

THE WHITE HOUSE

WASHINGTON

October 22, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: NEC WEEKLY REPORTS

cc: JOHN PODESTA

New Markets: Following, our discussion with you on Thursday to finalize sites for your upcoming New Markets trip we have talked with the First Lady's office, Mayor Daley's office and have also begun to investigate possible sites in upstate New York and Southern Massachusetts. Seeing how Newark, NJ, seems to be firm as the starting point for your trip you should know that I have talked with several individuals, including Ray Chambers, David Stern, Commissioner of NBA, Bud Selig, Commissioner of the MLB, Bill Milliken, Head of Communities-in-Schools, and Art Ryan, Chairman and CEO of Prudential Insurance Company of America who are willing to work with us on meaningful, long-term projects for New Markets. Ray Chambers and I are working with the NBA to see if it is possible to have some form of NBA-wide announcement in time for the Newark trip. While that will not be possible with Major League Baseball, Bud Selig was enthusiastic about developing a partnership for New Markets over the next few months. Likewise, I am optimistic that we could develop a significant New Markets partnership for the Lawyers for One America group. On Friday, I spoke briefing at the monthly meeting of the Lawyers for One America group on how they could become involved in your New Markets initiative for the long-term. They have a number of good ideas and are very interested in creating a sustainable project. We are also working to develop a strong deliverable should Chicago be one of our final destinations. Congressman Rush called Thursday night from the hospital to find out if we wanted him to try and get Speaker Hastert to attend your Chicago visit. I told him that we would want to have Hastert there, but that it was still not clear whether Chicago would be one of our visits.

Taxes: Wednesday (10/20) the Senate Finance Committee by voice vote ordered reported a \$8.5 billion paid-for tax extenders package. Recall that earlier this month, the House Ways and Means Committee reported a larger bill that was not paid for. The Ways and Means Committee scheduled for Thursday (10/21) and then scrubbed a markup of the Lazio-Shimkus Republican minimum wage and tax cut bill.

Financial Modernization: We actively sought to make clear late Thursday night and all day Friday the degree to which the tentative Conference agreement reflected a capitulation by Senator Gramm to the Administration's core CRA principles. We put out a Presidential

Statement, and that was quoted in The Washington Post and The New York Times. Between Secretary Summers and me, we did CNN, CNBC and Fox News. Much of Friday was spent trying to overcome the natural suspicion of community and civil rights leaders about any “agreement” reached with Senator Gramm. While we expect that heat will continue from the left and we will face some criticism from some House Democrats, our efforts have been encouraging. Reverend Jackson and LISC both issued statements strongly supportive of the resolution. We expect others to follow on Monday, when the text is available. We have talked to Cathy Bessant, Sandy Weill, Jackson, Wade Henderson, LISC and Enterprise heads, and others. We are providing information and support to Minority Leader Gephardt and his staff to help them explain the agreement to the Democratic caucus. To be comfortable and help convince others, Gephardt and others want to see the bill text reflecting the agreement, which should be available by Monday.

Social Security: Throughout the week of 10/11, John Podesta, Larry Stein, and I met with Senators - among them Senators Levin, Conrad, Dorgan, and Moynihan - and found support for your submission to Congress of Social Security lock-box enforcement legislation in the week of 10/25. We expect, however, to receive some dissatisfaction from Senators Bob Kerrey and John Breaux, but that is unavoidable.

Child Labor Convention: At a hearing Thursday, Senator Helms expressed his support for the ILO Convention on the Worst Forms of Child Labor and said the Convention would be considered by the Senate Foreign Relations Committee on November 3rd. While he expressed skepticism that the convention would make a difference in the “most corrupt and impoverished countries,” he said “we must do what we can do to try.” He noted that negotiators had consulted regularly with the Committee and had ensured that the convention was consistent with U.S. law. Secretary Herman, AFL-CIO President Sweeney, and US Council for International Business President Tom Niles testified representing the three ILO sectors. Some Senators took the occasion to press for stronger linkage between labor rights and trade. Senator Wellstone specifically urged the Administration to push boldly for labor rights in the WTO. Senator Feingold pressed Secretary Herman for views on a possible child labor amendment to the Africa Trade bill.

Preparing an Economic Plan for East Timor: This week the NEC oversaw the preparation of working papers that lay out a strategy for building up East Timor’s economy on its road to independence. East Timor presents special challenges because it is so poor. If East Timor were an independent country today, its average per capita income of \$400 per year would make it the 6th poorest country in the world, about the same as Chad and Malawi. Over 80 percent of the government spending in the region represents “net transfers” from the rest of Indonesia - transfers that will disappear with statehood. Most of the people are subsistence farmers, but a few export coffee through Indonesian brokers. Eventually oil deposits off the coast might produce more lucrative cash flows, but for now they only bring in about \$10 million a year. A joint NEC/NSC deputies meeting this week discussed what the framework of an economic action plan might look like. There is a need to make sure that there is a solid IMF/World Bank presence in East Timor as soon as these organizations can legally get involved.

Implementation of IFI Military Audit Provisions Could Prove Problematic for Nigerian President Obasanjo's Visit Next Thursday: Three weeks ago a law took effect that requires U.S. executive directors at the international financial institutions to vote against all non-basic human needs loans to countries that do not have procedures for their military spending to be audited by civilian authorities. The idea was that IMF and World Bank money should not go to countries that hide the extent of their military spending from the public. The Secretary of the Treasury has now set the audit standard and decided that 22 countries fail to meet it, including China and Indonesia. Secretary Summers has not yet decided whether to accept the recommendation of an inter-agency working group to also place Nigeria on the final "fail audit standard" list. With President Obasanjo of Nigeria scheduled to visit next Thursday and with our desire to offer him a "dividend for democracy," this raises the possibility of some diplomatic awkwardness. The NEC ran a deputies meeting on Thursday to address these issues. At that meeting it was decided that a higher level legal review was warranted to see whether the working group might have been overly stringent in setting its criteria. Treasury also agreed to explore with Senator Leahy, a key advocate of this legislation, whether some flexibility in implementation could be shown for countries that are in the process of upgrading their audit capabilities. The deputies will discuss this matter early next week to decide on the best strategy for the Obasanjo visit.

Electricity Restructuring: Chairman Barton has scheduled a markup of his electricity restructuring legislation next week. We have identified four significant criticisms of his bill: (1) it contains no market power provisions; (2) it codifies a recent court decision which makes it difficult for FERC to promote open transmission access; (3) it fails to promote sufficiently the development of regional transmission organizations; and (4) it is not green enough. Although there is no consensus among subcommittee members regarding the bill (even the Republicans), we believe that enough Republicans (and a few Democrats) will support the bill in order to move the debate to the full Commerce Committee. Barton, aware that Chairman Bliley will try to move to the left on the bill in full Committee, appears to have decided not to address the concerns of the Administration or Congressman Markey (a key Democrat on this issue and cosponsor of the Largent Markey restructuring bill) at the Subcommittee level. Bliley has committed to scheduling a full committee markup in January.

Seattle WTO: A Swiss informal "Friends of the Round" Ministerial is being held next Monday and Tuesday (Oct. 25-26) to discuss the revised draft declaration issued by WTO General Council Chairman Mehumo on the 19th. Roughly 25 countries (with representatives from all major regions) will attend the Ministerial in an effort to begin narrowing the differences. Ambassadors Barshefsky, Esserman and Hayes all plan on attending for USG. Your October 27th meeting with EU Commission President Prodi will have cooperation on Seattle WTO as the number one agenda item. NEC deputies agreed Friday to work with the EU to develop a common position that would encourage all countries to deepen and accelerate preferential tariff rates for LDCs.

Sanctions Reform: Next week, an Aschroft-like food and medicine sanctions reform bill may well be introduced and voted on. Aschroft announced at a press conference this week that Senate leaders had agreed to a vote the week of Oct. 24th. The bill is likely to be very similar to the Aschroft Amendment that was attached to the Senate version of ag approps by a 70-28 vote several weeks ago. The original Aschroft Amendment would have eliminated existing food and

medicine sanctions (including Cuba) and prevent the Executive Branch from including such items in future sanctions regimes absent specific Congressional authorization or a declaration of war. The amendment was deleted in conference due to concerns over removing sanctions on Cuba. We share the goal of excluding food and medicine from sanctions having announced and implemented our own policy change that such items will be excluded absent a finding by you that our national interest requires otherwise. However, the Aschroft bill does not maintain sufficient Executive Branch flexibility to respond to various and rapid changing events (e.g. where a regime is denying food to a particular ethnic group or where we are in a state of hostilities without a declaration of war).

Africa Trade Bill: Cloture was filed at noon today (10/22) following yesterday's debate. The prospects are good for a vote to take place next Tuesday. Lael Brainard, Maria Echaveste, and Chuck Brain briefed the African diplomatic corps on the Hill at the request of Rep. Sheila Jackson Lee this past Wednesday to show visible support and to educate them on White House efforts underway to win passage of the bill. Representatives' McDermott, Kilpatrick, and Bernice Johnson also attended and gave brief yet convincing remarks.

Possible Trade Law Reform Amendments to Africa Trade Bill: Steel Caucus members are threatening to offer as amendments to the Africa Trade Bill legislation that would change our dumping and Section 201 laws in WTO inconsistent ways. We will fight such legislation on the grounds that passage of such measures would inflame our trading partners just as we are engaged in a heated battle to keep our dumping laws off the table in the new WTO round. We already have an industry-labor-Administration working group up and running pursuant to the Steel Action Program to review trade law reform legislation.

We are making progress on hurdles encountered to win Senate passage by strengthening our efforts to educate. As a result, the majority of the African American community is expressing its united support and enthusiasm for the bill. Moreover, we plan to meet with high-ranking African American religious and community leaders for a briefing on Monday followed by a bipartisan press conference on the Hill. So far, there are twenty-seven proposed amendments to the trade bill that we are working to develop positions on to head off potential procedural delays. However, the actions of Rep. Hollings are still unpredictable, and no one knows at this time whether or not he will use delay tactics when the bill is ripe for a floor vote.

International Debt Relief: Discussions are ongoing on both your appropriations request for \$370 million in FY 2000 (with the remaining \$600 million over the next three years) as well as the authorizing legislation in the House Banking and International Relations Committees. The authorizing Committees next week may mark up the implementing legislation for the Cologne Initiative, including the crucial authority for the US to support IMF gold sales of up to 14 million ounces. Treasury has been negotiating with Reps. Leach and LaFalce, seeking to convince them to accept our changes to their bill. We are making progress; however, a couple of issues remain outstanding. In particular, Democratic Members, who dislike IMF/World Bank conditionality, would like somewhat different and more general economic reform conditions to apply to USG debt relief than to the multilateral debt relief component of HIPC/Cologne Initiative; they would like to authorize but not require us to provide relief to more countries than those on the HIPC list if there were sufficient appropriations to do so; and they would like to ensure that IMF gold sale

proceeds are used exclusively for financing debt relief. Treasury is attempting to negotiate acceptable language on these and other concerns. We understand that Leach and LaFalce are eager to mark up next week, and that the House International Relations Committee, which shares jurisdiction on the USG debt relief part of the package, would be likely to follow Leach's and LaFalce's lead.

Air Traffic Control Reform: The conference committee on the FAA bill has begun to meet, but it is unclear if the House, which wants to take the aviation trust fund off budget, will be able to reach agreement with the Senate, which--like the Administration--opposes off budget. It appears very unlikely that conferees will address fundamental air traffic control reform in this bill. However, we believe it may be possible to achieve reform next year, once the airlines are out from under their obligation to support the Shuster bill. NEC staff is starting to work with CEA, OVP, OMB, Treasury and DOT/FAA to look at reform options, including privatization, for inclusion in your 2001 budget and state-of-the-union. My staff met this week with former Gov. Baliles, who chaired your commission on the health of the airline industry and remains a vocal champion of air traffic control reform.

EU Hushkit Regulation: Dorothy Robyn on my staff will hold an NEC deputies meeting on Monday (Oct. 25) to consider next steps in our dispute with the EU over its so-called hushkit regulation, which limits the ability of certain older aircraft to operate in the EU despite their compliance with international noise standards. John Podesta and NEC staff met this week with representatives from United Technologies, Northwest and American Airlines, and they are pushing us to challenge the regulation under an international aviation treaty. However, that action could bring an end to our negotiations with the EU, which we believe are still bearing fruit. We will have talking points so that you can raise this issue with Prodi.

New Steel Numbers: Relatively good news this month. Steel imports fell 10 percent in September from August levels and remain 24 percent below the levels of September 1998. Looking at the first nine months of this year, 1999 steel imports are down approximately 14 percent compared to 1998, but are 9 percent above 1997 (1997 levels are the point of comparison for industry, as the surge began in 1998). Japan's imports fell by a third from August to September, and are down 45 percent this year compared to the first nine months of 1998, but are 34 percent above 1997 levels. Korean exports are off only 10 percent though September compared to last year, and 89 percent above 1997 levels. By contrast, overall imports from Russia have fallen 75 percent this year compared to 1998, and are off 66 percent compared to 1997. Wire rod imports dropped 24% from August to September, but are up 23 percent compared to September 1998 as imports continue at high levels as a precaution against a decision to impose trade relief in the Section 201 case.