold COP-6 in November or December 2000, at a precise date to be determined. (We quietly objected to the Secretariat's initial suggestion -- holding the meeting during October 2000.) British Deputy Prime Minister John Prescott floated the idea of not holding a meeting during the year 2000, but met with resistance from the Chinese and other members of the G-77.

We have explored a number of options for scheduling COP-6. A first option is November 2000. (The only dates between the Presidential election and Ramadan are Monday, November 13 - Friday, November 25.) This choice is distinctly unattractive for at least three reasons. First, neither of you would be available for decisions or high-level diplomacy in the months leading up to this meeting. (Your role was instrumental to our success at Kyoto.) Second, the ministerial segment of the meeting would culminate on Thanksgiving and the day afterward, placing considerable burdens on the U.S. delegation and those involved in final, high-level decision-making at home. Finally, in the event of a Republican victory in the Presidential election, countries would expect the next administration to repudiate some or all of any agreement reached at the meeting, undercutting our ability to negotiate a deal.

A second option, at least in theory, is July 2000. (This is the latest date that would keep the meeting within the 2000 calendar year while avoiding the conventions, general election and November and December dates discussed above.) Of course, a July meeting would dramatically raise the stakes in connection with the Presidential election. The outcome would be characterized during the fall as either a sell-out (if we reach a deal) or a failure (if we don't). At least one key issue (sinks) could not be resolved this early, because the COP-6 decision will depend on the results of a scientific study set for release in April 2000. Finally, it is not clear that we could arrange a July meeting from a logistical standpoint, even if it were our preference. Preparatory meetings would need to be rescheduled and conference locations would need to be identified. State Department advises that there is some risk this could not be achieved.

This leaves the final option, which we are reluctantly pursuing. Scheduling the meeting for March 2001 takes the meeting out of the Presidential election cycle and allows additional time to complete work on complex issues. President Gore would have considerable ability to shape a positive outcome. (A Republican President would have to take responsibility for U.S. policy at the meeting, instead of simply criticizing us for sell-out or failure.) The many downsides of the other options are avoided.

There is, however, one important downside of scheduling this meeting in March 2001. You will be criticized for ducking the climate change issue, by extending the date for this meeting past the end of your term. (There is some chance the meeting might be scheduled in March 2001 without the US being perceived as the main reason for the change, but this is unlikely.) This will be further evidence for some left-wing environmental groups that we are failing to lead on global warming. However, on balance, this appears to be a lesser evil than those associated with other options.

CONCLUSION

We will work in the weeks and months ahead to reschedule the Sixth Conference of Parties to the Climate Convention ("COP-6") to March 2001. If you are uncomfortable with this approach for any reason, please let us know.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 10:40:04.00

SUBJECT: Gov't Car to 4/21 Summit w/Japanese

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

READ:UNKNOWN

CC: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

I just put in a call to Virginia Apuzzo's office (WH Admin) re status of Janet's request for your use of a gov't car. The request is still pending. However, her assistant Brook suggested that I call again Wed a.m. to put in a special request for you to use a car to take you to the Summit, which I will do. Whenever Janet's request (or the special request) is approved, your name will be placed on the "B" list (vs "A" list), and that means there are restrictions and limitations to using gov't cars. I will leave a copy of the rules in your box.

However, in the interim, I've also put in a request to Lael's office for you (and Nouriel) to hitch a ride with Lael. I was told Lael will probably depart the OEOP around 1:30pm, and will stay for the entire Summit which concludes with dinner around 9pm. If you have access to a gov't car, you would need to take a taxi back to office; you're only allowed to use a gov't car to 7pm. I'm not sure whether or not Lael is on the "A" list; if so, she has access to a car after 7pm.

A third option is that you could drive your own car and park it in the assigned parking lot. Driving your own car guarantees a way back to the office. If you decide to drive, I need to pass on to State Dept the make and model of your car as well as the license # as soon as possible.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 09:12:32.00

SUBJECT: Proposed Draft on Developing Country Participation

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

READ:UNKNOWN

TO: Janet L. Yellen (CN=Janet L. Yellen/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

CC: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

----- Forwarded by Robert Z. Lawrence/CEA/EOP on 04/19/99
09:12 AM -----

David B Sandalow

04/19/99 12:59:33 AM

Record Type: Record

To: Todd Stern/WHO/EOP, George T. Frampton/CEQ/EOP, Ron Klain/OVP @
OVP, Robert Z. Lawrence/CEA/EOP

cc: Ronald Minsk/OPD/EOP, Roger S. Ballentine/WHO/EOP

Subject:

Attached memos reflect discussion at Friday's meeting. State is hoping
for decisions by Wednesday, to inform Ministerial-level discussions in New
York Thursday and Friday.

COP-6 piece may need to be styled as decision memo. Any and all comments,
pls let me know.

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D79]ARMS21377552L.136 to ASCII,
The following is a HEX DUMP:

===== END ATTACHMENT 2 =====

ROUGH DRAFT 4/18

INFORMATION

MEMORANDUM FOR THE PRESIDENT
THE VICE PRESIDENT

FROM: TODD STERN
GEORGE FRAMPTON
JIM STEINBERG

SUBJECT: Climate Change

The Sixth Conference of Parties to the Climate Convention ("COP-6") is currently scheduled for November or December 2000. We wanted you to know that we are working to reschedule the meeting for March 2001, for the reasons set forth below.

BACKGROUND

The Parties to the Climate Convention meet annually. Meetings typically last 10-12 days. The next Conference of Parties will be held in October 1999.

COP-6 will be an important meeting. It is the deadline for further work on the major open issues under the Kyoto Protocol. In the best circumstance, Parties would agree at COP-6 on rules for emissions trading and the Clean Development Mechanism, on the elements of a compliance regime for the Protocol and on additional guidance concerning the role of carbon sinks (e.g. forests). Then, if sufficient progress is also made in engaging developing countries in efforts to address climate change, the treaty could be submitted to the Senate for advice and consent to ratification in 2001.

COP-6 will also be an extremely difficult meeting. We expect tough, last-minute bargaining with the Europeans and others on efforts to restrict emissions trading; resistance from many countries on U.S. efforts to provide an expansive role for carbon sinks; continued efforts by Saudi Arabia and others to block any progress on the treaty; and substantially less engagement from developing countries than certain domestic constituencies have insisted is necessary. To achieve a successful outcome, we must clear significant hurdles.

At the same time, the motivation of many Parties to reach an agreement at COP-6 may be high. Unless key countries (including the United States) ratify the Kyoto Protocol during the first few years of the next decade, the treaty will need to be renegotiated. (The Protocol's binding emissions targets start to apply in 2008.) Parties may see COP-6 as the last opportunity to shape a package built on the Protocol that could be accepted here and in other capitals.

SCHEDULE OF COP-6

Unfortunately, the calendar leaves no good options for scheduling COP-6. Any dates before the Presidential election present obvious challenges. In addition, the entire month of December 2000 is unavailable due to Ramadan. (Major multilateral negotiations are almost never held during Ramadan. Arab delegations would object heatedly to -- and probably disrupt -- any climate change meeting held during the holiday.)

At Buenos Aires, the Parties tentatively agreed to hold COP-6 in November or December 2000, at a precise date to be determined. (We quietly objected to the Secretariat's initial suggestion -- holding the meeting during October 2000.) British Deputy Prime Minister John Prescott floated the idea of not holding a meeting during the year 2000, but met with resistance from the Chinese and other members of the G-77.

We have explored a number of options for scheduling COP-6. A first option is November 2000. (The only dates between the Presidential election and Ramadan are Monday, November 13 - Friday, November 25.) This choice is distinctly unattractive for at least three reasons. First, neither of you would be available for decisions or high-level diplomacy in the months leading up to this meeting. (Your role was instrumental to our success at Kyoto.) Second, the ministerial segment of the meeting would culminate on Thanksgiving and the day afterward, placing considerable burdens on the U.S. delegation and those involved in final, high-level decision-making at home. Finally, in the event of a Republican victory in the Presidential election, countries would expect the next administration to repudiate some or all of any agreement reached at the meeting, undercutting our ability to negotiate a deal.

A second option, at least in theory, is July 2000. (This is the latest date that would keep the meeting within the 2000 calendar year while avoiding the conventions, general election and November and December dates discussed above.) Of course, a July meeting would dramatically raise the stakes in connection with the Presidential election. The outcome would be characterized during the fall as either a sell-out (if we reach a deal) or a failure (if we don't). At least one key issue (sinks) could not be resolved this early, because the COP-6 decision will depend on the results of a scientific study set for release in April 2000. Finally, it is not clear that we could arrange a July meeting from a logistical standpoint, even if it were our preference. Preparatory meetings would need to be rescheduled and conference locations would need to be identified. State Department advises that there is some risk this could not be achieved.

This leaves the final option, which we are reluctantly pursuing. Scheduling the meeting for March 2001 takes the meeting out of the Presidential election cycle and allows additional time to complete work on complex issues. President Gore would have considerable ability to shape a positive outcome. (A Republican President would have to take responsibility for U.S. policy at the meeting, instead of simply criticizing us for sell-out or failure.) The many downsides of the other options are avoided.

There is, however, one important downside of scheduling this meeting in March 2001. You will be criticized for ducking the climate change issue, by extending the date for this meeting past the end of your term. (There is some chance the meeting might be scheduled in March 2001 without the US being perceived as the main reason for the change, but this is unlikely.) This will be further evidence for some left-wing environmental groups that we are failing to lead on global warming. However, on balance, this appears to be a lesser evil than those associated with other options.

CONCLUSION

We will work in the weeks and months ahead to reschedule the Sixth Conference of Parties to the Climate Convention ("COP-6") to March 2001. If you are uncomfortable with this approach for any reason, please let us know.

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN
GEORGE FRAMPTON
JIM STEINBERG

SUBJECT: Climate Change/Developing Countries

This memorandum seeks your approval of a change in our developing country policy under the climate treaty.

BACKGROUND

No effort to address climate change can succeed without the participation of developing countries. Greenhouse gas emissions from developing countries are climbing sharply and will soon exceed those from the industrialized world. Emissions trading with developing countries could help keep costs of addressing climate change to politically acceptable levels in the United States. The U.S. Senate set a high bar for developing country participation in the Byrd-Hagel resolution, which passed 95-0 in July 1997. The resolution calls on the administration not to sign any climate change treaty unless developing countries accept "new specific scheduled commitments ... in the same compliance period" as industrialized nations.

Our current policy focuses on urging developing countries to take binding emissions growth targets (under which emissions could increase from current levels, but would stay below business-as-usual projections). Consistent with the Byrd-Hagel resolution, we insist that these targets apply during the first Kyoto commitment period (2008-2012). We point out that developing countries can benefit economically by agreeing to take targets and then participating in international emissions trading. We also urge countries to participate in Clean Development Mechanism projects, develop national action plans for controlling emissions and adopt other policies that will slow emissions growth.

Our policy has met with very limited success. To date, only two developing countries -- Argentina and Kazakhstan -- have publicly expressed a willingness to adopt binding emissions targets. Many developing countries -- most notably China and India -- are so hostile to the idea that they refuse even to discuss it. In general, developing countries resent the effort to have them take emissions targets, arguing that: (1) economic development is their top priority and emissions limits are more likely to hurt than help; (2) industrialized nations caused this problem, by emitting carbon that stays in the atmosphere for more than 100 years; (3) at the Rio Earth Summit, industrialized nations promised to lead the way in reducing emissions, but still haven't

done so; and (4) the volatile nature of developing world economies make it too difficult to commit to emissions limits for a period 10 years hence.

Significantly, we lack strong allies in the industrialized world in our effort to engage developing countries. Even our “Umbrella Group” partners (including Canada, Australia, Japan and New Zealand) consider developing country participation to be a U.S. priority driven mainly by domestic political concerns.

In light of the foregoing, we face the real possibility of not making much progress in engaging developing countries under the climate treaty during your term. As we have identified the lack of developing country participation as the major shortcoming of the Kyoto agreement, this obviously would not be desirable. Of course, there are other important issues racked up for consideration during the next two years (emissions trading, the CDM, sinks, compliance), so lack of progress on developing countries would not necessarily be equated with stasis in the Kyoto process. Still, developing country participation is the largest looming issue, and if we appear to be getting nowhere in the next two years serious questions will be asked about Kyoto’s continued viability.

The question therefore arises whether we want to consider additional developing country options. Your advisers have explored a range of ideas, from sticking with the status quo to shifting toward an emphasis on non-binding “Plans of Action.” In general, as one moves on the spectrum toward positions that are more likely to engage a wider range of developing countries, we open ourselves up to attacks from the Congressional majority.

NEW APPROACH

Your advisers recommend that the United States support two ideas we have not to date embraced: “adjustable targets” and “transitional targets.” These are described in more detail below.

A. Adjustable Targets. Under this approach, developing country targets would be adjustable based on future economic performance. For example, a country might agree to a target in 2001, with an understanding that the target would be increased in 2007 if that country’s GDP were higher than projected. (Targets could be adjusted downward for lower GDP as well.) One way of expressing roughly the same idea would be for a country to commit itself to achieving a given ratio of emissions to GDP (e.g., X tons of greenhouse gas emissions per dollar of GDP). As GDP increases, allowable emissions would automatically increase as well.

The rationale for this approach is straightforward: it largely eliminates the risk that a target would inadvertently constrain economic growth. This both responds to concerns voiced by developing countries and reflects our own rhetoric on this topic (in particular the assertion that we are not asking developing countries to limit growth to address the problem of climate change). Targets of this type might induce several countries to participate more fully in the climate treaty.

There are two downsides to adjustable targets. First, from a technical standpoint, they may be too complex to be workable. In general, only very simple ideas can gain acceptance and be implemented among the more than 160 nations that are parties to the climate treaty. Second, if we support adjustable targets for developing countries, some critics of our climate policy will complain that these countries are getting a better deal than the United States, which agreed to a non-adjustable target. Public discussion of the adjustable targets could underscore the risk the United States has accepted should economic growth exceed projections during the decade ahead.

On balance, however, we believe this idea is worth pursuing. The technical issues are worth exploring internationally, and we do not expect domestic criticism of the idea to be intense. Senator Byrd, for example, has several times stated his view that developing country commitments under the climate treaty may be of a different type than those of industrialized nations.

B. Transitional Targets. A more significant departure from our position to date would be to support “transitional targets.” Under this approach:

- Developing countries would take a *non-binding* target for the first Kyoto commitment period. If actual emissions ended up being lower than the non-binding target, countries could sell the excess on the international market. If actual emissions were more than the target, countries would not be required to make up the shortfall.
- Countries would also agree to take on a binding target for the second Kyoto commitment period (2013-2017). This target would be negotiated at the same time second budget period targets are negotiated for industrialized countries (2005, under the Kyoto Protocol).

This approach could provide developing countries with considerable incentive to limit emissions, without incurring the risk that has been a major factor in their reluctance to date. It could also help reduce costs in the United States, by creating a larger pool of emissions allowances for sale. “Transitional targets” would be consistent with the experience of industrialized nations, which took non-binding targets under the climate treaty before agreeing to binding targets.

However, this approach would be criticized by the Congressional majority (and by some coal-state Democrats). They would complain that “transitional targets” are inconsistent with the Byrd-Hagel resolution, which calls for developing countries to make “new specific scheduled commitments...in the same compliance period” as industrialized nations. We would respond (1) that these transitional targets meet the literal terms of the Byrd-Hagel resolution (which does not use the word “binding”) and (2) that insisting on binding targets for developing countries in the first commitment period would be to insist on tougher requirements for poor countries than rich ones (since, as noted above, industrialized nations started with non-binding targets under the climate treaty. But Congressional critics would still complain, some sharply.

On balance, we believe this approach is worth pursuing, provided we do so carefully. Although

we do not expect that this approach will draw in the large emitters (China, India, Brazil) in the short-term, it has the potential to attract a number of Latin and African countries. This could change the dynamic of discussions with developing countries and create the prospect for real progress on this issue in the years ahead.

RECOMMENDATION

We recommend that the United States support “adjustable targets” and “transitional targets” as tools for engaging developing countries under the climate treaty. We would move forward carefully, exploring this idea quietly in private diplomatic discussions. Before deciding whether to align ourselves more closely with the idea, we would gauge the initial reaction from key countries. We would move toward more public support only if events dictate.

[Gene Sperling, Janet Yellen, Bill Richardson, Carol Browner, Brian Atwood and Frank Loy concur in this recommendation.]

_____ Approve _____ Do Not Approve _____ Let's Discuss

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 15:26:50.00

SUBJECT: Thurs, 4/22, Food Assistance Council Policy Mtg

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

Gus Schumacher is holding a mtg on Thurs, 4/22, at 10am, at USDA, Rm. 205E. Topics: Kosova and North Korea.

ROBERT: This mtg conflicts with your talk before the Knight Center for Specialized Journalism group.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 10:51:52.00

SUBJECT: Re: Gov't Car to 4/21 Summit w/Japanese

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

READ:UNKNOWN

TEXT:

It's fine to take my car. Mass plates WSD289

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 15:42:48.00

SUBJECT: Agenda for today's 5:30 pm conference call

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

CC: Matthew R. McBrady (CN=Matthew R. McBrady/OU=CEA/O=EOP @ EOP [CEA])

READ:UNKNOWN

TEXT:

FYI.

----- Forwarded by Lisa D. Branch/CEA/EOP on 04/19/99

03:43 PM -----

Sharon H. Yuan

04/19/99 03:32:23 PM

Record Type: Record

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

cc:

Subject: Agenda for today's 5:30 pm conference call

Message Sent

To:

Lisa D. Branch/CEA/EOP

Nina L. Hachigian/NSC/EOP

Marilyn L. Scott-Perez/NSC/EOP

Ann E. Woolston/OVP @ OVP

lenora.cully @ treas.sprint.com

dianne.akowski @ treas.sprint.com

donna.jackson @ doc.gov @ inet

ennis_erin @ ustr.gov @ INET @ VAXGTWY

Robert F. Wescott/OPD/EOP

Bruce McNamer/OPD/EOP

Sonal R. Shah/OPD/EOP

Nouriel Roubini/CEA/EOP

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

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D31]ARMS25539362M.136 to ASCII,
The following is a HEX DUMP:

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

FINANCE CONFERENCE CALL

April 19; 5:30 pm

757-2104; code 3939

Agenda

- I. Current Economic Situation in Europe**
- II. USG Position on European Economic Policies**

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 09:40:51.00

SUBJECT: Staff meeting

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

READ:UNKNOWN

TO: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Robert P. Bamsey (CN=Robert P. Bamsey/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nora E. Gordon (CN=Nora E. Gordon/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

TEXT:

In my earlier e-mail I cancelled this morning's staff meeting. Would you please put it on your schedule for Tuesday, April 20 at 9:30 a.m.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Jeff B. Liebman (CN=Jeff B. Liebman/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME:19-APR-1999 12:59:20.00

SUBJECT: Breakfast or lunch sometime?

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

READ:UNKNOWN

TEXT:

I'm only around for two more weeks. It would be great to get together for breakfast or lunch before I return to Cambridge. Breakfast is probably safer, since I end up rescheduling about two-thirds of my lunches, but we could try lunch if you prefer. Currently, all of my breakfasts are free this week (except Friday) and next week. I could do lunch this Wednesday or any day next week.

Jeff

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 15:38:02.00

SUBJECT: Re: Gov't Car to 4/21 Summit w/Japanese

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

READ:UNKNOWN

TEXT:

BMW 1995 525i

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 18:38:27.00

SUBJECT: Re: climate change decision memos

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

READ:UNKNOWN

CC: Todd Stern (CN=Todd Stern/OU=WHO/O=EOP @ EOP [WHO])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TEXT:

We agree and would like to add this edit.

Transitional Targets. A more significant departure from our position to date would be to support &transitional targets.⁸ Under this approach:

Developing countries would take a non-binding target prior to or during the first Kyoto commitment period. Once the target was adopted, regular reviews would be conducted and if actual emissions ended up being lower than the non-binding target, countries could sell the excess on the international market. If actual emissions were more than the target, countries would not be required to make up the shortfall.

Countries would also agree to take on a binding target for the second Kyoto commitment period (2013-2017). This target would be negotiated at the same time second budget period targets are negotiated for industrialized countries (2005, under the Kyoto Protocol).

This approach could provide developing countries with considerable incentive to limit emissions, without incurring the risk, since the target is non-binding. It could also help reduce costs in the United States, by creating a larger pool of emissions allowances for sale. &Transitional targets⁸ would be consistent with the experience of industrialized nations, which took non-binding targets under the climate treaty before agreeing to binding targets.

This approach could encourage developing countries to make meaningful contributions even prior to the commencement of the first binding period.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 09:25:16.00

SUBJECT: Staff meeting cancelled

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

READ:UNKNOWN

TO: Summer L. Scott (CN=Summer L. Scott/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Ryan D. Edwards (CN=Ryan D. Edwards/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

READ:UNKNOWN

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

READ:UNKNOWN

TO: Robert P. Bamsey (CN=Robert P. Bamsey/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Robert F. Schoeni (CN=Robert F. Schoeni/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Rebecca M. Blank (CN=Rebecca M. Blank/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Raymond P. Guiteras (CN=Raymond P. Guiteras/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Quindi C. Franco (CN=Quindi C. Franco/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nouriel Roubini (CN=Nouriel Roubini/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Nora E. Gordon (CN=Nora E. Gordon/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

TO: Michele Jolin (CN=Michele Jolin/OU=CEA/O=EOP [CEA])

READ:UNKNOWN

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

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

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

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

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

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

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

TO: Cordelia W. Reimers (CN=Cordelia W. Reimers/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: Bert I. Huang (CN=Bert I. Huang/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

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

TEXT:
This morning's staff meeting has been cancelled.

Withdrawal/Redaction Marker

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. email	M. Jolin to J. Yellen et al., re Additional Resumes [nonselection] (1 page)	04/19/1999	P6/b(6)

COLLECTION:

Clinton Presidential Records
Automated Records Management System
CEA (Robert Z. Lawrence)
OA/Box Number: 950000

FOLDER TITLE:

[04/15/1999 - 04/19/1999]

2014-0316-F

wr10736

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P1 National Security Classified Information [(a)(1) of the PRA]
P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P3 Release would violate a Federal statute [(a)(3) of the PRA]
P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

RR. Document will be reviewed upon request.

Freedom of Information Act - [5 U.S.C. 552(b)]

b(1) National security classified information [(b)(1) of the FOIA]
b(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
b(3) Release would violate a Federal statute [(b)(3) of the FOIA]
b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 15:39:54.00

SUBJECT: Re: 4pm climate change meeting at State

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

READ:UNKNOWN

TEXT:

Thanks

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:19-APR-1999 12:03:45.00

SUBJECT: climate change decision memos

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

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

READ:UNKNOWN

TEXT:

Revised targets paper attached. Reflects polishes and edits received this morning.

We are planning to send this to the President tomorrow.

Reaction/concurrence from Janet and Gene/Sally appreciated.

As I mentioned earlier to Ron, the COP-6 memo appears already to be overtaken by events. Over the weekend, the head of the Climate Convention proposed that COP-6 be rescheduled for spring 2001. Makes it very unlikely the meeting could be held at an earlier date. =====

ATTACHMENT 1

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

TEXT:

Unable to convert ARMS_EXT:[ATTACH.D70]ARMS202300620.136 to ASCII,
The following is a HEX DUMP:

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

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN
GEORGE FRAMPTON
JIM STEINBERG

SUBJECT: Climate Change/Developing Countries

This memorandum seeks your approval of a modification in our developing country policy under the climate treaty.

BACKGROUND

No effort to address climate change can succeed without the participation of developing countries. Greenhouse gas emissions from developing countries are climbing sharply and will soon exceed those from the industrialized world. Emissions trading with developing countries could help keep costs of addressing climate change to politically acceptable levels in the United States. The U.S. Senate set a high bar for developing country participation in the Byrd-Hagel resolution, which passed 95-0 in July 1997. The resolution calls on the administration not to sign any climate change treaty unless developing countries accept “new specific scheduled commitments ... in the same compliance period” as industrialized nations.

Our current policy focuses on urging developing countries to take binding emissions growth targets (under which emissions could increase from current levels, but would stay below business-as-usual projections). Consistent with the Byrd-Hagel resolution, we insist that these targets apply during the first Kyoto commitment period (2008-2012). We point out that developing countries can benefit economically by agreeing to take targets and then participating in international emissions trading. We also urge countries to participate in Clean Development Mechanism projects, develop national action plans for controlling emissions and adopt other policies that will slow emissions growth.

Our policy has met with very limited success. To date, only two developing countries -- Argentina and Kazakhstan -- have publicly expressed a willingness to adopt binding emissions targets. Many developing countries -- most notably China and India -- are so hostile to the idea that they refuse even to discuss it. In general, developing countries resent the effort to urge them take emissions targets, arguing that: (1) economic development is their top priority and emissions limits are more likely to hurt than help; (2) industrialized nations caused this problem, by emitting carbon that stays in the atmosphere for more than 100 years; (3) at the Rio Earth Summit, industrialized nations promised to lead the way in reducing emissions, but still haven't

done so; and (4) the volatile nature of developing world economies make it too difficult to commit to emissions limits for a period 10 years hence.

Significantly, we lack strong allies in the industrialized world in our effort to engage developing countries. Even our “Umbrella Group” partners (including Canada, Australia, Japan and New Zealand) consider developing country participation to be a U.S. priority driven mainly by domestic political concerns.

In light of the foregoing, we face the real possibility of not making much progress in engaging developing countries under the climate treaty during your term. Of course, there are other important issues squarely on the agenda during the next two years (emissions trading, the CDM, sinks, compliance), so lack of progress on developing countries would not necessarily be equated with stasis in the Kyoto process. Still, developing country participation is the largest looming issue, and if we appear to be getting nowhere in the next two years, questions may be raised about Kyoto’s continued viability.

This has led your advisers to explore a possible modifications to our current developing country approach. In particular, they recommend that we either openly support or take some preliminary soundings on two modifications: “adjustable targets” and “transitional targets.”

Adjustable Targets. Under this approach, developing countries would accept binding targets now on the understanding that those targets would be adjustable based on future economic performance. For example, a country might agree to a target in 2001, with an understanding that the target would be increased in 2007 if that country’s GDP were higher than projected. (Targets could be adjusted downward for lower GDP as well.) One way of expressing roughly the same idea would be for a country to commit itself to achieving a given ratio of emissions to GDP (e.g., X tons of greenhouse gas emissions per dollar of GDP). As GDP increases, allowable emissions would automatically increase as well.

The rationale for this approach is straightforward: it largely eliminates the risk that a target would inadvertently constrain economic growth. This both responds to concerns voiced by developing countries and reflects our own rhetoric on this topic (in particular the assertion that we are not asking developing countries to limit growth to address the problem of climate change).

This approach will not advance the ball with the biggest developing countries like China, India or Brazil. But it might be persuasive to a number of other developing countries. The only way to know for sure would be to test it out.

There are two downsides to adjustable targets. First, from a technical standpoint, they may be too complex to be workable. In general, only very simple ideas can gain acceptance and be implemented among the more than 160 nations that are parties to the climate treaty. Second, if we support adjustable targets for developing countries, some critics of our climate policy will complain that these countries are getting a better deal than the United States, which agreed to a non-adjustable target. Public discussion of the adjustable targets could underscore the risk the

United States has accepted should economic growth exceed projections during the decade ahead. On balance, however, we believe this idea is worth pursuing. The technical issues are worth exploring internationally, and we do not expect domestic criticism of the idea to be intense. Senator Byrd, for example, has several times stated his view that developing country commitments under the climate treaty may be of a different type than those of industrialized nations.

Transitional Targets. A more significant departure from our position to date would be to support “transitional targets.” Under this approach:

- Developing countries would take a *non-binding* target for the first Kyoto commitment period. If actual emissions ended up being lower than the non-binding target, countries could sell the excess on the international market. If actual emissions were more than the target, countries would not be required to make up the shortfall.
- Countries would also agree to take on a *binding* target for the second Kyoto commitment period (2013-2017). This target would be negotiated at the same time second budget period targets are negotiated for industrialized countries (2005, under the Kyoto Protocol).

This approach could provide developing countries with considerable incentive to limit emissions, without incurring the risk, since the target is non-binding. It could also help reduce costs in the United States, by creating a larger pool of emissions allowances for sale. “Transitional targets” would be consistent with the experience of industrialized nations, which took non-binding targets under the climate treaty before agreeing to binding targets.

However, this approach would be criticized by the Congressional majority (and by some Democrats). They would complain that “transitional targets” are inconsistent with the Byrd-Hagel resolution, which calls for developing countries to make “new specific scheduled commitments...in the same compliance period” as industrialized nations. We could respond (1) that these transitional targets meet the literal terms of the Byrd-Hagel resolution (which does not use the word “binding”) and (2) that this is a fair compromise, bringing developing countries into meaningful participation, but in a manner that recognizes their modest economic circumstances. But Congressional critics would still complain, some sharply.

Again, this approach will not draw in the large emitters (China, India, Brazil) in the short-term, since they will be adamantly opposed to accepting a binding regime even in the second budget period (and would almost surely be hostile to doing so even in a third budget period). But the approach might well attract a number of other developing countries, including Latin and African countries, and start to create a genuine fissure in the developing country bloc between those who want to be part of the solution and those who want to continue to just say no.

On balance, we believe this approach is worth exploring, provided we do so carefully. Rather than openly embracing this as a new American position, we would take quiet soundings to see whether, in principle, an approach like this would be interesting to other countries. And we

would similarly take quiet soundings among some of our friends on the Hill. This would avoid the worst of all worlds, which would be to adopt this position openly, get attacked for it on the Hill, and then discover that it wasn't getting us very far on the developing country front in any event.

RECOMMENDATION

We recommend that our negotiators be given the flexibility to support "adjustable targets" and to explore the interest of other countries in "transitional targets" as tools for engaging developing countries under the climate treaty. We would move toward more public support only if events dictate.

[Gene Sperling, Janet Yellen, Bill Richardson, Carol Browner, Brian Atwood and Frank Loy concur in this recommendation.]

_____ Approve

_____ Do Not Approve

_____ Let's Discuss