Withdrawal/Redaction Sheet
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	R. Lawrence to Ladorf, re Farewell Party (1 page)	05/27/1999	P6/b(6)
002. email	R. Lawrence to L. Branch, re Your Family in South Africa (1 page)	06/02/1999	P6/b(6)
003. email	L. Branch to R. Lawrence, re Your Family in South Africa (1 page)	06/02/1999	P6/b(6)
004. email	R. Lawrence to D. Rodrik, re Kennedy School Recommendation (1 page)	06/02/1999	P6/b(6)
005. email	L. Branch to R. Lawrence, re Your Security Clearance (1 page)	06/02/1999	P6/b(6)
006. email	A. Choi to R. Lawrence et al., re Candidate [nonselection] (1 page)	06/03/1999	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

[05/27/1999 - 06/05/1999]

2014-0316-F
wr10743

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

CREATION DATE/TIME:27-MAY-1999 16:01:26.00

SUBJECT: NT 4.0 Roll Out status

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

TEXT:
IS&T had hoped to start our roll out on Tuesday (6/1). However, we still haven't seen all required CEA applications (e.g., Haver DLX) for testing; so my best guess is we won't start before Thursday. We are trying to make it happen as soon as possible.

We (CEA) may not have much control over the installation schedule once it gets underway -- but we'll try !
I'm working on the transition plans now, so if you have a preference for being converted "sooner" or "later" in the process, please let me know.

Susan

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. email	R. Lawrence to Ladorf, re Farewell Party (1 page)	05/27/1999	P6/b(6)

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

FOLDER TITLE:
[05/27/1999 - 06/05/1999]

2014-0316-F
wr10743

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]
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RR. Document will be reviewed upon request.

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

CREATION DATE/TIME:28-MAY-1999 17:39:50.00

SUBJECT: SIC spreadsheet

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

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

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

TEXT:
This thing isn't as incomprehensible as it looks at first glance - I'll be
happy to explain it if need be...

Raymond

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D0]ARMS22994285D.136 to ASCII,
The following is a HEX DUMP:

FOIA Number: 2014-0316-F

Clinton Presidential Records Automated Records Management System [EMAIL]

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

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

File Name: p_c5824991_cea_html_1.xls

Attachment Number: [ATTACH.D0]ARMS22994285D.136

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-MAY-1999 15:20:52.00

SUBJECT: Tues Deps

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

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

TEXT:
FYI.
---------------------- Forwarded by Lisa D. Branch/CEA/EOP on 05/28/99
03:20 PM ---------------------------

LESLIE
BERNSTEIN
05/28/99 03:07:39 PM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Tues Deps

There will be a Deputies Meeting Tuesday (6/1) at 9am in the Roosevelt
Room.

Have a happy and safe Memorial Day!

Message Sent
To:____
Sara M. Latham/WHO/EOP
Barry J. Toiv/WHO/EOP
Jennifer M. Palmieri/WHO/EOP
Anne F. Donovan/WHO/EOP
Linda Ricci/OMB/EOP
Sharon H. Yuan/OPD/EOP
Shannon Mason/OPD/EOP

Kris M Balderston/WHO/EOP
Tracey E. Thornton/WHO/EOP
Dario J. Gomez/WHO/EOP
Linda L. Moore/WHO/EOP
Dorian V. Weaver/WHO/EOP
Beverly J. Barnes/WHO/EOP
Laura Emmett/WHO/EOP
Christopher C. Jennings/OPD/EOP
John Dankowski/WHO/EOP
Mark F. Lindsay/OA/EOP
Susan L. Hazard/WHO/EOP
Lisa D. Branch/CEA/EOP
April B. Abdulmalik/OPD/EOP
Fred DuVal/WHO/EOP
Shirley S. Sagawa/WHO/EOP
Donna Dejban/NSC/EOP
Francine P. Obermiller/CEA/EOP
Cathy L. Millison/NSC/EOP
Glyn T. Davies/NSC/EOP
Jennifer M. Luray/WHO/EOP
Kelley L. O'Dell/WHO/EOP
Cheryl M. Carter/WHO/EOP
Jeffrey M. Smith/OSTP/EOP
Sean P. Maloney/WHO/EOP
Todd A. Bledsoe/WHO/EOP
Janis F. Kearney/WHO/EOP
Cheryl D. Mills/WHO/EOP
Skye S. Philbrick/WHO/EOP
Patricia Solis-Doyle/WHO/EOP
Martha Foley/WHO/EOP
Douglas J. Band/WHO/EOP
Beth A. Viola/CEQ/EOP
Paul D. Glastris/WHO/EOP
Charles J. Payson/WHO/EOP
Anne Whitworth/WHO/EOP
June G. Turner/WHO/EOP
Devorah R. Adler/OPD/EOP
Richard L. Siewert/WHO/EOP
David R. Goodfriend/WHO/EOP
Adrienne C. Lavallee/WHO/EOP
Christine A. Stanek/WHO/EOP
Thomas D. Janenda/WHO/EOP
Erica R. Morris/WHO/EOP
Mary M. Chuckerel/OMB/EOP
Sylvia L. Parsons/WHO/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-MAY-1999 09:50:47.00

SUBJECT: Matt McBrady

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:
Matt is on annual leave today; will be back in office on Tuesday.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-MAY-1999 17:23:01.00

SUBJECT: Trade and Labor Markets

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

CC: Adar@worldbank.org (Adar@worldbank.org [UNKNOWN])
READ:UNKNOWN

CC: Slipscomb@worldbank.org (Slipscomb@worldbank.org [UNKNOWN])
READ:UNKNOWN

CC: Pfallon@worldbank.org (Pfallon@worldbank.org [UNKNOWN])
READ:UNKNOWN

TEXT:
Dear Professor Lawrence,

I am following up on Peter's previous invitation for you to speak at the
Bank's
PREM Week. This is to inform you that the session "World Trade and Labor
Markets" is tentatively scheduled for July 13 at 2:00-3:30 pm. It will be
held
at The Inn and Conference Center at the University of Maryland.

We will reimburse you for transportation from Washington to the University
of
Maryland.
We look forward to your participation at our session. Meanwhile, if you
have
any questions, please do not hesitate to contact me via email or at
(202)473-3429.

Sincerely,

Vivian Hon
Economist
PREM Network - Economic Policy
World Bank Rm. MC4-154
1818 H St. NW
Washington, DC 20433
Tel: (202)473-3429
Fax: (202)522-2530
-------------------- Forwarded by Vivian Y. N. Hon/Person/World Bank on
05/28/99 05:13 PM --------------------------

Peter R. Fallon

04/27/99 05:08 PM
Extn: 34420 PRMEP

To: Robert_Z._Lawrence@Cea.Eop.Gov
cc: Amit Dar, Vivian Y. N. Hon

Subject: Trade and Labor Markets

Dear Professor Lawrence,
The Poverty Reduction and Economic Management network
(PREM)
of the World Bank holds an event each year, PREM Week, at which we conduct
mini
workshops on a number of topics of interest to staff. One of the events
proposed for this year would be "World Trade and Its Impact on Labor
Markets".
Given your international stature in this field, I would like to invite you
to
participate as the main speaker. Although we do not have the exact
timing as
yet, PREM Week is scheduled for July 13-14.

We can pay your expenses and a fee for your efforts, but we can discuss
details
further if you are interested in participating.

Peter Fallon
Principal Economist

Economic Policy Unit
Poverty Reduction and Economic Management Network
World Bank, 1818 H Street, N.W, Washington DC, 20433
USA
Tel. 202 473 4420. FAX 202 522 2530

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-MAY-1999 13:17:08.00

SUBJECT: Summary of Mission Plan

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

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

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

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

TEXT:
Hi everyone,

I've read through the Mission Performance Plan, and here are the points that stood out:

1. The Mission has identified about 11 strategic goals, each of which is the subject of a distinct section of the Plan. There is some non-negligible degree of overlap between them upon occasion, and I've tried to find where that's the case.

It isn't clear to me yet whether the Mission actually assigns staff to these goals in some kind of "task-force" style, and if they don't, the overlap may not be a concern.

2. There's apparently an all-new "Public Diplomacy" (PD) goal this year, which seems to foretell of Mission efforts to engage the press and generally raise the profile of the OECD while advancing U.S. goals. Maybe they're already engaging in this stuff. At any rate, it's a tiny part of the budget. But it's not clear to me that it's necessarily a goal we'd like the Mission to pursue.

3. One goal that isn't mentioned in the "Diplomatic Activities" (DA) section that perhaps might be is addressing the issue of consolidating membership (ie, kicking some of those superfluous European central bankers out) so as to broaden it more easily (ie, including more Asian or Latin American countries). Apparently Robert Rubin has raised this issue vis-a-vis the IMF, but I'm not sure anybody's pushing it in the OECD.

4. If there's anything more mundane that anybody wants the Mission to be able to do; have a secure telephone line, for example, or have some different computer resources, or have extended hours (they have plans for that), now's the time to interject something, I surmise. There are sections on these mundane activities in the Plan.

5. There's some extensive language on climate change activities that I've now read and which Joe Aldy is looking at --- there may be a lot of fruitless efforts resulting from some of the directives they laid out.

Again, the meeting on this document is next Tuesday. Please let me know anything you'd like to push.

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME:28-MAY-1999 08:59:48.00

SUBJECT: developing countries memo

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

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

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

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

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

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

TO: dhales (dhales @ usaid.gov @ inet [UNKNOWN])
READ:UNKNOWN

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

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

TEXT:
Attached is a paper on developing country growth targets that our negotiators would like to use in Bonn. Please clear to me by 5:00 today (Friday). I apologize for the short notice.

Joe

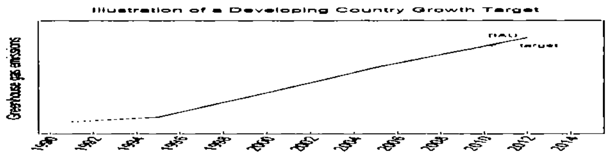
==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D42]ARMS24245575S.136 to ASCII,
The following is a HEX DUMP:

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

Developing Country Growth Targets

Targets for non-Annex I countries should help promote their sustainable development. To do so, such targets should accommodate emissions growth. However, such targets should also result in real abatement in emissions below levels that would otherwise occur during the commitment period -- that is, below the projected business as usual (BAU) emissions level. This kind of target, often referred to as an emissions growth target, would provide for continued economic development but with a lower emissions growth rate.



If developing countries were to agree to binding limits, even if they involved only small cuts below Business as Usual (BAU) in the first budget period, then such targets, with trading, would imply gains for their economies and gains for the environment. The figure to the right provides an illustration of an emissions growth target.

Emissions growth targets could provide several economic and environmental benefits:

- With targets close to BAU, the developing countries would benefit from the ability to sell emission permits achieved at costs below the world price. This actually gives them a genuine economic incentive to join, which is otherwise lacking. Illustrative modeling calculations indicate that most developing countries, with growth targets set slightly below BAU, are made better off under international emissions trading.

- Developing country emissions targets set below BAU would lower global emissions relative to what they would have been otherwise. This would increase the climate benefits generated during the first commitment period.

- Reductions in carbon dioxide emissions generate ancillary air quality benefits in developing countries through lower particulate matter, sulfur dioxide, and nitrogen oxides emissions.

In evaluating the potential for emissions growth targets, there are several important issues worthy of consideration:

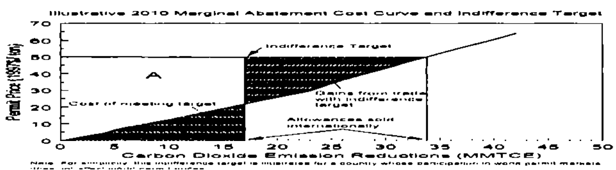
- Targets can result in economic gains from trade for all sides, if they are not too stringent.

- A "fair" allocation to expect of potential new participants might be a target that fits the apparent pattern among Annex B countries. This approach turns out to imply some degree of "progressivity" -- with richer countries asked to make bigger sacrifices than poor ones.

- Given uncertainty about the future, to fix the precise quantitative target now would create risks regarding the ultimate stringency of the target; it would raise concerns that a target unintentionally constrains economic development, on the one hand, or that the target could result in hot air, on the other hand. These risks would be reduced by "indexing" targets.

The trade-off between target stringency and gains from trade

If developing countries adopt emissions growth targets and participate in international emissions trading, they can enjoy economic gains from trade. Among other issues, this conclusion is sensitive to the stringency of the emissions growth target. The environmental gains from emissions reductions below BAU come at the price of economic costs incurred by a developing country that adopts the below-BAU target.

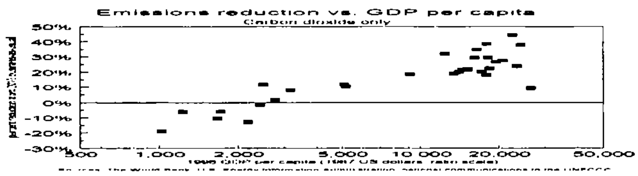


To assess the magnitude of this effect consider the target which just leaves a country no better off than no target at all. This "indifference" target is where the costs of meeting the target through domestic action just equal the net gains from selling permits in world markets. The figure to the right illustrates gains from trade for a small country. The upward-sloping curve shows the rising marginal cost of increasingly stringent reductions. For small reductions from BAU, the cost is far less than the price they fetch on the world market. For a target that is equivalent to a reduction of 17 MMTC, net gains from foreign exports are B, and the cost of meeting the target is C. Since B = C in this example, the net costs from participation are nil.[1]

Progressivity of existing targets, as a guideline for developing country targets

[1] This hypothetical example assumes that the country in question does not consider participation in the Clean Development Mechanism (CDM). If this country were to participate in CDM if it did not adopt a target, then its indifference target would not be at the level where net gains from trade are zero, but where expected net gains from trade would equal expected net gains from the CDM. The CDM option implies that the indifference target would be less stringent. However, including the ancillary air quality benefits associated with abating carbon dioxide, especially in countries with significant local air pollution problems, could imply that the indifference targets should be *more* stringent.

It appears reasonable on grounds of fairness that wealthier countries should undertake greater efforts to address climate change than less-wealthy countries. While the emission targets in the Kyoto Protocol reflect the outcome of political negotiations, it is possible to discern systematic economic patterns in them. A fair target for developing countries might one that fits whatever pattern seems to hold among existing targets. In particular, this approach would allow some degree of progressivity, with richer countries making larger reductions than poor ones -- without going nearly so far as the redistribution of wealth that some poor-country representatives seem to ask for.



The Annex B targets (including the EU bubble allocation), when presented in terms of reductions below 2010 BAU, follow a pattern of progressivity. Note that this pattern holds for CO_2 as well as for all greenhouse gas emissions (although data on some non-CO_2 GHG emissions are not available for some Annex I countries). For the 30 Annex I countries presented in this figure, the average reduction from BAU is 16.1%. For the lower half of Annex I countries by per capita income, the average reduction is 5.2% below BAU.

We conducted statistical analyses to better understand the progressivity of the Annex B targets. We used data on Annex B countries' per capita income, emissions growth projected between 1990 and 2010, coal as a share of total energy consumption, and whether a country is a transition economy, to explain the trend in emissions targets in terms of deviations from BAU. The statistical analyses illustrate a pattern of progressivity among the existing targets: each 1% increase in per capita income implies a 0.11 to 0.17% greater sacrifice, expressed as emissions reductions from BAU. Levels of statistical significance are relatively high, suggesting that the results are meaningful. In absolute terms, an increase in income is associated with an increase in the level of the emission target. But the increase in income also implies an increase in the BAU level. The increase in BAU is *greater* than the increase in the target, implying that richer countries are making greater sacrifices.

This statistical approach certainly has limitations, and the results reported here are preliminary. They are sensitive to decisions about the data used. Per capita income data can change depending on the year and exchange rate used to compare countries. Estimates of BAU emissions can vary too.

Risk and uncertainty

Even under the best analytical circumstances, e.g., where accurate data and integrating tools are widely available, much uncertainty surrounds BAU emissions projections and estimates of the costs and benefits of deflecting from those projections. A country that takes on a fixed commitment for the 2008-2012 period *now*, faces the risk, for example, that its economy will grow more rapidly than expected, resulting in an inadvertently stringent target. Alternatively, a country's economy could grow less rapidly than expected, resulting in an inadvertently lax target. There are, however, ways of designing targets to reduce uncertainty and mitigate these risks. In particular, targets could be *indexed* to *future* values of economic and other, possibly demographic, variables. The following discussion explores this approach.[2]

Rather than establish a fixed target for 2008-2012 *now*, a target could, for example, be *indexed* to a country's economic performance between now and the start of the 2008-2012 commitment period. This approach is commonly used in the private sector, where contracts are similarly indexed. This approach is also used in the public sector (e.g., the USG provides cost-of-living adjustments for social security recipients). A target could then be specified in a way that depends on the *future* values of economic variables, such as GDP.[3] Such targets would avoid the risk of inadvertent stringency associated with higher than projected economic growth between now and the beginning of the commitment period in 2008. Non-Annex I countries would face only the much smaller risk that emissions would be higher than expected, *given* the economic conditions realized in 2007. Similarly, such targets would also avoid the risk of inadvertent laxness associated with lower than expected economic growth between now and the start of the commitment period.

Basic principles for implementing such an approach are:

- **"Reasonable" Forecasts**: The relationship between the target and chosen variables, when applied to emissions and the same variables during recent years, should predict emissions reasonably well and be without demonstrable statistical biases. Relationships that give reasonably reliable predictions reduce the risk of either inadvertent stringency or paper tons which could increase global emissions.

- **No "Perverse" Incentives:** The target should depend on values of economic and other variables only indirectly or generally related to emissions, to avoid creating incentives for countries to increase emissions so as to have higher targets in the commitment periods. Moreover, the chosen variables should not be susceptible to intervention, for purposes of

[2] Most of the following discussion features examples of economic variables.

[3] Other demographic factors may also be relevant.

manipulating the target. For example, the target should not depend on energy consumption in 2007, but could reflect GDP in 2007.

- **Predetermined Targets:** To avoid uncertainty during the commitment period about the country's target, the target should not depend on contemporaneous values of economic and other variables. For example, the target generally should not vary with 2008 or 2010 GDP levels, but rather with 2006 or 2007 GDP. Eliminating this uncertainty would increase the opportunities for participation in international emissions trading.

This approach could take two basic forms. Both of these forms could address equally well the risks associated with uncertain economic performance over the coming decade. First, would be to establish a target, of the form "X%" below BAU, where BAU would be indexed to a set of economic and demographic variables that explain greenhouse gas emissions well. While the concept of a target and the X% deflection from BAU would be agreed to in the near term, the actual BAU, hence, the emissions level of the target, would not be set until these economic and demographic variables were known for, say, 2006 or 2007. The relationship between the BAU and these variables (e.g., GDP, carbon intensity, population, etc.) would be made explicit now, so there would be more certainty at the time the target is announced. For instance, it could be agreed that if GDP grew at a 5.7% annual rate between now and 2007, then the BAU would be "Y" and the target would be X% below Y. Moreover, given existing projections for these economic and demographic variables, an estimate of the BAU and target could be made now.

Second, would be to establish a target now and revisit it later based on specified economic conditions. For example, the target would be specified as 100 MMTCE, but reflect an estimate comparable to X% below BAU, where a BAU projection would be used to arrive at the target. At the time of setting the target, one or a small set of parameters would be established for evaluating the target just before the commitment period. For example, if the economy performed beyond a pre-specified rate between now and the beginning of the commitment period, then the target could be readjusted to reflect this additional growth. Conversely, if the economy performed at less than what was expected, the target could be readjusted downward.

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READ:UNKNOWN

TO: rebaldwi@facstaff.wisc.edu (rebaldwi@facstaff.wisc.edu [UNKNOWN])
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Please find enclosed (AT LONG LAST) a first draft of our paper. We apologize for the delay. The two files contain the same paper, but they are two different versions of WORD. Let me know if you have problems reading the document.

See you in Cambridge at the end of the week,

Andre

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Preliminary-Do not quote
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Outstanding Issues in Regionalism:

'Other restrictive regulations' and Effects on the Rest of the World

by

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1. Introduction

This paper addresses the issues surrounding regional trading arrangements (RTAs) that remained unsolved after the Uruguay Round and thus which remain potential topics of negotiation in any forthcoming round of international trade talks – say the Millenium Round. After a brief historical and analytical introduction, it focuses on two major concerns – the application of 'other restrictive regulations on commerce' and the effects of RTAs on excluded countries.

The issue on 'other restrictive regulations' is that, crudely speaking, Article XXIV of the GATT (and its close relative Article V of the GATS) permits members of an RTA to violate MFN if they are 'serious' about integrating their economies more deeply than a liberal 'regular' trade policy would permit. One of the tests it applies for this is that, in addition to removing tariffs and QRs on mutual trade, members should also remove 'other restrictive regulations on commerce' - i.e. they should open the door to full-blooded competition between firms in member countries. There are ambiguities about what this clause actually requires legally and clear problems in enforcing it even when it is clear. Thus the suspicion remains that in many cases members of RTAs have not actually pursued integration to the extent that the formulators of the Article probably envisaged. As a result they have both failed to maximise the benefits of integration to themselves and have been permitted to 'purchase' their trade discrimination against non-members too cheaply in political terms because they have avoided some of the adjustment stresses that proper integration entails.

On the effects of RTAs on non-members the issue is only partly one of interpretation and enforcement. While the GATT and the GATS are clearly concerned to reduce any adverse consequences of regionalism on excluded countries, the requirements of Articles XXIV and V do not guarantee the latter against harm. Thus although the harm that excluded countries suffer will generally be greater if the Article is not applied fully, the issue is ultimately one of whether the Articles need amendment or whether the WTO membership feels that the risk of 'collateral damage' is worth bearing in order to allow countries the chance of integrating their economies more fully.

In both these issues, the critical question is the extent of the violations or damage done – i.e. the empirical assessment of the effects of RTAs. Thus the main body of the paper is an empirical investigation of the effects of the European Union's RTAs with other countries (not between the members of the EU themselves). We use detailed data on the prices (units value) of EU imports of industrial goods from a large sample of partners to assess whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. In the latter case, although we can not unambiguously assert that the difference in relative prices arises because non-members suffer a price decline relative to what they could charge if there were no RTAs, theory suggests that there is at least some element of this behind the result. To our knowledge, there is no existing study of 'other restrictive regulations of commerce' and, as yet, no published study of the effects of RTAs on the prices of exports from non-member countries.

2. Background

The WTO's requirements on regional trading agreements are embodied in Article XXIV of the GATT, refined by a Uruguay Round Understanding, and Article V of the GATS, which also dates from the Uruguay Round.

The problems of implementing Article XXIV of the GATT are long-standing - e.g. Finger (1993), WTO (1995), and Finger and Winters (1997). The procedure for reviewing a new regional trading agreement involved creating an ad hoc working party charged with advising whether or not the agreement was consistent with members' obligations under the GATT. These obligations are, very broadly, that, apart from RTAs including only developing country members, an RTA should:

- not 'on the whole' increase protection against excluded countries;
- reduce tariffs on internal trade to zero and remove 'other restrictive regulations of commerce' between members other than those justified by certain other GATT articles; and

- cover 'substantially all trade'.

These criteria raised a host of problems of interpretation, which were supplemented by a straight-forward unwillingness to enforce the rules even where they were clear. Of 69 investigative working parties established before 1994 only six concluded that their RTAs were in conformity with the GATT and the remainder had dodged the issue by failing to draw any conclusions at all (WTO, 1995). Essentially the problem was political. When the EEC was notified to the GATT it was clearly in violation of Article XXIV - the then head of GATT observed that "there was no disagreement that the incidence of the common tariff was higher than that of the rates actually applied [before the formation]" - but the political pressure to permit it to proceed was overwhelming.

With such an inauspicious outcome to its first big test, and recalling the GATT's convention that finding a violation required unanimity (i.e. the acquiescence of the accused party to its conviction), it is hardly surprising that matters did not improve and that the GATT was more or less unable to enforce its own rules.[1]

These short-comings were well recognised by trade diplomats and during the Uruguay Round considerable effort went into negotiating improvements to the Article. Unfortunately, while the resulting understanding on the interpretation of Article XXIV clarified a number of issues, such as how to calculate tariff averages before and after the RTA and what a reasonable transition period would be, it failed to address the fundamental problems such as defining 'substantially all' and 'other restrictive regulations'. Moreover, the subsequent creation of a single standing Committee on Regional Trading Agreements (CRTA) in 1996 has not yet resolved the difficulties.

The CRTA was seen as a means of ensuring more rigorous review of new RTAs because a single group would review all of them using the same criteria and with more searching notification and information requirements. It would also undertake periodic review of existing RTAs, and could resolve some of the systemic issues that remained after the Uruguay Round.

[1] This is not to say that the rules have had no effect: almost certainly RTA members have tailored their agreements to be conformable with the GATT wherever the perceived political cost of doing so was not prohibitive.

The more thorough review was seen as a route to better compliance with WTO requirements, while the consideration of conceptual issues was a step toward refining and codifying the rules more precisely.

Unfortunately the CRTA has not yet got into its stride. Its assessments of particular cases have been stymied by the lack of clear systemic rules and the discussion of rules stalemated on exactly the same 'substantially all' and 'other regulations' issues as the previous Uruguay Round discussions. By December 1998 the Committee had initiated consideration of 62 RTAs (including 32 inherited from previous working parties). It had started factual analysis on 41 of these, and was "elaborating conclusions" on 28. To date, no analyses have been released or conclusions reached.

Thus the problems of Article XXIV, and those of its very close relative GATS Article V, remain on the table for the Millennium Round. Among the most obvious are:

- the definition of 'substantially all trade';
- the definition of 'other restrictive regulations';
- the ability of RTA members to raise applied tariffs to their bound rates, which can associate the RTA with a considerable increase in actual protection;
- the concessions under the Enabling Clause that permit developing country RTAs to have partial preferences and partial coverage;
- the fact that current rules still allow RTAs that positively harm excluded countries; and
- the scope for rules of origin to 'export protection' from one FTA member to another.

At present, despite their importance there is still considerable doubt about whether these issues will get onto the agenda - Winters (1998). The EU is not planning to raise the issue itself, although it is willing to discuss it if others do. The US, as well as resisting the idea of a Round as opposed to essentially sectoral negotiations, shows no readiness to complicate its negotiations in the APEC and the FTAA by tightening up the rules prematurely. The US view is that APEC will eventually have at least to threaten to become discriminatory if it is to prosper as a bloc - Bergsten (1997). Thus it remains for the 'middle-sized' powers in WTO - such as Australia, Hong Kong, Japan and Korea, - to make the running on regionalism, as

indeed they have over the last five years.

This paper contributes to the case for discussing Article XXIV by giving two of the issues above some empirical foundation. We focus on the European Union (EU) which operates a complex system of trade relations granting various forms of preferential access (under reciprocal or non-reciprocal RTAs and under the Generalised System of Preferences (GSP), to most third countries, except a handful treated on a purely most-favoured-nation (MFN) basis – see Sapir (1998). We explore data on the prices of EU imports to identify, first, the extent to which the markets of the EU and its various RTA partners are integrated - and hence, by inversion, the extent to which 'other restrictive regulations of commerce' remain. Second, we cast some light on the costs that EU RTAs impose on non-members and thus on the case for current WTO rules to be enforced and tightened up.

3. Integration and the prices of imports

One of the most robust predictions of customs union theory is that a country receiving a preference in a partner market will raise its pre-tariff prices - that is, the price of the preference-granting country's imports will rise. In the simplest of models with homogeneous goods, where the exporter has an upward-sloping supply curve and where the importer continues to import from the rest of the world at a fixed world price, P_w, the exporter raises its price by the full extent of tariff that has been removed - e.g. Winters (1999). The importer's internal price is fixed at (P_w+t), where t is the tariff, so the preferred exporter, which could initially sell at no more than P_w to achieve this price can now sell at (P_w+t) and still remain competitive. If, in fact, the tariff comprises an explicit tariff t_0 plus an implicit tariff equivalent t_1 due to 'other restrictive regulations', a country that receives only a tariff preference will raise its export price from P_w to $(P_w + t_0)$ while one that receives, in addition, exemption from t_1 will raise it to $(P_w + t_0 + t_1)$. Thus in principle we can use differences in the level of export prices to distinguish levels of integration between the EU (importer) and its various partners (exporters).

The story is similar, but less extreme, if products are differentiated. In imperfectly competitive markets, when a preference is received it will be partly passed through to consumers and partly absorbed into higher export prices. The extent of pre-tariff price increase will vary

according details of the market, but under plausible conditions the larger the preference (t_0 or $t_0 + t_1$), the larger the price increase. Thus again in principle we can distinguish the degree of preference, explicit and implicit, by examining price differentials.

An important additional element in the imperfectly competitive model is that because preferences are partly passed on to consumers through reductions in post-tariff prices, they put competitive pressures on other suppliers, who will usually have to reduce their prices in compensation. Non-members of the RTA, of course, have received no tariff concessions and so declines in their post-tariff prices are also declines in pre-tariff prices. That is, the RTA potentially drives down the prices received by non-member exporters to member markets. These terms of trade losses that RTAs impose on non-members have long been known in theory - e.g. Mundell (1964) - and are the basis of models in which RTAs reduce the welfare of non-members and so induce domino regionalism (Baldwin, 1995), tariff retaliation (Bond, Syropoulos and Winters, 1996) or separate bloc formation (Frankel, 1997). Surprisingly, however, they have received very little empirical attention, the only *ex post* data-based studies known to us being Winters and Chang (forthcoming) and Chang and Winters (1999).

Winters and Chang and Chang and Winters are both event studies which seek to identify price changes through time in response to instances of regional integration - Spanish accession to the EC and the formation of Mercosur respectively. The present paper takes a different approach, seeking to exploit inter-country differences between the many partners that have RTAs with the EU. Thus as well as seeking differences between different classes of RTAs according to how close a degree of integration with the EU they permit, we also explore differences between members and non-members of EU-RTAs.

The main additional problem of the cross-sectional approach is that there are good reasons why the export prices of nominally identical goods should vary across suppliers independently of RTAs. Thus we need to correct for these factors before we can identify integration effects.

4. Other explanations of import prices

First, a confession: we write and think in terms of the *prices* of EU imports, but in fact we can

measure only *unit values* - value per unit of quantity averaged over the whole set of transactions of a particular kind during a particular period. There are well-known reasons why these are poor indicators of price - Kravis and Lipsey (1970). These mostly arise from the fact that not every transaction within a trade heading will be identical in terms of quality and timing etc; thus they will command different prices and the average will vary with variations in the weight of different transaction classes in the total even if no single price is changed.

We seek to mitigate this problem by working with very finely disaggregated data - defined at the 8-digit level of the EU's Combined Nomenclature trade classification (effectively 8-digit level of the UN's Harmonised System). Nonetheless the potential problem remains. A downside of very disaggregated data is that they are very noisy. We partly solve this problem by excluding from our sample transactions of less than Euro 100,000 and/or less than Kg 1,000. Although such procedure smoothes out some idiosyncratic transactions and recording errors, these shocks remain very prominent in our data.

Below we shall use the term 'price', but this should always be read in an empirical context as meaning 'unit value'.

Economic theory is replete with theoretical models of the causes of price differences between suppliers of similar goods to a market, and industrial organisation specialists have explored some of these empirically. Among international trade specialists, however, this issue represents something of a lacuna. Price dispersion has been used as an indicator of product differentiation - e.g. Keesing, (1970) and Hufbauer (1970), and more recently Fontagné et al (1998), who distinguish vertical from horizontal intra-industry trade by means of price differences. These works offer no explanation, however, of the pattern of price differences.

A stream of work relying on price changes is the 'upgrading' literature which showed that quantitative trade restrictions tended to be associated with quality upgrading, i.e. shifts to supplying the higher-priced varieties within the set of restricted goods - Aw and Roberts (1986) and de Melo and Winters (1993).[2] Brech and Stout (1981) pursued a similar idea to these studies, arguing that exchange rate appreciation forced exporters into higher unit value

[2] Feenstra's (1988) work on autos was similar, but he used more direct measures of quality than just price.

varieties on the grounds that quality would compensate for a lack of price competitiveness. This does apply directly to our work, however, since we seek to explain differences within headings rather than between them.

An early literature did seek to explain unit values more directly, but of exports rather than imports. Hufbauer and O'Niell (1972) examined US exports of machinery and sought to explain differences in the unit values across markets by the markets' income per head (reflecting a demand for sophistication), the volume of trade (reflecting various plausible economies of scale in selling / servicing exports), the markets' degrees of currency over-valuation and tariff / tax regimes (reflecting incentives for mis-invoicing trade). Of these, only the first two variables proved significant explanators. Ohlsson (1974) similarly examined engineering exports' unit values in Europe, mostly for Sweden. He concluded that, across commodities, unit values reflected technical sophistication. Yeats (1990) considers French exports of iron and steel products and finds those to Africa commanding higher prices than average by 20% to 30%. While not attributing this to a single cause, he postulates that it could reflect transaction-size or market power.

Our problem is different from all these studies. We wish to explain differences in the unit values of EU imports of particular goods across suppliers for a single year (1996). Degrees of integration are our main focus - see above - but to avoid biases arising from the sort of factors described in this section, we consider also the exporter's GNP per capita.

A second potential explanatory variable for imports prices is the volume of imports of a particular good from a particular source. First, as noted above, there may be economies of scale in selling which allow providers of high volumes to offer lower prices. Second, if markets are imperfectly competitive, mark-ups are likely to depend positively on market shares; that is, large volumes will be associated with higher prices. In practice, however, it proved impossible to estimate either of these effects because of data problems. Unit values are calculated as the ratio of the value of trade in each heading to the corresponding volume. Given that value is generally measured more accurately than volume – value is the basis on which most taxes are levied and is not subject to uncertainty over units – this means that the unit value and volume will be negatively correlated and that the estimated coefficient on the latter will be biased towards -1; see Orcutt (1950). Moreover, including volumes also seemed

to disturb other estimates significantly, so we dropped them altogether from our explanation of prices.

5. The Econometric Model

For any commodity, *i*, our basic estimating equation is:

$$P_{ij} = P_{ij}(g_j, t_{ij}, D_j) \qquad (1)$$

where P_{ij} is the price (unit value) of exports of i to the EU from country j; g_j is j's GNP per capita; t_{ij} is the EU's tariff on imports of i from j; and D_j is a set of dummy variables reflecting the EU's trade regime for j.

We expect:

$$\frac{\partial p_{ij}}{\partial g_i} \rangle 0, \text{ and } \frac{\partial p_{ij}}{\partial t_{ij}} \langle 0.$$

We identify six different regimes:

(1) reciprocal RTAs with members of the European Free Trade Association (EFTA);
(2) reciprocal RTAs with central and eastern European countries (PECO);
(3) reciprocal RTAs with some Mediterranean countries (MED1);
(4) non-reciprocal RTAs with other Mediterranean countries (MED2);
(5) GSP; and
(6) MFN.

We had intended also to examine the EU's non-reciprocal RTAs with African, Caribbean and Pacific (ACP) countries, but in fact even treating them as a group, ACP countries never made our size thresholds. Thus we ignore this group henceforth.

Equation (1) is estimated in double-log form with, in principle, one equation for each i and observations ranging over partners j=1...J. We work with a sample of thirty-seven countries,

but J will tend to be lower than 37 for a given i. Arranged according to the six trade regimes identified above, these countries are:[3]

(1) Norway, Switzerland;

(2) Czech R., Estonia, Hungary, Poland, Romania, Slovak R.;

(3) Cyprus, Israel, Turkey;

(4) Algeria, Egypt, Morocco, Tunisia;

(5) Argentina, Brazil, Chile, China, Hong Kong, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Philippines, Singapore, South Africa, Thailand;

(6) Australia, Canada, Japan, Korea, Taiwan, United States.

The sample of commodities is selected as the 1,000 industrial headings (chapters 25-97 of the Combined Nomenclature) at 8-digit level with the largest value of imports in 1996. With 37 countries, we thus work with a sample of 37,000 observations, of which 20,582 record zero imports (or fail to rise above our threshold) and of the remaining 16,418, 9,118 have zero tariffs and 7,300 positive tariffs.[4] In terms of commodities, five show no trade for any of our 37 exporters, and thus do not figure in the exercise. Of the remaining 995, 185 have zero tariffs on all exporters with recorded trade (i.e. the MFN tariff is presumably zero) and 810 have some non-zero tariffs; 16 have non-zero tariffs on all exporters with recorded trade – i.e. the countries with comprehensive free trade with the EU do not export them.

Table 1 reports how the observations with non-zero trade are spread across exporters and tariff classes. It also reports the range of tariff rates for each class. It shows that EFTA and the two Mediterranean groups face no tariffs among our (major industrial) commodities. The PECOs also faced relatively few tariffs by 1996 and those were rather low. For the GSP recipients, on the other hand, it is clear that while they are forgiven non-zero MFN tariffs for around one quarter of our headings, on the remaining three-quarters they faced tariffs not far different from MFN rates.

[3] The classification of countries pertains to 1996.

[4] In aggregate these 37 countries account for 77% of EU industrial imports in 1996 and the 1000 commodities for 78%. The imports analysed here – i.e. up to 37 sources for 1000 commodities – therefore account for 60% of total EU industrial imports.

There are at least two econometric complications in estimating (1). First, and conceptually simple, experience with unit value series in Winters and Chang (forthcoming) and Chang and Winters (1999) suggests that pooling across commodities will be necessary to find enough of a signal in all the noise. This requires commodity-specific constants because neither unit values nor volumes are comparable in their natural units. The use of such constants – fixed effects - implies that all cross-commodity variation is removed from our sample: our estimates are determined entirely by variation across suppliers within each commodity heading. The pooling merely requires that these effects be common across commodities. Pooling also probably requires an adjustment for heteroskedasticity because commodities will vary in terms of errors of observation etc. To start with we handle this by calculating White heteroskadiasticity-consistent standard errors for our estimates.

Second, and *much more complex*, prices can only be observed when trade occurs, and this, in turn, depends partly on prices. In other words, we have a censoring problem. A country's ability to supply commodity i to the EU will probably depend on many factors, including the independent variables in (1). Moreover, at least in the case of GNP p.c. (g_j) the relationship will be complicated. For unsophisticated goods the propensity to supply the good will be negatively related to income, whereas for sophisticated goods, the opposite is likely to apply. Thus pooling over commodities is likely to be difficult and, at least in some cases, the effects of g_j on the probability of observing trade and on the price if we do observe trade will have opposite signs. This, in turn, rules out using simple Tobit procedures to overcome the censoring problem.

The alternative – and our preferred - approach to censoring is the Heckman (1976) two-stage technique: stage 1 is a probit model of the existence of trade, and stage 2 an OLS estimate of equation (1) using (of course) only actual occurrences of trade with an additional variable constructed from stage 1 to reflect the censoring (the so-called inverse Mills-ratio). For the latter to be identifiable, stage 1 requires some exogenous variables (instruments) not appearing in equation (1).

The best instrument we can devise to explain whether j exports I to the EU is to measure country j's comparative advantage in good i relative to the EU's. We can not calculate revealed comparative advantage indicators for thirty-nine countries at the 8-digit level,

because we do not have data on world trade at that level. We use, therefore, measures at the 5-digit level of the SITC using UN Comtrade data, applying 5 digit data to each 8-digit heading that lies within it[5]. We measure comparative advantage by export data to non-EU markets:

$$RCA_{ij} = \frac{X_{kj}}{\sum_k X_{kj}} \bigg/ \frac{\sum_j X_{kj}}{\sum_k \sum_j X_{kj}} \tag{2}$$

where X_{kj} refers to exports to non-EU markets and k refers to 5-digit groups. In addition, the first stage probit equation contains the tariff j faces on good I.

When we pool across commodities we need to compare this with EU revealed comparative advantage in commodity *i*, by taking ratios of the indicators for supplier *j* and that for the EU; but since all information varying only by commodity is swept out by our fixed effects in the pooled estimation, it is not actually necessary to make the adjustment in practice.

6. The Results

The main results of the two-stage estimation are reported in table 2. OLS estimates of (1), which offer a direct description of the features of the data, are given in Appendix 1 for comparison. In fact, they tell almost precisely the same story as the main results.

Column 1 of Table 2 reports a simple estimate of (1) pooled over all observations with no trade regime dummies. It suggests that both the supplier's GNP per capita and the tariff it faces have the predicted effect on the unit values of EU imports. The former suggests that a 1% increase in the per capita GNP of a supplier increases the border price (unit value) of its exports to the EU by about 0.3%. Given the variations in GNP pc across even our small sample of suppliers – a factor of about 20 – this suggests a wide range of prices/qualities.

Perhaps more interesting is the co-efficient on tariffs. This indicates that on average 72% of the difference in the tariffs levied on any pair of suppliers is reflected in their pre-tariff prices.

[5] There are nearly 3000 5-digit headings in the SITC(3R), so there is not much inaccuracy in this approximaiton. [CHECK].

The country facing the higher tariff bears about 72% of the difference in terms of a lower pre-tariff price relative to the country facing the lower tariff. It is tempting to interpret this as saying that suppliers bear 72% of EU's tariffs, but that would not be strictly correct because we are comparing effects across imported sources not between imported and EU sources. That is, the 'average' or 'normal' tariff on any commodity could have a different incidence than we have estimated for the tariff preference.[6]

In terms of discriminatory tariffs we have a powerful result showing that suppliers receiving preferences in EU markets derive considerable benefit relative to others – increasing the average price of *all* their sales of the commodity concerned by about 72% of the preference. We do not know from these results whether the effect is due to the preferred suppliers raising their prices or the non-preferred ones reducing theirs relative to non-discriminatory trade. While theory suggests a mixture of both effects – Winters and Chang (forthcoming) – to answer that question accurately we need additional information that is not available to us at this stage for the EU. For example, Chang and Winters (1999) make use of the suppliers' export data to provide a bench-mark for supply prices in the absence of discrimination. What our results do suggest, however, is that if a small country supplier were newly granted tariff preferences in the EU, it would tend to increase the prices of it exports to the EU by about 70% of the tariffs it had been released from. This interpretation suggests that empirical work on recently granted preferences might be rewarding – e.g. on South Africa as it implements its trade agreement with the EU.

The coefficient on the Mills ratio is of no direct interest in itself, but its statistical significance suggests that the censoring does need to be taken into account. However, as appendix 1 shows, its economic significance is not great, since it hardly changes the estimates of the effects of interest.

The summary statistics of this regression suggest that there is a huge amount of variance in the unit value series we are seeking to explain, and that, in fact, we are very successful in doing so. Unfortunately this is more apparent than real: the bulk of the variance is across commodities – and so is meaningless (we know cars have higher unit values than scrap iron) –

[6] On the other hand, given that for nearly all of our commodities some suppliers face zero tariffs, our result is suggestive that a good deal of the tariff does get pushed back onto suppliers.

and is explained by the fixed effects.[7] Of the remaining variance, we explain only about z%, and the residual standard error of 0.81 (with a logarithmic dependent variable) is large. Such goodness of fit statistics are in line with previous experience of cross-section price equations, however (e.g. Winters and Chang, forthcoming), and the coefficients of interest are statistically significant, so that even if we have not explained the prices of EU imports completely, we have identified genuine effects.

Column (2) adds the dummies for different trade regimes to column (1) in order to try to identify different degrees of remaining restrictive regulations on commerce between the EU and its various partners. The less integrated into the EU market a partner is, the lower the (pre-tariff) prices it is likely to be able to charge in the EU. There is no dummy for the countries with no RTA (and which thus face MFN tariffs), so all other effects are measured relative to them. The results are neither particularly plausible nor well determined. The tariff effect is larger than theory would predict and the trade regime dummies negative except for EFTA.

The major practical problem with these results is that the regime dummies are correlated with observed tariffs: the closer a partner's trade relations with the EU, the lower the tariffs it faces. Thus it becomes very difficult to identify simultaneously both the tariff effects and the 'other restrictive regulations' effects that we are seeking. One solution to this problem is to seek the latter on trade which faces no tariffs, and thus on which we might hope that 'other regulations' are the only cause of differences between suppliers. This is done in column (3) of Table 2, which is based on the sample of 9118 supplier/commodity pairs which face no tariffs. This equation, of course, has no estimated tariff effect.

The GNP pc effect seems acceptable and although the regime dummies are again not very precisely estimated, they do seem broadly explicable.[8] The EFTA countries – close partners of long-standing,[9] as well as culturally and geographically close to the EU – appear to earn a statistically significant premium of nearly 11% above what one would expect for quality reasons as proxied by GNP pc. Recall that these regime effects are measured relative to the set

[7] Of total variance of nnnn, x% is explained by the fixed effects, y% by tariffs and GNP pc, and z% is unexplained. [WE NEED TO GET THIS ANALYSIS OF VARIANCE PRINTED OUT].
[8] All the dummies except one are algebraically larger in column (3) than (2), which reflects the correlation with tariffs noted above.
[9] Free trade between EFTA and EEC countries dates from 1973.

of countries facing MFN tariffs, which have similar incomes and levels of sophistication to the EFTA countries. Thus the EFTA premium is unlikely to arise just because we have proxied quality inadequately.

The coefficients for Southern Mediterranean countries (MED2) and GSP recipients are not significant and so should be treated as zero. They are neither favoured nor disfavoured relative to the MFN set. There is a strong negative coefficient for the PECOs, which apparently charge prices about 41% below what we might expect on the basis of the rest of the sample. This result is not easily reconciled with the widespread enthusiasm for the Europe Agreements as a means of integrating the PECOs into the EU economy, but is not particularly difficult to understand in a broader context.[10] First, frictions clearly remain on EU-PECO trade. Anti-dumping measures may be less frequently applied to these countries than previously, but they are still used in some, and perhaps threatened in other, cases. Problems of meeting technical standards and certification requirements abound – see, for example [Messerlin?] – which could cut demand and hence lower prices in differentiated product markets. Second, the GNP pc data are probably less reliable for the PECOs than for the other groups. If these are over-estimated, the dummy will tend to get a negative sign by way of correction. Third, even if GNP pc is a reasonable proxy for quality objectively and in steady state, the PECOs have faced formidable reputational difficulties in newly entering manufactures markets, which has the same effect. Moreover, recall that our data refer to 1996, only a few years into the transition. Thus all told, we do not find it difficult to believe that PECO exports to the EU face stiffer barriers than other exports, although we do believe that this is likely to be a temporary phenomenon.

One might make similar arguments for Eastern Mediterranean countries with reciprocal RTAs (MED1), but they would not be not very convincing. Thus the coefficient of –11% on these three countries remains something of a mystery.

Column (4) considers the complementary set of observations to column (3) – those for which the tariff is non-zero. Here both tariffs and 'other regulations' are relevant, but the collinearity appears to confound their estimation. The GNP pc effect is plausible again, but the tariff

[10] Moreover, the PECO discount might have had to be even higher in the absence of the Europe Agreements.

effect, which implies that higher tariffs lead to higher pre-tariff prices, is not. The regime dummy for the PECOs is now positive as theory predicts for favoured suppliers, but that for the GSP suppliers becomes negative and significant. The very high coefficient on the tariff reduces PECO prices relative to GSP-country prices because the former generally face low tariffs while the latter face more or less MFN rates in the commodities on which they pay non-zero rates. The dummies compensate for this excessively strong effect, raising PECO prices and lowering GSP prices.

If we drop the tariff variable from the 'non-zero-tariff' regression – column (5) – the dummies revert to the negative signs found above, but with their magnitudes and significance reversed compared to the zero-tariff set. This again essentially arises from the fact that the PECOs face low tariffs while the GSP countries face more or less MFN rates, but without the ability to supply as effectively as the MFN set of countries.

7. Conclusion

This paper has sought to investigate empirically whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. The analysis was carried out using detailed data on the prices (units value) of EU imports of 1000 industrial goods from a sample of 37 major trading partners. To our knowledge, this is the first ever attempt to study of the effects of RTAs on the prices of exports from non-participating countries.

We found that tariffs and tariff preferences have a significant effect on import prices. Our results suggest that if a small country supplier were newly granted tariff preferences on imports of industrial products into the EU, it would tend to increase its import price into the EU by about 70% of the tariff preference. We also found evidence indicating that 'other restrictive regulations' are less affecting EFTA countries, which have a long-standing and deep RTA with the EU, than other EU preferential trade partners, which are covered by more recent and/or less deep RTAs.

Table 1

Importance of and Tariff Rate Faced by Regional Groupings (percentages)

Grouping	Full sample (n=16418)		Sub-sample with tariff>0 (n=7300)		Sub-sample with tariff=0 (n=9118)	
	Importance	Rate (range)	Importance	Rate (range)	Importance	Rate
All	100.0	2.3 (0.0-16.7)	100.0	5.2 (0.0-16.7)	100.0	0.0
PECO	18.3 (100.0)	0.6 (0.0-5.5)	6.3 (15.3)	3.8 (0.0-5.5)	27.9 (84.7)	0.0
EFTA	8.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	15.7 (100.0)	0.0
MED1	6.7 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	12.1 (100.0)	0.0
MED2	4.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	8.6 (100.0)	0.0
GSP	37.0 (100.0)	3.1 (0.0-12.6)	48.3 (58.1)	5.3 (0.0-12.6)	27.9 (41.9)	0.0
MFN	24.5 (100.0)	4.5 (0.0-16.7)	45.3 (82.3)	5.4 (0.0-16.7)	7.8 (17.7)	0.0

Table 2
Panel Regression Results for Unit Values with Fixed Product Effects
Heckman's Two-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.19 (0.01)
Tariff	-0.72 (0.19)	-1.65 (0.30)	-	4.89 (1.16)	-
PECO	-	-0.40 (0.03)	-0.41 (0.05)	0.42 (0.10)	0.03 (0.03)
EFTA	-	0.09 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.15 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.07 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.15 (0.03)	-0.22 (0.03)
Mills ratio	0.15 (0.03)	0.13 (0.03)	-0.04 (0.04)	0.40 (0.05)	0.40 (0.05)
R^2 (adj.)	0.93	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

Appendix Table 1
Panel Regression Results for Unit Values with Fixed Product Effects
One-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.20 (0.01)
Tariff	-0.67 (0.19)	-1.65 (0.30)	-	4.90 (1.17)	-
PECO	-	-0.41 (0.03)	-0.41 (0.05)	0.39 (0.10)	0.004 (0.03)
EFTA	-	0.08 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.16 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.08 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.16 (0.03)	-0.24 (0.03)
R^2 (adj.)	0.92	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

Preliminary-Do not quote
Comments welcome

Outstanding Issues in Regionalism:

'Other restrictive regulations' and Effects on the Rest of the World

by

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1. Introduction

This paper addresses the issues surrounding regional trading arrangements (RTAs) that remained unsolved after the Uruguay Round and thus which remain potential topics of negotiation in any forthcoming round of international trade talks – say the Millenium Round. After a brief historical and analytical introduction, it focuses on two major concerns – the application of 'other restrictive regulations on commerce' and the effects of RTAs on excluded countries.

The issue on 'other restrictive regulations' is that, crudely speaking, Article XXIV of the GATT (and its close relative Article V of the GATS) permits members of an RTA to violate MFN if they are 'serious' about integrating their economies more deeply than a liberal 'regular' trade policy would permit. One of the tests it applies for this is that, in addition to removing tariffs and QRs on mutual trade, members should also remove 'other restrictive regulations on commerce' - i.e. they should open the door to full-blooded competition between firms in member countries. There are ambiguities about what this clause actually requires legally and clear problems in enforcing it even when it is clear. Thus the suspicion remains that in many cases members of RTAs have not actually pursued integration to the extent that the formulators of the Article probably envisaged. As a result they have both failed to maximise the benefits of integration to themselves and have been permitted to 'purchase' their trade discrimination against non-members too cheaply in political terms because they have avoided some of the adjustment stresses that proper integration entails.

On the effects of RTAs on non-members the issue is only partly one of interpretation and enforcement. While the GATT and the GATS are clearly concerned to reduce any adverse consequences of regionalism on excluded countries, the requirements of Articles XXIV and V do not guarantee the latter against harm. Thus although the harm that excluded countries suffer will generally be greater if the Article is not applied fully, the issue is ultimately one of whether the Articles need amendment or whether the WTO membership feels that the risk of 'collateral damage' is worth bearing in order to allow countries the chance of integrating their economies more fully.

In both these issues, the critical question is the extent of the violations or damage done – i.e. the empirical assessment of the effects of RTAs. Thus the main body of the paper is an empirical investigation of the effects of the European Union's RTAs with other countries (not between the members of the EU themselves). We use detailed data on the prices (units value) of EU imports of industrial goods from a large sample of partners to assess whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. In the latter case, although we can not unambiguously assert that the difference in relative prices arises because non-members suffer a price decline relative to what they could charge if there were no RTAs, theory suggests that there is at least some element of this behind the result. To our knowledge, there is no existing study of 'other restrictive regulations of commerce' and, as yet, no published study of the effects of RTAs on the prices of exports from non-member countries.

2. Background

The WTO's requirements on regional trading agreements are embodied in Article XXIV of the GATT, refined by a Uruguay Round Understanding, and Article V of the GATS, which also dates from the Uruguay Round.

The problems of implementing Article XXIV of the GATT are long-standing - e.g. Finger (1993), WTO (1995), and Finger and Winters (1997). The procedure for reviewing a new regional trading agreement involved creating an ad hoc working party charged with advising whether or not the agreement was consistent with members' obligations under the GATT. These obligations are, very broadly, that, apart from RTAs including only developing country members, an RTA should:

- not 'on the whole' increase protection against excluded countries;
- reduce tariffs on internal trade to zero and remove 'other restrictive regulations of commerce' between members other than those justified by certain other GATT articles; and

- cover 'substantially all trade'.

These criteria raised a host of problems of interpretation, which were supplemented by a straight-forward unwillingness to enforce the rules even where they were clear. Of 69 investigative working parties established before 1994 only six concluded that their RTAs were in conformity with the GATT and the remainder had dodged the issue by failing to draw any conclusions at all (WTO, 1995). Essentially the problem was political. When the EEC was notified to the GATT it was clearly in violation of Article XXIV - the then head of GATT observed that "there was no disagreement that the incidence of the common tariff was higher than that of the rates actually applied [before the formation]" - but the political pressure to permit it to proceed was overwhelming.

With such an inauspicious outcome to its first big test, and recalling the GATT's convention that finding a violation required unanimity (i.e. the acquiescence of the accused party to its conviction), it is hardly surprising that matters did not improve and that the GATT was more or less unable to enforce its own rules.[1]

These short-comings were well recognised by trade diplomats and during the Uruguay Round considerable effort went into negotiating improvements to the Article. Unfortunately, while the resulting understanding on the interpretation of Article XXIV clarified a number of issues, such as how to calculate tariff averages before and after the RTA and what a reasonable transition period would be, it failed to address the fundamental problems such as defining 'substantially all' and 'other restrictive regulations'. Moreover, the subsequent creation of a single standing Committee on Regional Trading Agreements (CRTA) in 1996 has not yet resolved the difficulties.

The CRTA was seen as a means of ensuring more rigorous review of new RTAs because a single group would review all of them using the same criteria and with more searching notification and information requirements. It would also undertake periodic review of existing RTAs, and could resolve some of the systemic issues that remained after the Uruguay Round.

[1] This is not to say that the rules have had no effect: almost certainly RTA members have tailored their agreements to be conformable with the GATT wherever the perceived political cost of doing so was not prohibitive.

The more thorough review was seen as a route to better compliance with WTO requirements, while the consideration of conceptual issues was a step toward refining and codifying the rules more precisely.

Unfortunately the CRTA has not yet got into its stride. Its assessments of particular cases have been stymied by the lack of clear systemic rules and the discussion of rules stalemated on exactly the same 'substantially all' and 'other regulations' issues as the previous Uruguay Round discussions. By December 1998 the Committee had initiated consideration of 62 RTAs (including 32 inherited from previous working parties). It had started factual analysis on 41 of these, and was "elaborating conclusions" on 28. To date, no analyses have been released or conclusions reached.

Thus the problems of Article XXIV, and those of its very close relative GATS Article V, remain on the table for the Millennium Round. Among the most obvious are:

- the definition of 'substantially all trade';
- the definition of 'other restrictive regulations';
- the ability of RTA members to raise applied tariffs to their bound rates, which can associate the RTA with a considerable increase in actual protection;
- the concessions under the Enabling Clause that permit developing country RTAs to have partial preferences and partial coverage;
- the fact that current rules still allow RTAs that positively harm excluded countries; and
- the scope for rules of origin to 'export protection' from one FTA member to another.

At present, despite their importance there is still considerable doubt about whether these issues will get onto the agenda - Winters (1998). The EU is not planning to raise the issue itself, although it is willing to discuss it if others do. The US, as well as resisting the idea of a Round as opposed to essentially sectoral negotiations, shows no readiness to complicate its negotiations in the APEC and the FTAA by tightening up the rules prematurely. The US view is that APEC will eventually have at least to threaten to become discriminatory if it is to prosper as a bloc - Bergsten (1997). Thus it remains for the 'middle-sized' powers in WTO - such as Australia, Hong Kong, Japan and Korea, - to make the running on regionalism, as

indeed they have over the last five years.

This paper contributes to the case for discussing Article XXIV by giving two of the issues above some empirical foundation. We focus on the European Union (EU) which operates a complex system of trade relations granting various forms of preferential access (under reciprocal or non-reciprocal RTAs and under the Generalised System of Preferences (GSP), to most third countries, except a handful treated on a purely most-favoured-nation (MFN) basis – see Sapir (1998). We explore data on the prices of EU imports to identify, first, the extent to which the markets of the EU and its various RTA partners are integrated - and hence, by inversion, the extent to which 'other restrictive regulations of commerce' remain. Second, we cast some light on the costs that EU RTAs impose on non-members and thus on the case for current WTO rules to be enforced and tightened up.

3. Integration and the prices of imports

One of the most robust predictions of customs union theory is that a country receiving a preference in a partner market will raise its pre-tariff prices - that is, the price of the preference-granting country's imports will rise. In the simplest of models with homogeneous goods, where the exporter has an upward-sloping supply curve and where the importer continues to import from the rest of the world at a fixed world price, P_w, the exporter raises its price by the full extent of tariff that has been removed - e.g. Winters (1999). The importer's internal price is fixed at (P_w+t), where t is the tariff, so the preferred exporter, which could initially sell at no more than P_w to achieve this price can now sell at (P_w+t) and still remain competitive. If, in fact, the tariff comprises an explicit tariff t_0 plus an implicit tariff equivalent t_1 due to 'other restrictive regulations', a country that receives only a tariff preference will raise its export price from P_w to $(P_w + t_0)$ while one that receives, in addition, exemption from t_1 will raise it to $(P_w + t_0 + t_1)$. Thus in principle we can use differences in the level of export prices to distinguish levels of integration between the EU (importer) and its various partners (exporters).

The story is similar, but less extreme, if products are differentiated. In imperfectly competitive markets, when a preference is received it will be partly passed through to consumers and partly absorbed into higher export prices. The extent of pre-tariff price increase will vary

according details of the market, but under plausible conditions the larger the preference (t_0 or $t_0 + t_1$), the larger the price increase. Thus again in principle we can distinguish the degree of preference, explicit and implicit, by examining price differentials.

An important additional element in the imperfectly competitive model is that because preferences are partly passed on to consumers through reductions in post-tariff prices, they put competitive pressures on other suppliers, who will usually have to reduce their prices in compensation. Non-members of the RTA, of course, have received no tariff concessions and so declines in their post-tariff prices are also declines in pre-tariff prices. That is, the RTA potentially drives down the prices received by non-member exporters to member markets. These terms of trade losses that RTAs impose on non-members have long been known in theory - e.g. Mundell (1964) - and are the basis of models in which RTAs reduce the welfare of non-members and so induce domino regionalism (Baldwin, 1995), tariff retaliation (Bond, Syropoulos and Winters, 1996) or separate bloc formation (Frankel, 1997). Surprisingly, however, they have received very little empirical attention, the only *ex post* data-based studies known to us being Winters and Chang (forthcoming) and Chang and Winters (1999).

Winters and Chang and Chang and Winters are both event studies which seek to identify price changes through time in response to instances of regional integration - Spanish accession to the EC and the formation of Mercosur respectively. The present paper takes a different approach, seeking to exploit inter-country differences between the many partners that have RTAs with the EU. Thus as well as seeking differences between different classes of RTAs according to how close a degree of integration with the EU they permit, we also explore differences between members and non-members of EU-RTAs.

The main additional problem of the cross-sectional approach is that there are good reasons why the export prices of nominally identical goods should vary across suppliers independently of RTAs. Thus we need to correct for these factors before we can identify integration effects.

4. Other explanations of import prices

First, a confession: we write and think in terms of the *prices* of EU imports, but in fact we can

measure only *unit values* - value per unit of quantity averaged over the whole set of transactions of a particular kind during a particular period. There are well-known reasons why these are poor indicators of price - Kravis and Lipsey (1970). These mostly arise from the fact that not every transaction within a trade heading will be identical in terms of quality and timing etc; thus they will command different prices and the average will vary with variations in the weight of different transaction classes in the total even if no single price is changed.

We seek to mitigate this problem by working with very finely disaggregated data - defined at the 8-digit level of the EU's Combined Nomenclature trade classification (effectively 8-digit level of the UN's Harmonised System). Nonetheless the potential problem remains. A downside of very disaggregated data is that they are very noisy. We partly solve this problem by excluding from our sample transactions of less than Euro 100,000 and/or less than Kg 1,000. Although such procedure smoothes out some idiosyncratic transactions and recording errors, these shocks remain very prominent in our data.

Below we shall use the term 'price', but this should always be read in an empirical context as meaning 'unit value'.

Economic theory is replete with theoretical models of the causes of price differences between suppliers of similar goods to a market, and industrial organisation specialists have explored some of these empirically. Among international trade specialists, however, this issue represents something of a lacuna. Price dispersion has been used as an indicator of product differentiation - e.g. Keesing, (1970) and Hufbauer (1970), and more recently Fontagné et al (1998), who distinguish vertical from horizontal intra-industry trade by means of price differences. These works offer no explanation, however, of the pattern of price differences.

A stream of work relying on price changes is the 'upgrading' literature which showed that quantitative trade restrictions tended to be associated with quality upgrading, i.e. shifts to supplying the higher-priced varieties within the set of restricted goods - Aw and Roberts (1986) and de Melo and Winters (1993).[2] Brech and Stout (1981) pursued a similar idea to these studies, arguing that exchange rate appreciation forced exporters into higher unit value

[2] Feenstra's (1988) work on autos was similar, but he used more direct measures of quality than just price.

varieties on the grounds that quality would compensate for a lack of price competitiveness. This does apply directly to our work, however, since we seek to explain differences within headings rather than between them.

An early literature did seek to explain unit values more directly, but of exports rather than imports. Hufbauer and O'Niell (1972) examined US exports of machinery and sought to explain differences in the unit values across markets by the markets' income per head (reflecting a demand for sophistication), the volume of trade (reflecting various plausible economies of scale in selling / servicing exports), the markets' degrees of currency over-valuation and tariff / tax regimes (reflecting incentives for mis-invoicing trade). Of these, only the first two variables proved significant explanators. Ohlsson (1974) similarly examined engineering exports' unit values in Europe, mostly for Sweden. He concluded that, across commodities, unit values reflected technical sophistication. Yeats (1990) considers French exports of iron and steel products and finds those to Africa commanding higher prices than average by 20% to 30%. While not attributing this to a single cause, he postulates that it could reflect transaction-size or market power.

Our problem is different from all these studies. We wish to explain differences in the unit values of EU imports of particular goods across suppliers for a single year (1996). Degrees of integration are our main focus - see above - but to avoid biases arising from the sort of factors described in this section, we consider also the exporter's GNP per capita.

A second potential explanatory variable for imports prices is the volume of imports of a particular good from a particular source. First, as noted above, there may be economies of scale in selling which allow providers of high volumes to offer lower prices. Second, if markets are imperfectly competitive, mark-ups are likely to depend positively on market shares; that is, large volumes will be associated with higher prices. In practice, however, it proved impossible to estimate either of these effects because of data problems. Unit values are calculated as the ratio of the value of trade in each heading to the corresponding volume. Given that value is generally measured more accurately than volume – value is the basis on which most taxes are levied and is not subject to uncertainty over units – this means that the unit value and volume will be negatively correlated and that the estimated coefficient on the latter will be biased towards -1; see Orcutt (1950). Moreover, including volumes also seemed

to disturb other estimates significantly, so we dropped them altogether from our explanation of prices.

5. The Econometric Model

For any commodity, *i*, our basic estimating equation is:

$$P_{ij} = P_{ij}(g_j, t_{ij}, D_j) \qquad (1)$$

where P_{ij} is the price (unit value) of exports of i to the EU from country j; g_j is j's GNP per capita; t_{ij} is the EU's tariff on imports of i from j; and D_j is a set of dummy variables reflecting the EU's trade regime for j.

We expect:

$$\frac{\partial p_{ij}}{\partial g_i} \rangle 0, \text{ and } \frac{\partial p_{ij}}{\partial t_{ij}} \langle 0.$$

We identify six different regimes:

(1) reciprocal RTAs with members of the European Free Trade Association (EFTA);
(2) reciprocal RTAs with central and eastern European countries (PECO);
(3) reciprocal RTAs with some Mediterranean countries (MED1);
(4) non-reciprocal RTAs with other Mediterranean countries (MED2);
(5) GSP; and
(6) MFN.

We had intended also to examine the EU's non-reciprocal RTAs with African, Caribbean and Pacific (ACP) countries, but in fact even treating them as a group, ACP countries never made our size thresholds. Thus we ignore this group henceforth.

Equation (1) is estimated in double-log form with, in principle, one equation for each i and observations ranging over partners j=1…J. We work with a sample of thirty-seven countries,

but J will tend to be lower than 37 for a given i. Arranged according to the six trade regimes identified above, these countries are:[3]

(1) Norway, Switzerland;

(2) Czech R., Estonia, Hungary, Poland, Romania, Slovak R.;

(3) Cyprus, Israel, Turkey;

(4) Algeria, Egypt, Morocco, Tunisia;

(5) Argentina, Brazil, Chile, China, Hong Kong, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Philippines, Singapore, South Africa, Thailand;

(6) Australia, Canada, Japan, Korea, Taiwan, United States.

The sample of commodities is selected as the 1,000 industrial headings (chapters 25-97 of the Combined Nomenclature) at 8-digit level with the largest value of imports in 1996. With 37 countries, we thus work with a sample of 37,000 observations, of which 20,582 record zero imports (or fail to rise above our threshold) and of the remaining 16,418, 9,118 have zero tariffs and 7,300 positive tariffs.[4] In terms of commodities, five show no trade for any of our 37 exporters, and thus do not figure in the exercise. Of the remaining 995, 185 have zero tariffs on all exporters with recorded trade (i.e. the MFN tariff is presumably zero) and 810 have some non-zero tariffs; 16 have non-zero tariffs on all exporters with recorded trade – i.e. the countries with comprehensive free trade with the EU do not export them.

Table 1 reports how the observations with non-zero trade are spread across exporters and tariff classes. It also reports the range of tariff rates for each class. It shows that EFTA and the two Mediterranean groups face no tariffs among our (major industrial) commodities. The PECOs also faced relatively few tariffs by 1996 and those were rather low. For the GSP recipients, on the other hand, it is clear that while they are forgiven non-zero MFN tariffs for around one quarter of our headings, on the remaining three-quarters they faced tariffs not far different from MFN rates.

[3] The classification of countries pertains to 1996.

[4] In aggregate these 37 countries account for 77% of EU industrial imports in 1996 and the 1000 commodities for 78%. The imports analysed here – i.e. up to 37 sources for 1000 commodities – therefore account for 60% of total EU industrial imports.

There are at least two econometric complications in estimating (1). First, and conceptually simple, experience with unit value series in Winters and Chang (forthcoming) and Chang and Winters (1999) suggests that pooling across commodities will be necessary to find enough of a signal in all the noise. This requires commodity-specific constants because neither unit values nor volumes are comparable in their natural units. The use of such constants – fixed effects - implies that all cross-commodity variation is removed from our sample: our estimates are determined entirely by variation across suppliers within each commodity heading. The pooling merely requires that these effects be common across commodities. Pooling also probably requires an adjustment for heteroskedasticity because commodities will vary in terms of errors of observation etc. To start with we handle this by calculating White heteroskadiasticity-consistent standard errors for our estimates.

Second, and *much more complex*, prices can only be observed when trade occurs, and this, in turn, depends partly on prices. In other words, we have a censoring problem. A country's ability to supply commodity i to the EU will probably depend on many factors, including the independent variables in (1). Moreover, at least in the case of GNP p.c. (g_j) the relationship will be complicated. For unsophisticated goods the propensity to supply the good will be negatively related to income, whereas for sophisticated goods, the opposite is likely to apply. Thus pooling over commodities is likely to be difficult and, at least in some cases, the effects of g_j on the probability of observing trade and on the price if we do observe trade will have opposite signs. This, in turn, rules out using simple Tobit procedures to overcome the censoring problem.

The alternative – and our preferred - approach to censoring is the Heckman (1976) two-stage technique: stage 1 is a probit model of the existence of trade, and stage 2 an OLS estimate of equation (1) using (of course) only actual occurrences of trade with an additional variable constructed from stage 1 to reflect the censoring (the so-called inverse Mills-ratio). For the latter to be identifiable, stage 1 requires some exogenous variables (instruments) not appearing in equation (1).

The best instrument we can devise to explain whether j exports I to the EU is to measure country j's comparative advantage in good i relative to the EU's. We can not calculate revealed comparative advantage indicators for thirty-nine countries at the 8-digit level,

because we do not have data on world trade at that level. We use, therefore, measures at the 5-digit level of the SITC using UN Comtrade data, applying 5 digit data to each 8-digit heading that lies within it[5]. We measure comparative advantage by export data to non-EU markets:

$$RCA_{ij} = \frac{X_{kj}}{\sum_k X_{kj}} \frac{\sum_j X_{kj}}{\sum_k \sum_j X_{kj}} \tag{2}$$

where X_{kj} refers to exports to non-EU markets and k refers to 5-digit groups. In addition, the first stage probit equation contains the tariff j faces on good I.

When we pool across commodities we need to compare this with EU revealed comparative advantage in commodity *i*, by taking ratios of the indicators for supplier *j* and that for the EU; but since all information varying only by commodity is swept out by our fixed effects in the pooled estimation, it is not actually necessary to make the adjustment in practice.

3. The Results

The main results of the two-stage estimation are reported in table 2. OLS estimates of (1), which offer a direct description of the features of the data, are given in Appendix 1 for comparison. In fact, they tell almost precisely the same story as the main results.

Column 1 of Table 2 reports a simple estimate of (1) pooled over all observations with no trade regime dummies. It suggests that both the supplier's GNP per capita and the tariff it faces have the predicted effect on the unit values of EU imports. The former suggests that a 1% increase in the per capita GNP of a supplier increases the border price (unit value) of its exports to the EU by about 0.3%. Given the variations in GNP pc across even our small sample of suppliers – a factor of about 20 – this suggests a wide range of prices/qualities.

Perhaps more interesting is the co-efficient on tariffs. This indicates that on average 72% of the difference in the tariffs levied on any pair of suppliers is reflected in their pre-tariff prices.

[5] There are nearly 3000 5-digit headings in the SITC(3R), so there is not much inaccuracy in this approximaiton. [CHECK].

The country facing the higher tariff bears about 72% of the difference in terms of a lower pre-tariff price relative to the country facing the lower tariff. It is tempting to interpret this as saying that suppliers bear 72% of EU's tariffs, but that would not be strictly correct because we are comparing effects across imported sources not between imported and EU sources. That is, the 'average' or 'normal' tariff on any commodity could have a different incidence than we have estimated for the tariff preference.[6]

In terms of discriminatory tariffs we have a powerful result showing that suppliers receiving preferences in EU markets derive considerable benefit relative to others – increasing the average price of *all* their sales of the commodity concerned by about 72% of the preference. We do not know from these results whether the effect is due to the preferred suppliers raising their prices or the non-preferred ones reducing theirs relative to non-discriminatory trade. While theory suggests a mixture of both effects – Winters and Chang (forthcoming) – to answer that question accurately we need additional information that is not available to us at this stage for the EU. For example, Chang and Winters (1999) make use of the suppliers' export data to provide a bench-mark for supply prices in the absence of discrimination. What our results do suggest, however, is that if a small country supplier were newly granted tariff preferences in the EU, it would tend to increase the prices of it exports to the EU by about 70% of the tariffs it had been released from. This interpretation suggests that empirical work on recently granted preferences might be rewarding – e.g. on South Africa as it implements its trade agreement with the EU.

The coefficient on the Mills ratio is of no direct interest in itself, but its statistical significance suggests that the censoring does need to be taken into account. However, as appendix 1 shows, its economic significance is not great, since it hardly changes the estimates of the effects of interest.

The summary statistics of this regression suggest that there is a huge amount of variance in the unit value series we are seeking to explain, and that, in fact, we are very successful in doing so. Unfortunately this is more apparent than real: the bulk of the variance is across commodities – and so is meaningless (we know cars have higher unit values than scrap iron) –

[6] On the other hand, given that for nearly all of our commodities some suppliers face zero tariffs, our result is suggestive that a good deal of the tariff does get pushed back onto suppliers.

and is explained by the fixed effects.[7] Of the remaining variance, we explain only about z%, and the residual standard error of 0.81 (with a logarithmic dependent variable) is large. Such goodness of fit statistics are in line with previous experience of cross-section price equations, however (e.g. Winters and Chang, forthcoming), and the coefficients of interest are statistically significant, so that even if we have not explained the prices of EU imports completely, we have identified genuine effects.

Column (2) adds the dummies for different trade regimes to column (1) in order to try to identify different degrees of remaining restrictive regulations on commerce between the EU and its various partners. The less integrated into the EU market a partner is, the lower the (pre-tariff) prices it is likely to be able to charge in the EU. There is no dummy for the countries with no RTA (and which thus face MFN tariffs), so all other effects are measured relative to them. The results are neither particularly plausible nor well determined. The tariff effect is larger than theory would predict and the trade regime dummies negative except for EFTA.

The major practical problem with these results is that the regime dummies are correlated with observed tariffs: the closer a partner's trade relations with the EU, the lower the tariffs it faces. Thus it becomes very difficult to identify simultaneously both the tariff effects and the 'other restrictive regulations' effects that we are seeking. One solution to this problem is to seek the latter on trade which faces no tariffs, and thus on which we might hope that 'other regulations' are the only cause of differences between suppliers. This is done in column (3) of Table 2, which is based on the sample of 9118 supplier/commodity pairs which face no tariffs. This equation, of course, has no estimated tariff effect.

The GNP pc effect seems acceptable and although the regime dummies are again not very precisely estimated, they do seem broadly explicable.[8] The EFTA countries – close partners of long-standing,[9] as well as culturally and geographically close to the EU – appear to earn a statistically significant premium of nearly 11% above what one would expect for quality reasons as proxied by GNP pc. Recall that these regime effects are measured relative to the set

[7] Of total variance of nnnn, x% is explained by the fixed effects, y% by tariffs and GNP pc, and z% is unexplained. [WE NEED TO GET THIS ANALYSIS OF VARIANCE PRINTED OUT].
[8] All the dummies except one are algebraically larger in column (3) than (2), which reflects the correlation with tariffs noted above.
[9] Free trade between EFTA and EEC countries dates from 1973.

of countries facing MFN tariffs, which have similar incomes and levels of sophistication to the EFTA countries. Thus the EFTA premium is unlikely to arise just because we have proxied quality inadequately.

The coefficients for Southern Mediterranean countries (MED2) and GSP recipients are not significant and so should be treated as zero. They are neither favoured nor disfavoured relative to the MFN set. There is a strong negative coefficient for the PECOs, which apparently charge prices about 41% below what we might expect on the basis of the rest of the sample. This result is not easily reconciled with the widespread enthusiasm for the Europe Agreements as a means of integrating the PECOs into the EU economy, but is not particularly difficult to understand in a broader context.[10] First, frictions clearly remain on EU-PECO trade. Anti-dumping measures may be less frequently applied to these countries than previously, but they are still used in some, and perhaps threatened in other, cases. Problems of meeting technical standards and certification requirements abound – see, for example [Messerlin?] – which could cut demand and hence lower prices in differentiated product markets. Second, the GNP pc data are probably less reliable for the PECOs than for the other groups. If these are over-estimated, the dummy will tend to get a negative sign by way of correction. Third, even if GNP pc is a reasonable proxy for quality objectively and in steady state, the PECOs have faced formidable reputational difficulties in newly entering manufactures markets, which has the same effect. Moreover, recall that our data refer to 1996, only a few years into the transition. Thus all told, we do not find it difficult to believe that PECO exports to the EU face stiffer barriers than other exports, although we do believe that this is likely to be a temporary phenomenon.

One might make similar arguments for Eastern Mediterranean countries with reciprocal RTAs (MED1), but they would not be not very convincing. Thus the coefficient of –11% on these three countries remains something of a mystery.

Column (4) considers the complementary set of observations to column (3) – those for which the tariff is non-zero. Here both tariffs and 'other regulations' are relevant, but the collinearity appears to confound their estimation. The GNP pc effect is plausible again, but the tariff

[10] Moreover, the PECO discount might have had to be even higher in the absence of the Europe Agreements.

effect, which implies that higher tariffs lead to higher pre-tariff prices, is not. The regime dummy for the PECOs is now positive as theory predicts for favoured suppliers, but that for the GSP suppliers becomes negative and significant. The very high coefficient on the tariff reduces PECO prices relative to GSP-country prices because the former generally face low tariffs while the latter face more or less MFN rates in the commodities on which they pay non-zero rates. The dummies compensate for this excessively strong effect, raising PECO prices and lowering GSP prices.

If we drop the tariff variable from the 'non-zero-tariff' regression – column (5) – the dummies revert to the negative signs found above, but with their magnitudes and significance reversed compared to the zero-tariff set. This again essentially arises from the fact that the PECOs face low tariffs while the GSP countries face more or less MFN rates, but without the ability to supply as effectively as the MFN set of countries.

4. Conclusion

This paper has sought to investigate empirically whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. The analysis was carried out using detailed data on the prices (units value) of EU imports of 1000 industrial goods from a sample of 37 major trading partners. To our knowledge, this is the first ever attempt to study of the effects of RTAs on the prices of exports from non-participating countries.

We found that tariffs and tariff preferences have a significant effect on import prices. Our results suggest that if a small country supplier were newly granted tariff preferences on imports of industrial products into the EU, it would tend to increase its import price into the EU by about 70% of the tariff preference. We also found evidence indicating that 'other restrictive regulations' are less affecting EFTA countries, which have a long-standing and deep RTA with the EU, than other EU preferential trade partners, which are covered by more recent and/or less deep RTAs.

Table 1

Importance of and Tariff Rate Faced by Regional Groupings (percentages)

Grouping	Full sample (n=16418)		Sub-sample with tariff>0 (n=7300)		Sub-sample with tariff=0 (n=9118)	
	Importance	Rate (range)	Importance	Rate (range)	Importance	Rate
All	100.0	2.3 (0.0-16.7)	100.0	5.2 (0.0-16.7)	100.0	0.0
PECO	18.3 (100.0)	0.6 (0.0-5.5)	6.3 (15.3)	3.8 (0.0-5.5)	27.9 (84.7)	0.0
EFTA	8.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	15.7 (100.0)	0.0
MED1	6.7 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	12.1 (100.0)	0.0
MED2	4.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	8.6 (100.0)	0.0
GSP	37.0 (100.0)	3.1 (0.0-12.6)	48.3 (58.1)	5.3 (0.0-12.6)	27.9 (41.9)	0.0
MFN	24.5 (100.0)	4.5 (0.0-16.7)	45.3 (82.3)	5.4 (0.0-16.7)	7.8 (17.7)	0.0

Table 2
Panel Regression Results for Unit Values with Fixed Product Effects
Heckman's Two-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.19 (0.01)
Tariff	-0.72 (0.19)	-1.65 (0.30)	-	4.89 (1.16)	-
PECO	-	-0.40 (0.03)	-0.41 (0.05)	0.42 (0.10)	0.03 (0.03)
EFTA	-	0.09 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.15 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.07 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.15 (0.03)	-0.22 (0.03)
Mills ratio	0.15 (0.03)	0.13 (0.03)	-0.04 (0.04)	0.40 (0.05)	0.40 (0.05)
R^2 (adj.)	0.93	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

Appendix Table 1
Panel Regression Results for Unit Values with Fixed Product Effects
One-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.20 (0.01)
Tariff	-0.67 (0.19)	-1.65 (0.30)	-	4.90 (1.17)	-
PECO	-	-0.41 (0.03)	-0.41 (0.05)	0.39 (0.10)	0.004 (0.03)
EFTA	-	0.08 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.16 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.08 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.16 (0.03)	-0.24 (0.03)
R^2 (adj.)	0.92	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

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TEXT:
Hi:

With apologies for our tardiness, Wolfgang and I would like to make available our paper for the ISIT conference June 4-5 in Cambridge: "Environmental Regulations and FDI Inflows to U.S. States."

Rather than include the file as an attachment, and waste bandwidth, I have made available three different file formats on my web page. You can find an Acrobat PDF file at http://www.ssc.wisc.edu/~alevinso/fdi.pdf If you use the same address, but replace "pdf" with "ps" there is a PostScript file, and if you replace "pdf" with "wpd" you can get a WordPerfect version. I hope that this is sufficiently convenient.

To spark your interest, I have attached the abstract below. See you all in Cambridge...

++

Environmental Regulations and FDI Inflows to U.S. States:
The Potential for a "Race to the Bottom" of Environmental Stringency

Abstract

Does the degree of environmental regulation across countries have to converge before more progress on multi-lateral trade and investment liberalization under the World Trade Organization can be made? This would require that differences in environmental regulation have important effects on foreign direct investment (FDI). This paper estimates the extent to which stringent environmental standards in some U.S. states have deterred FDI. It addresses three shortcomings in the existing literature on the effects of environmental regulations on investment. First, it avoids comparing regulations in different countries by using data on the regulatory stringency of U.S. states, and examining whether there is relatively more FDI to less stringent states. Second, it uses use an index of relative compliance costs that accounts for states' different industrial compositions. Third, it uses annual measures of relative regulatory stringency from 1977 to 1994. We examine two types of foreign direct investment data: BEA data on gross property, plant and equipment investment at foreign-owned manufacturing facilities; and planned new factory expenditures by foreign-owned firms. The main finding is that there is no evidence indicating that higher environmental stringency is associated with significantly less FDI in our panel of U.S. states.

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I am going to be in Boston on Friday and Monday. I would like the briefings , or as much as exists, prior to then. Or Fedexed so they arrive no later than Saturday morning.

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CREATION DATE/TIME: 1-JUN-1999 09:32:37.00

SUBJECT: Keller/Levinson Paper for the ISIT Meeting

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

TEXT:
Roundup?
---------------------- Forwarded by Robert Z. Lawrence/CEA/EOP on 06/01/99 09:33 AM ---------------------------

Arik Levinson <amlevins @ facstaff.wisc.edu>
05/31/99 10:23:19 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: Keller/Levinson Paper for the ISIT Meeting

Hi:

With apologies for our tardiness, Wolfgang and I would like to make available our paper for the ISIT conference June 4-5 in Cambridge: "Environmental Regulations and FDI Inflows to U.S. States."

Rather than include the file as an attachment, and waste bandwidth, I have made available three different file formats on my web page. You can find an Acrobat PDF file at http://www.ssc.wisc.edu/~alevinso/fdi.pdf If you use the same address, but replace "pdf" with "ps" there is a PostScript file, and if you replace "pdf" with "wpd" you can get a WordPerfect version. I hope that this is sufficiently convenient.

To spark your interest, I have attached the abstract below. See you all in Cambridge...

+++

Environmental Regulations and FDI Inflows to U.S. States:
The Potential for a "Race to the Bottom" of Environmental Stringency

Abstract

Does the degree of environmental regulation across countries have to converge before more progress on multi-lateral trade and investment

liberalization under the World Trade Organization can be made? This would require that differences in environmental regulation have important effects on foreign direct investment (FDI). This paper estimates the extent to which stringent environmental standards in some U.S. states have deterred FDI. It addresses three shortcomings in the existing literature on the effects of environmental regulations on investment. First, it avoids comparing regulations in different countries by using data on the regulatory stringency of U.S. states, and examining whether there is relatively more FDI to less stringent states. Second, it uses use an index of relative compliance costs that accounts for states' different industrial compositions. Third, it uses annual measures of relative regulatory stringency from 1977 to 1994. We examine two types of foreign direct investment data: BEA data on gross property, plant and equipment investment at foreign-owned manufacturing facilities; and planned new factory expenditures by foreign-owned firms. The main finding is that there is no evidence indicating that higher environmental stringency is associated with significantly less FDI in our panel of U.S. states.

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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 13:34:13.00

SUBJECT: Steel Employment

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

TEXT:
Robert,

The steel employment figure (for Blast Furnaces and Steel Mills) for March is 154.6. April figures are not yet available. Employment was 155 in Jan and 154.7 in Feb.

Also, for reference US exports of steel mill products were 5,520,000 MT in 1998, so this gives us our benchmark for how many steel jobs could be lost in a retaliation against all US steel exports.

-Matt

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 16:56:31.00

SUBJECT: sic spreadsheet, with summary table

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

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

TEXT:
see "table" sheet (the last one)

an interesting result: although employment has not grown as much in the
period
post-July 97, and the impact of trade on employment has been greater (i.e.
a larger
negative effect), this cannot be blamed on an import surge: the effect of
imports on
employment is actually less in the post 7/97 period than in the 1/93-7/97
period; in
fact, it is the much weaker boost to employmentfrom exportsthat explains
trade's greater effect.

Next step: examining selected industries?

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D74]ARMS28114395K.136 to ASCII,
The following is a HEX DUMP:

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

FOIA Number: 2014-0316-F

Clinton Presidential Records Automated Records Management System [EMAIL]

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

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

File Name: p_j5934116_cea_html_1.xls

Attachment Number: [ATTACH.D74]ARMS28114395K.136

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 18:52:01.00

SUBJECT: Re: Comments on Rangan/Lawrence volume

TO: JWALKER (JWALKER @ brook.edu @ INET @ LNGTWY [UNKNOWN])
READ:UNKNOWN

TEXT:
Yes, you can go ahead. Please make sure the dedicationto Raymond Vernon
gets in.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 11:06:26.00

SUBJECT: Phone Message from Dan Weinberg

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

TEXT:
Contact: Dan WeinbergCompany: Census BureauPhone: 301-457-3234FAX: Message: Called to say that he is glad to hear that you're in DC now; give him a call to catch up.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 17:30:30.00

SUBJECT: IRUP pitches

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

TEXT:
Robert -
It has been slim pickings so far today - I have just a few
suggestions
for now and will hope for news overnight (cue shamans, etc)

1) Keller / Levinson "Environmental Regulations and FDI Inflows to U.S.
States."

2) Messerlin study on cost of protection in Europe - I have asked
Messerlin
if a newer draft is available or, if not, if he expects the
results to change
much between his February draft and the final one (expected in
July)

3) ECB's chief economist warns Germay that it risks becoming "the sick man
of
Europe" unless it reforms its expensive welfare state

4) Brazil's central bank will limit the foreign-exchange exposure banks
may have
to 60% of their net equity. Banks have 30 days to comply with the measure,
which
marks the introduction of prudential rules related to foreign-exchange
risk that will
be supervised by the central bank.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Matthew Miller <mattino@worldnet.att.net> (Matthew Miller <mattino@worldnet.att.net> [UNKNOWN])

CREATION DATE/TIME: 1-JUN-1999 16:39:16.00

SUBJECT: This week's column, fyi

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TEXT:
miller
MILLER
5/31/99
Charades -- Political Commentary by Matthew Miller
IF PRODUCTIVITY GROWTH HAS REALLY REVIVED,
WE'RE BACK TO BRAVE OLD WORLD
By Matthew Miller

With new figures showing we've had two consecutive quarters of 4 percent growth in productivity (or output per worker), even cautious economists now say that computers may have percolated through the economy in ways that are altering the nature of production. It's time to ask the question out loud: What does it mean for public policy if the invisible mouse is taking productivity growth from the dismal 1 percent annual rate seen from the mid-1970s to the mid-1990s back to the low 2s -- or higher?

The short answer is startling: if this turns out not to be a blip, every big Washington policy debate may soon be obsolete.

(ital) Social Security. (unital) For starters, there is no Social Security problem -- at least none that requires abrupt action. Higher productivity means faster growth, which increases the size of the pie from which the boomers' golden years will be funded. Today the program's official deficit is roughly 2 percent of payroll -- but that assumes productivity will grow 1.3 percent for the next 75 years (vs. 2.1 percent in the last 75). A 1 percent boost would shrink Social Security's funding gap in half, meaning that talk of private accounts, stock market investments, means-testing and retirement-age hikes could be premature, if not unnecessary. Take it from a Social Security worrywart: Since the scale of the problem could change radically depending on where productivity trends settle out, it's prudent to wait a few years. Since there won't likely be a deal in Clinton's waning days, Washington may as well make a virtue of necessity and procrastinate this time on principle.

(ital) Wages. (unital) No need to seduce the suburbs with an extra hour of family leave and a fresh penny for day care. If productivity growth is back, real wage growth is, too. To be sure, it could take a decade for many workers to regain what was lost in the '80s. But one day soon it may be easier for couples to keep one parent home with the kids. Yes, this brings up the endless ``necessities vs. luxuries" debate, and women fulfilled by work will rightly never turn back. But both parents in millions of lower income families have had no choice but to work, even when they'd prefer not to. If you're up for a reasonably priced town and good public universities, the '50s may rise again.

(ital) Budget. (unital) Here things get giddy. The Congressional Budget Office already projects a $381 billion surplus in 2009. If productivity grows a point a year faster, that figure (ital) doubles (unital). That means guns (ital) and (unital) butter: ballistic missile defense, universal health coverage, hefty tax cuts and a Marshall Plan for Kosovo. In the near term, the case for scrapping the spending caps Republicans are pretending to live with is already a no-brainer; if the productivity story is even half true, such deficit-era limits are ludicrous. Such is the beauty of bounty.

(ital) Stock market. (unital) Maybe it's not a bubble after all! Say someone invented a way to run cars on water, not oil. Where would this surge in productivity (through which the same output could be had at a fraction of the price) show up first? In stocks, of course. Then it would ripple through the market. Maybe it's the same with the Internet revolution. After all, would you have said the Industrial Revolution was a sham because it affected only a few textile firms at the start?

Is rising productivity purely good news? Alas, no. During his first two years in office, President Clinton was a notoriously unproductive chief executive, with a crazy schedule of back-to-back meetings 12 hours a day. Then, in early 1995, just as productivity was picking up across the economy, Clinton got the efficiency bug, too. Erskine Bowles revamped Clinton's schedule to give him four hours of ``phone and office time" each day, to read, think, make decisions or simply catch his breath. It's the one untold story of impeachment: Without that productivity boost, Clinton never would have had time for Monica Lewinsky.

(Matthew Miller's e-mail address is mattino(AT SIGN)worldnet.att.net)

FOR IMMEDIATE RELEASE (DISTRIBUTED 5/31/99)

END

(END OF TEXT)

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fax: (310) 230-1700

- att1.htm==================== ATTACHMENT 1 ====================

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

TEXT:

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<HTML>
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</HEAD>
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<BODY bgColor=#ffffff>
<DIV><FONT face="Courier New, Courier"><FONT face="Times New Roman"
size=4>miller
 MILLER
 5/31/99

Charades -- Political Commentary by Matthew Miller
 IF
PRODUCTIVITY GROWTH HAS REALLY REVIVED,
 WE'RE BACK TO BRAVE OL
D
WORLD
 By Matthew Miller
 With new figures
showing we've had two consecutive quarters of 4 percent growth in productivity

(or output per worker), even cautious economists now say that computers may hav
e
percolated through the economy in ways that are altering the nature of
production. It's time to ask the question out loud: What does it mean for publi
c
policy if the invisible mouse is taking productivity growth from the dismal 1

percent annual rate seen from the mid-1970s to the mid-1990s back to the low 2s

-- or higher?
 The short answer is startling: if this turns out

not to be a blip, every big Washington policy debate may soon be obsolete.

 (ital) Social Security. (unital) For starters, there is no
Social Security problem -- at least none that requires abrupt action. Higher
productivity means faster growth, which increases the size of the pie from whic
h
the boomers' golden years will be funded. Today the program's official deficit

is roughly 2 percent of payroll -- but that assumes productivity will grow 1.3

percent for the next 75 years (vs. 2.1 percent in the last 75). A 1 percent
boost would shrink Social Security's funding gap in half, meaning that talk of

private accounts, stock market investments, means-testing and retirement-age
hikes could be premature, if not unnecessary. Take it from a Social Security
worrywart: Since the scale of the problem could change radically depending on

where productivity trends settle out, it's prudent to wait a few years. Since

there won't likely be a deal in Clinton's waning days, Washington may as well

make a virtue of necessity and procrastinate this time on principle.

 (ital) Wages. (unital) No need to seduce the suburbs with an

extra hour of family leave and a fresh penny for day care. If productivity
growth is back, real wage growth is, too. To be sure, it could take a decade fo
r
many workers to regain what was lost in the '80s. But one day soon it may be
easier for couples to keep one parent home with the kids. Yes, this brings up

the endless ``necessities vs. luxuries" debate, and women fulfilled by work
will rightly never turn back. But both parents in millions of lower income
families have had no choice but to work, even when they'd prefer not to. If
you're up for a reasonably priced town and good public universities, the '50s

may rise again.
 (ital) Budget. (unital) Here things get giddy.

The Congressional Budget Office already projects a $381 billion surplus in 2009
.
If productivity grows a point a year faster, that figure (ital) doubles
(unital). That means guns (ital) and (unital) butter: ballistic missile defense
,
universal health coverage, hefty tax cuts and a Marshall Plan for Kosovo. In th
e
near term, the case for scrapping the spending caps Republicans are pretending

to live with is already a no-brainer; if the productivity story is even half
true, such deficit-era limits are ludicrous. Such is the beauty of bounty.

 (ital) Stock market. (unital) Maybe it's not a bubble after
all! Say someone invented a way to run cars on water, not oil. Where would this

surge in productivity (through which the same output could be had at a fraction

of the price) show up first? In stocks, of course. Then it would ripple through

the market. Maybe it's the same with the Internet revolution. After all, would

you have said the Industrial Revolution was a sham because it affected only a

few textile firms at the start?
 Is rising productivity purely

good news? Alas, no. During his first two years in office, President Clinton wa
s
a notoriously unproductive chief executive, with a crazy schedule of
back-to-back meetings 12 hours a day. Then, in early 1995, just as productivity

was picking up across the economy, Clinton got the efficiency bug, too. Erskine

Bowles revamped Clinton's schedule to give him four hours of ``phone and office

time'' each day, to read, think, make decisions or simply catch his breath. It'
s
the one untold story of impeachment: Without that productivity boost, Clinton

never would have had time for Monica Lewinsky.
 (Matthew
Miller's e-mail address is mattino(AT SIGN)worldnet.att.net)

 FOR IMMEDIATE RELEASE (DISTRIBUTED 5/31/99)

END

 (END OF TEXT)

</FONT>
</FONT></DIV>
<DIV><FONT color=#000000>Matt Miller
<A
href="mailto:mattino@worldnet.att.net">mattino@worldnet.att.net</A>
phone:

(310) 230-1600
fax: (310) 230-1700</FONT></DIV></BODY></HTML>

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 08:52:02.00

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:
This morning's staff meeting has been cancelled. Will let you know when
it is re-scheduled.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 10:25:13.00

SUBJECT: IRUP suggestions, please

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

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

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

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

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

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:
thanks!

r

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 09:11:45.00

SUBJECT: Phone Message from Gidi Grinstein

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

TEXT:
Let me know if you want to meet with this group.
---------------------- Forwarded by Lisa D. Branch/CEA/EOP on 06/01/99
09:11 AM ---------------------------
From: Sandra F. Daigle on 06/01/99 08:56:15 AM
Record Type: Record

To: Lisa D. Branch/CEA/EOP
cc: Robert Z. Lawrence/CEA/EOP

While You Were Out
While You Were Out
Contact:
of:
Phone:
FAX:
Gidi Grinstein
Economic Cooperation Foundation (ECF)
9-011-972-5272-1198

Message:
Contact: Gidi Grinstein
Company: Economic Cooperation Foundation (ECF)
Phone: 9-011-972-5272-1198
FAX:

Message: He and his group had met with Robert at the beginning of March (his first or second day at CEA, he recalls). They will be in Washington this week and would like to meet again concerning the Israel Palestine Project in Permanent Status. They want to present their ideas and get more input.

Please call to schedule a meeting if possible.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 14:32:52.00

SUBJECT: USOECD Mission Performance Plan Meeting

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

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

TEXT:
Hi everyone,

I attended the Mission Performance Plan meeting today at the State Department. While it wasn't particularly eye-opening, there were a few aspects of the discussion I wanted to pass along.

1. My primary concern with the draft Plan they had circulated was that there was considerable overlap among the various goals set out in the Plan. The State people at the meeting agreed that there was overlap, but they seemed unconcerned. They said the OECD itself frequently assigned overlapping topics to its subdivisions --- that was one reason why the overlap was occurring.

2. I raised the issue of consolidating membership, seeing as how it wasn't at all addressed in the document. The point here is that Sec. Rubin has talked about consolidating some of the European seats in the context of the IMF, and I wanted to see what views were on this front with the OECD.

We discussed it, but State is wary of bringing the subject up, since it feels that several U.S. agencies (maybe including State) like having multiple Europeans at the table so that internal dissension can be generated. (These agencies were said to include USTR and EPA.) So the issue is not mentioned in the Mission Plan and seems likely not to be because it is too contentious.

3. On the issue of budgets the State people felt that there was no overarching plan behind the budget cuts at the OECD other than a general streamlining combined with making the OECD more directly responsive to individual members' desires rather than an automatic agenda.

I raised Robert's multiple points about budgeting, and one fellow at the table said that he felt there had been a general rise in OECD publication prices, tied to the budget tightening. That is, the OECD had raised publication prices in order to partially offset the budget cutbacks. I don't think this was a widespread or necessarily factually supported view, but it definitely was voiced.

Concerning Robert's idea of outsourcing work to private analysts, the people at the meeting cited the rigidity of European views concerning tenured positions at the OECD as being a constant problem.

4. On the Development Center specifically, the story is apparently as follows: As of July 1998 or thereabouts, the U.S. officially pulled out, having given its one-year notice. Since then, the United Kingdom apparently also has pulled out, and Japan is considering following suit.

The reason for the pulling out was apparently twofold. The Development Center was seen as partially duplicating work done at the United Nations and elsewhere, and the budgetary commitment to the Development Center was separate and distinct, and therefore severable, from the commitment to the OECD. In comparison, the commitment to the UN was not similarly situated (ie, it was "all-or-nothing," probably). So the Development Center got the axe. Why? Because something had to, in order to comply with Congress's 10% cut in the State Department's CIO funding pool, out of which funding for everything (UN, OECD, etc.) must come.

The Development Center apparently had either pioneered or worked extensively on the GREEN model, in fact.

Apparently the Development Center is fiercely lobbying Congress to restore funding to it directly, rather than going through the CIO pool. The State Department doesn't seem to want that.

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 17:27:56.00

SUBJECT: WP-3 Materials

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

TEXT:
Hi Robert,

I spoke with Lisa, and she said there was some question as to whether you'd be in Washington on Monday or not. Earlier, I had gotten the impression that you probably would be, so I told Treasury we'd like their briefings by Monday at the latest.

Fed briefings are probably also in the pipeline, but I haven't touched base with them yet as to when they might be available.

Do you have any specific instructions other than what seems most reasonable: get the briefings as soon as possible?

Best,

-Ryan

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 11:20:48.00

SUBJECT: Larry Summers Asian Crisis Mtg Moved Again

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:
The new date for the mtg is Mon, 6/7, at 11am (same location).

ROBERT: Please decide soon whether or not you will return to DC from
Boston so I can make the necessary adjustments to your airline
reservations.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: JWALKER@brook.edu@INET@LNGTWY (JWALKER@brook.edu@INET@LNGTWY [UNKNOWN])

CREATION DATE/TIME: 1-JUN-1999 17:57:04.00

SUBJECT: Comments on Rangan/Lawrence volume

TO: Robert Z. Lawrence@EOP (Robert Z. Lawrence@EOP [CEA])
READ:UNKNOWN

TEXT:
Dear Dr. Lawrence:

We are ready to go back for final pages for the above book. As I haven't heard from you, can I assume that you have no further comments on the page proofs?

We do now have the foreword you submitted to Rangan and it is making its rounds here.

Best,

Janet Walker
Managing Editor
Brookings Institution Press
1775 Massachusetts Avenue, N.W.
Washington, DC 20036
Tel: 202/797-6253
Fax: 202/797-6195

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 14:53:11.00

SUBJECT: Phone Message from Michael Watkinis

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

TEXT:
Contact: Michael WatkinisCompany: Phone: 617-495-5058FAX: Message: He is arranging an interview with Rita Hayes (USTR Geneva Ofc) and wants your okay to mention your name.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 19:18:21.00

SUBJECT: response to Murkowski Qs

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

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

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

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

TEXT:
Attached is a draft of our response to the Murkowski et al questions. I would appreciate any comments you have on these. Once I have incorporated your comments, we will run these by Janet, and then send them through interagency review.

Joe

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D54]ARMS20429495V.136 to ASCII,
The following is a HEX DUMP:

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

Draft Responses to Senate Energy and Natural Resources Committee Questions

Senator Murkowski

Q1) It is my understanding that when asked if any studies had been done on the impact on labor of the proposed Kyoto Protocol, the Department of Labor responded to the inquiry by sending out a copy of the DRI study commissioned by the United Mine Workers of America. Is that correct? Is so, is the DRI study the Administration's official position?

A1) The July 1998 report "The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis" is the only document that reflects the Administration's official position on the potential economic effects of the Kyoto Protocol.

Q2) Is it correct that only developed nations, or "Annex I" parties to the Framework Convention can participate in emissions trading?

A2) Article 17 of the Kyoto Protocol notes that "[t]he Parties included in Annex B may participate in emissions trading for the purposes of fulfilling their commitments under Article 3 of this Protocol." While most countries listed in Annex B of the Protocol are listed as Annex I parties to the Convention, there are a few exceptions.

Q2a) How many nations are included?

A2a) 38.

Q2b) How many of them are trade competitors of the United States?

A2b) The United States engages in trade in goods and services with all 37 other Annex B countries.

Q2c) Why would these countries want to sell emissions credits to the U.S. if they need them for their own economic growth?

A2c) Countries undertaking rational economic behavior to comply with Annex B targets will engage in emissions trading to the extent that such participation maximizes their economic gains. A country that is a net buyer (as well as firms that are net buyers) would engage in trading to minimize the costs of their compliance with the Protocol. A country that is a net seller (as well as firms that are net sellers) would engage in trading to maximize the benefits from trading while complying with the Protocol. A country could reduce emissions below its target, and sell these excess emissions allowances to the United States or other

Annex B countries, and be made better off. Thus the trading system could promote economic growth, not hinder it, for these selling countries.

Q3) Did CEA use any of the Energy Information Administration analysis as input to its analysis? If not, why not?

A3) In evaluating the economic effects of the Kyoto Protocol, the Administration reviewed the existing economic literature on climate change. This review included an assessment of modeling efforts coordinated by the Stanford Energy Modeling Forum, the OECD, and the Interagency Analytical Team. EIA did participate in the IAT, and the IAT draft report released in July 1997 included some of the EIA NEMS analysis completed to date. In addition, EIA completed an economic analysis of stabilizing carbon emissions to 1990 level by 2010 in October 1997 for the Office of Policy and International Affairs in the Department of Energy. This EIA work served as some of many inputs in our understanding of the Kyoto Protocol.

Q4) Who conducts the "peer review" of the CEA analysis? Does this include the EIA? If not, why not?

A4) The Administration's economic analysis has not been peer-reviewed. CEA had the lead in preparing the document and CEA, as a matter of policy, does not submit its reports for peer review. As a document reflecting the Administration's position on the economic effects of the Kyoto Protocol and the President's climate change policies, it did undergo review by those agencies with a vested policy interest. EIA, as an independent statistical agency, does not comment on policy matters and thus did not participate in this internal review.

Q5) You mentioned in your testimony that meetings in Buenos Aires regarding Annex I trading "went well." WEFA says about the same meetings that "no substantial progress was made." What do you think accounts for the difference of opinion? Please elaborate on why you believe the meetings "went well."

A5) [Note: in reviewing the written testimony and the Q&A transcript, Janet made no reference to BA trading negotiations going well. I suggest that we follow-up with Committee staff and request that they note the excerpt in the testimony where Janet supposedly said this.]

Q6) To address global warming, most agree that some precautionary, non-regulatory measures to slow emissions of carbon into the atmosphere are appropriate and prudent at this time. Shouldn't the continued domestic use of nuclear power be one of those precautionary measures?

A6) Nuclear power is an important component of the nation's energy portfolio and will continue to play an important role. The Administration supports clean, safe nuclear power. For example, the Administration has proposed funding for the Department of Energy's new Nuclear Energy Plant Optimization program. This R&D program will assist utilities improve the reliability and safety of older reactors to facilitate relicensing and extend the useful life of these reactors. In addition, the Administration supports the Department of Energy's Nuclear Energy Research Initiative to fund collaborative partnerships among national laboratories, universities, and industry R&D organizations to conduct research on proliferation-resistant reactors and fuel technologies, new techniques for on-site and surface storage of nuclear waste, and other advanced design applications.

Q7) The President is personally committed to efforts to control greenhouse gas emissions. Yet, this same President continues to oppose legislation passed by both the House and the Senate to allow the U.S. Government to fulfill its obligation to provide safe, centralized, managed storage of spent nuclear fuel. Given that safe and efficient management of spent fuel is critical to the continued viability of nuclear power, and nuclear power is currently our only large-scale source of carbon-free electricity, how is the Administration reconciling these two seemingly opposite positions?

A7) The Administration is committed to resolving the nuclear waste management issue in a timely and sensible manner, consistent with sound science and the protection of public health, safety and the environment. We believe that the Federal government's long-standing commitment to permanent, geologic disposal should remain the basic goal of high-level radioactive waste management policy. The Administration understands the concerns of the utility industry, public utility commissions, and others about the inability of the Department of Energy to accept spent nuclear fuel, and the Department has made every effort to work cooperatively with the affected parties to find satisfactory ways of mitigating the impacts of this delay and will continue to do so. The Administration is confident that acceptable solutions are available that will enable the continued operation of existing nuclear power plants through the remainder of their useful lives, with the concomitant benefits for U.S. efforts to reduce the anticipated growth in greenhouse gas emissions.

Q8) EPA currently restricts many types of emissions under the Clean Air Act, and has recently added new, more stringent restrictions for ozone, particulate matter, and nitrous oxides. Carbon dioxide controls would also be added under the President's Global Climate position. Won't this country's energy policy have to maintain a robust nuclear generation industry as part of the energy portfolio if these ever-intensifying standards are to be achieved?

A8) Nuclear power is an important component of the nation's energy portfolio. The Administration believes that nuclear power will continue to play an important role in providing electricity to consumers without emissions of air pollutants common to some other forms of electricity generation.

Q9) In page one of your testimony, you indicated that your analysis shows that costs of Kyoto can be "modest" if there is "meaningful developing country participation."

Q9a) Please describe what you mean by "meaningful developing country participation."

A9a) Climate change is a global problem that requires a global solution. Current projections show that developing country emissions will surpass those from industrialized countries by 2020. The problem of climate change cannot be solved unless developing countries take measures themselves to limit greenhouse gas emissions.

The U.S. has worked and will continue to work bilaterally, regionally, and multilaterally to promote more active efforts by developing countries to limit their emissions. We have and will continue to concentrate on key countries and on approaches that are consistent with the economic growth and development of these countries and with other environmental objectives. We will not submit the Kyoto Protocol to the Senate for advice and consent to ratification until we feel we have achieved meaningful participation from key players in the developing world.

We must also recognize that the term "developing country" encompasses a wide range of nations which are at various stages of industrialization and contribute differently to global emissions. Accordingly, there is no one-size-fits-all approach to measuring developing country participation. Clearly, a country with high GDP per capita or one that emits a proportionally large share of global emissions should be expected to do more than one that is poor or whose emissions are negligible.

Q9b) Does it include China?

A9b) Given its share of global emissions, we consider China a key developing country.

Q9c) What assumption did you make in your analysis? Does China have to participate for there to be "modest" costs?

A9c) The conclusion that the costs of an effective and global implementation of the Kyoto Protocol is based on a substantial review of the economics literature on climate change. In the illustrative analysis undertaken by the Administration with the Second Generation Model, we took advantage of the structure of the model to evaluate the effects of four large developing countries adopting targets. In the SGM, there are separate modules for China, India, Mexico, and Korea, while all other developing countries are grouped into a "Rest of the World" module. In estimating a permit price of $23 per ton, we assumed that these four developing countries adopted emissions targets set at their 2010 business as usual emissions level and participated in emissions trading with Annex I countries.

We believe that the participation of China would be mutually beneficial, and that it should make a contribution to the global effort to address climate change. However, it is not necessary for China to adopt an emissions target for the costs to be "modest."

Q9d) Have you received any indication that China will agree to emissions limitations?

A9d) The Administration has discussed this issue previously with the Government of China, and we will continue to do so in the future.

Q10) What find of future do you see for nuclear power and hydroelectric power if the U.S. has to abide by Kyoto or Kyoto-like targets?

A10) The Administration continues to support nuclear and hydroelectric power as important components of our nation's energy portfolio. We believe that they will continue to play an important role as well.

Q11) Some people have expressed concerns that when the U.S. has to absorb the costs of saving social security and complying with Kyoto at the same time, there could be a very negative effect on our current budget surplus. How should this be handled?

A11) The President's proposal for Social Security reform would dedicate most of the projected budget surpluses for the next 15 years to Social Security reform, with smaller shares for reforming Medicare, establishing USA accounts to encourage personal saving, and addressing critical national needs. This last piece would include military readiness, education, and research. While the Administration will continue to fund climate change research, such as through the Global Climate Research Program, and energy efficiency and renewables R&D, such as through the Climate Change Technology Initiative, we do not envision Federal outlays on implementing Kyoto of the magnitude to have a very negative effect on our current budget surplus.

Senator Graham

Q1) Does the Administration's analysis estimate the economic and environmental benefits of addressing climate change?

A1) The Administration did not undertake an independent assessment of the climate change-related economic and environmental effects of mitigating climate change risks. However, we did review several existing analyses from the economics literature on this issue. These studies found that a doubling of atmospheric concentration of carbon dioxide could result in annual U.S. economic costs on the order of 1% of GDP. Please refer to pages 69-70 of "The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis" for more discussion of these studies.

The Administration did make an illustrative calculation of the possible air quality ancillary benefits associated with abating greenhouse gases. By reducing emissions of carbon dioxide, emissions of particulate matter and ozone precursors are also reduced. We found that the economic benefits of reducing emissions of these local air pollutants could offset at least one-quarter of the direct resource costs from abating greenhouse gases. Please refer to pages 66-69 of "The Kyoto Protocol and the President's Policies to Address Climate Change: Administration Economic Analysis" for more discussion of this analysis.

Q2) Have the costs associated with not taking action been analyzed?

A2) Please refer to the response to question 1.

Q3) What assumptions has the Administration made in the analysis regarding the U.S. nuclear energy industry? Are the assumptions consistent with the Energy Information Administration's forecast for the future U.S. nuclear power production? If not, what is the basis for the difference?

A3) The model used for the Administration's illustrative analysis -- the Second Generation Model -- is benchmarked to the EIA Annual Energy Outlook for the United States. The version of SGM used for this analysis was based on the 1997 Annual Energy Outlook, so assumptions regarding nuclear power in the future under business as usual are consistent with EIA assumptions. For a detailed explanation of how various energy sectors respond to a tradable permit system in SGM, please refer to pages 96-392 of "The Kyoto Protocol and Its Economic Implications", hearing before the Subcommittee on Energy and Power of the Committee on Commerce, House of Representatives, March 4, 1998.

Q4) Has the Administration considered the impact that the lack of a clear nuclear waste policy may have on the future of the nuclear power industry?

A4) No.

Q5) Does your economic model include an uncertainty analysis (i.e., standard deviation, variance)? Have you performed sensitivity analyses for your baseline assumptions?

A5) No.

Senator Craig

I) July 1998 Report on the Kyoto Protocol

The Administration's July 1998 report concluded that the economic costs of complying with the Kyoto Protocol would be "modest." Specifically, predicted that the cost would be 0.1 percent of Gross Domestic Product. The report explained that this result assumed that reductions would be achieved in an "efficient manner." This is defined as employing all three "flexibility mechanisms" provided for by the Protocol: emissions trading, the Clean Development Mechanism, and joint implementation.

QI1) Your report states that the economic costs of complying with the Kyoto Protocol would be "modest." The report explains that this result assumes domestic and international emissions trading and other flexibility mechanisms. However, the report does not explicitly state how much of the United States' emissions reduction target will be achieved by trading and other flexibility mechanisms. In your model, what share of the United States' reduction target would be achieved by trading and other flexibility mechanisms and what share would be achieved by reducing domestic emissions?

AI1) The illustrative model we used -- on the assumption of international trading with industrialized and key developing countries -- assumes 25% domestic action at a permit price of $23 per ton, but that is not an accurate representation of what the Administration thinks will be done domestically because this model output explicitly excludes domestic policies that the Administration believes could have a large impact on the amount of reductions accomplished at home.

First, the Administration's electricity restructuring proposal is estimated to result in 40-60 million tons of reductions, or up to 10% of the reductions necessary to comply with the Kyoto target. Second, the Protocol allows for sink mitigation activities to be used to offset emissions, and the Administration believes there is large potential here. The Administration Economic Analysis cites two studies that claim very large possibilities for carbon sequestration from forestry activities. With good interpretive provisions negotiated and reasonable policies, we could have sizable reductions from sequestration -- perhaps in 5-10% range or higher. Third, the President has offered a $6.3 billion R&D and tax initiative to spur technology, and that there will presumably be other policies offered in the 10-year period between now and 2008. This technology-focused effort could further reduce emissions. Finally, other efforts, like voluntary agreements with industry sectors and federal energy reform, could further increase amount of domestic reductions.

QI2) In estimating the costs of a proposed policy change, responsible policy analysis normally involves making a range of reasonable assumptions and, thus, producing a range of results. That is certainly true of many other studies of the costs of complying with the Kyoto Protocol. I am puzzled that your study apparently used only one set of assumptions and, thus, produced only one result. Did you use only one set of assumptions? If so, would you consider that to be responsible policy analysis? Alternatively, did you use other sets of assumptions and produce other results? If so, what were the assumptions and results?

AI2) In conducting the economic analysis of the Kyoto Protocol, the Administration evaluated a wide array of possible scenarios, including various international emissions trading blocs, ranges of estimates of carbon sink activities, and different assumed rates of autonomous energy efficiency improvement (AEEI). In presenting our results, we made the decision that the scenario should reflect the Administration's position and policies on climate change, including efficient international trading, while being conservative, including assumptions of zero carbon sink activities throughout the world and an AEEI consistent with the Energy Information Administration's forecast. The Administration believes that carbon sinks have the potential to provide significant cost-savings and efforts to promote technologies, such as the Climate Change Technology Initiative, could accelerate the deployment of energy efficient products and processes.

For a comprehensive presentation of the results from these various scenarios, please refer to pages 96-392 of "The Kyoto Protocol and Its Economic Implications", hearing before the Subcommittee on Energy and Power of the Committee on Commerce, House of Representatives, March 4, 1998.

II) International Emissions Trading

The Administration's economic estimate of the cost of complying with the Kyoto Protocol apparently assumes extensive international trading of emissions credits. Russia, Ukraine, and other countries of the former Soviet union are widely discussed source of such credits. This is due to the expectation that the former Soviet Union's economy will not, by 2010, have recovered to its 1990 level. According to the Energy Information Administration, the former Soviet Union emitted 991 million metric tons in 1990 and is expected to emit 792 million metric tons in 2010 (*International Energy Outlook* -- 1998).

The former Soviet Union's agreed-to goal for the first budget period (2008-12) is its 1990 level -- no decrease. Thus, the former Soviet Union would be able to sell 199 million metric tons to the United States or other nations, to help them meet their targets.

QII1) Do you agree with the Energy Information Administration's estimate that the former Soviet Union emitted 991 million metric tons in 1990 and is expected to emit 792 million metric tons in 2010 -- a reduction of 199 tons? Is it true that, despite its expected reduction in emissions between 1990 and 2010, Russia and Ukraine are required to make no reduction from its 1990 emission level by the first budget period? Can you help us understand why such a no-reduction goal was acceptable for the former Soviet Union, while the United States needs to achieve a 31% reduction by 2010?

AII1) Through its annual publication of the International Energy Outlook, EIA provides forecasts for countries and regions from around the world on a variety of energy-related indicators, including carbon dioxide emissions. Other organizations, such as the International Energy Agency, also make forecasts of energy variables, including carbon dioxide emissions. Given the inherent uncertainty associated with emissions forecasts, we cannot state definitively that we agree with any specific emissions estimate. We would note, for example, that EIA, in its 1999 International Energy Outlook, has revised its forecast for the Former Soviet Union for 2010. However, we would agree that, given current expectations about economic performance and energy sector activities, the former Soviet Union countries will have carbon dioxide emissions levels well below their 1990 levels during the first commitment period.

Russia and Ukraine have emissions targets set at their 1990 emissions levels in Annex B of the Kyoto Protocol. The emissions targets for these countries, as well as for all other Annex B countries, and the various provisions of the Protocol reflect a negotiated compromise. Thus, in order to ensure their participation, the Conference of the Parties agreed to Russian and Ukrainian targets set at their 1990 levels.

QII2) Assuming that there is international trading of emissions credits, wouldn't the former Soviet union be able to sell those 199 tons to other countries? Are these 199 tons sometimes referred to as "hot air?" Would the former Soviet Union be able to sell those credits -- potentially reaping billions of dollars -- even if it does not any steps to reduce its emissions? Is there any net reduction in worldwide emissions as a result of selling the "hot air" credits? If not, how will the environment benefit? If there is no environmental benefit, why transfer billions of dollars to the former Soviet Union?

AII2) While the rules for international trading have not yet been developed, the United States supports rules that would promote an efficient trading system. Given the difficulties in evaluating whether a country's emissions level reflected economic performance or emissions abatement policies, the United States is opposed to verifying emissions reductions for the purposes of participating in emissions trading. Such a requirement would require burdensome information gathering and compiling, and increase the costs of trading.

The so-called "hot air" -- the term used by the European Union -- would be tradable in an efficient international emissions market. However, trade in these emissions allowances that exceed their actual emissions during the commitment period would not undermine the climate goal of Kyoto. If trading constraints are established that restrict the ability of Russia to sell permits (or restrict the opportunity for other Annex I countries to buy Russian permits), then emissions during the first commitment period would be lower than in the absence of such constraints. However, Russia would simply bank its allowances and use these allowances in a subsequent commitment period when its emissions exceed its target. While a trading constraint might lower emissions during the first commitment period, the cumulative emissions over several commitment periods from Annex I countries would be the same with and without the trading constraint. Given the long residence times of greenhouse gases (on the order of a 100 or more years), the cumulative effect is what is most relevant in terms of changes in the global climate.

QII3) It might be argued that such an arrangement is needed to entice the former Soviet Union to become involved in a multinational effort to reduce greenhouse gas emissions. However, even if the former Soviet Union were to sell its "hot air" credits in the first budget period, would there be any necessary carry-over beyond 2012? Is there a legal obligation for the former Soviet Union to be involved beyond the first budget period? In essence, couldn't it reap a windfall in the first budget period and then refuse to participate unless there were another windfall?

AII3) All countries have the opportunity under the Kyoto Protocol to opt to leave the agreement with one year's notice. Further, under the Protocol, no country has a legal obligation beyond 2012. Thus, any hypothetical about subsequent commitments could be possible.

III) Emissions Reductions for the United States and Other Nations

Most economically developed countries agreed, in the Kyoto Protocol, to reduce their emissions during the first "budget period" -- 2008-2012. For example, Japan agreed to a 6% reduction below its 1990 emissions level; the United States, to a 7% reduction; and the European Union, to an 8% reduction. Thus, the United States' goal appears to be right in line with the Japanese and European Union goals. However, it is important to note that these reductions are -- with extremely minor exceptions -- relative to 1990 emissions levels, regardless of where we would have been in 2008-2012 without the Kyoto Protocol. Thus, in determining the total reduction needed, one must take into account two factors: (1) where a country's emissions level would have been -- absent Kyoto -- in 2010 (the mid-point of the budget period) and (2) the agreed-to reduction below the 1990 level. Although the agreed-to reduction for the United States is roughly the same as the others' reductions, our economy has been, and is expected to be, more robust. Thus, the United States will need to make deeper reductions than the Japanese and the European Union economies. Specifically, the independent Energy Information Administration (*International Energy Outlook* -- 1998) estimated that the United States will need to reduce emissions by 31%; Japan, by 25% and the European Union, by 19%.

QIII1) I understand that the United States committed, in Kyoto, to a 7% reduction in greenhouse gases. Is that the same level of reduction as agreed to by Japan, the European Union, and other industrialized countries?

AIII1) The United States agreed to an emissions target of 1990 -7% for the 2008-2012 period, conditioned by the use of 1995 as the base year for PFCs, HFCs, and SF_6, and the use of specified carbon sink activities that could offset some emissions. With this formulation of a target, Japan agreed to 1990 -6%, while the EU agreed to 1990 -8%. How these targets translate into reductions from business as usual levels for 2008 to 2012 depends on emissions forecasts for all six greenhouse gases and carbon sink activities. EIA only makes forecasts for emissions of carbon dioxide from fossil fuel combustion. Moreover, its forecasts do vary some from year to year (refer to the 1999 International Energy Outlook for the latest EIA carbon dioxide emissions forecasts). Forecasts also vary from one organization to another. The International Energy Agency of the OECD also forecasts carbon dioxide emissions. In its 1998 World Energy Outlook, the IEA found, for example that OECD Europe emissions in 2010 would be 27% above an emissions level equal to a 1990 -8% carbon dioxide target while OECD North America emissions in 2010 would be 29% above an emissions level equal to a 1990 -7% carbon dioxide target and OECD Pacific emissions in 2010 would be 28% above an emissions level equal to a 1990 -6% carbon dioxide target. Thus, while we can state with certainty the Kyoto targets with respect to base year emissions, there is uncertainty with respect to describing emissions targets relative to forecast business as usual emissions.

QIII2) Is it true that this represents a 7% reduction against 1990 levels? If so, is it also true that the reduction does not account for likely growth between 1990 and 2008-2012?

AIII2) Annex B targets are designed as a percentage change from a base year. For the United States, the base year is 1990 (however, as noted in AIII1, the United States may use 1995 as the base year for PFCs, HFCs, and SF_6). Further, the Protocol allows for specified activities from 1990 through 2012 that contribute to carbon sequestration to also count towards an emissions target. The nature of this commitment is a fixed quantitative target, and does not explicit incorporate emissions growth between 1990 and the commitment period.

QIII3) How much are the United States' emissions expected to grow -- under a business as usual scenario -- between 1990 and 2010 (the mid-point of the budget period)? How does that compare with expected growth for Japan and the European Union? Isn't it true that, taking into account expected economic growth, the United States has taken on a much more ambitious target than other industrialized countries?

AIII3) As noted above, emissions forecasts vary from year to year and from one forecasting organization to another. This makes it difficult to state definitively if one country's target is more ambitious than another's. More importantly, the stringency of a target is not simply a function of the percentage change in emissions from business as usual, but also the opportunities for reducing emissions, both at home and abroad. With an efficient international emissions market, all participating countries should pay the same price for reducing a ton of greenhouse gas. Thus, while targets may vary, the incremental effect on energy prices would be common across these countries. Even without the international flexibility mechanisms, the costs of abating emissions could vary significantly across countries. Some models find that with the targets specified in the Kyoto Protocol, and assuming no international trading, the domestic marginal cost of abatement would be higher in the EU and Japan than in the United States. These results indicate that the United States may not have taken on a uniquely ambitious target.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Richard M. Samans (CN=Richard M. Samans/OU=OPD/O=EOP [OPD])

CREATION DATE/TIME: 1-JUN-1999 12:53:06.00

SUBJECT: Meeting tomorrow w/AFL-CIO

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

TEXT:
If you are planning to write up an agenda or a background memo in preparation for the discussion tomorrow, would you mind sending a copy over for Lael and me? Thanks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 1-JUN-1999 14:30:39.00

SUBJECT: DJ: U.S. Senators Urge Clinton To Raise CAFE Standards

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

TO: Quindi C. Franco (CN=Quindi C. Franco/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:
FYI.
---------------------- Forwarded by Joseph E. Aldy/CEA/EOP on 06/01/99
02:33 PM ---------------------------

David.Bassett @ ee.doe.gov
06/01/99 02:26:45 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: See the distribution list at the bottom of this message
Subject: DJ: U.S. Senators Urge Clinton To Raise CAFE Standards

In case you have not seen this.
..... with Thanks to Jon Coifman.
Best,
-db
---------------------- Forwarded by David Bassett/EE/DOE on 06/01/99 02:25
PM

"Jon Coifman" <jcoifman@ems.org> on 05/28/99 12:13:23 PM

To:

cc: (bcc: David Bassett/EE/DOE)
Subject: DJ: U.S. Senators Urge Clinton To Raise CAFE Standards

Dow Jones Newswires -- May 27, 1999

DJ: U.S. Senators Urge Clinton To Raise CAFE Standards

NEW YORK -- A bipartisan group of U.S. Senators are seeking President Clinton's help in making new cars more fuel efficient by strengthening the federal Corporate Average Fuel Economy standards.

In a letter Wednesday to Clinton, 31 Republican and Democratic Senators urged the president to strengthen CAFE standards, saying that the average fuel economy of new passenger vehicles is at its lowest level since 1980 because of the popularity of sport utility vehicles and light trucks. Sport utility vehicles and light trucks comprise 50% of all new cars sold in the U.S.

Enforced by the U.S. Department of Transportation, CAFE standards require all new cars sold in the U.S. to average no less than 27.5 miles per gallon and all new light trucks to average no less than 20.7 miles per gallon. Car CAFE standards have not been changed since 1990. CAFE standards for trucks were last changed in 1994.

According to a recent National Highway Traffic Safety Administration report, overall fleet fuel economy for passenger cars was 28.7 miles per gallon in 1998, an increase of 0.1 miles per gallon from the 1997 level, while the total light truck fleet CAFE was 20.9 miles per gallon in 1998, a rise of 0.5 miles per gallon above 1997.

To comply with federal fuel economy standards, automakers tend to build smaller, lighter vehicles. But past government efforts to raise CAFE standards have drawn fire from automakers who argue that the market for high-mileage vehicles has yet to mature.

Since 1995, amendments to the Transportation Appropriations legislation have prevented the Department of Transportation from creating new gas mileage standards for new automobiles and trucks, according to a statement released by Sen. Dianne Feinstein, D-Calif., one of the signatories.

In the letter to Clinton, the Senators asked the president to fight against the inclusion of a similar amendment to any bills this year.

Feinstein said that enhanced CAFE standards would not only result in the creation of new jobs, but also reduce the amount of hydrocarbons in the air as well as carbon dioxide.

"Cars and light trucks, including sport utility vehicles, are responsible for 20% of all carbon dioxide emissions, which are the leading cause of global warming," she said. "U.S. vehicles emit more carbon dioxide than all sources in Great Britain combined...Strengthening the CAFE standards is one of the easiest, most important steps we can take to reduce carbon dioxide emissions and fight global warming."

- By Masood Farivar; 201-938-2094

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To:
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Richard.Moorer @ ee.doe.gov
Philip.Patterson @ ee.doe.gov
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RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 17:03:38.00

SUBJECT: Re: June 15th Climate Change Workshop

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

TEXT:
Yes, If there is money and he can get into the sessions the following two days.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
002. email	R. Lawrence to L. Branch, re Your Family in South Africa (1 page)	06/02/1999	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

[05/27/1999 - 06/05/1999]

2014-0316-F
wr10743

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: 2-JUN-1999 17:04:04.00

SUBJECT: In case you were wondering...

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

TEXT:
FYI--no deputies mtg tonight.
---------------------- Forwarded by Lisa D. Branch/CEA/EOP on 06/02/99
04:38 PM ---------------------------

LESLIE
BERNSTEIN
06/02/99 04:37:32 PM

Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: In case you were wondering...

There will not be a Deputies Meeting this evening.

Thanks and enjoy!

Message Sent
To:____
Sara M. Latham/WHO/EOP
Barry J. Toiv/WHO/EOP
Jennifer M. Palmieri/WHO/EOP
Anne F. Donovan/WHO/EOP
Linda Ricci/OMB/EOP
Sharon H. Yuan/OPD/EOP
Shannon Mason/OPD/EOP
Kris M Balderston/WHO/EOP
Tracey E. Thornton/WHO/EOP
Dario J. Gomez/WHO/EOP
Linda L. Moore/WHO/EOP
Dorian V. Weaver/WHO/EOP
Beverly J. Barnes/WHO/EOP

Laura Emmett/WHO/EOP
Christopher C. Jennings/OPD/EOP
John Dankowski/WHO/EOP
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Lisa D. Branch/CEA/EOP
April B. Abdulmalik/OPD/EOP
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Devorah R. Adler/OPD/EOP
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Christine A. Stanek/WHO/EOP
Thomas D. Janenda/WHO/EOP
Erica R. Morris/WHO/EOP
Mary M. Chuckerel/OMB/EOP
Sylvia L. Parsons/WHO/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 17:04:58.00

SUBJECT: Tentative times for AFL-CIO Mtg

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

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

TEXT:
We have called David Smith's office (my contact was Kay Clark) to suggest two possible time slots for the June 14 meeting. The slots are: 10am to noon or 2 to 4pm. Our preference (in order to accommodate Karen Tramontano's schedule most easily) is the earlier slot.

I'll let you know as soon as I hear from Kay Clark again.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 09:37:31.00

SUBJECT: June 9-Invitation to CEA Breakfast 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:
Rebecca Blank and Robert Lawrence invite you to their breakfast meeting on Wednesday, June 9, 8:00-9:00am, in the Old Executive Office Building, Room 324.

Mr. Keith J. Collins, Chief Econoist of the U.S. Department of Agriculture, will be speaking on the peformance of the 1996 Farm Bill and the policy debate that that performance is now generating.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 10:37:03.00

SUBJECT: WTO Deputies meeting postponed

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 06/02/99
10:36 AM ---------------------------

Sharon H. Yuan
06/02/99 10:27:00 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: WTO Deputies meeting postponed

Today's Deputies Meeting on WTO has been rescheduled for Monday, June 7 at
4:00 pm in Room 180. Thanks.

Sharon

Message Sent
To:____
Lisa D. Branch/CEA/EOP
donna_jackson @ ita.doc.gov
norris-ronetta @ dol.gov
Marilyn L. Scott-Perez/NSC/EOP
Nina L. Hachigian/NSC/EOP
Andrew F. Schneider/OVP @ OVP
dianne.akowski @ do.treas.gov
lenora.cully @ do.treas.gov
OBERDORFER_AMY @ ustr.gov
alexandrowiczae @ state.gov

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

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

This marker identifies a responsive email, already made available within another collection.

Collection: 2013-0306-F

Bucket: CEA

Creation Date: 1999-06-02

Subject: afl-cio meeting

Creator: Audrey Choi

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 09:35:42.00

SUBJECT: Re: WP-3 Materials

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:
Hi Robert,

Thanks for the update. I'll ask that we get the briefings as soon as possible (ie, Friday afternoon before 4pm). Lisa, can we Fedex something overnight on Friday? I think we looked into that once and there was some problem, but I can't recall.

Robert: do you have a fax machine somewhere up in Boston that we could send materials to, either at home or at the Kennedy School?

Best,

-Ryan

I am going to be in Boston on Friday and Monday. I would like the briefings , or as much as exists, prior to then. Or Fedexed so they arrive no later than Saturday morning.

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. email	L. Branch to R. Lawrence, re Your Family in South Africa (1 page)	06/02/1999	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

[05/27/1999 - 06/05/1999]

2014-0316-F
wr10743

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]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. email	R. Lawrence to D. Rodrik, re Kennedy School Recommendation (1 page)	06/02/1999	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

[05/27/1999 - 06/05/1999]

2014-0316-F
wr10743

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]
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b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Withdrawal/Redaction Marker
Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. email	L. Branch to R. Lawrence, re Your Security Clearance (1 page)	06/02/1999	P6/b(6)

COLLECTION:

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

FOLDER TITLE:

[05/27/1999 - 06/05/1999]

2014-0316-F
wr10743

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]
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- C. Closed in accordance with restrictions contained in donor's deed of gift.
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- RR. Document will be reviewed upon request.

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- b(1) National security classified information [(b)(1) of the FOIA]
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- 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: Matthew Miller <mattino@worldnet.att.net> (Matthew Miller <mattino@worldnet.att.net> [UNKNOWN])

CREATION DATE/TIME: 2-JUN-1999 22:10:13.00

SUBJECT: Re: This week's column, fyi

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

TEXT:
it was yours. i'd have quoted you but i was barred, you'll recall!
longer (bette) version of this is in the current TNR. thx again.-
Matt Miller
mattino@worldnet.att.net
phone: (310) 230-1600
fax: (310) 230-1700
- att1.htm==================== ATTACHMENT 1 ====================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:
<!DOCTYPE HTML PUBLIC "-//W3C//DTD W3 HTML//EN">
<HTML>
<HEAD>

<META content=text/html;charset=iso-8859-1 http-equiv=Content-Type>
<META content='"MSHTML 4.72.3110.7"' name=GENERATOR>
</HEAD>
<BODY bgColor=#ffffff>
<DIV><FONT color=#000000>it was yours. i'd have quoted you but i was
barred, you'll recall! longer (bette) version of this is in the current

TNR. thx again.-</FONT></DIV>
<DIV><FONT color=#000000>Matt Miller
<A
href="mailto:mattino@worldnet.att.net">mattino@worldnet.att.net</A>
phone:

(310) 230-1600
fax: (310) 230-1700</FONT></DIV></BODY></HTML>

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 09:27:47.00

SUBJECT: lamb imports

TO: Janet L. Yellen (CN=Janet L. Yellen/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:
fyi, here are the WH talking points on the Lamb Import issue that I thought might be useful for you to see. thanks

Lamb Imports
June 1, 1999

Background

In response to a complaint alleging that unfairly priced lamb imports were undermining U.S. domestic producers, the International Trade Commission determined on April 5 that there was the "potential" that unfairly priced imports from Australia and New Zealand could undermine U.S. producers. This finding was then forwarded to the U.S. Trade Representative, and the USTR has forwarded its recommendation to the White House for Presidential action.

Key Point (thru Friday)

This matter is under review (and we intend to make an announcement within the sixty-day timetable for a Presidential decision).

Q: What is holding up the decision?

A: The process is working according to procedures outlined in the law (S.201). We expect to announce a decision on time (by Saturday).

Q: Doesn't this issue threaten cooperation with two of our most reliable trading partners?

A: We have very positive trade relationships with both New Zealand and Australia, and we expect those relationships to continue to be very sound and productive.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 09:46:50.00

SUBJECT: another irup idea

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

TEXT:
JAKARTA NAMES 200 TOP STATE BANK DEBTORS
Indonesia's government yesterday published a list of the 200 largest
debtors to
the state banks, including friends and relatives of former President
Suharto, in
an effort to shame them into paying, reports the Financial Times (p.4).
The
Indonesian Bank Restructuring Agency (IBRA), which has taken over all the
non-performing loans of the state banks, placed advertisements in several
newspapers listing 200 indebted companies in order of the size of their
debt.
At least five of the 10 largest belong to sons, daughters, and friends of
Suharto, while an aerospace company set up by President B. J. Habibie was
listed
as the 23rd largest debtor.
IBRA Deputy Chairman Farid Harianto said the 200 debtors represented 70 to
80
percent of the $18.4 billion in corporate loans taken over by the agency.
None
of the bank lists gave any information about the size of debt, shareholder
ownership, or progress of debt negotiations. A retired minister said the
limited release of data appeared to be a compromise with the IMF, which has
urged the government for almost a year now to take action against private
debtors.
Until yesterday, IBRA would not even reveal the names of debtor companies,
citing libel risks, lack of information from the banks, and-privately-fear
of
retaliation from politically powerful debtors. Some of its staff have
hired
bodyguards after receiving death threats. IBRA staff have also said they
are
skeptical about retrieving large sums of money, as loans were provided to
companies with limited liability, lacking any personal guarantees from the
officials who obtained them.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 12:46:27.00

SUBJECT: Quota Legislation

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

TEXT:
I spoke with Will Marshall at the Progressive Policy Institute (546-0007) about our requested assistance. He will be out of town, but will tell the policy staffer (Jen Bates) and their VP, Chuck Alston, that they should cooperate. He was very interested in helping. Please let Karen know if she needs to follow up with Al From. Otherwise, Robert, I assume that you all will handle it from here.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 15:59:13.00

SUBJECT: June 15th Climate Change Workshop

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

TEXT:
What do you think? Would it be useful for Joe to attend?
---------------------- Forwarded by Janet L. Yellen/CEA/EOP on 06/02/99
03:58 PM ---------------------------

Ryan D. Edwards
06/02/99 12:19:26 PM
Record Type: Record

To: Janet L. Yellen/CEA/EOP
cc:
Subject: June 15th Climate Change Workshop

Hi Janet,

There's an OECD climate change workshop on June 15th --- Robert has said he won't attend. The question is whether Joe should. We think he probably physically can (I talked to him this morning), but another wrinkle would be the travel budget, of course.

What do you think?

Thanks,

-Ryan

PS Hope the Ministerial went well! I also hope Treasury's changing the macro statement at the last minute wasn't a hassle for you. I wasn't too pleased with them about that (but didn't tell them that beyond a courteous, "well, it's JANET'S statement. . . ."). :)

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 16:22:02.00

SUBJECT: FW: Emergency Notice -- Traffic Situation in Virginia

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])
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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:
please see below for an emergency traffic advisory for anyone commutes out
past springfield.
---------------------- Forwarded by Audrey Choi/CEA/EOP on 06/02/99 04:22
PM ---------------------------

Lisa J. Levin
06/02/99 04:18:04 PM
Record Type: Record

To: See the distribution list at the bottom of this message
cc:
Subject: FW: Emergency Notice -- Traffic Situation in Virginia

> The Virginia Transportation Department has informed us that
> the situation involving a spill at the Springfield
> interchange is much more serious then originally anticipated.
>
> As a result, a number of major roads will be closed from 2:30
> to at least 6:30 p.m., and employees need to consider
> alternative routes:
>
> Shirley Hwy (395) from Edsall Rd to Old Keene Mill Rd is
> closed in both directions.
>
> The Beltway from South Van Dorn to Braddock Road is
> closed in both directions.
>
> Aternative roads are Route 1 and Route 50. Metro is
> operating under normal conditions. All HOV restrictions in
> the area have been lifted.
>
> Employees are advised to check local media reports for the

> latest update.

Message Sent
To:
Ann.Harkins @ usdoj.gov
Anne_Shields @ ios.doi.gov
gfrazier @ usda.gov
davidlane @ doc.gov
satterfield-lee @ dol.gov
gary.falle @ hq.doe.gov@inet
Jon_J._Cowan @ hud.gov
leslie_thornton @ ed.gov
Jane.bullock @ fema.gov
lmshein @ opm.gov
Jkravitz @ usia.gov
Brian.Coyne @ ssa.gov
leamond_nancy @ ustr.gov
kris.swedin @ sba.gov
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maya.seiden @ hq.doe.gov
david.bloom @ do.treas.gov @ inet
Mike.Derian @ usda.gov@inet
Jose.Venzor_Jr @ usda.gov@inet
jdoyle @ doc.gov
ebloom1 @ doc.gov
dblank1 @ doc.gov
jdorskind @ doc.gov
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allison.fansler @ do.treas.gov
drossi @ ed.gov@INET
tbish @ ios.doi.gov@INET
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cynthia.coogan @ ost.dot.gov
ba.rudolph @ ost.dot.gov
brenda.daniels @ ost.dot.gov
Mcmahone @ fca.gov
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davis.gail @ epamail.epa.gov
Jon.P.Jennings @ usdoj.gov
Peter B. Bechtel/ONDCP/EOP

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 2-JUN-1999 18:30:40.00

SUBJECT: Re: This week's column, fyi

TO: Matthew Miller <mattino (Matthew Miller <mattino @ worldnet.att.net> [UNKNOWN])
READ:UNKNOWN

TEXT:
Thanks for the column. Its very good. I particularly liked the part about
autos running on water.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-JUN-1999 09:34:53.00

SUBJECT: TODAY'S Deputies Meeting on GMOs postponed

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

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

TEXT:
FYI.
---------------------- Forwarded by Lisa D. Branch/CEA/EOP on 06/03/99
09:32 AM ---------------------------

Sharon H. Yuan
06/03/99 08:31:59 AM
Record Type: Record

To: See the distribution list at the bottom of this message
cc: Bruce McNamer/OPD/EOP
Subject: Deputies Meeting on GMOs postponed

Due to scheduling difficulties, today's deputies meeting on GMOs will not be held today. I will call to reschedule for sometime early next week (Monday or Tuesday).

Thanks again.

Sharon

Message Sent
To:____
Lisa D. Branch/CEA/EOP
OBERDORFER_AMY @ ustr.gov
jtien @ ustr.gov
einhellig_wendy @ ustr.gov@INET@VAXGTWY
Carolyn T. Wu/WHO/EOP
Andrew F. Schneider/OVP @ OVP
Clifford J. Gabriel/OSTP/EOP
Ian Bowles/CEQ/EOP

Nancy Marlow/CEQ/EOP
Marilyn L. Scott-Perez/NSC/EOP
donna_jackson @ ita.doc.gov
dianne.akowski @ do.treas.gov
lenora.cully @ do.treas.gov
Laura Emmett/WHO/EOP
Shannon Mason/OPD/EOP
alexandrowiczae @ state.gov
leamond_nancy @ ustr.gov@INET@VAXGTWY

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

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

This marker identifies a responsive email, already made available within another collection.

Collection: 2013-0306-F

Bucket: CEA

Creation Date: 1999-06-03

Subject: Our Meeting with the AFL-CIO.

Creator: Robert Z. Lawrence

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-JUN-1999 09:31:59.00

SUBJECT: GMOs

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

TEXT:
Robert,

Have you had a chance to read the GMO paper? Would you like to talk
before the meeting - I have a few relevant articles.......

Elise

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-JUN-1999 18:27:13.00

SUBJECT: Latest Steel Study.

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

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D52]ARMS24019716H.136 to ASCII,
The following is a HEX DUMP:

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

The Economic Impact of HR975.

HR975 would set limits on steel imports for a three year period. The bill would require that in no month could the volume of steel imported into the United States exceed the average volume of steel products that was imported monthly into the United States during the 36 month period preceding July 1997.

At current import levels the quota is not binding. The bill was drawn up in 1998 when imports averaged 44 percent above the 28.77 mt allowed by the quota. In response to domestic price reductions, and Administration policies, particularly a vigorous enforcement of the anti-dumping rules and tough discussions with foreign governments, imports levels have fallen precipitously. In the first four months of 1999 they were only 2.4 percent higher than levels allowed by the bill.

If imposed currently, while the bill's impact on employment would be negligible, it would place the US in violation of the WTO rules. The bill would also force steel users to carry higher inventories to guard against disruptions caused by the quota's monthly limits.

If imports returned to 1998 levels, a high case scenario, the costs to steel users would rise by $346,000 per steel job saved. The quota would increase steel employment by 8,170. However, steel prices would rise by 5.3 percent and the costs to steel users would increase by $2.8 billion dollars, more than five times the increased compensation received by steel workers.

The quota would channel more money to foreign steel profits than to US steel workers. The higher price for steel in the US would allow foreign steel firms to reap an annual windfall of $606 million. This exceeds the additional $571 million steel workers would receive.

Foreign retaliation would lead to a loss of 64,000 jobs, almost eight times the employment gain in steel and more than twice the overall gain in employment due to the quota. The quota reduces the value of foreign steel imports by $4.49 billion. If foreigners bring and win a WTO challenge, as the US has done in products such as beef and bananas, they will be able to retaliate on US exports of this value. Since the retaliation is likely to be on steel or steel--intensive exports such as machinery, the gains in steel employment are actually likely to be smaller, and the ratios higher than estimated here.

Because the bill sets a monthly ceiling it would unnecessarily impose costly adjustments. The monthly quotas inhibit normal seasonal fluctuations. The bill would either lead to shortages and disruptions to steel users -- some of whom import products for which there is no domestic substitute -- or it would impose costly adjustments on the part of importers, such as carrying higher levels of inventory , to smooth out monthly imports to meet this constraint. Had the quota been in effect over the 36 month period between mid 1994 and mid 1997, and imports the same levels as they were, 8 percent of imports would have been excluded because they entered in months when the quota was exceeded.

The bill would encourage imports of higher unit value products, leading to fewer

job gains. The quota, which is specified in quantitative units, creates an incentive for foreign steel makers to move into products with higher unit values. Since these products are more labor intensive, this will reduce employment gains. Given legitimate concern about foreign subsidies and industrial policies, it is particularly unfortunate that HR975 would represent a subsidy to foreign steel and create incentives to move into higher unit value products.

High-Import Scenario	
Steel Jobs	8,170
User Cost/job	345,913
Foreign Profit Increase	606,612
Wage Bill Increase	571,928
Export Jobs Lost	64,077

Appendix: Simulation Details.

The impact of the quota is estimated using a base case in which there is no quota: Base case domestic shipments are set at 100 mt -- roughly their average over the past three years; initial prices are $400 per ton --the average import unit value in March and April 1999 was $407 per ton. Employment in blast furnaces and steel mills is set at 155,000 -- the level in 1999. Estimates of unity are used for both demand and supply elasticities -- parameters typical of those in the literature. Each $1million of exports is assumed to generate 14.3 employment opportunities -- value-added per worker in US manufacturing in 1998 was $69,000. Each $1million of steel output generates 3.9 jobs in steel and 9.1 jobs elsewhere in the economy. Each $1 of steel shipments typically contains 64 cents of inputs from other industries.

Three hypothetical import scenarios are simulated. A high-import case in which imports match those of 1998 i.e. 41.5 mt; a mid range -import estimate with imports at 35.5 mt and a low import estimate in which imports are at their levels of the first four months of 1999 annualized.(i.e. 29.5 mt)

Base Cases

	High	Medium	Low
Price/ton	400	400	400
Imports (MMT)	41.50	35.50	29.46
Consumption (MMT)	141.50	135.50	129.46
Employment (1000s)	155.00	155.00	155.00
Production (MMT)	100.00	100.00	100.00

Quota Impact

		High	Medium	Low
1	Price/ton	421	411	401
2	Steel Job Increase	8,170	4,430	466
3	Non-Steel Job increase	19,278	10,451	1,100
4	Consumer Cost/Job	345,913	339,685	333,086
5	Foreign Profit Increase	606,612	328,870	34,629
6	Wage Bill Increase	571,928	310,066	32,649
	Retaliation Impact			
7	Import Loss ($1000s)	4485388	2363130	241563
8	Jobs Lost ($70,000/job)	64077	33759	3451
9	Ratio (8/ (2+3))	2.3	2.3	2.2
10	Ratio 8/2	7.8	7.6	7.4

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-JUN-1999 10:00:20.00

SUBJECT: ISIT

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

TEXT:
---------------------- Forwarded by Robert Z. Lawrence/CEA/EOP on 06/03/99
10:01 AM ---------------------------

Andre.SAPIR @ DG2.cec.be
05/31/99 09:12:13 AM
Record Type: Record

To: rebaldwi @ facstaff.wisc.edu, Robert Z. Lawrence/CEA/EOP, jwhalen @
nber.org
cc:
Subject: ISIT

Dear Bob,Bob&Joel,

Please find enclosed (AT LONG LAST) a first draft of our paper. We apologize for the delay. The two files contain the same paper, but they are two different versions of WORD. Let me know if you have problems reading the document.

See you in Cambridge at the end of the week,

Andre

- ISIT1.doc
- ISIT1-word6.doc

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D2]ARMS23570116D.136 to ASCII,
The following is a HEX DUMP:

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

Preliminary-Do not quote
Comments welcome

Outstanding Issues in Regionalism:

'Other restrictive regulations' and Effects on the Rest of the World

by

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This draft: 28 May 1999

This paper was prepared for the International Seminar in International Trade (ISIT) organised by the NBER and CEPR, June 4-5[th], 1999, at NBER, Cambridge, Mass.

The authors are grateful to Karel Havik for assistance with the data, to Barry Reilly for advice on the econometrics, and to Natalie Chen for assistance with the data and the econometrics. They are also grateful to participants in a CEPR Workshop on 'Economic Analysis and the Next Round', held in London on February 19-20[th], 1999 for comments on an even more preliminary draft. Views expressed here are the authors alone and should be attributed to the European Comission, nor to CEPR.

1. Introduction

This paper addresses the issues surrounding regional trading arrangements (RTAs) that remained unsolved after the Uruguay Round and thus which remain potential topics of negotiation in any forthcoming round of international trade talks – say the Millenium Round. After a brief historical and analytical introduction, it focuses on two major concerns – the application of 'other restrictive regulations on commerce' and the effects of RTAs on excluded countries.

The issue on 'other restrictive regulations' is that, crudely speaking, Article XXIV of the GATT (and its close relative Article V of the GATS) permits members of an RTA to violate MFN if they are 'serious' about integrating their economies more deeply than a liberal 'regular' trade policy would permit. One of the tests it applies for this is that, in addition to removing tariffs and QRs on mutual trade, members should also remove 'other restrictive regulations on commerce' - i.e. they should open the door to full-blooded competition between firms in member countries. There are ambiguities about what this clause actually requires legally and clear problems in enforcing it even when it is clear. Thus the suspicion remains that in many cases members of RTAs have not actually pursued integration to the extent that the formulators of the Article probably envisaged. As a result they have both failed to maximise the benefits of integration to themselves and have been permitted to 'purchase' their trade discrimination against non-members too cheaply in political terms because they have avoided some of the adjustment stresses that proper integration entails.

On the effects of RTAs on non-members the issue is only partly one of interpretation and enforcement. While the GATT and the GATS are clearly concerned to reduce any adverse consequences of regionalism on excluded countries, the requirements of Articles XXIV and V do not guarantee the latter against harm. Thus although the harm that excluded countries suffer will generally be greater if the Article is not applied fully, the issue is ultimately one of whether the Articles need amendment or whether the WTO membership feels that the risk of 'collateral damage' is worth bearing in order to allow countries the chance of integrating their economies more fully.

In both these issues, the critical question is the extent of the violations or damage done – i.e. the empirical assessment of the effects of RTAs. Thus the main body of the paper is an empirical investigation of the effects of the European Union's RTAs with other countries (not between the members of the EU themselves). We use detailed data on the prices (units value) of EU imports of industrial goods from a large sample of partners to assess whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. In the latter case, although we can not unambiguously assert that the difference in relative prices arises because non-members suffer a price decline relative to what they could charge if there were no RTAs, theory suggests that there is at least some element of this behind the result. To our knowledge, there is no existing study of 'other restrictive regulations of commerce' and, as yet, no published study of the effects of RTAs on the prices of exports from non-member countries.

2. Background

The WTO's requirements on regional trading agreements are embodied in Article XXIV of the GATT, refined by a Uruguay Round Understanding, and Article V of the GATS, which also dates from the Uruguay Round.

The problems of implementing Article XXIV of the GATT are long-standing - e.g. Finger (1993), WTO (1995), and Finger and Winters (1997). The procedure for reviewing a new regional trading agreement involved creating an ad hoc working party charged with advising whether or not the agreement was consistent with members' obligations under the GATT. These obligations are, very broadly, that, apart from RTAs including only developing country members, an RTA should:

- not 'on the whole' increase protection against excluded countries;
- reduce tariffs on internal trade to zero and remove 'other restrictive regulations of commerce' between members other than those justified by certain other GATT articles; and

- cover 'substantially all trade'.

These criteria raised a host of problems of interpretation, which were supplemented by a straight-forward unwillingness to enforce the rules even where they were clear. Of 69 investigative working parties established before 1994 only six concluded that their RTAs were in conformity with the GATT and the remainder had dodged the issue by failing to draw any conclusions at all (WTO, 1995). Essentially the problem was political. When the EEC was notified to the GATT it was clearly in violation of Article XXIV - the then head of GATT observed that "there was no disagreement that the incidence of the common tariff was higher than that of the rates actually applied [before the formation]" - but the political pressure to permit it to proceed was overwhelming.

With such an inauspicious outcome to its first big test, and recalling the GATT's convention that finding a violation required unanimity (i.e. the acquiescence of the accused party to its conviction), it is hardly surprising that matters did not improve and that the GATT was more or less unable to enforce its own rules.[1]

These short-comings were well recognised by trade diplomats and during the Uruguay Round considerable effort went into negotiating improvements to the Article. Unfortunately, while the resulting understanding on the interpretation of Article XXIV clarified a number of issues, such as how to calculate tariff averages before and after the RTA and what a reasonable transition period would be, it failed to address the fundamental problems such as defining 'substantially all' and 'other restrictive regulations'. Moreover, the subsequent creation of a single standing Committee on Regional Trading Agreements (CRTA) in 1996 has not yet resolved the difficulties.

The CRTA was seen as a means of ensuring more rigorous review of new RTAs because a single group would review all of them using the same criteria and with more searching notification and information requirements. It would also undertake periodic review of existing RTAs, and could resolve some of the systemic issues that remained after the Uruguay Round.

[1] This is not to say that the rules have had no effect: almost certainly RTA members have tailored their agreements to be conformable with the GATT wherever the perceived political cost of doing so was not prohibitive.

The more thorough review was seen as a route to better compliance with WTO requirements, while the consideration of conceptual issues was a step toward refining and codifying the rules more precisely.

Unfortunately the CRTA has not yet got into its stride. Its assessments of particular cases have been stymied by the lack of clear systemic rules and the discussion of rules stalemated on exactly the same 'substantially all' and 'other regulations' issues as the previous Uruguay Round discussions. By December 1998 the Committee had initiated consideration of 62 RTAs (including 32 inherited from previous working parties). It had started factual analysis on 41 of these, and was "elaborating conclusions" on 28. To date, no analyses have been released or conclusions reached.

Thus the problems of Article XXIV, and those of its very close relative GATS Article V, remain on the table for the Millennium Round. Among the most obvious are:

- the definition of 'substantially all trade';
- the definition of 'other restrictive regulations';
- the ability of RTA members to raise applied tariffs to their bound rates, which can associate the RTA with a considerable increase in actual protection;
- the concessions under the Enabling Clause that permit developing country RTAs to have partial preferences and partial coverage;
- the fact that current rules still allow RTAs that positively harm excluded countries; and
- the scope for rules of origin to 'export protection' from one FTA member to another.

At present, despite their importance there is still considerable doubt about whether these issues will get onto the agenda - Winters (1998). The EU is not planning to raise the issue itself, although it is willing to discuss it if others do. The US, as well as resisting the idea of a Round as opposed to essentially sectoral negotiations, shows no readiness to complicate its negotiations in the APEC and the FTAA by tightening up the rules prematurely. The US view is that APEC will eventually have at least to threaten to become discriminatory if it is to prosper as a bloc - Bergsten (1997). Thus it remains for the 'middle-sized' powers in WTO - such as Australia, Hong Kong, Japan and Korea, - to make the running on regionalism, as

indeed they have over the last five years.

This paper contributes to the case for discussing Article XXIV by giving two of the issues above some empirical foundation. We focus on the European Union (EU) which operates a complex system of trade relations granting various forms of preferential access (under reciprocal or non-reciprocal RTAs and under the Generalised System of Preferences (GSP), to most third countries, except a handful treated on a purely most-favoured-nation (MFN) basis – see Sapir (1998). We explore data on the prices of EU imports to identify, first, the extent to which the markets of the EU and its various RTA partners are integrated - and hence, by inversion, the extent to which 'other restrictive regulations of commerce' remain. Second, we cast some light on the costs that EU RTAs impose on non-members and thus on the case for current WTO rules to be enforced and tightened up.

3. Integration and the prices of imports

One of the most robust predictions of customs union theory is that a country receiving a preference in a partner market will raise its pre-tariff prices - that is, the price of the preference-granting country's imports will rise. In the simplest of models with homogeneous goods, where the exporter has an upward-sloping supply curve and where the importer continues to import from the rest of the world at a fixed world price, P_w, the exporter raises its price by the full extent of tariff that has been removed - e.g. Winters (1999). The importer's internal price is fixed at (P_w+t), where t is the tariff, so the preferred exporter, which could initially sell at no more than P_w to achieve this price can now sell at (P_w+t) and still remain competitive. If, in fact, the tariff comprises an explicit tariff t_0 plus an implicit tariff equivalent t_1 due to 'other restrictive regulations', a country that receives only a tariff preference will raise its export price from P_w to $(P_w + t_0)$ while one that receives, in addition, exemption from t_1 will raise it to $(P_w + t_0 + t_1)$. Thus in principle we can use differences in the level of export prices to distinguish levels of integration between the EU (importer) and its various partners (exporters).

The story is similar, but less extreme, if products are differentiated. In imperfectly competitive markets, when a preference is received it will be partly passed through to consumers and partly absorbed into higher export prices. The extent of pre-tariff price increase will vary

according details of the market, but under plausible conditions the larger the preference (t_0 or $t_0 + t_1$), the larger the price increase. Thus again in principle we can distinguish the degree of preference, explicit and implicit, by examining price differentials.

An important additional element in the imperfectly competitive model is that because preferences are partly passed on to consumers through reductions in post-tariff prices, they put competitive pressures on other suppliers, who will usually have to reduce their prices in compensation. Non-members of the RTA, of course, have received no tariff concessions and so declines in their post-tariff prices are also declines in pre-tariff prices. That is, the RTA potentially drives down the prices received by non-member exporters to member markets. These terms of trade losses that RTAs impose on non-members have long been known in theory - e.g. Mundell (1964) - and are the basis of models in which RTAs reduce the welfare of non-members and so induce domino regionalism (Baldwin, 1995), tariff retaliation (Bond, Syropoulos and Winters, 1996) or separate bloc formation (Frankel, 1997). Surprisingly, however, they have received very little empirical attention, the only *ex post* data-based studies known to us being Winters and Chang (forthcoming) and Chang and Winters (1999).

Winters and Chang and Chang and Winters are both event studies which seek to identify price changes through time in response to instances of regional integration - Spanish accession to the EC and the formation of Mercosur respectively. The present paper takes a different approach, seeking to exploit inter-country differences between the many partners that have RTAs with the EU. Thus as well as seeking differences between different classes of RTAs according to how close a degree of integration with the EU they permit, we also explore differences between members and non-members of EU-RTAs.

The main additional problem of the cross-sectional approach is that there are good reasons why the export prices of nominally identical goods should vary across suppliers independently of RTAs. Thus we need to correct for these factors before we can identify integration effects.

4. Other explanations of import prices

First, a confession: we write and think in terms of the *prices* of EU imports, but in fact we can

measure only *unit values* - value per unit of quantity averaged over the whole set of transactions of a particular kind during a particular period. There are well-known reasons why these are poor indicators of price - Kravis and Lipsey (1970). These mostly arise from the fact that not every transaction within a trade heading will be identical in terms of quality and timing etc; thus they will command different prices and the average will vary with variations in the weight of different transaction classes in the total even if no single price is changed.

We seek to mitigate this problem by working with very finely disaggregated data - defined at the 8-digit level of the EU's Combined Nomenclature trade classification (effectively 8-digit level of the UN's Harmonised System). Nonetheless the potential problem remains. A downside of very disaggregated data is that they are very noisy. We partly solve this problem by excluding from our sample transactions of less than Euro 100,000 and/or less than Kg 1,000. Although such procedure smoothes out some idiosyncratic transactions and recording errors, these shocks remain very prominent in our data.

Below we shall use the term 'price', but this should always be read in an empirical context as meaning 'unit value'.

Economic theory is replete with theoretical models of the causes of price differences between suppliers of similar goods to a market, and industrial organisation specialists have explored some of these empirically. Among international trade specialists, however, this issue represents something of a lacuna. Price dispersion has been used as an indicator of product differentiation - e.g. Keesing, (1970) and Hufbauer (1970), and more recently Fontagné et al (1998), who distinguish vertical from horizontal intra-industry trade by means of price differences. These works offer no explanation, however, of the pattern of price differences.

A stream of work relying on price changes is the 'upgrading' literature which showed that quantitative trade restrictions tended to be associated with quality upgrading, i.e. shifts to supplying the higher-priced varieties within the set of restricted goods - Aw and Roberts (1986) and de Melo and Winters (1993).[2] Brech and Stout (1981) pursued a similar idea to these studies, arguing that exchange rate appreciation forced exporters into higher unit value

[2] Feenstra's (1988) work on autos was similar, but he used more direct measures of quality than just price.

varieties on the grounds that quality would compensate for a lack of price competitiveness. This does apply directly to our work, however, since we seek to explain differences within headings rather than between them.

An early literature did seek to explain unit values more directly, but of exports rather than imports. Hufbauer and O'Niell (1972) examined US exports of machinery and sought to explain differences in the unit values across markets by the markets' income per head (reflecting a demand for sophistication), the volume of trade (reflecting various plausible economies of scale in selling / servicing exports), the markets' degrees of currency over-valuation and tariff / tax regimes (reflecting incentives for mis-invoicing trade). Of these, only the first two variables proved significant explanators. Ohlsson (1974) similarly examined engineering exports' unit values in Europe, mostly for Sweden. He concluded that, across commodities, unit values reflected technical sophistication. Yeats (1990) considers French exports of iron and steel products and finds those to Africa commanding higher prices than average by 20% to 30%. While not attributing this to a single cause, he postulates that it could reflect transaction-size or market power.

Our problem is different from all these studies. We wish to explain differences in the unit values of EU imports of particular goods across suppliers for a single year (1996). Degrees of integration are our main focus - see above - but to avoid biases arising from the sort of factors described in this section, we consider also the exporter's GNP per capita.

A second potential explanatory variable for imports prices is the volume of imports of a particular good from a particular source. First, as noted above, there may be economies of scale in selling which allow providers of high volumes to offer lower prices. Second, if markets are imperfectly competitive, mark-ups are likely to depend positively on market shares; that is, large volumes will be associated with higher prices. In practice, however, it proved impossible to estimate either of these effects because of data problems. Unit values are calculated as the ratio of the value of trade in each heading to the corresponding volume. Given that value is generally measured more accurately than volume – value is the basis on which most taxes are levied and is not subject to uncertainty over units – this means that the unit value and volume will be negatively correlated and that the estimated coefficient on the latter will be biased towards -1; see Orcutt (1950). Moreover, including volumes also seemed

to disturb other estimates significantly, so we dropped them altogether from our explanation of prices.

5. The Econometric Model

For any commodity, *i,* our basic estimating equation is:

$$P_{ij} = P_{ij}(g_j, t_{ij}, D_j) \qquad (1)$$

where P_{ij} is the price (unit value) of exports of i to the EU from country j; g_j is j's GNP per capita; t_{ij} is the EU's tariff on imports of i from j; and D_j is a set of dummy variables reflecting the EU's trade regime for j.

We expect:

$$\frac{\partial p_{ij}}{\partial g_i} > 0, \text{ and } \frac{\partial p_{ij}}{\partial t_{ij}} < 0.$$

We identify six different regimes:

(1) reciprocal RTAs with members of the European Free Trade Association (EFTA);
(2) reciprocal RTAs with central and eastern European countries (PECO);
(3) reciprocal RTAs with some Mediterranean countries (MED1);
(4) non-reciprocal RTAs with other Mediterranean countries (MED2);
(5) GSP; and
(6) MFN.

We had intended also to examine the EU's non-reciprocal RTAs with African, Caribbean and Pacific (ACP) countries, but in fact even treating them as a group, ACP countries never made our size thresholds. Thus we ignore this group henceforth.

Equation (1) is estimated in double-log form with, in principle, one equation for each i and observations ranging over partners j=1...J. We work with a sample of thirty-seven countries,

but J will tend to be lower than 37 for a given i. Arranged according to the six trade regimes identified above, these countries are:[3]

(1) Norway, Switzerland;

(2) Czech R., Estonia, Hungary, Poland, Romania, Slovak R.;

(3) Cyprus, Israel, Turkey;

(4) Algeria, Egypt, Morocco, Tunisia;

(5) Argentina, Brazil, Chile, China, Hong Kong, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Philippines, Singapore, South Africa, Thailand;

(6) Australia, Canada, Japan, Korea, Taiwan, United States.

The sample of commodities is selected as the 1,000 industrial headings (chapters 25-97 of the Combined Nomenclature) at 8-digit level with the largest value of imports in 1996. With 37 countries, we thus work with a sample of 37,000 observations, of which 20,582 record zero imports (or fail to rise above our threshold) and of the remaining 16,418, 9,118 have zero tariffs and 7,300 positive tariffs.[4] In terms of commodities, five show no trade for any of our 37 exporters, and thus do not figure in the exercise. Of the remaining 995, 185 have zero tariffs on all exporters with recorded trade (i.e. the MFN tariff is presumably zero) and 810 have some non-zero tariffs; 16 have non-zero tariffs on all exporters with recorded trade – i.e. the countries with comprehensive free trade with the EU do not export them.

Table 1 reports how the observations with non-zero trade are spread across exporters and tariff classes. It also reports the range of tariff rates for each class. It shows that EFTA and the two Mediterranean groups face no tariffs among our (major industrial) commodities. The PECOs also faced relatively few tariffs by 1996 and those were rather low. For the GSP recipients, on the other hand, it is clear that while they are forgiven non-zero MFN tariffs for around one quarter of our headings, on the remaining three-quarters they faced tariffs not far different from MFN rates.

[3] The classification of countries pertains to 1996.

[4] In aggregate these 37 countries account for 77% of EU industrial imports in 1996 and the 1000 commodities for 78%. The imports analysed here – i.e. up to 37 sources for 1000 commodities – therefore account for 60% of total EU industrial imports.

There are at least two econometric complications in estimating (1). First, and conceptually simple, experience with unit value series in Winters and Chang (forthcoming) and Chang and Winters (1999) suggests that pooling across commodities will be necessary to find enough of a signal in all the noise. This requires commodity-specific constants because neither unit values nor volumes are comparable in their natural units. The use of such constants – fixed effects - implies that all cross-commodity variation is removed from our sample: our estimates are determined entirely by variation across suppliers within each commodity heading. The pooling merely requires that these effects be common across commodities. Pooling also probably requires an adjustment for heteroskedasticity because commodities will vary in terms of errors of observation etc. To start with we handle this by calculating White heteroskadiasticity-consistent standard errors for our estimates.

Second, and *much more complex*, prices can only be observed when trade occurs, and this, in turn, depends partly on prices. In other words, we have a censoring problem. A country's ability to supply commodity i to the EU will probably depend on many factors, including the independent variables in (1). Moreover, at least in the case of GNP p.c. (g_j) the relationship will be complicated. For unsophisticated goods the propensity to supply the good will be negatively related to income, whereas for sophisticated goods, the opposite is likely to apply. Thus pooling over commodities is likely to be difficult and, at least in some cases, the effects of g_j on the probability of observing trade and on the price if we do observe trade will have opposite signs. This, in turn, rules out using simple Tobit procedures to overcome the censoring problem.

The alternative – and our preferred - approach to censoring is the Heckman (1976) two-stage technique: stage 1 is a probit model of the existence of trade, and stage 2 an OLS estimate of equation (1) using (of course) only actual occurrences of trade with an additional variable constructed from stage 1 to reflect the censoring (the so-called inverse Mills-ratio). For the latter to be identifiable, stage 1 requires some exogenous variables (instruments) not appearing in equation (1).

The best instrument we can devise to explain whether j exports I to the EU is to measure country j's comparative advantage in good i relative to the EU's. We can not calculate revealed comparative advantage indicators for thirty-nine countries at the 8-digit level,

because we do not have data on world trade at that level. We use, therefore, measures at the 5-digit level of the SITC using UN Comtrade data, applying 5 digit data to each 8-digit heading that lies within it[5]. We measure comparative advantage by export data to non-EU markets:

$$RCA_{ij} = \frac{X_{kj}}{\sum_k X_{kj}} \frac{\sum_j X_{kj}}{\sum_k \sum_j X_{kj}} \quad (2)$$

where X_{kj} refers to exports to non-EU markets and k refers to 5-digit groups. In addition, the first stage probit equation contains the tariff j faces on good I.

When we pool across commodities we need to compare this with EU revealed comparative advantage in commodity i, by taking ratios of the indicators for supplier j and that for the EU; but since all information varying only by commodity is swept out by our fixed effects in the pooled estimation, it is not actually necessary to make the adjustment in practice.

6. The Results

The main results of the two-stage estimation are reported in table 2. OLS estimates of (1), which offer a direct description of the features of the data, are given in Appendix 1 for comparison. In fact, they tell almost precisely the same story as the main results.

Column 1 of Table 2 reports a simple estimate of (1) pooled over all observations with no trade regime dummies. It suggests that both the supplier's GNP per capita and the tariff it faces have the predicted effect on the unit values of EU imports. The former suggests that a 1% increase in the per capita GNP of a supplier increases the border price (unit value) of its exports to the EU by about 0.3%. Given the variations in GNP pc across even our small sample of suppliers – a factor of about 20 – this suggests a wide range of prices/qualities.

Perhaps more interesting is the co-efficient on tariffs. This indicates that on average 72% of the difference in the tariffs levied on any pair of suppliers is reflected in their pre-tariff prices.

[5] There are nearly 3000 5-digit headings in the SITC(3R), so there is not much inaccuracy in this approximaiton. [CHECK].

The country facing the higher tariff bears about 72% of the difference in terms of a lower pre-tariff price relative to the country facing the lower tariff. It is tempting to interpret this as saying that suppliers bear 72% of EU's tariffs, but that would not be strictly correct because we are comparing effects across imported sources not between imported and EU sources. That is, the 'average' or 'normal' tariff on any commodity could have a different incidence than we have estimated for the tariff preference.[6]

In terms of discriminatory tariffs we have a powerful result showing that suppliers receiving preferences in EU markets derive considerable benefit relative to others – increasing the average price of *all* their sales of the commodity concerned by about 72% of the preference. We do not know from these results whether the effect is due to the preferred suppliers raising their prices or the non-preferred ones reducing theirs relative to non-discriminatory trade. While theory suggests a mixture of both effects – Winters and Chang (forthcoming) – to answer that question accurately we need additional information that is not available to us at this stage for the EU. For example, Chang and Winters (1999) make use of the suppliers' export data to provide a bench-mark for supply prices in the absence of discrimination. What our results do suggest, however, is that if a small country supplier were newly granted tariff preferences in the EU, it would tend to increase the prices of it exports to the EU by about 70% of the tariffs it had been released from. This interpretation suggests that empirical work on recently granted preferences might be rewarding – e.g. on South Africa as it implements its trade agreement with the EU.

The coefficient on the Mills ratio is of no direct interest in itself, but its statistical significance suggests that the censoring does need to be taken into account. However, as appendix 1 shows, its economic significance is not great, since it hardly changes the estimates of the effects of interest.

The summary statistics of this regression suggest that there is a huge amount of variance in the unit value series we are seeking to explain, and that, in fact, we are very successful in doing so. Unfortunately this is more apparent than real: the bulk of the variance is across commodities – and so is meaningless (we know cars have higher unit values than scrap iron) –

[6] On the other hand, given that for nearly all of our commodities some suppliers face zero tariffs, our result is suggestive that a good deal of the tariff does get pushed back onto suppliers.

and is explained by the fixed effects.[7] Of the remaining variance, we explain only about z%, and the residual standard error of 0.81 (with a logarithmic dependent variable) is large. Such goodness of fit statistics are in line with previous experience of cross-section price equations, however (e.g. Winters and Chang, forthcoming), and the coefficients of interest are statistically significant, so that even if we have not explained the prices of EU imports completely, we have identified genuine effects.

Column (2) adds the dummies for different trade regimes to column (1) in order to try to identify different degrees of remaining restrictive regulations on commerce between the EU and its various partners. The less integrated into the EU market a partner is, the lower the (pre-tariff) prices it is likely to be able to charge in the EU. There is no dummy for the countries with no RTA (and which thus face MFN tariffs), so all other effects are measured relative to them. The results are neither particularly plausible nor well determined. The tariff effect is larger than theory would predict and the trade regime dummies negative except for EFTA.

The major practical problem with these results is that the regime dummies are correlated with observed tariffs: the closer a partner's trade relations with the EU, the lower the tariffs it faces. Thus it becomes very difficult to identify simultaneously both the tariff effects and the 'other restrictive regulations' effects that we are seeking. One solution to this problem is to seek the latter on trade which faces no tariffs, and thus on which we might hope that 'other regulations' are the only cause of differences between suppliers. This is done in column (3) of Table 2, which is based on the sample of 9118 supplier/commodity pairs which face no tariffs. This equation, of course, has no estimated tariff effect.

The GNP pc effect seems acceptable and although the regime dummies are again not very precisely estimated, they do seem broadly explicable.[8] The EFTA countries – close partners of long-standing,[9] as well as culturally and geographically close to the EU – appear to earn a statistically significant premium of nearly 11% above what one would expect for quality reasons as proxied by GNP pc. Recall that these regime effects are measured relative to the set

[7] Of total variance of nnnn, x% is explained by the fixed effects, y% by tariffs and GNP pc, and z% is unexplained. [WE NEED TO GET THIS ANALYSIS OF VARIANCE PRINTED OUT].
[8] All the dummies except one are algebraically larger in column (3) than (2), which reflects the correlation with tariffs noted above.
[9] Free trade between EFTA and EEC countries dates from 1973.

of countries facing MFN tariffs, which have similar incomes and levels of sophistication to the EFTA countries. Thus the EFTA premium is unlikely to arise just because we have proxied quality inadequately.

The coefficients for Southern Mediterranean countries (MED2) and GSP recipients are not significant and so should be treated as zero. They are neither favoured nor disfavoured relative to the MFN set. There is a strong negative coefficient for the PECOs, which apparently charge prices about 41% below what we might expect on the basis of the rest of the sample. This result is not easily reconciled with the widespread enthusiasm for the Europe Agreements as a means of integrating the PECOs into the EU economy, but is not particularly difficult to understand in a broader context.[10] First, frictions clearly remain on EU-PECO trade. Anti-dumping measures may be less frequently applied to these countries than previously, but they are still used in some, and perhaps threatened in other, cases. Problems of meeting technical standards and certification requirements abound – see, for example [Messerlin?] – which could cut demand and hence lower prices in differentiated product markets. Second, the GNP pc data are probably less reliable for the PECOs than for the other groups. If these are over-estimated, the dummy will tend to get a negative sign by way of correction. Third, even if GNP pc is a reasonable proxy for quality objectively and in steady state, the PECOs have faced formidable reputational difficulties in newly entering manufactures markets, which has the same effect. Moreover, recall that our data refer to 1996, only a few years into the transition. Thus all told, we do not find it difficult to believe that PECO exports to the EU face stiffer barriers than other exports, although we do believe that this is likely to be a temporary phenomenon.

One might make similar arguments for Eastern Mediterranean countries with reciprocal RTAs (MED1), but they would not be not very convincing. Thus the coefficient of –11% on these three countries remains something of a mystery.

Column (4) considers the complementary set of observations to column (3) – those for which the tariff is non-zero. Here both tariffs and 'other regulations' are relevant, but the collinearity appears to confound their estimation. The GNP pc effect is plausible again, but the tariff

[10] Moreover, the PECO discount might have had to be even higher in the absence of the Europe Agreements.

effect, which implies that higher tariffs lead to higher pre-tariff prices, is not. The regime dummy for the PECOs is now positive as theory predicts for favoured suppliers, but that for the GSP suppliers becomes negative and significant. The very high coefficient on the tariff reduces PECO prices relative to GSP-country prices because the former generally face low tariffs while the latter face more or less MFN rates in the commodities on which they pay non-zero rates. The dummies compensate for this excessively strong effect, raising PECO prices and lowering GSP prices.

If we drop the tariff variable from the 'non-zero-tariff' regression – column (5) – the dummies revert to the negative signs found above, but with their magnitudes and significance reversed compared to the zero-tariff set. This again essentially arises from the fact that the PECOs face low tariffs while the GSP countries face more or less MFN rates, but without the ability to supply as effectively as the MFN set of countries.

7. Conclusion

This paper has sought to investigate empirically whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. The analysis was carried out using detailed data on the prices (units value) of EU imports of 1000 industrial goods from a sample of 37 major trading partners. To our knowledge, this is the first ever attempt to study of the effects of RTAs on the prices of exports from non-participating countries.

We found that tariffs and tariff preferences have a significant effect on import prices. Our results suggest that if a small country supplier were newly granted tariff preferences on imports of industrial products into the EU, it would tend to increase its import price into the EU by about 70% of the tariff preference. We also found evidence indicating that 'other restrictive regulations' are less affecting EFTA countries, which have a long-standing and deep RTA with the EU, than other EU preferential trade partners, which are covered by more recent and/or less deep RTAs.

Table 1

Importance of and Tariff Rate Faced by Regional Groupings (percentages)

Grouping	Full sample (n=16418)		Sub-sample with tariff>0 (n=7300)		Sub-sample with tariff=0 (n=9118)	
	Importance	Rate (range)	Importance	Rate (range)	Importance	Rate
All	100.0	2.3 (0.0-16.7)	100.0	5.2 (0.0-16.7)	100.0	0.0
PECO	18.3 (100.0)	0.6 (0.0-5.5)	6.3 (15.3)	3.8 (0.0-5.5)	27.9 (84.7)	0.0
EFTA	8.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	15.7 (100.0)	0.0
MED1	6.7 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	12.1 (100.0)	0.0
MED2	4.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	8.6 (100.0)	0.0
GSP	37.0 (100.0)	3.1 (0.0-12.6)	48.3 (58.1)	5.3 (0.0-12.6)	27.9 (41.9)	0.0
MFN	24.5 (100.0)	4.5 (0.0-16.7)	45.3 (82.3)	5.4 (0.0-16.7)	7.8 (17.7)	0.0

Table 2
Panel Regression Results for Unit Values with Fixed Product Effects
Heckman's Two-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.19 (0.01)
Tariff	-0.72 (0.19)	-1.65 (0.30)	-	4.89 (1.16)	-
PECO	-	-0.40 (0.03)	-0.41 (0.05)	0.42 (0.10)	0.03 (0.03)
EFTA	-	0.09 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.15 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.07 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.15 (0.03)	-0.22 (0.03)
Mills ratio	0.15 (0.03)	0.13 (0.03)	-0.04 (0.04)	0.40 (0.05)	0.40 (0.05)
R^2 (adj.)	0.93	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

Appendix Table 1
Panel Regression Results for Unit Values with Fixed Product Effects
One-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.20 (0.01)
Tariff	-0.67 (0.19)	-1.65 (0.30)	-	4.90 (1.17)	-
PECO	-	-0.41 (0.03)	-0.41 (0.05)	0.39 (0.10)	0.004 (0.03)
EFTA	-	0.08 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.16 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.08 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.16 (0.03)	-0.24 (0.03)
R^2 (adj.)	0.92	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

Preliminary-Do not quote
Comments welcome

Outstanding Issues in Regionalism:

'Other restrictive regulations' and Effects on the Rest of the World

by

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1. Introduction

This paper addresses the issues surrounding regional trading arrangements (RTAs) that remained unsolved after the Uruguay Round and thus which remain potential topics of negotiation in any forthcoming round of international trade talks – say the Millenium Round. After a brief historical and analytical introduction, it focuses on two major concerns – the application of 'other restrictive regulations on commerce' and the effects of RTAs on excluded countries.

The issue on 'other restrictive regulations' is that, crudely speaking, Article XXIV of the GATT (and its close relative Article V of the GATS) permits members of an RTA to violate MFN if they are 'serious' about integrating their economies more deeply than a liberal 'regular' trade policy would permit. One of the tests it applies for this is that, in addition to removing tariffs and QRs on mutual trade, members should also remove 'other restrictive regulations on commerce' - i.e. they should open the door to full-blooded competition between firms in member countries. There are ambiguities about what this clause actually requires legally and clear problems in enforcing it even when it is clear. Thus the suspicion remains that in many cases members of RTAs have not actually pursued integration to the extent that the formulators of the Article probably envisaged. As a result they have both failed to maximise the benefits of integration to themselves and have been permitted to 'purchase' their trade discrimination against non-members too cheaply in political terms because they have avoided some of the adjustment stresses that proper integration entails.

On the effects of RTAs on non-members the issue is only partly one of interpretation and enforcement. While the GATT and the GATS are clearly concerned to reduce any adverse consequences of regionalism on excluded countries, the requirements of Articles XXIV and V do not guarantee the latter against harm. Thus although the harm that excluded countries suffer will generally be greater if the Article is not applied fully, the issue is ultimately one of whether the Articles need amendment or whether the WTO membership feels that the risk of 'collateral damage' is worth bearing in order to allow countries the chance of integrating their economies more fully.

In both these issues, the critical question is the extent of the violations or damage done – i.e. the empirical assessment of the effects of RTAs. Thus the main body of the paper is an empirical investigation of the effects of the European Union's RTAs with other countries (not between the members of the EU themselves). We use detailed data on the prices (units value) of EU imports of industrial goods from a large sample of partners to assess whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. In the latter case, although we can not unambiguously assert that the difference in relative prices arises because non-members suffer a price decline relative to what they could charge if there were no RTAs, theory suggests that there is at least some element of this behind the result. To our knowledge, there is no existing study of 'other restrictive regulations of commerce' and, as yet, no published study of the effects of RTAs on the prices of exports from non-member countries.

2. Background

The WTO's requirements on regional trading agreements are embodied in Article XXIV of the GATT, refined by a Uruguay Round Understanding, and Article V of the GATS, which also dates from the Uruguay Round.

The problems of implementing Article XXIV of the GATT are long-standing - e.g. Finger (1993), WTO (1995), and Finger and Winters (1997). The procedure for reviewing a new regional trading agreement involved creating an ad hoc working party charged with advising whether or not the agreement was consistent with members' obligations under the GATT. These obligations are, very broadly, that, apart from RTAs including only developing country members, an RTA should:

- not 'on the whole' increase protection against excluded countries;
- reduce tariffs on internal trade to zero and remove 'other restrictive regulations of commerce' between members other than those justified by certain other GATT articles; and

- cover 'substantially all trade'.

These criteria raised a host of problems of interpretation, which were supplemented by a straight-forward unwillingness to enforce the rules even where they were clear. Of 69 investigative working parties established before 1994 only six concluded that their RTAs were in conformity with the GATT and the remainder had dodged the issue by failing to draw any conclusions at all (WTO, 1995). Essentially the problem was political. When the EEC was notified to the GATT it was clearly in violation of Article XXIV - the then head of GATT observed that "there was no disagreement that the incidence of the common tariff was higher than that of the rates actually applied [before the formation]" - but the political pressure to permit it to proceed was overwhelming.

With such an inauspicious outcome to its first big test, and recalling the GATT's convention that finding a violation required unanimity (i.e. the acquiescence of the accused party to its conviction), it is hardly surprising that matters did not improve and that the GATT was more or less unable to enforce its own rules.[1]

These short-comings were well recognised by trade diplomats and during the Uruguay Round considerable effort went into negotiating improvements to the Article. Unfortunately, while the resulting understanding on the interpretation of Article XXIV clarified a number of issues, such as how to calculate tariff averages before and after the RTA and what a reasonable transition period would be, it failed to address the fundamental problems such as defining 'substantially all' and 'other restrictive regulations'. Moreover, the subsequent creation of a single standing Committee on Regional Trading Agreements (CRTA) in 1996 has not yet resolved the difficulties.

The CRTA was seen as a means of ensuring more rigorous review of new RTAs because a single group would review all of them using the same criteria and with more searching notification and information requirements. It would also undertake periodic review of existing RTAs, and could resolve some of the systemic issues that remained after the Uruguay Round.

[1] This is not to say that the rules have had no effect: almost certainly RTA members have tailored their agreements to be conformable with the GATT wherever the perceived political cost of doing so was not prohibitive.

The more thorough review was seen as a route to better compliance with WTO requirements, while the consideration of conceptual issues was a step toward refining and codifying the rules more precisely.

Unfortunately the CRTA has not yet got into its stride. Its assessments of particular cases have been stymied by the lack of clear systemic rules and the discussion of rules stalemated on exactly the same 'substantially all' and 'other regulations' issues as the previous Uruguay Round discussions. By December 1998 the Committee had initiated consideration of 62 RTAs (including 32 inherited from previous working parties). It had started factual analysis on 41 of these, and was "elaborating conclusions" on 28. To date, no analyses have been released or conclusions reached.

Thus the problems of Article XXIV, and those of its very close relative GATS Article V, remain on the table for the Millennium Round. Among the most obvious are:

- the definition of 'substantially all trade';
- the definition of 'other restrictive regulations';
- the ability of RTA members to raise applied tariffs to their bound rates, which can associate the RTA with a considerable increase in actual protection;
- the concessions under the Enabling Clause that permit developing country RTAs to have partial preferences and partial coverage;
- the fact that current rules still allow RTAs that positively harm excluded countries; and
- the scope for rules of origin to 'export protection' from one FTA member to another.

At present, despite their importance there is still considerable doubt about whether these issues will get onto the agenda - Winters (1998). The EU is not planning to raise the issue itself, although it is willing to discuss it if others do. The US, as well as resisting the idea of a Round as opposed to essentially sectoral negotiations, shows no readiness to complicate its negotiations in the APEC and the FTAA by tightening up the rules prematurely. The US view is that APEC will eventually have at least to threaten to become discriminatory if it is to prosper as a bloc - Bergsten (1997). Thus it remains for the 'middle-sized' powers in WTO - such as Australia, Hong Kong, Japan and Korea, - to make the running on regionalism, as

indeed they have over the last five years.

This paper contributes to the case for discussing Article XXIV by giving two of the issues above some empirical foundation. We focus on the European Union (EU) which operates a complex system of trade relations granting various forms of preferential access (under reciprocal or non-reciprocal RTAs and under the Generalised System of Preferences (GSP), to most third countries, except a handful treated on a purely most-favoured-nation (MFN) basis – see Sapir (1998). We explore data on the prices of EU imports to identify, first, the extent to which the markets of the EU and its various RTA partners are integrated - and hence, by inversion, the extent to which 'other restrictive regulations of commerce' remain. Second, we cast some light on the costs that EU RTAs impose on non-members and thus on the case for current WTO rules to be enforced and tightened up.

3. Integration and the prices of imports

One of the most robust predictions of customs union theory is that a country receiving a preference in a partner market will raise its pre-tariff prices - that is, the price of the preference-granting country's imports will rise. In the simplest of models with homogeneous goods, where the exporter has an upward-sloping supply curve and where the importer continues to import from the rest of the world at a fixed world price, P_w, the exporter raises its price by the full extent of tariff that has been removed - e.g. Winters (1999). The importer's internal price is fixed at (P_w+t), where t is the tariff, so the preferred exporter, which could initially sell at no more than P_w to achieve this price can now sell at (P_w+t) and still remain competitive. If, in fact, the tariff comprises an explicit tariff t_0 plus an implicit tariff equivalent t_1 due to 'other restrictive regulations', a country that receives only a tariff preference will raise its export price from P_w to ($P_w + t_0$) while one that receives, in addition, exemption from t_1 will raise it to ($P_w + t_0 + t_1$). Thus in principle we can use differences in the level of export prices to distinguish levels of integration between the EU (importer) and its various partners (exporters).

The story is similar, but less extreme, if products are differentiated. In imperfectly competitive markets, when a preference is received it will be partly passed through to consumers and partly absorbed into higher export prices. The extent of pre-tariff price increase will vary

according details of the market, but under plausible conditions the larger the preference (t_0 or $t_0 + t_1$), the larger the price increase. Thus again in principle we can distinguish the degree of preference, explicit and implicit, by examining price differentials.

An important additional element in the imperfectly competitive model is that because preferences are partly passed on to consumers through reductions in post-tariff prices, they put competitive pressures on other suppliers, who will usually have to reduce their prices in compensation. Non-members of the RTA, of course, have received no tariff concessions and so declines in their post-tariff prices are also declines in pre-tariff prices. That is, the RTA potentially drives down the prices received by non-member exporters to member markets. These terms of trade losses that RTAs impose on non-members have long been known in theory - e.g. Mundell (1964) - and are the basis of models in which RTAs reduce the welfare of non-members and so induce domino regionalism (Baldwin, 1995), tariff retaliation (Bond, Syropoulos and Winters, 1996) or separate bloc formation (Frankel, 1997). Surprisingly, however, they have received very little empirical attention, the only *ex post* data-based studies known to us being Winters and Chang (forthcoming) and Chang and Winters (1999).

Winters and Chang and Chang and Winters are both event studies which seek to identify price changes through time in response to instances of regional integration - Spanish accession to the EC and the formation of Mercosur respectively. The present paper takes a different approach, seeking to exploit inter-country differences between the many partners that have RTAs with the EU. Thus as well as seeking differences between different classes of RTAs according to how close a degree of integration with the EU they permit, we also explore differences between members and non-members of EU-RTAs.

The main additional problem of the cross-sectional approach is that there are good reasons why the export prices of nominally identical goods should vary across suppliers independently of RTAs. Thus we need to correct for these factors before we can identify integration effects.

4. Other explanations of import prices

First, a confession: we write and think in terms of the *prices* of EU imports, but in fact we can

measure only *unit values* - value per unit of quantity averaged over the whole set of transactions of a particular kind during a particular period. There are well-known reasons why these are poor indicators of price - Kravis and Lipsey (1970). These mostly arise from the fact that not every transaction within a trade heading will be identical in terms of quality and timing etc; thus they will command different prices and the average will vary with variations in the weight of different transaction classes in the total even if no single price is changed.

We seek to mitigate this problem by working with very finely disaggregated data - defined at the 8-digit level of the EU's Combined Nomenclature trade classification (effectively 8-digit level of the UN's Harmonised System). Nonetheless the potential problem remains. A downside of very disaggregated data is that they are very noisy. We partly solve this problem by excluding from our sample transactions of less than Euro 100,000 and/or less than Kg 1,000. Although such procedure smoothes out some idiosyncratic transactions and recording errors, these shocks remain very prominent in our data.

Below we shall use the term 'price', but this should always be read in an empirical context as meaning 'unit value'.

Economic theory is replete with theoretical models of the causes of price differences between suppliers of similar goods to a market, and industrial organisation specialists have explored some of these empirically. Among international trade specialists, however, this issue represents something of a lacuna. Price dispersion has been used as an indicator of product differentiation - e.g. Keesing, (1970) and Hufbauer (1970), and more recently Fontagné et al (1998), who distinguish vertical from horizontal intra-industry trade by means of price differences. These works offer no explanation, however, of the pattern of price differences.

A stream of work relying on price changes is the 'upgrading' literature which showed that quantitative trade restrictions tended to be associated with quality upgrading, i.e. shifts to supplying the higher-priced varieties within the set of restricted goods - Aw and Roberts (1986) and de Melo and Winters (1993).[2] Brech and Stout (1981) pursued a similar idea to these studies, arguing that exchange rate appreciation forced exporters into higher unit value

[2] Feenstra's (1988) work on autos was similar, but he used more direct measures of quality than just price.

varieties on the grounds that quality would compensate for a lack of price competitiveness. This does apply directly to our work, however, since we seek to explain differences within headings rather than between them.

An early literature did seek to explain unit values more directly, but of exports rather than imports. Hufbauer and O'Niell (1972) examined US exports of machinery and sought to explain differences in the unit values across markets by the markets' income per head (reflecting a demand for sophistication), the volume of trade (reflecting various plausible economies of scale in selling / servicing exports), the markets' degrees of currency over-valuation and tariff / tax regimes (reflecting incentives for mis-invoicing trade). Of these, only the first two variables proved significant explanators. Ohlsson (1974) similarly examined engineering exports' unit values in Europe, mostly for Sweden. He concluded that, across commodities, unit values reflected technical sophistication. Yeats (1990) considers French exports of iron and steel products and finds those to Africa commanding higher prices than average by 20% to 30%. While not attributing this to a single cause, he postulates that it could reflect transaction-size or market power.

Our problem is different from all these studies. We wish to explain differences in the unit values of EU imports of particular goods across suppliers for a single year (1996). Degrees of integration are our main focus - see above - but to avoid biases arising from the sort of factors described in this section, we consider also the exporter's GNP per capita.

A second potential explanatory variable for imports prices is the volume of imports of a particular good from a particular source. First, as noted above, there may be economies of scale in selling which allow providers of high volumes to offer lower prices. Second, if markets are imperfectly competitive, mark-ups are likely to depend positively on market shares; that is, large volumes will be associated with higher prices. In practice, however, it proved impossible to estimate either of these effects because of data problems. Unit values are calculated as the ratio of the value of trade in each heading to the corresponding volume. Given that value is generally measured more accurately than volume – value is the basis on which most taxes are levied and is not subject to uncertainty over units – this means that the unit value and volume will be negatively correlated and that the estimated coefficient on the latter will be biased towards -1; see Orcutt (1950). Moreover, including volumes also seemed

to disturb other estimates significantly, so we dropped them altogether from our explanation of prices.

5. The Econometric Model

For any commodity, *i*, our basic estimating equation is:

$$P_{ij} = P_{ij}(g_j, t_{ij}, D_j) \qquad (1)$$

where P_{ij} is the price (unit value) of exports of i to the EU from country j; g_j is j's GNP per capita; t_{ij} is the EU's tariff on imports of i from j; and D_j is a set of dummy variables reflecting the EU's trade regime for j.

We expect:

$$\frac{\partial p_{ij}}{\partial g_i} \rangle 0, \text{ and } \frac{\partial p_{ij}}{\partial t_{ij}} \langle 0.$$

We identify six different regimes:

(1) reciprocal RTAs with members of the European Free Trade Association (EFTA);
(2) reciprocal RTAs with central and eastern European countries (PECO);
(3) reciprocal RTAs with some Mediterranean countries (MED1);
(4) non-reciprocal RTAs with other Mediterranean countries (MED2);
(5) GSP; and
(6) MFN.

We had intended also to examine the EU's non-reciprocal RTAs with African, Caribbean and Pacific (ACP) countries, but in fact even treating them as a group, ACP countries never made our size thresholds. Thus we ignore this group henceforth.

Equation (1) is estimated in double-log form with, in principle, one equation for each i and observations ranging over partners j=1...J. We work with a sample of thirty-seven countries,

but J will tend to be lower than 37 for a given i. Arranged according to the six trade regimes identified above, these countries are:[3]

(1) Norway, Switzerland;
(2) Czech R., Estonia, Hungary, Poland, Romania, Slovak R.;
(3) Cyprus, Israel, Turkey;
(4) Algeria, Egypt, Morocco, Tunisia;
(5) Argentina, Brazil, Chile, China, Hong Kong, India, Indonesia, Latvia, Lithuania, Malaysia, Mexico, Pakistan, Philippines, Singapore, South Africa, Thailand;
(6) Australia, Canada, Japan, Korea, Taiwan, United States.

The sample of commodities is selected as the 1,000 industrial headings (chapters 25-97 of the Combined Nomenclature) at 8-digit level with the largest value of imports in 1996. With 37 countries, we thus work with a sample of 37,000 observations, of which 20,582 record zero imports (or fail to rise above our threshold) and of the remaining 16,418, 9,118 have zero tariffs and 7,300 positive tariffs.[4] In terms of commodities, five show no trade for any of our 37 exporters, and thus do not figure in the exercise. Of the remaining 995, 185 have zero tariffs on all exporters with recorded trade (i.e. the MFN tariff is presumably zero) and 810 have some non-zero tariffs; 16 have non-zero tariffs on all exporters with recorded trade – i.e. the countries with comprehensive free trade with the EU do not export them.

Table 1 reports how the observations with non-zero trade are spread across exporters and tariff classes. It also reports the range of tariff rates for each class. It shows that EFTA and the two Mediterranean groups face no tariffs among our (major industrial) commodities. The PECOs also faced relatively few tariffs by 1996 and those were rather low. For the GSP recipients, on the other hand, it is clear that while they are forgiven non-zero MFN tariffs for around one quarter of our headings, on the remaining three-quarters they faced tariffs not far different from MFN rates.

[3] The classification of countries pertains to 1996.
[4] In aggregate these 37 countries account for 77% of EU industrial imports in 1996 and the 1000 commodities for 78%. The imports analysed here – i.e. up to 37 sources for 1000 commodities – therefore account for 60% of total EU industrial imports.

There are at least two econometric complications in estimating (1). First, and conceptually simple, experience with unit value series in Winters and Chang (forthcoming) and Chang and Winters (1999) suggests that pooling across commodities will be necessary to find enough of a signal in all the noise. This requires commodity-specific constants because neither unit values nor volumes are comparable in their natural units. The use of such constants – fixed effects - implies that all cross-commodity variation is removed from our sample: our estimates are determined entirely by variation across suppliers within each commodity heading. The pooling merely requires that these effects be common across commodities. Pooling also probably requires an adjustment for heteroskedasticity because commodities will vary in terms of errors of observation etc. To start with we handle this by calculating White heteroskadiasticity-consistent standard errors for our estimates.

Second, and *much more complex*, prices can only be observed when trade occurs, and this, in turn, depends partly on prices. In other words, we have a censoring problem. A country's ability to supply commodity i to the EU will probably depend on many factors, including the independent variables in (1). Moreover, at least in the case of GNP p.c. (g_j) the relationship will be complicated. For unsophisticated goods the propensity to supply the good will be negatively related to income, whereas for sophisticated goods, the opposite is likely to apply. Thus pooling over commodities is likely to be difficult and, at least in some cases, the effects of g_j on the probability of observing trade and on the price if we do observe trade will have opposite signs. This, in turn, rules out using simple Tobit procedures to overcome the censoring problem.

The alternative – and our preferred - approach to censoring is the Heckman (1976) two-stage technique: stage 1 is a probit model of the existence of trade, and stage 2 an OLS estimate of equation (1) using (of course) only actual occurrences of trade with an additional variable constructed from stage 1 to reflect the censoring (the so-called inverse Mills-ratio). For the latter to be identifiable, stage 1 requires some exogenous variables (instruments) not appearing in equation (1).

The best instrument we can devise to explain whether j exports I to the EU is to measure country j's comparative advantage in good i relative to the EU's. We can not calculate revealed comparative advantage indicators for thirty-nine countries at the 8-digit level,

because we do not have data on world trade at that level. We use, therefore, measures at the 5-digit level of the SITC using UN Comtrade data, applying 5 digit data to each 8-digit heading that lies within it[5]. We measure comparative advantage by export data to non-EU markets:

$$RCA_{ij} = \frac{X_{kj}}{\sum_k X_{kj}} \frac{\sum_j X_{kj}}{\sum_k \sum_j X_{kj}} \tag{2}$$

where X_{kj} refers to exports to non-EU markets and k refers to 5-digit groups. In addition, the first stage probit equation contains the tariff j faces on good I.

When we pool across commodities we need to compare this with EU revealed comparative advantage in commodity *i*, by taking ratios of the indicators for supplier *j* and that for the EU; but since all information varying only by commodity is swept out by our fixed effects in the pooled estimation, it is not actually necessary to make the adjustment in practice.

3. The Results

The main results of the two-stage estimation are reported in table 2. OLS estimates of (1), which offer a direct description of the features of the data, are given in Appendix 1 for comparison. In fact, they tell almost precisely the same story as the main results.

Column 1 of Table 2 reports a simple estimate of (1) pooled over all observations with no trade regime dummies. It suggests that both the supplier's GNP per capita and the tariff it faces have the predicted effect on the unit values of EU imports. The former suggests that a 1% increase in the per capita GNP of a supplier increases the border price (unit value) of its exports to the EU by about 0.3%. Given the variations in GNP pc across even our small sample of suppliers – a factor of about 20 – this suggests a wide range of prices/qualities.

Perhaps more interesting is the co-efficient on tariffs. This indicates that on average 72% of the difference in the tariffs levied on any pair of suppliers is reflected in their pre-tariff prices.

[5] There are nearly 3000 5-digit headings in the SITC(3R), so there is not much inaccuracy in this approximaiton. [CHECK].

The country facing the higher tariff bears about 72% of the difference in terms of a lower pre-tariff price relative to the country facing the lower tariff. It is tempting to interpret this as saying that suppliers bear 72% of EU's tariffs, but that would not be strictly correct because we are comparing effects across imported sources not between imported and EU sources. That is, the 'average' or 'normal' tariff on any commodity could have a different incidence than we have estimated for the tariff preference.[6]

In terms of discriminatory tariffs we have a powerful result showing that suppliers receiving preferences in EU markets derive considerable benefit relative to others – increasing the average price of *all* their sales of the commodity concerned by about 72% of the preference. We do not know from these results whether the effect is due to the preferred suppliers raising their prices or the non-preferred ones reducing theirs relative to non-discriminatory trade. While theory suggests a mixture of both effects – Winters and Chang (forthcoming) – to answer that question accurately we need additional information that is not available to us at this stage for the EU. For example, Chang and Winters (1999) make use of the suppliers' export data to provide a bench-mark for supply prices in the absence of discrimination. What our results do suggest, however, is that if a small country supplier were newly granted tariff preferences in the EU, it would tend to increase the prices of it exports to the EU by about 70% of the tariffs it had been released from. This interpretation suggests that empirical work on recently granted preferences might be rewarding – e.g. on South Africa as it implements its trade agreement with the EU.

The coefficient on the Mills ratio is of no direct interest in itself, but its statistical significance suggests that the censoring does need to be taken into account. However, as appendix 1 shows, its economic significance is not great, since it hardly changes the estimates of the effects of interest.

The summary statistics of this regression suggest that there is a huge amount of variance in the unit value series we are seeking to explain, and that, in fact, we are very successful in doing so. Unfortunately this is more apparent than real: the bulk of the variance is across commodities – and so is meaningless (we know cars have higher unit values than scrap iron) –

[6] On the other hand, given that for nearly all of our commodities some suppliers face zero tariffs, our result is suggestive that a good deal of the tariff does get pushed back onto suppliers.

and is explained by the fixed effects.[7] Of the remaining variance, we explain only about z%, and the residual standard error of 0.81 (with a logarithmic dependent variable) is large. Such goodness of fit statistics are in line with previous experience of cross-section price equations, however (e.g. Winters and Chang, forthcoming), and the coefficients of interest are statistically significant, so that even if we have not explained the prices of EU imports completely, we have identified genuine effects.

Column (2) adds the dummies for different trade regimes to column (1) in order to try to identify different degrees of remaining restrictive regulations on commerce between the EU and its various partners. The less integrated into the EU market a partner is, the lower the (pre-tariff) prices it is likely to be able to charge in the EU. There is no dummy for the countries with no RTA (and which thus face MFN tariffs), so all other effects are measured relative to them. The results are neither particularly plausible nor well determined. The tariff effect is larger than theory would predict and the trade regime dummies negative except for EFTA.

The major practical problem with these results is that the regime dummies are correlated with observed tariffs: the closer a partner's trade relations with the EU, the lower the tariffs it faces. Thus it becomes very difficult to identify simultaneously both the tariff effects and the 'other restrictive regulations' effects that we are seeking. One solution to this problem is to seek the latter on trade which faces no tariffs, and thus on which we might hope that 'other regulations' are the only cause of differences between suppliers. This is done in column (3) of Table 2, which is based on the sample of 9118 supplier/commodity pairs which face no tariffs. This equation, of course, has no estimated tariff effect.

The GNP pc effect seems acceptable and although the regime dummies are again not very precisely estimated, they do seem broadly explicable.[8] The EFTA countries – close partners of long-standing,[9] as well as culturally and geographically close to the EU – appear to earn a statistically significant premium of nearly 11% above what one would expect for quality reasons as proxied by GNP pc. Recall that these regime effects are measured relative to the set

[7] Of total variance of nnnn, x% is explained by the fixed effects, y% by tariffs and GNP pc, and z% is unexplained. [WE NEED TO GET THIS ANALYSIS OF VARIANCE PRINTED OUT].
[8] All the dummies except one are algebraically larger in column (3) than (2), which reflects the correlation with tariffs noted above.
[9] Free trade between EFTA and EEC countries dates from 1973.

of countries facing MFN tariffs, which have similar incomes and levels of sophistication to the EFTA countries. Thus the EFTA premium is unlikely to arise just because we have proxied quality inadequately.

The coefficients for Southern Mediterranean countries (MED2) and GSP recipients are not significant and so should be treated as zero. They are neither favoured nor disfavoured relative to the MFN set. There is a strong negative coefficient for the PECOs, which apparently charge prices about 41% below what we might expect on the basis of the rest of the sample. This result is not easily reconciled with the widespread enthusiasm for the Europe Agreements as a means of integrating the PECOs into the EU economy, but is not particularly difficult to understand in a broader context.[10] First, frictions clearly remain on EU-PECO trade. Anti-dumping measures may be less frequently applied to these countries than previously, but they are still used in some, and perhaps threatened in other, cases. Problems of meeting technical standards and certification requirements abound – see, for example [Messerlin?] – which could cut demand and hence lower prices in differentiated product markets. Second, the GNP pc data are probably less reliable for the PECOs than for the other groups. If these are over-estimated, the dummy will tend to get a negative sign by way of correction. Third, even if GNP pc is a reasonable proxy for quality objectively and in steady state, the PECOs have faced formidable reputational difficulties in newly entering manufactures markets, which has the same effect. Moreover, recall that our data refer to 1996, only a few years into the transition. Thus all told, we do not find it difficult to believe that PECO exports to the EU face stiffer barriers than other exports, although we do believe that this is likely to be a temporary phenomenon.

One might make similar arguments for Eastern Mediterranean countries with reciprocal RTAs (MED1), but they would not be not very convincing. Thus the coefficient of –11% on these three countries remains something of a mystery.

Column (4) considers the complementary set of observations to column (3) – those for which the tariff is non-zero. Here both tariffs and 'other regulations' are relevant, but the collinearity appears to confound their estimation. The GNP pc effect is plausible again, but the tariff

[10] Moreover, the PECO discount might have had to be even higher in the absence of the Europe Agreements.

effect, which implies that higher tariffs lead to higher pre-tariff prices, is not. The regime dummy for the PECOs is now positive as theory predicts for favoured suppliers, but that for the GSP suppliers becomes negative and significant. The very high coefficient on the tariff reduces PECO prices relative to GSP-country prices because the former generally face low tariffs while the latter face more or less MFN rates in the commodities on which they pay non-zero rates. The dummies compensate for this excessively strong effect, raising PECO prices and lowering GSP prices.

If we drop the tariff variable from the 'non-zero-tariff' regression – column (5) – the dummies revert to the negative signs found above, but with their magnitudes and significance reversed compared to the zero-tariff set. This again essentially arises from the fact that the PECOs face low tariffs while the GSP countries face more or less MFN rates, but without the ability to supply as effectively as the MFN set of countries.

4. Conclusion

This paper has sought to investigate empirically whether those partners which have closer links with the EU are freer from 'other restrictive regulations' than others and whether those without RTAs suffer a decline in their export prices to the EU relative to those with RTAs. The analysis was carried out using detailed data on the prices (units value) of EU imports of 1000 industrial goods from a sample of 37 major trading partners. To our knowledge, this is the first ever attempt to study of the effects of RTAs on the prices of exports from non-participating countries.

We found that tariffs and tariff preferences have a significant effect on import prices. Our results suggest that if a small country supplier were newly granted tariff preferences on imports of industrial products into the EU, it would tend to increase its import price into the EU by about 70% of the tariff preference. We also found evidence indicating that 'other restrictive regulations' are less affecting EFTA countries, which have a long-standing and deep RTA with the EU, than other EU preferential trade partners, which are covered by more recent and/or less deep RTAs.

Table 1

Importance of and Tariff Rate Faced by Regional Groupings (percentages)

Grouping	Full sample (n=16418)		Sub-sample with tariff>0 (n=7300)		Sub-sample with tariff=0 (n=9118)	
	Importance	Rate (range)	Importance	Rate (range)	Importance	Rate
All	100.0	2.3 (0.0-16.7)	100.0	5.2 (0.0-16.7)	100.0	0.0
PECO	18.3 (100.0)	0.6 (0.0-5.5)	6.3 (15.3)	3.8 (0.0-5.5)	27.9 (84.7)	0.0
EFTA	8.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	15.7 (100.0)	0.0
MED1	6.7 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	12.1 (100.0)	0.0
MED2	4.8 (100.0)	0.0 (0.0-0.0)	0.0 (0.0)	0.0 (0.0-0.0)	8.6 (100.0)	0.0
GSP	37.0 (100.0)	3.1 (0.0-12.6)	48.3 (58.1)	5.3 (0.0-12.6)	27.9 (41.9)	0.0
MFN	24.5 (100.0)	4.5 (0.0-16.7)	45.3 (82.3)	5.4 (0.0-16.7)	7.8 (17.7)	0.0

Table 2
Panel Regression Results for Unit Values with Fixed Product Effects
Heckman's Two-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.19 (0.01)
Tariff	-0.72 (0.19)	-1.65 (0.30)	-	4.89 (1.16)	-
PECO	-	-0.40 (0.03)	-0.41 (0.05)	0.42 (0.10)	0.03 (0.03)
EFTA	-	0.09 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.15 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.07 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.15 (0.03)	-0.22 (0.03)
Mills ratio	0.15 (0.03)	0.13 (0.03)	-0.04 (0.04)	0.40 (0.05)	0.40 (0.05)
R^2 (adj.)	0.93	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

Appendix Table 1
Panel Regression Results for Unit Values with Fixed Product Effects
One-Stage Model
(logarithmic form)

Explanatory variable	Full sample (n=16418)		Sub-sample with tariff=0 (n=9118)	Sub-sample with tariff>0 (n=7300)	
Per capita Income	0.30 (0.01)	0.21 (0.01)	0.23 (0.02)	0.19 (0.01)	0.20 (0.01)
Tariff	-0.67 (0.19)	-1.65 (0.30)	-	4.90 (1.17)	-
PECO	-	-0.41 (0.03)	-0.41 (0.05)	0.39 (0.10)	0.004 (0.03)
EFTA	-	0.08 (0.03)	0.11 (0.05)	-	-
MED1	-	-0.16 (0.03)	-0.11 (0.05)	-	-
MED2	-	-0.02 (0.05)	0.08 (0.06)	-	-
GSP	-	-0.20 (0.02)	-0.04 (0.05)	-0.16 (0.03)	-0.24 (0.03)
R^2 (adj.)	0.92	0.93	0.92	0.94	0.94

Note: Standard errors in parentheses.

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- 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: 3-JUN-1999 16:22:57.00

SUBJECT: Allan Larsson

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

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

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

CC: Cordelia W. Reimers (CN=Cordelia W. Reimers/OU=CEA/O=EOP @ EOP [CEA])
READ:UNKNOWN

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

TEXT:
Mr Larsson has asked to meet with you to dicuss EU/US Comparative Labor Market Performance. Reminder, he is the Director-General for EU Employment , INdustrial Relations & Social Affairs (in Brussels).

At his request, I've scheduled a meeting on Wed, 6/16, at 11:15 a.m. He will bring two other individuals with him.

If you prefer not to meet with him, please let me know ASAP. Thanks.

poc: Ann Wadea, 862-9581

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 3-JUN-1999 17:47:20.00

SUBJECT: please call me when you get a chance

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

TEXT:
I want to ask you about the protectionism roundup

Thanks,
Raymond

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-JUN-1999 14:44:06.00

SUBJECT: Missing Book

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

Martha B. Schiele (CN=Martha B. Schiele/OU=OA/O=EOP [OA])
READ:UNKNOWN

TEXT:
The EOP Library is having trouble locating this book which was borrowed by a CEA staffer. While the CEA employee asked someone to return it for him, and the Library has conducted a search for it, it is not on their shelves and has not cleared through their automated circulation system. Would you mind checking your office to see if it was inadvertently left there?

CALL # HF1455 .H83a.
AUTHOR Hufbauer, Gary Clyde.
TITLE Measuring the costs of protection in the United States.
PUB INFO Washington, D.C. : Institute for International Economics,
1993.
DESCRIPT ix, 125 p. ; 21 cm.

Thanks.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 14:53:32.00

SUBJECT: June 7-NEC Mtg on Trade Related Adjustment Assistance

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

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

TEXT:
Gay, from NEC, called to see who would be attending the NEC Meeting on Trade Related Adjustment Assistance, on Monday, June 7, 3:00-4:00pm, in Room 248 of the OEOB.

I told her that Lisa hadn't mentioned it, and I didn't see any paper on it, so I have put it on your calendar.

If you are not able to attend, Nouriel said that he would be happy to attend in your place.

poc: Gay at x62801

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 16:40:55.00

SUBJECT: FYI -- here is the POTUS statement on the Jobless numbers

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

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

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

TEXT:
THE WHITE HOUSE

Office of the Press Secretary

For Immediate
Release June 4,
1999

STATEMENT BY THE PRESIDENT

Today, we have more good news about continuing prosperity in our economy. The unemployment rate fell to 4.2 percent, marking the 23rd month in a row that the rate has been below 5 percent and the lowest rate in 29 years. Combined with the continued strong overall economic growth, low long-term inflation and continued rising wages, we are widening the circle of opportunity for more Americans. African American unemployment fell to the lowest level on record. Nearly 19 million jobs have been created since 1993, and nearly 1 million jobs have been created in the first 5 months of this year, showing the continued strong pace of job creation. We need to continue our commitment to our proven economic strategy of fiscal discipline, opening markets abroad and targeted investments in our people.

30-30-30

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 16:42:24.00

SUBJECT: Latest Steel Study.

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

TEXT:
---------------------- Forwarded by Robert Z. Lawrence/CEA/EOP on 06/04/99
04:43 PM ---------------------------

Robert Z. Lawrence
06/03/99 06:27:03 PM
Record Type: Record

To: Janet L. Yellen/CEA/EOP
cc:
Subject: Latest Steel Study.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D54]ARMS28372826U.136 to ASCII,
The following is a HEX DUMP:

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

The Economic Impact of HR975.

HR975 would set limits on steel imports for a three year period. The bill would require that in no month could the volume of steel imported into the United States exceed the average volume of steel products that was imported monthly into the United States during the 36 month period preceding July 1997.

At current import levels the quota is not binding. The bill was drawn up in 1998 when imports averaged 44 percent above the 28.77 mt allowed by the quota. In response to domestic price reductions, and Administration policies, particularly a vigorous enforcement of the anti-dumping rules and tough discussions with foreign governments, imports levels have fallen precipitously. In the first four months of 1999 they were only 2.4 percent higher than levels allowed by the bill.

If imposed currently, while the bill's impact on employment would be negligible, it would place the US in violation of the WTO rules. The bill would also force steel users to carry higher inventories to guard against disruptions caused by the quota's monthly limits.

If imports returned to 1998 levels, a high case scenario, the costs to steel users would rise by $346,000 per steel job saved. The quota would increase steel employment by 8,170. However, steel prices would rise by 5.3 percent and the costs to steel users would increase by $2.8 billion dollars, more than five times the increased compensation received by steel workers.

The quota would channel more money to foreign steel profits than to US steel workers. The higher price for steel in the US would allow foreign steel firms to reap an annual windfall of $606 million. This exceeds the additional $571 million steel workers would receive.

Foreign retaliation would lead to a loss of 64,000 jobs, almost eight times the employment gain in steel and more than twice the overall gain in employment due to the quota. The quota reduces the value of foreign steel imports by $4.49 billion. If foreigners bring and win a WTO challenge, as the US has done in products such as beef and bananas, they will be able to retaliate on US exports of this value. Since the retaliation is likely to be on steel or steel--intensive exports such as machinery, the gains in steel employment are actually likely to be smaller, and the ratios higher than estimated here.

Because the bill sets a monthly ceiling it would unnecessarily impose costly adjustments. The monthly quotas inhibit normal seasonal fluctuations. The bill would either lead to shortages and disruptions to steel users -- some of whom import products for which there is no domestic substitute -- or it would impose costly adjustments on the part of importers, such as carrying higher levels of inventory , to smooth out monthly imports to meet this constraint. Had the quota been in effect over the 36 month period between mid 1994 and mid 1997, and imports the same levels as they were, 8 percent of imports would have been excluded because they entered in months when the quota was exceeded.

The bill would encourage imports of higher unit value products, leading to fewer

job gains. The quota, which is specified in quantitative units, creates an incentive for foreign steel makers to move into products with higher unit values. Since these products are more labor intensive, this will reduce employment gains. Given legitimate concern about foreign subsidies and industrial policies, it is particularly unfortunate that HR975 would represent a subsidy to foreign steel and create incentives to move into higher unit value products.

High-Import Scenario	
Steel Jobs	8,170
User Cost/job	345,913
Foreign Profit Increase	606,612
Wage Bill Increase	571,928
Export Jobs Lost	64,077

Appendix: Simulation Details.

The impact of the quota is estimated using a base case in which there is no quota: Base case domestic shipments are set at 100 mt -- roughly their average over the past three years; initial prices are $400 per ton --the average import unit value in March and April 1999 was $407 per ton. Employment in blast furnaces and steel mills is set at 155,000 -- the level in 1999. Estimates of unity are used for both demand and supply elasticities -- parameters typical of those in the literature. Each $1million of exports is assumed to generate 14.3 employment opportunities -- value-added per worker in US manufacturing in 1998 was $69,000. Each $1million of steel output generates 3.9 jobs in steel and 9.1 jobs elsewhere in the economy. Each $1 of steel shipments typically contains 64 cents of inputs from other industries.

Three hypothetical import scenarios are simulated. A high-import case in which imports match those of 1998 i.e. 41.5 mt; a mid range -import estimate with imports at 35.5 mt and a low import estimate in which imports are at their levels of the first four months of 1999 annualized.(i.e. 29.5 mt)

Base Cases

	High	Medium	Low
Price/ton	400	400	400
Imports (MMT)	41.50	35.50	29.46
Consumption (MMT)	141.50	135.50	129.46
Employment (1000s)	155.00	155.00	155.00
Production (MMT)	100.00	100.00	100.00

Quota Impact

		High	Medium	Low
1	Price/ton	421	411	401
2	Steel Job Increase	8,170	4,430	466
3	Non-Steel Job increase	19,278	10,451	1,100
4	Consumer Cost/Job	345,913	339,685	333,086
5	Foreign Profit Increase	606,612	328,870	34,629
6	Wage Bill Increase	571,928	310,066	32,649
	Retaliation Impact			
7	Import Loss ($1000s)	4485388	2363130	241563
8	Jobs Lost ($70,000/job)	64077	33759	3451
9	Ratio (8/ (2+3))	2.3	2.3	2.2
10	Ratio 8/2	7.8	7.6	7.4

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 15:24:28.00

SUBJECT: Phone Message from Frank Loy

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:
Contact: Frank LoyCompany: Und Sec for Global Affairs, Dept of StatePhone: 647-6240FAX: Message:

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 13:32:13.00

SUBJECT: Phone Message from Ken Frieberg

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:
Contact: Ken FriebergCompany: USTRPhone: FAX: Message: He wanted to get your comments on a fax that he is sending but, when I told him you were out today, he said that he would send it to Malcom Lee, who would send it interagency, and you could comment on it when you return.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Valentin Yakovlev <rector@gwkib.kuban.ru> (Valentin Yakovlev <rector@gwkib.kuban.ru> [UNKNOWN])

CREATION DATE/TIME: 4-JUN-1999 08:20:56.00

SUBJECT: inv

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

TEXT:
Dear Professor Lawrence
My country suffers from the worst economic situation. From day to day it changes from bad to worse. The Serbian crisis makes the situation even worse. All economic, social, demographic and moral rates decline. Crime is on the rise. Such ideas as Reforms - Reformers, Democracy - Democrats, Freedom of Speech - Mass Media, Government - Criminals carry on equally negative meaning as ordinary people think. The possible Restoration and Dictatorship can't lead to more perfect solutions. The cause of all Russian troubles comes from the lack of understanding of what really needs to be done with efficient economic mechanisms, technologies and systems. The government, politicians, parties, public organizations, reformers, international financial organizations, the countries rendering assistance to Russian transformation have a lack of understanding that it has to be done.

It is very sad but true there is no such understanding with modern World Economic Thought with its huge methodological achievements and a huge creating potential. The problem of grasping the peculiarities of Economy in Transition requires special attention and thinking. Russia is now in the worst situation ever because of the lack of necessary experience, knowledge and skills for conducting market reforms in transition. There is no clear understanding of the transition from command to market economy that is fully based on the initiative and responsibility. There is no adequate theory. All we need is the application of special transitional economic technologies with strong regulative properties. The regulation of transitional processes should be implemented neither by politicians not by governments but only by completely substantiated economic mechanisms. From the one hand, these economic mechanisms must stimulate the positive processes; from the other, they must restrain the negative processes. I think so.

Both very bad situation in Russia and my public standing obliged me after studying your CV, interest etc. - to apply to you and to other leading 100 economists worldwide with the kind request to consider possibility to participate in the unusual international humanitarian action: international intellectual project called The Support for Russian Economic and Democratic Reforms . It is something like a brainstorm for problem solving involving the leading economic schools and economists worldwide to address one of the most important modern issues on world development. I assume that if you devote even only the smallest part of your time and intelligence to be involved in the project it will make possible to promote the efficient applied technologies of transitional economy which can influence greatly the Russian and NIS social transformations. It will allow Russia to overcome economic crisis and ensure the prosperity to all its people.

To next letter reference will be enclosed in which raises the prime paradigm, concept or the system model, which is supposed to be improved during the implementation of international intellectual project. You will find in it some fresh methodological assumptions which substantiate regulatory mechanisms of market processes in Transitional conditions. I hope you will find a possibility to pay attention to the project. It will strengthen the understanding of projects importance, increase its rating and the value of its results. Of course, you would have a copyright for all your intellectual contribution which is to be published in the electronic edition of the institute. It will serve as a methodological base of the joint project.

It is only the beginning of the project so there is no huge amount of money, no perfect logistics and no organizational structure. There are some language problems with adequate terminology. But as Savior said: "But seek first the kingdom of God and His righteousness, and all these things shall be added to you" (Matthew 6:33). The solution of this relevant economic problem would pay off the costs. One hundred leading economists will always find the necessary forms for their cooperation. USAID is ready to provide the necessary financial support of the project. USAID is ready to provide financial support to the project, if necessary organizational forms will be found.

In the initial concept of the project we have identified 27 pracseological interdisciplinary ideas for which there is some distinct methodological clearness and practically relevant studies. You are free to choose any section of the initial concept or to offer your own. Being a participant of the project you will get additional information and all necessary comments will be provided. With you being involved in the project we will be able to find the adequate applied solutions. As a participant of the project you will be able to follow the creative process through our web sites: http://gwkib.kuban.ru or http://gwkib.kuban.ru/reform/. In the section: Chronicle of the Project , as well as to contact any participant of the project, to bring in any other specialists, team and other resources.

The integrated intellect of 100 leading economists worldwide will enable to solve anysocio-economic problem at the brink of the XXI century and to come to the perfect intellectual product useful for conducting transformation processes. Should you have any questions or express your views on the project, please feel free to contact me by e-mail: rector@gwkib.kuban.ru. Please, specify the format which would be the most convenient for you to get our information.

Sincerely,

Valentin A. Yakovlev Professor, rector of Kuban Institute of International

Business and Management. Russia

- att1.htm=================== ATTACHMENT 1 ===================
ATT CREATION TIME/DATE: 0 00:00:00.00

TEXT:

```
<!DOCTYPE HTML PUBLIC "-//W3C//DTD W3 HTML//EN">
<HTML>
<HEAD>

<META content=text/html;charset=koi8-r http-equiv=Content-Type>
<META content='"MSHTML 4.71.2016.0"' name=GENERATOR>
</HEAD>
<BODY bgColor=#ffffff>
<DIV>
<DIV> </DIV>
<DIV><IMG align=left
src="file:///C:/WINNT/Profiles/Rector.000/ /rector.jpg">
<CENTER><B>Dear Professor Lawrence</B></CENTER>
<P align=justify>My country suffers from the worst economic situation. From day

to day it changes from bad to worse. The Serbian crisis makes the situation eve
n
worse. All economic, social, demographic and moral rates decline. Crime is on

the rise. Such ideas as Reforms - Reformers, Democracy - Democrats, Freedom of

Speech - Mass Media, Government - Criminals carry on equally negative meaning a
s
ordinary people think. The possible Restoration and Dictatorship can't lead to

more perfect solutions. The cause of all Russian troubles comes from the lack o
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understanding of what really needs to be done with efficient economic
mechanisms, technologies and systems. The government, politicians, parties,
public organizations, reformers, international financial organizations, the
countries rendering assistance to Russian transformation have a lack of
understanding that it has to be done.
<P align=justify>It is very sad but true there is no such understanding with
modern World Economic Thought with its huge methodological achievements and a

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Transition requires special attention and thinking. Russia is now in the worst

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the transition from command to market economy that is fully based on the
initiative and responsibility. There is no adequate theory. All we need is the

application of special transitional economic technologies with strong regulativ
e
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properties. The regulation of transitional processes should be implemented neither by politicians not by governments but only by completely substantiated

economic mechanisms. From the one hand, these economic mechanisms must stimulat
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the positive processes; from the other, they must restrain the negative processes. I think so.
<P align=justify>Both very bad situation in Russia and my public standing obliged me after studying your CV, interest etc. - to apply to you and to other

leading 100 economists worldwide with the kind request to consider possibility

to participate in the unusual international humanitarian action: international

intellectual project called The Support for Russian Economic and Democratic Reforms . It is something like a brainstorm for problem solving involving the

leading economic schools and economists worldwide to address one of the most important modern issues on world development. I assume that if you devote even

only the smallest part of your time and intelligence to be involved in the project it will make possible to promote the efficient applied technologies of

transitional economy which can influence greatly the Russian and NIS social transformations. It will allow Russia to overcome economic crisis and ensure th
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prosperity to all its people.
<P align=justify>To next letter reference will be enclosed in which raises the

prime paradigm, concept or the system model, which is supposed to be improved

during the implementation of international intellectual project. You will find

in it some fresh methodological assumptions which substantiate regulatory mechanisms of market processes in Transitional conditions. I hope you will find

a possibility to pay attention to the project. It will strengthen the understanding of projects importance, increase its rating and the value of its

results. Of course, you would have a copyright for all your intellectual contribution which is to be published in the electronic edition of the institute. It will serve as a methodological base of the joint project.
<P align=justify>It is only the beginning of the project so there is no huge amount of money, no perfect logistics and no organizational structure. There ar
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some language problems with adequate terminology. But as Savior said: "But

seek first the kingdom of God and His righteousness, and all these things shall

be added to you" (Matthew 6:33). The solution of this relevant economic problem would pay off the costs. One hundred leading economists will always fin
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the necessary forms for their cooperation. USAID is ready to provide the necessary financial support of the project. USAID is ready to provide financial

support to the project, if necessary organizational forms will be found.
<P align=justify>In the initial concept of the project we have identified 27
pracseological interdisciplinary ideas for which there is some distinct
methodological clearness and practically relevant studies. You are free to
choose any section of the initial concept or to offer your own. Being a
participant of the project you will get additional information and all necessar
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comments will be provided. With you being involved in the project we will be
able to find the adequate applied solutions. As a participant of the project yo
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will be able to follow the creative process through our web sites: <A
href="http://gwkib.kuban.ru">http://gwkib.kuban.ru</A> or <A
href="http://gwkib.kuban.ru/reform/">http://gwkib.kuban.ru/reform/</A>. In the

section: Chronicle of the Project , as well as to contact any participant of th
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project, to bring in any other specialists, team and other resources.
<P align=justify>The integrated intellect of 100 leading economists worldwide

will enable to solve anysocio-economic problem at the brink of the XXI century

and to come to the perfect intellectual product useful for conducting
transformation processes. Should you have any questions or express your views o
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the project, please feel free to contact me by e-mail: <A
href="mailto:rector@gwkib.kuban.ru">rector@gwkib.kuban.ru</A>. Please, specify

the format which would be the most convenient for you to get our information.

<P>
<P>Sincerely,
<P>Valentin A. Yakovlev Professor, rector of Kuban Institute of International

Business and Management.</HTM\L> <FONT color=#000000 face="Arial Cyr"
size=2> Russia</FONT></P></DIV></DIV></BODY></HTML>

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

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 14:30:34.00

SUBJECT: Y2K issues

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

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

TEXT:
Ryan and I attended a Y2K meeting in Sally Katzen's office this morning. I have not worked on this topic at all, but went to the meeting in Robert's stead. (Does CEA want to designate a senior economist on this topic?)

The (unannounced) agenda was for the Koskinen group to prod the economists to think about two issues: 1) inventory buildup, and 2) the risk of people liquidating investments. The general sense was that the summer would be a quiet period on Y2K issues, but that the fall would be much busier. I think that we were asked to do several tasks in preparation for that busier period:

1. Help the NEC (primarily in the person of Carl Haacke) to write and keep updated a set of Qs and As for the use of Joe Lockhart and others. Apparently Jeff Frankel drafted an extensive set at some point, and I suppose that we should just check that and update where necessary.

2. Think about the size of the inventory effects that we anticipate and how we will monitor whether those effects are occurring. I presume that Steve has basically done this, but perhaps we can pass more information on this subject to the rest of this group? There was particular concern about inventory builds in key sectors, like drugs, with particular health and safety concerns. The group was uncertain about the disaggregation at whch inventory data are available on a timely basis. My guess is that one can get 3-digit SIC code level data with the usual 1-2 month lag, and John Auten argued that we'd learn more anecdotally much sooner.

3. Think about possible effects on destabilizing financial markets. One issue is capital flight from non-Y2K compliant countries and sales of stocks in U.S. firms, like banks, that may be vulnerable to those countries. I believe that U.S. bank regulators will actually force some of this flight through the rules designed to protect our banks. Another

issue is sales of U.S. financial instruments in general, as people rush to banks or mattresses. It was noted that flight from foreign countries will likely boost our financial markets, so some of the effects will be offsetting. Still, if you think that the stock market has a bubble, then panic over Y2K seems like one among many possibilities for bursting the bubble. I presume that Treasury has given more thought to these issues, and would be in the center of trying to calm the roiling waters anyway. I think I should raise these questions in the financial markets' working group, although it's not at all clear what sorts of policies one could adopt or would want to adopt.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

CREATOR: Mary Fibich (CN=Mary Fibich/OU=CEA/O=EOP [CEA])

CREATION DATE/TIME: 4-JUN-1999 15:10:44.00

SUBJECT: Matt McBrady

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:
If anybody sees Matt McBrady, please have him call me.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 4-JUN-1999 13:33:18.00

SUBJECT: Phone Message from Piedro

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:
Contact: PiedroCompany: Phone: FAX: Message: He called to invite you and Nicole for dinner on Sat, June 19. I told him that I didn't think Nicole would be living here then. He said to extend the invitation anyhow. His office number is 202-797-6245, and his home is 202-333-9127.

RECORD TYPE: PRESIDENTIAL (NOTES MAIL)

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

CREATION DATE/TIME: 5-JUN-1999 21:56:32.00

SUBJECT: Steel Quota Bill Fact Sheet: Cost to U.S. Economy

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

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

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

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

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

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

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

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

CC: Lawrence J. Stein (CN=Lawrence J. Stein/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Charles M. Brain (CN=Charles M. Brain/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

CC: Nina L. Hachigian (CN=Nina L. Hachigian/OU=NSC/O=EOP@EOP [NSC])
READ:UNKNOWN

CC: Tracey E. Thornton (CN=Tracey E. Thornton/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

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

CC: Dario J. Gomez (CN=Dario J. Gomez/OU=WHO/O=EOP@EOP [WHO])
READ:UNKNOWN

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

TEXT:
Folks: The document on top is my rework of USTR's draft (the one below). This is one of two fact sheets the deputies asked be prepared for distribution on the Hill this coming week. The other will be a comprehensive one-pager with the strong steel import numbers, a shorter treatment of risks of retaliation, and mention of Baucus-Levin (likely to closely track the talking points for principals calls to Senators). I will circulate that on Monday. Commerce was also asked to prepare a new set of charts with captions describing the pictures.

Please shoot me comments on this fact sheet by noon Monday.
Commerce, can you send over the new charts with captions?
Please ensure all principals are making calls to Senators and report back to WH Leg by Monday.
Please review USTR and Treasury global capacity initiatve papers.
Commerce and Treasury, what is the schedule for national and regional ed board offensive. Is Secretary Rubin doing the Wall Street Journal?
Principals meeting Tuesday afternoon.

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

TEXT:
Unable to convert ARMS_EXT:[ATTACH.D45]ARMS247252365.136 to ASCII,
The following is a HEX DUMP:

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

HOW STEEL QUOTAS WILL HURT AMERICAN WORKERS, FARMERS, AND COMPANIES

H.R. 975 would impose rigid quotas on steel imports. Those quotas are simply not needed to address last year's steel import surge. The Administration has turned back the surge through tough enforcement of U.S. trade laws. Overall steel imports have returned to pre-crisis levels. Moreover, the enactment of steel quotas could have serious economic consequences for American workers, farmers and companies. We are the world's largest importer and exporter. Our economic strength is tied to strong, open global markets. This quota bill will hurt America:

- **By Risking a Strong U.S. Economy**: Today our economy is extremely healthy. Our employment rate, real wage growth, and corporate profits are very strong. We should think very carefully about the possibility of risking what we have achieved by sparking a global round of destructive protectionism.

- **By Inviting Retaliation Against American Agricultural, Technology, and Industrial Exports**: If H.R. 975 is enacted, we face the real possibility of retaliation by the world's steel exporting countries. We will have no legal cover under our international trade agreements for our quota. Other countries will have the right to retaliate against our exports, and they will. That could put at special risk our most competitive sectors, like agriculture, technology, pharmaceuticals, and others, where we have insisted, with real success, that other governments open their markets to us. There is no question. We will lose jobs in other sectors.

- **By Inviting Retaliation Against U.S. Exports Containing Steel**: Moreover, we cannot rule out the possibility that other governments may retaliate against our quotas by barring those U.S. exports that use American steel – as a way of striking back at our steel industry. This might mean restrictions on our exports of heavy machinery, trucks, autos, beverage and bakery processing machines and the like. In fact, 20% of the steel consumed in the United States is incorporated into products we export.

- **By Making U.S. Exports Less Cost -Competitive, and By Enriching Foreign Steel Producers**: Many of our most efficient industries depend on steel imports to stay competitive. The arbitrary and inflexible nature of the quotas imposed by H.R. 975 will drive up costs and could result in shortages for those industries. Those added costs and shortages will make it more difficult for our companies to compete at home and abroad. At the same time, the higher prices our industries will pay for imported steel will put money in the pockets of foreign steel producers, and make them more competitive. Quotas will drive foreign steel makers to export more profitable higher-end products.

- **By Endangering Global Economic Recovery...**: We have begun to turn the corner on a global economic crisis that could pose enormous risks to U.S. economic health . Maintaining open world markets is vital to global recovery in Asia, Russia, Brazil and elsewhere. Countries suffering economic downturns have not closed their markets to our products, despite significant internal pressures to do so. In fact, some countries have actually opened their markets and undertaken market oriented economic reforms we have recommended. If the United States, the strongest economy in the world, takes the first step toward protectionism, will others not follow? We can ill afford to give those governments a reason to reverse course. Following our disastrous experiment with protectionism 70 years ago, we have spent the past six decades putting rules in place to ensure that other governments will not cut off our exports when they are faced with an economic downturns.

- **And Restoration of Global Demand For Steel**: The steel import crisis was a direct consequence of a global collapse of demand for steel in the wake of the Asia financial crisis. We are now seeing signs that Asia is recovering. It is critical to sustain and promote that recovery so that we can avoid more situations like the one our steel industry and other industries have faced -- and so that Asia will start buying and using some the steel that has flooded into the United States. We will have the opposite effect if we set off a new round of market closings by enacting a quota.

The Administration will continue to ensure that we stay on that course. We should not place at risk our steel industry's recovery, or the continued growth of our economy, by enacting H.R. 975.

H.R. 975 would impose rigid quotas on steel imports. Those quotas are simply not needed to address last year's steel import surge, which has now dramatically receded. More importantly, the enactment of steel quotas could have serious economic consequences.

Today our economy is extremely healthy. Our employment rate, real wage growth, and corporate profits are very strong. Even the steel sector is profitable overall. We should think very carefully about the possibility of risking what we have achieved by starting a round of tit-for-tat protectionism.

If H.R. 975 is enacted, we face the real possibility of retaliation by the world's steel exporting countries. We will have no legal cover under our international trade agreements for our quota. Other countries will have the right to retaliate against our exports. That could put at special risk those sectors, like agriculture, technology, pharmaceuticals, and others where we have insisted, with real success, that other governments open their markets to us.

Moreover, we cannot rule out the possibility that other governments may retaliate against our quotas by barring those U.S. exports that use American steel – as a way of striking back at our steel industry. This might mean restrictions on our exports of heavy machinery, trucks, beverage and bakery processing machines and the like. In fact, 20% of the steel consumed in the United States is incorporated into products we export.

Some 70 years ago, this country conducted its last, and most disastrous, experiment with protectionism. Today, our economy is much more closely tied to world trade -- in the steel sector, in agriculture, services and virtually across the economic spectrum. We are the world's largest importer and exporter. We have a tremendous amount at stake.

Many of our most efficient industries depend on steel imports to stay competitive. The arbitrary and inflexible nature of the quotas imposed by H.R. 975 will drive up costs and could result in shortages for those industries. Those added costs and shortages will it more difficult for our companies to compete at home and abroad. That, in turn, could result in the kind of layoffs and idled production our steel industry is confronting -- even if the effects are spread across more industries. At the same time, the higher prices our industries will pay for imported steel will put money in the pockets of foreign steel producers and make them more competitive.

We have spent the past six decades putting rules in place to ensure that other governments will not cut off our exports when they are faced with an economic downturn. What has been remarkable about the response from Asia and other areas that have been suffering through a massive recession over the past two years is that they have not closed their markets to our products. In fact, some countries have actually opened their markets and adopted other economic policies that we have recommended.

We should not give those governments a reason to reverse course. They need encouragement to keep their markets open to our products and to allow our companies to invest. That is the best way for them to return to financial health.

We are now seeing signs that Asia is recovering. It is critical to sustain and promote that recovery so that we can avoid more situations like the one our steel industry and other industries have faced -- and so that Asia will start buying and using some the steel that has flooded into the United States. We will have the opposite effect if we set off a new round of market closings by enacting a quota.

The combination of the recovery in Asia and the actions the Administration has taken under our trade laws have already produced a real and positive effect in our steel market. Steel imports are down sharply, prices and orders are up.

The Administration will continue to ensure that we stay on that course. We should not place at risk our steel industry's recovery, or the continued growth of our economy, by enacting H.R. 975.