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VP

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

X

12-29-97

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines

SUBJECT: FY 1999 Agency Appeals

Eight members of your Cabinet will appeal to you this evening for higher funding levels in your FY 1999 budget -- Secretaries Shalala, Riley, Slater, Glickman, and Daley; Acting Secretary Gober; Administrator Browner; and Drug Policy Director McCaffrey.

Attached for your information is a schedule for the meeting and OMB's summaries of each of these appeals. We recommend that you listen to the appeals and give us your feedback after the meeting.

Attachments

5-29
Phil -
OK to send
to RM?
B
Yes

Cabinet Appeals

Panel 1

ONDCP
HHS
Education

Panel 2

Transportation
Veterans Affairs
USDA

Panel 3

EPA
Commerce

FEDERAL DRUG CONTROL PROGRAMS CROSSCUT

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	16,032	16,291	16,108	16,025	16,373	16,785
Agency Appeal to Passback*		+1,200	+3,200	+4,200	+4,900	+5,400
Tentatively Approved Additions to Passback......		+503	+493	+498	+509	+506
Total: Passback+Tentatively Approved Additions..........		16,794	16,601	16,523	16,882	17,291

*Drug attribution; $1,621 million required in 1999. ONDCP's 1999 priority appeal (drug attribution) is $747 million.

- Overview. The Federal drug control budget has grown 32 percent from $12.2 billion in FY 94 to $16.0 billion in FY 98 (see table below). Passback increased Federal drug control funding $259 million over FY 98 (+2%). With agency settlements and tentatively approved additions to passback, **drug control funding in FY 99 would be $762 million or 5% above FY 98 levels.**

- Summary of Tentatively Approved Additions. ONDCP seeks an additional $1.2 billion over Passback for 1999 and $18.9 billion over five years. As the vast majority of drug control funding is "attributed" from larger accounts, budget authority would have to increase $1.6 billion in 1999 to increase drug control funding by $1.2 billion. ONDCP's appeal centers on $747 million for top priorities as shown below:

ONDCP'S PRIORITY FUNDING INITIATIVES--IN PRIORITY ORDER
(Budget Authority in Millions of Dollars)

Initiative	OMB Passback	ONDCP Priority Appeal	Tentatively Approved	Unfunded Appeal
Demand Reduction	**195**	**227**	**72**	**155**
Media Campaign	(195)	(0)	(0)	(0)
School Coordinators*	*[27]*	(27)	*[27]*	*[27]*
Treatment	(0)	(200)	(72)	(128)
Supply Reduction	**38**	**520**	**183**	**337**
Port & Border Security	(2)	(244)	(58)	(186)
Andean Coca Reduction	(30)	(111)	(81)	(30)
Caribbean	(5)	(135)	(33)	(102)
Mexico	(1)	(30)	(11)	(19)
ONDCP's Discretionary Fund	**N/A**	**N/A**	**100**	**-100**
TOTAL	**233**	**747**	**355****	**392**

*Under Passback and Tentatively Approved levels, the $27 million for School Coordinators is an earmark of existing funds.
**In addition to the $355 million noted here, an additional $148 million above passback is provided for drug control programs not identified as ONDCP "top priorities." Total drug control spending increases $762 million in FY 99.

Tentatively-approved funding includes:

--Media Campaign. Passback fully funds this initiative; no appeal.

--School Coordinators. +$27 million to fund the new School Drug Coordinators program through additional resources rather than through an earmark of existing funds. The tentatively approved level maintains the earmark.

--Treatment. +$290 million (+$200 million drug attribution) to treat an additional 850,000 people by 2003. The tentatively approved level would add $100 million to HHS (+$72 million drug attribution) and serve approximately 300,000 people.

--Port & Border Security. +$614 million (+$244 million drug attribution) for a multi-agency initiative that would add approximately 2,000 border patrol agents per year and expand Customs staffing. The tentatively approved level provides +$183 million (+$57 million drug attribution) to add 1,000 Border Patrol agents, increase INS detention efforts, and buy new detection machines for Customs.

--Andean Coca Reduction. +$111 million for a multi-agency initiative to reduce illicit coca cultivation. The tentatively approved level provides an additional $81 million, including $61 million for DOD interdiction activities and $20 million for State Department source country alternative crop development.

--Caribbean Initiative. +$136 million for a multi-agency initiative to expand counterdrug operations. The tentatively approved level provides +$33 million distributed among DOD, the Coast Guard, and the DEA.

--Mexico. +$30 million to reduce the flow of drugs into the United States. The tentatively approved level provides $11million for interdiction, added intelligence analysts, and a DEA classified project.

-- The tentatively approved level also funds some programs not among ONDCP's top priorities, including:

-- Aggregate Drug Budget. +$100 million for ONDCP to fill perceived "gaps" in Federal Government-wide drug control funding.

--Youth Tobacco Prevention and Control. +$30 million for state-based prevention, education and surveillance activities.

- Potential Further Additions. +$100 million (+$72 million drug attribution) to the Substance Abuse Block Grant, which would double the tentatively approved level and provide treatment for approximately 600,000 people by 2003.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

Personal

December 17, 1997

'97 DEC 17 PM2:59

The Honorable William J. Clinton
President of the United States
The White House
Washington, D.C. 20500

Dear Mr. President:

Over the past months, the Office of National Drug Control Policy (ONDCP) and the Office of Management and Budget (OMB) have worked closely to develop a comprehensive five-year drug budget proposal for your *1998 National Drug Control Strategy*. As part of our proposal, ONDCP requests an increase in drug control funding for FY 1999 of $1.4 billion. With these resources, the FY 1999 drug budget would be $17.4 billion, an increase of nine percent over FY 1998. OMB's initial allowance provides for less than a two percent increase in FY 1999, and only a four percent increase over FY 1998 by FY 2003. This funding will not fully implement the *Strategy*. It is not consistent with your guidance for this important program or the level of support expected by the American people. A comparison of funding proposed by OMB and ONDCP is presented in the accompanying table. As you provide guidance to OMB in the coming days, respectfully request your favorable consideration of the FY 1999 - FY 2003 funding recommended by ONDCP.

Drug Budget: OMB vs. ONDCP Proposals ($ Billions)

	FY 98	FY 99	FY 00	FY 01	FY 02	FY 03
• OMB Proposal (11/25)	16.0	16.2	16.1	16.0	16.3	16.7
• ONDCP Revised Plan (12/4)	16.0	17.4	19.3	20.2	21.2	22.1
Appeal	n.a.	1.2	3.2	4.2	4.9	5.4

Central to ONDCP's FY 1999 - FY 2003 budget appeal are seven major initiatives which will be the focus of the *1998 Strategy*. An additional $719 million is needed in FY 1999 for these programs beyond OMB's November 25 recommendation. These initiatives will continue our National Youth Media Campaign, provide additional assistance to local school districts, and help individuals with chronic drug use problems find the treatment they need. This funding will also help secure our Southwest Border and ports-of-entry, reduce coca production in the Andean region, target violent crime and drugs in the Caribbean, and assist Mexico in its fight against major drug trafficking organizations. Beyond funding for these seven initiatives, the appeal also includes about $400 million for new spending and resources to continue critical programs funded in FY 1998.

In addition to our concern regarding overall funding levels, OMB's proposal also lacks the necessary balance over five-years between law enforcement efforts and programs aimed at drug prevention and treatment. OMB's November 25 budget allowance provided no new resources over five years for drug demand reduction programs of the Departments of Education and Health and Human Services. To the extent that OMB proposed modest new demand reduction efforts, these were at the expense of reductions to other vital prevention and treatment programs. This is a serious deficiency in OMB's plan. In contrast, ONDCP's recommendation includes over $3 billion in new drug demand reduction funding over five years.

Arriving at a five-year drug budget solution is a challenge. It must be true to your commitment for a balanced budget by FY 2002, while providing sufficient resources to prevent drug use by our children, treat those in great need, fight drugs and crime domestically, secure our borders, and fulfill our commitments overseas. ONDCP's five-year plan meets this challenge. It represents a chance to turn the drug problem around and reduce the unnecessary loss of life due to drug use. It is an investment for the nation which will truly support the general welfare. Look forward to your leadership and support.

Very respectfully,

Barry

Barry R. McCaffrey
Director

. Would welcome opportunity to further outline rationale for a $17.4 Billion FY99 drug effort.

. On the remainder of your watch we can turn this problem around. It will represent a gift -- a legacy to the American people.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	35,868	34,874	35,031	35,127	35,215	35,794
Agency Appeal to Passback.		+3,501	N/A	N/A	N/A	N/A
Tentatively Approved Additions to Passback......		+2,158	+2,745	+3,355	+3,991	+4,651
Total: Passback+Tentatively Approved Additions..........		37,032	37,776	38,482	39,206	40,445

Overview of Agency Appeal

- In FY 1998 appropriations, HHS programs were raised 6.7 percent above FY 1997 and 1.6 percent above the FY 1998 Budget. HHS passback, for many functions, raised programs to FY 1998 enacted levels. The Passback is $1.1 billion (3.2%) above the original HHS planning guidance. Among the few programs cut below FY 1998 were LIHEAP (-$200 million) and Community Services (-$35.3 million).

- The HHS appeal would increase total BA by $2.5 billion, seven percent over FY 1998 enacted.

- Base appeals over Passback include:

  -- HCFA -- $455 million (mostly to avoid relying on user fees);
  -- CDC -- $87 million (including +$60m infectious diseases);
  -- HRSA -- $219 million;
  -- FDA -- $114 million in BA (instead of proposed user fees);
  -- Indian Health Service -- $100 million;
  -- SAMHSA for Substance Abuse Demonstrations -- $70 million; and
  -- ACF -- $200 million

- Initiative appeals over Passback — all of which have been funded, at least in part, in either the base or initiatives — include:

  -- NIH -- $1,153 million;
  -- FDA and CDC Tobacco -- $120 million;
  -- FDA and CDC Food Safety -- $44 million; and
  -- Agency for Health Care Policy and Research (AHCPR) -- $90 million

- Head Start Slots versus Pay Raises (i.e., "Quality" set-aside). Funding for Head Start has increased by 23 percent since the 1994 reauthorization, but the number of slots available to serve more children has only increased by 11 percent.

  The 1994 reauthorization included a "quality" set-aside of 25 percent of all new funds (real increases). 50 percent of the set-aside must be spent on salary and benefit increases. Of the remainder, approximately 25 percent goes for additional staff and 25 percent is spent on equipment, transportation, extended hours and training. The Act also authorizes, but does not require a full COLA for staff, a provision virtually unique among domestic programs. Head Start staff salaries have grown to $12 to $17 per hour, more than double the average salary of a child care provider.

  Passback recognizes the substantial increases in staff salaries achieved and notes agency inability to demonstrate real quality improvement equal to the cost, and thus would focus more of the new funds on serving more children. The tentative agreement provides a $284 million increase over FY 1998, for a total of $4,639 billion, providing for nearly 70,000 new slots as well a partial COLA, but no further "quality" set-asides.

  HHS argues that maintaining the quality set-aside and full COLA is warranted on political and substantive grounds. The bipartisan agreement that resulted in the 1994 legislation was led by Democrats including Kennedy, Dodd, Clay and others. It produced the quality set-aside and the COLA policies. HHS asserts that the Administration will be viewed as "abandoning the field" on quality at the very time (FY 1998) the program is reauthorized. HHS also maintains that higher staff salaries result in improved program quality (unfortunately, longitudinal data available to date do not demonstrate a link between the "quality" set-aside and COLA increases, on the one hand, and improved outcomes for children, on the other hand.)

- Increases & Inclusion of CDC & AHCPR in Research Trust Fund Secretary Shalala believes that as a nation we have underinvested in applied research into health delivery systems, quality and effectiveness. For this reason, she argues that the other parts of HHS — the Centers for Disease Control and the Administration for Health Care Policy Research — that undertake this research should both be increased and included in the 21st Century Research Fund. She has appealed for an additional $90 million for AHCPR and an additional $303 million for CDC. You have already tentatively approved an increase of $15 million for quality research above passback, and we have tentatively included a total $30 million *within the Research Trust Fund* for quality and other research. For CDC, tentative additions include $5 million for food safety and $21 million for tobacco related research; the latter would be included in the Research Trust Fund.

- <u>CDC Infectious Diseases Research</u> HHS is appealing for an increase of $43 million above the passback $60 million for infectious diseases research and surveillance, and for building and equipping a new laboratory. This account has been increased dramatically in recent years. Both OMB and the appropriators have proposed that HHS reprogram and use for the lab some $60 million in unspent immunization funds, but the Department has resisted this approach. You might grant their appeal by requiring use of these funds.

<u>Summary of Tentatively Approved Additions to Passback</u>

- Total HHS funding would be $1.5 billion (+4.2 percent) over FY 1998. Includes initiative increases over FY 1998:

  -- Food Safety -- $30 million;
  -- NIH -- (+$1.34 billion, funded through the Research Fund for America);
  -- Health care quality and health services research (AHCPR) -- $30 million;
  -- Ryan White -- $165 million;
  -- Race and Health -- $80 million; and
  -- Child care -- $60 million

- Recommendation increases or maintains FY 1998 funding for priority base activities, including:

  -- Head Start -- $150 million over FY 1998;
  -- MCH Block Grant -- same as FY 1998;
  -- Health Centers -- same as FY 1998;
  -- Mental Health Block Grant -- same as FY 1998;
  -- Substance Abuse Block Grant -- $100 million over FY 1998;
  -- CDC -- same as FY 1998; and
  -- LIHEAP -- same as FY 1998

- Base activities remaining below FY 1998 include: Community Services (-$52 million), SAMHSA demos (-$70 million), and salaries and expenses accounts.

- <u>Alternative Head Start Proposal</u>. The current COLA costs approximately $100 million, of which the half COLA or $50 million is already in Passback. Of the FY 1999 increase of $284 million the full "quality" set-aside would cost $54 million; the full COLA another $50 million. In the Budget and the Administration's proposal for reauthorization: (1) provide the 50 percent COLA; (2) provide a $40 million targeted quality fund, for things like new equipment, training for improving cognitive development in children, and related matters. Remaining funds would support an increase of 60,000 slots, 10,000 fewer than Passback, but 16,000 more than the HHS level.

Potential Further Additions

- OMB does not propose or recommend any further additions. Tentatively approved additions are already $2.5 billion above Passback and $1.5 billion above FY 1998.

- CDC Infectious Diseases: You might choose to consider increasing CDC by $60 million using a reprogramming of the unspent immunization funds.

Summary of HHS Appeal for Selected Programs – FY 1999 Budget
(BA in Millions)

		FY99 OMB Recommendation				HHS Appeal Vs.:		
Agency	FY 1998 Enacted	Passback	Tentatively Approved Additions to Passback	Rec'd Total (Tentatively Approved)	Total vs. FY98 Enacted	FY 98 Enacted	Passback	Rec'd Total
FDA Total (BA)	**925**	**833**	**+9**	**842**	**-83**	**+157**	**+249**	**+240**
Program Level	*1,038*	*1,077*	*+9*	*1,086*	*+48*	*+206*	*+167*	*+158*
BA Substitiution for User Fees	0	-92	+0	-92	-92	+0	+114	+114
Food Safety	24	49	+0	49	+25	+64	+39	+39
Laboratory Construction	15	0	0	0	-15	+13	+28	+28
Tobacco	34	34	+9*	34	+9	+46	+46	+37
HRSA Total (BA)	**3,628**	**3,584**	**+165**	**3,749**	**+121**	**+262**	**+306**	**+141**
Ryan White	1,150	1,150	+165	1,315	+165	+100	+100	-65
Community Health Centers	826	826	+0	826	+0	+69	+69	+69
Healthy Start Demo Grants	96	96	+0	96	+0	+75	+75	+75
MCH Block Grant	683	683	+0	683	+0	+50	+50	+50
IHS Total (BA)	**2,099**	**2,089**	**+0**	**2,089**	**-10**	**+90**	**+100**	**+100**
Program Level	*2,431*	*2,446*	*+0*	*2,446*	*+15*	*+115*	*+100*	*+100*
CDC Total (BA)	**2,379**	**2,331**	**+21**	**2,352**	**-27**	**+271**	**+319**	**+298**
Program Level	*2,438*	*2,417*	*+21*	*2,438*	*+0*	*+282*	*+303*	*+282*
Emerging Infectious Diseases	60	60	+0	60	+0	+43	+43	+43
Food Safety	15	20	+0	20	+5	+10	+5	+5
HIV Prevention	634	634	+0	634	+0	+10	+10	+10
STD's	114	114	+0	114	+0	+13	+13	+13
Immunizations	427	427	+0	427	+0	+10	+10	+10
Diabetes	56	56	+0	56	+0	+11	+11	+11
Tobacco	28	28	+21*	49	+21	+74	+74	+53
NIH Total (BA)	**13,648**	**13,648**	**+1,340**	**14,988****	**+1,340**	**+1,153**	**+1,153**	**-187**
SAMHSA Total (BA)	**2,147**	**2,069**	**+100**	**2,169**	**+22**	**+260**	**+338**	**+239**
Subst. Abuse Block Grant	1310	1310	+100	1410	+100	+160	+160	+60
Subst. Abuse Expansion Grants	67	63	+0	63	-4	+96	+100	+100
Substance Abuse Demonstrations	240	170	+0	170	-70	+0	+70	+70
Nat'l Household Survey on Drug Abuse	18	22	+0	22	+4	+10	+6	+6
AHCPR Total (BA)	**90**	**59**	**+30***	**89**	**-1**	**+59**	**+90**	**+60**
Program Level	*146*	*125*	*+30*	*155*	*+9*	*+65*	*+86*	*+56*
HCFA Total (BA)	**1,743**	**1,668**	**+0**	**1,668**	**-75**	**+380**	**+455**	**+455**
Program Level	*1,883*	*2,072*	*+0*	**2,072**	*+189*	*+435*	*+246*	*+246*
Office of the Secretary (BA)	**243**	**218**	**+1**	**219**	**-24**	**+3**	**+28**	**+27**
Anti Terrorism	2	2	+0	2	+0	+9	+9	+9
General Administration	102	98	+0	98	-4	+5	+9	+9
Race and Health	**0**	**0**	**+80**	**80**	**+80**	**+30**	**+30**	**-50**
Undistributed Reduction	**0**	**-8**	**+0**	**-8**	**-8**	**+0**	**+8**	**+8**
Health Subtotal (BA)	**26,902**	**26,491**	**+1,746**	**28,237**	**+1,335**	**+2,665**	**+3,076**	**+1,331**
ACF (BA)	**8,101**	**7,519**	**+752**	**8,271**	**+170**	**-207**	**+375**	**-377**
National Youth Sports	14	0	+0	0	-14	+2	+16	+16
AoA (BA)	**865**	**865**	**+0**	**865**	**+0**	**+50**	**+50**	**+50**
Home Delivered Meals	112	112	+0	112	+0	+40	+40	+40
HHS Total (BA)	**35,868**	**34,875**	**+2,498**	**37,372**	**+1,504**	**+2,508**	**+3,501**	**+1,004**

* Increases for CDC and FDA Tobacco and AHCPR come from Research Fund for America (RFA).
** NIH total (i.e., base plus increase) would be funded through RFA.

DEPARTMENT OF HEALTH AND HUMAN SERVICES
CHILD SUPPORT ENFORCEMENT -- MANDATORY

(Outlays, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Base Program..	3,492	3,800	4,194	4,383	4,685	5,042
Tentative Agreement.		-60	-60	-60	-60	-60
Agency Appeal to Passback.		---	---	---	---	---
Total: FY 1998 Base Plus Tentative Agreement		3,740	4,134	4,323	4,625	4,982

Overview

- Under the current child support financing system, States get Federal matching and incentive payments, but must also return a portion of TANF-related collections to the Federal government. States have authority to levy user fees on non-TANF cases, but no amount is mandated and the authority is capped at $25 annually per case.

- In FY 1998, the combination of resources available to States under current law will equal 116 percent of what they are actually paying for Child Support Enforcement; this represents a State windfall of $571 million.

OMB Recommendation

- OMB considered, and informed HHS of, three options ranging from $0.3 billion to $3.0 billion in five-year savings. These savings will be used to offset funding for mandatory initiatives. The smallest option has been tentatively approved. This proposal would simplify the child support financing structure into 1) a basic grant, and 2) incentive funds:

    - States would be allowed to keep all TANF-related collections (including what is now the Federal share) and would no longer be subject to Federal match requirements. States would be free to pass these collections on to families or to use them in the TANF program;

    - The current incentive payment structure would be maintained with formula modifications tied to performance, consistent with HHS' 1997 report on incentive funding;

    - Federal funding to the States will be reduced to reflect an increase in the collection of State fees ($25 for non-TANF cases). States could collect more on a sliding scale basis or pay the user fee out of other State resources (average non-TANF case collections are about $3,300); and

- States would be required to maintain State spending at least at FY 1997 levels.

- This approach gives States increased flexibility and control over their program. Instead of collecting the Federal share, the Child Support program would simply decrease federal grants by the same amount of collections that States would now be able to keep. States would have more incentive to go after TANF collections because they would keep everything, and would no longer have an incentive to create State-only programs solely for the purpose of avoiding paying a share of TANF collections to the Federal government.

- The $300 million in savings is a reduction to the basic grant that reflects an increase in State resources from the $25 user fees on non-TANF cases.

Agency Appeal

- HHS disagrees with the OMB recommendation and would propose no change to the child support system. They argue that user fees are administratively complicated and that some States will have to charge more than $25 on non-TANF cases in order to make up the reduction in their grant. In addition, they are worried that allowing States to keep all TANF-related collections and reducing their administrative grant may cause some States to reduce their child support enforcement efforts.

DEPARTMENT OF EDUCATION

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	29,559	29,506	29,827	29,838	29,719	30,009
Agency Appeal to Passback.		2,403	2,403	2,403	2,403	2,403
Tentatively Approved Additions to Passback......		1,630	1,630	1,630	1,630	1,630
Total: Passback+Tentatively Approved Additions..........		31,136	31,457	31,468	31,349	31,639

Overview of Agency Appeal

- The Secretary of Education now appeals for $2.4 billion over Passback, $.9 billion less than his initial appeal.

- The Secretary considers OMB's Passback "inadequate" for helping States (1) deal with the explosive growth in elementary and secondary school enrollments, and (2) raise student achievement. He argues Passback pits new proposals against key existing programs in a way that will undermine both during the Congressional appropriations process.

- The Education budget's overall size -- as it reflects "the critically important role of education" -- is as much at issue as the funding levels for the individual items.

- New Initiative Appeals:
  - -- Education Opportunity Zones: $225 million;
  - -- College-School partnerships: $150 million;
  - -- Early Information Initiative: $20 million;
  - -- Minority higher education retention research: $50 million;
  - -- Training Teachers in Technology Use: $80 million;
  - -- NSF/ED research: $50 million; and
  - -- After School Learning Centers, part of the Child Care Initiative: $200 million.

- Increases to base appeals:
  - -- Goals 2000: $49 million;
  - -- Title I, Education for the Disadvantaged: LEA grants, $277;
  - -- Comprehensive School Reform: $225 million;
  - -- America Reads: $80 million;
  - -- Bilingual and Immigrant Education: $36 million;
  - -- Adult Education: $24 million;
  - -- Vocational Education: $121 million;
  - -- Special Education: $249 million;
  - -- Vocational Rehabilitation: $200 million; and
  - -- Other Student Financial Assistance Programs: $206 million.

Summary of Tentatively Approved Additions

- The tentatively approved level is $1.63 billion over Passback; $1.58 billion over FY 1998 enacted. This is a much smaller increase than Education received in FY 1997 or FY 1998 (about half the size), but within the caps it is a major new investment. It is especially substantial when viewed in the context of another $5 billion in school construction through tax benefits and $7.7 billion in mandatory spending to increase the teaching corps.

- New Initiatives:
  -- Education Opportunity Zones: $225 million;
  -- College-School partnerships: $150 million;
  -- Early Information Initiative: $20 million;
  -- Minority higher education retention research: $50 million;
  -- Training Teachers in Technology Use: $80 million;
  -- NSF/ED research: $50 million;
  -- After School Learning Centers, part of Child Care Initiative: $60 million; and
  -- Learning on Demand: $40 million.

- Base Programs ($980 million over Passback):
  -- Title I, Education for the Disadvantaged: LEA grants: $258 million;
  -- Migrant Education $50 million;
  -- Comprehensive school reform: $175;
  -- Bilingual Education: $33 million;
  -- Adult Education: $22 million;
  -- ED/NSF strategic plan for improving mathematics teaching: $47 million; and
  -- Statistics and Assessment: $108 million.

- New cost estimates for the Pell grant program indicate that we can maintain a maximum award of $3,100, at a cost that is $185 million less than previously estimated. DPC, NEC, and OMB are discussing how to use the savings. This could increase a variety of education and training programs by small amounts, that may address some of the Secretary's concerns.

Potential Further Additions

- OMB believes that the tentatively approved level provides a sufficient increase over FY 1998.

Mandatory Issues That May Arise

- School Construction: Tentatively approved level is $5 billion through tax benefits.

- Teachers/Class Size: Tentatively approved level is $7.3 billion over 5 years with design still open.

- Student Aid: Savings of $3.6 billion to reduce excess subsidies, and spending of $1.7 billion for benefits to students and other program changes to support a major reauthorization proposal to streamline the guaranteed loan system.

DEPARTMENT OF TRANSPORTATION

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	40,634	38,048	38,934	39,380	40,034	40,702
Agency Appeal to Passback.		+4,469	+4,001	+4,018	+3,199	+2,607
Tentatively Approved Additions to Passback......		+90	+30	-43	-48	-29
Total: Passback+Tentatively Approved Additions..........		38,688	39,514	39,887	40,536	41,223

Overview of Agency Appeal

- DOT's appeal is for \$4.5 billion in budgetary resources and \$1.8 billion in outlays above Passback. DOT did not specifically request additional funding from the Presidential Reserve.

- The appeal notes that ISTEA and FAA will be reauthorized next year, and requests that highways, highway safety, transit and airport grants be funded at the 1998 enacted level.

- While the Gore Commission safety and security recommendations are fully-funded, including \$100 million for explosive detection equipment, the Department still seeks an additional \$841 million for FAA operations and capital programs. This sum would be used for additional safety inspectors, overhead positions, and to accelerate the pace of modernization. (DOT staff indicate a willingness to accept \$401 million for operations and capital.)

- DOT requests an additional \$67 million to increase Coast Guard drug interdiction efforts and \$228 million to begin an \$8 billion program to replace its cutters and aircraft. (DOT staff indicate a willingness to accept \$26 million for operating expenses and \$168 million for cutters and aircraft.)

- DOT seeks its original request of \$376 million in discretionary spending for Amtrak operating subsidies and \$329 million for Amtrak capital projects.

Summary of Tentatively Approved Additions

- Your advisors have discussed DOT's appeal to provide additional funding to bring highways, highway safety, and transit programs to the FY 1998 enacted level. We agree that we should provide an additional \$1.7 billion to fund DOT's appeal; however, we have not found an appropriate funding mechanism yet.

- The amount included in Passback reflects the levels agreed to in the Balanced Budget Agreement, which themselves were significant increases over 1997 enacted. Within the recommended total, an additional $45 million would be earmarked for border infrastructure, raising the total border infrastructure program to $90 million.

- For the FAA, no additional funding above Passback would be recommended for its operating account (already 5 percent over FY 1998). In addition, Passback increases the capital modernization account 13 percent over FY 1998. The Gore Commission safety and security recommendations are fully-funded, including $100 million for explosive detection equipment. Investments in productivity enhancing new technology eliminate the need for increases in the number of safety inspectors. Modernization funding would ramp up over time, rather than in one large and difficult-to-manage jump. Additional airport grant funding above the $450 million included in Passback is not recommended. $90 million in funding planned for 2000 would be shifted to 1999 to accelerate the Flight 2000 demonstration program.

- No additional funding is recommended above Passback for the Coast Guard. A small increase in operating funding allows the Coast Guard to maintain current operations and increase drug interdiction activities by 5 percent. Capital funding would continue at the 1998 level, while a Presidential Commission reviews the Coast Guard's roles and missions and evaluates the Coast Guard's proposed $8 billion capital replacement program.

- No additional funding is recommended for Amtrak. Passback provides more funding in total than was requested for Amtrak, but funds it from a different mix of Federal sources. Passback saves outlays under the discretionary cap by requiring that some of the $2.1 billion in funds from the Taxpayer Relief Act be used for operating rather than capital expenditures. (The Department previously proposed to do just this.)

DEPARTMENT OF VETERANS AFFAIRS
(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	18,895	18,675	18,670	18,655	18,658	19,315
Agency Appeal to Passback.		+220	+231	+257	+263	---
Tentatively Approved Additions to Passback......		---	---	---	---	---
Total: Passback+Tentatively Approved Additions..........		18,675	18,670	18,655	18,658	19,315
Potential Further Additions To Total:		---	---	---	---	---
Mandatory Resources 1/	22,231	22,992	23,531	24,088	24,580	26,254
Total Agency Resources	41,126	41,667	42,201	42,743	43,238	45,569

1/ VA estimate as of late October.

Overview of Agency Appeal

- VA Budget is submitted as a total, with both mandatory (e.g., disability) and discretionary (e.g., health and administration) expenditures. For FY 1999, the total would rise but the discretionary portion would be $220 million lower than FY 1998 (partly because FY 1998 included over $100 million of unrequested items.)

- VA's appeal is for $220 million above Passback to maintain the FY 1998 enacted level. The combined FY 1999 discretionary and mandatory total, however, is over $500 million above the total FY 1998 level.

VA Funding Levels *(dollars in millions)*			
	FY 1998 Enacted	FY 1999 Passback	FY 1999 Appeal
Discretionary	$18,895	$18,675	$18,895
Mandatory	$22,231	$22,992	$22,992
Total	$41,126	$41,667	$41,887

- VA states that passback would mark the *first* time that total discretionary resources declined from the previous year. This is untrue (FY85-FY86) and Passback provides *total* resources (discretionary and mandatory) at more than $500 million above FY 1998 enacted. When making comparisons between funding levels in public statements and in testimony before the Congress, VA usually references total resources for veterans programs.

- Furthermore, the veteran population is *declining*, and some budget effect should result. Resources per veteran would increase 3 percent from FY 1998 to FY 1999 from $1,638 to $1,687.

- The appeal proposes increases to almost every account. Key areas include:

  - Benefits Administration: an additional $61 million for workload, technology initiatives, and regional office relocations over the amounts provided in Passback. There is no increase for potential nicotine-dependence disability claims -- our legislative proposal would deny these claims.

  - Research: An additional $66 million for a wide range of common health care issues (e.g., cancer, depression, and Parkinson's Disease).

  - Construction: an additional $77 million, though the agency has not decided where the funds would be used.

Summary of Tentatively Approved Additions

- OMB recommends no change in the total Passback level.

- Allow VA the flexibility to shift resources (excluding Medical Care) to fund priorities within this level.

- VA rejected mandatory initiatives (collections from health insurance, asset sales) that would have resulted in $100 million in discretionary resources. VA continues to delay cost-saving consolidation efforts. All of these options are still available to VA.

Potential Further Additions

- $66 million for additional research funded through the Research Fund for America and the tobacco tax; or

- $220 million would bring VA's discretionary funding to the FY 1998 enacted level. If this appeal is approved, added funds should be in research and benefits administration, not construction.

DEPARTMENT OF VETERANS AFFAIRS
WASHINGTON DC 20420

FH/ 4U

The President
The White House
Washington, DC 20500

'97 DEC 17 AM 10:00

Dear Mr. President:

I am writing to express my deep personal concern about the OMB-proposed budget level for my Department which will be presented for your consideration soon. It is $220 million less than was enacted by Congress for the Department in 1998. While that difference represents only about 1% of VA's discretionary budget, it is a serious shortfall which Frank Raines and I thus far have not been able to resolve.

My concerns are two-fold. First, we have some very serious issues which need to be addressed, such as processing veterans' claims for disability compensation, keeping up with demands for burials in the National Cemetery System and improving the Department's management systems. I believe our track record in veterans' medical care, where we have agreed to live with a flat-line budget while still making improvements in service, shows that we can deliver on our promises. I want to take the same approach in the rest of the Department, but need the investment monies requested now to put the Department on the right track for the next three years.

But my bottom line concern is more basic - - preserving your legacy as a pro-veteran President. If your 1999 discretionary budget requests less than the Congress appropriated for 1998 - - even 1% less - - Congress will restore the funds, take credit for restoring them and portray you as a President that doesn't have veterans as one of his priorities. You can avoid that mischaracterization by asking for a flat-line budget for veterans - - adding back the $220 million that OMB has denied - - $18.895 billion in 1999, the same amount appropriated by Congress in 1998.

Thank you in advance for your consideration.

Sincerely,

Hershel W. Gober
Acting Secretary

DEPARTMENT OF AGRICULTURE/FOOD AND NUTRITION SERVICE
USDA's UNIVERSAL SCHOOL BREAKFAST AND RELATED PROGRAMS
(CHILD HUNGER INITIATIVE)

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback:						
Mandatory......................		---	---	---	---	---
Discretionary..................		20	20	20	20	20
Total..............................		20	20	20	20	20
Agency Appeal to Passback:						
Mandatory......................		+498	+640	+768	+794	+825
Discretionary..................		---	---	---	---	---
Total..............................		+498	+640	+768	+794	+825
Tentatively Approved Additions to Passback......		---	---	---	---	---

Overview of Agency Appeal

The Department seeks $3.8 billion over 5 years for its "child hunger initiative." The funds would be used primarily to increase administrative reimbursements and to expand eligibility for feeding programs to upper- and middle-income children. The requested funds include the following:

- $1.7 billion to give free breakfast to all children through Grade 3, regardless of income, and increase per breakfast commodity entitlements to local meal providers.

- $1.5 billion to increase provider reimbursement rates and the number of meals served in summer, after-school, and day care feeding programs. The funds are not targeted at low-income children or providers.

- $0.6 billion to increase nutrition education and research, and for other activities including the Secretary's gleaning and food recovery initiative.

OMB Recommendation

OMB's passback contains an unrequested $2.5 billion in Food Stamp benefits for vulnerable immigrant families with children and refugees and asylees. OMB also funded the Secretary's gleaning initiative, but recommends no mandatory funding increases for the USDA initiative for the following reasons:

Breakfast

- FY 1997 spending on the School Breakfast Program was at $1.2 billion, up nearly 40 percent since FY 1993.

- Nearly 95% of children in kindergarten through third grade already eat breakfast daily.

- The Department's own research demonstrates that "the availability of the breakfast program does not increase the likelihood that a student will eat breakfast."

- The Current Federal School Breakfast program is effectively targeted to low-income children. Its meals meet or exceed dietary guidelines for all key nutrients and calories.

Summer, After-School, and Day Care

- The $400 million in meal reimbursements to for-profit child care centers will simply enrich for-profit providers without reducing the child care costs for low-income families.

- $228 million for the summer food program is for program administration reimbursements. Studies show that reimbursement rates already exceed program operating costs.

- $530 million for after-school meals are not targeted at low-income children and are not proposed to complement existing programs.

Research/Education

- USDA's proposals merely augment base level activities for which significant resources ($450 million in FY 1998) are already provided in the recommended levels.

We understand that Bob Greenstien also opposes this policy and would concur with our recommendation.

ENVIRONMENTAL PROTECTION AGENCY

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	7,361	7,395	6,796	6,725	6,795	6,898
Agency Appeal to Passback.	---	+1,203	+1,729	+1,079	+1,079	+1,079
Tentatively Approved Additions to Passback......	---	+198	+208	+219	+230	+230
Total: Passback+Tentatively Approved Additions..........	---	7,593	7,004	6,944	7,025	7,128

Overview of Agency Appeal

- EPA appealed seven items totaling $1.2 billion in FY 1999. Of those, five were for initiatives already pending for funding from the Presidential Priority Reserve, one was a new proposal for the Reserve, and one was a base appeal.

- Items already on the list of Reserve proposals, although at levels below EPA's appeal, and the FY 1999 appealed level are: State Revolving Funds (+$450M); Water Quality (+$315M); Climate Change (+$219M);, and Particulate Matter (+$91M). In addition, EPA requested $650 million for Superfund to replace Kalamazoo Initiative funding not provided last year. As the Administrator was flexible on timing, OMB treated Superfund as a year 2000 appeal.

- As a new reserve proposal, EPA appealed for $55 million to establish 24 children's health research centers, in addition to the 6 being created in FY 1998.

- The base appeal was $73 million to finish construction of EPA's RTP, N.C., lab, although this was fully funded in passback.

Summary of Tentatively Approved Additions

- Water Quality Initiative -- EPA received $145 million per year as part of a $500 million multi-agency water quality initiative that is designed to address non-point source water pollution, worked out in agreement with the Vice President's office, to implement the Vice President's October initiative commemorating the Clean Water Act's 25th anniversary.

- Climate Change -- EPA received $53 million as part of a multi-agency climate change initiative that is designed to carry out the President's 5 year $5 billion commitment. This addition is on top of a $59 million increase in passback, giving EPA $112 million of the total $400 million 1999 spending increase for this item.

Potential Further Additions

- Overview -- With approved additions, EPA is funded at $7.6 billion, an increase of $232 million (+ 3%) over 1998. EPA's Operating Program is funded at $3.6 billion, an increase of $269 million (+8%) over 1998. Both Superfund and the Operating Program are funded at or above their protected levels in the Balanced Budget Agreement.

- State Revolving Funds (SRF) -- The passback provided a total of $1.625 billion for the Clean Water and the Drinking Water SRFs, which help communities finance water and drinking water projects. While this is a $450 million decrease from 1998, the passback proposal would allow the Administration to meet its goal of capitalizing the Clean Water SRF to revolve at (i.e., provide) an average of $2 billion in financial assistance annually, and capitalizing the Drinking Water SRF to revolve at $500 million annually. This reduction would be more than offset by the $500 million increase for the Water Quality Initiative.

  - Option 1 (+$75M in 1996): Increases total SRF funding level to $1.7 billion and reducing cut to $375 million. The net water quality increase (i.e., SRF funding plus the Water Quality Initiative) would be $125 million.

  - Option 2 (+$275M in 1999): Increases total SRF funding to $1.9 billion, $100 million above the 1998 President's Budget level. The cut in the SRFs would be reduced to $275 million and the net water quality increase would be $225 million.

  - Option 3 (+$450M annually 1999-2003): Would eliminate criticism of the SRF cut by restoring total SRF funding to the 1998 level. The net water quality increase would be $500 million, but would drain funding from other programs.

- Particulate Matter (PM) Monitoring (+$9M) -- Passback provided $31 million to implement the new PM monitoring network on the schedule and at the cost announced by EPA when it released its PM rule in July. An additional $9 million would fund 700 more samplers above the program announced in July, but would not move up the schedule.

- Superfund (+$0M) -- Passback provided a $594 million increase in 1999, but did not provide any year 2000 funding to make up for the 1998 Congressional reduction. However, EPA data show that the original goal of 900 cleanups by 2000 can still be met by emphasizing completions of responsible party cleanups, while sacrificing a few fund-lead cleanups. Even without this policy change, the 900 cleanup goal can be met by the end of calendar year 2001 without additional funding beyond passback. Granting EPA's appeal for $650 million in year 2000 funding would move up the 900 site completion date by 6 months to June 2001.

- Research Triangle Park (+$0M) -- Passback fully funded remaining construction of EPA's new lab in North Carolina. An option to resolve this issue is to allow EPA to fund the remaining construction over two years instead of one, but within existing totals.

12/19/97

SUMMARY DETAIL -- EPA APPEAL AND OMB RECOMMENDATION
(BA dollars in millions)

EPA APPEAL	1999	2000	2001	2002	2003
Initiatives:					
Watershed (EPA)	315	315	315	315	315
Climate Change (EPA)	219	219	219	219	219
Clean Water SRF	450	450	450	450	450
Particulate Matter	91	40	40	40	40
Superfund	---	650	---	---	---
Children's Health	55	55	55	55	55
Subtotal, Initiatives:	1,130	1,729	1,079	1,079	1,079
Base:					
RTP, N.C. Laboratory	73	---	---	---	---
Total	1,203	1,729	1,079	1,079	1,079

OMB REC.	1999	2000	2001	2002	2003
Initiatives:					
Watershed (EPA)	145	145	145	145	145
Climate Change (EPA)	53	63	74	85	85
Clean Water SRF	---	---	---	---	---
Particulate Matter	---	---	---	---	---
Superfund	---	---	---	---	---
Children's Health	---	---	---	---	---
Subtotal, Initiatives:	198	208	219	230	230
Base:					
RTP, N.C. Laboratory	---	---	---	---	---
Total	198	208	219	230	230

EPA Passback to Enacted Comparison

	Enacted 98	Passback 99	Passback Plus OMB Rec.	Change Passback to 98	Change OMB Rec. to 98
Operating Program					
Water Quality	519	517	662	-2	143
Climate Change	90	149	202	59	112
PM Monitoring	35	31	31	-4	-4
RTP Lab Construction	90	72	72	-18	-18
Children's Health Center	5	5	5	0	0
Unrequested Projects/Programs	117	--	--	-117	-117
Other	2,472	2,625	2,625	153	153
Subtotal OP Program	3,328	3,399	3,597	71	269
Other Funding					
Clean Water SRF	1,350	800	800	-550	-550
Drinking Water SRF	725	825	825	100	100
Superfund	1,500	2,094	2,094	594	594
Targeted Wastewater	393	228	228	-165	-165
LUST	65	74	74	9	9
Subtotal Other	4,033	4,021	4,021	-12	-12
User Fees	0	-25	-25	-25	-25
Total EPA	7,361	7,395	7,593	34	232

DEPARTMENT OF COMMERCE
(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Enacted/Passback..	4,286	4,733	5,962	3,937	3,799	3,814
Agency Appeal to Passback.		+404	+232	+251	+274	+247
Tentatively Approved Additions to Passback......		+57	+74	+84	+104	+76
Total: Passback+Tentatively Approved Additions..........		4,790	6,036	4,021	3,903	3,890

Overview of Agency Appeal

- The Department of Commerce appealed for additional funding for all the issues discussed in this summary. DOC's original request was for $5.2 billion in FY 1999, including seven initiatives to compete for Presidential funds. The OMB passback provided $4.7 billion in 1999. The passback provided substantial increases over enacted for the Decennial Census ($436 million) new satellite procurements ($183 million), and the National Weather Service ($30 million).

- Decennial Census: The 1998 appropriations compromise on the use of sampling in the decennial census requires the Census Bureau to plan for both a sampling and non-sampling decennial census (the "dual-track" approach). DOC appeals for $128 million to continue dual-track activities through February 1999 when the Decennial Dress Rehearsal data will be analyzed.

- Patent and Trademark Office (PTO): The OMB passback provided PTO with an increase of $127 million to hire additional patent examiners and increase automation efforts. It also continues the policy from last year's budget which would allocate excess fees to other high priority DOC programs. The intellectual property community opposes this policy. DOC has appealed to end the surcharge in 2000, arguing that it constitutes a tax on innovation that will encounter opposition from industry.

  In 1998, $92 million in fees were withheld from PTO and were used for deficit reduction. Almost half of all patents are filed from overseas, so U.S. applicants will provide just 51% of the surcharge revenue (small firms only 11%). The surcharge imposes a small burden in comparison to U.S. industry's $96 billion annual investment in technology development. In addition, the demand for patents is not significantly affected by the fee level and PTO will have the resources to improve service.

Summary of Tentatively Approved Additions

- Advanced Measurement Lab: The tentatively approved level includes $155 million over five years for the construction of an Advanced Measurement Laboratory (AML). The AML would upgrade facilities at the National Institute of Standards and Technology (NIST).

- Advanced Technology Program (ATP): The tentatively approved level supports additional new awards. Assuming $92 million in new awards in FY 1998, ATP will be able to support $94 million in new FY 1999 awards, growing to $100 million by FY 2002.

- Global Climate Change: The tentatively approved level includes $7 million in FY 1999 for NIST to pursue research and industry outreach on reducing greenhouse emissions from manufacturing.

Potential Further Additions

- Lower cost dual-track alternative. OMB recommends $36 million for testing and planning of non-sampling methodologies. This amount would allow the dress rehearsal to proceed without investing in the infrastructure for a full scale dual track approach.

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

December 17, 1997

'97 DEC 17 PM1:18

By Hand Delivery

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As we discussed yesterday morning, the upcoming FY 1999 budget should include the funding necessary to carry out both our plans for a census with sampling and last month's compromise with Congress on Census 2000. As part of the compromise, the Republican leadership agreed to continue funding our sampling plan, and we agreed to fund preparations for a second track non-sampling plan until February 1999 (when a final decision is to be made).

We estimate that $128 million is necessary to cover the cost of maintaining the second track until a decision is reached in February 1999. By putting the costs of the second track into the budget now, we reduce the risk that the Congress will deny or shortchange funding for our sampling plan in FY 1999.

Apart from the issue of funding, the operational success of the sampling track will be well served by budgeting for the second track at this time. With funding for both tracks clarified in the budget, the Census Bureau can proceed to make key decisions on both tracks and not have to wait until after our appropriations bill is passed next fall. In order to have a viable second track, Census must open extra offices, recruit and hire extra personnel, design computer systems, begin marketing and set up partnerships with local governments and community groups. For example, in order to prepare for a non-sampling count, Census will have to open one quarter of its local offices early, at an estimated additional cost of $59 million in FY 1999.

If these and other decisions were postponed until next fall, the Bureau would be forced suddenly to divert key professional staff to prepare the second track at the expense of their work on the sampling plan. These delays would jeopardize our ability to meet a series of critical deadlines and targets to deliver an accurate census.

Putting $128 million for the second track into the budget should enable the Census Bureau to proceed with its preparations for sampling as part of an accurate and complete Census 2000, while also implementing the compromise.

Thank you for your support.

Sincerely,

William M. Daley

DACEY LETTER
RE: CENSUS

THE WHITE HOUSE
WASHINGTON

Date 12/18

To: Gene Sperling, Frank Raines

From: The Staff Secretary

This is the third "appeal" letter from a Cabinet Secretary in the last two days. Do you want to consolidate them in a cover memo?

Phil

cc: Russell Horowitz, Jill Blickstein

FUNDING FOR
CENSUS
BUREAU

12/17/97

Delivered by
Stephen Molet
for Jim Dooskind

246284

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

December 17, 1997

'97 DEC 17 PM1:1

By Hand Delivery

The President
The White House
Washington, D.C. 20500

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Thank you for your support.

Sincerely,

William M. Daley

THE WHITE HOUSE
WASHINGTON

Date 12/17

To: Gene Sperling, Frank Raines

From: The Staff Secretary

would you like to do
a cover note?

Phil Caplan

The Secretary of
Veterans Affairs
Washington, D.C. 20420

OFFICIAL BUSINESS

The President
The White House
Washington, DC 20500

PERSONAL

Ltr from Acting
Secretary Gober, VA
re Budget

THE WHITE HOUSE
WASHINGTON

Date 12/17

To: Gene

From: The Staff Secretary

I should get this to the President soon.

Do you want to do a cover note?

Phil

THE WHITE HOUSE
WASHINGTON

Date 12/17

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DEPARTMENT OF VETERANS AFFAIRS
WASHINGTON DC 20420

DEC 1 1997

The President
The White House
Washington, DC 20500

'97 DEC 17 AM10:00

Dear Mr. President:

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My concerns are two-fold. First, we have some very serious issues which need to be addressed, such as processing veterans' claims for disability compensation, keeping up with demands for burials in the National Cemetery System and improving the Department's management systems. I believe our track record in veterans' medical care, where we have agreed to live with a flat-line budget while still making improvements in service, shows that we can deliver on our promises. I want to take the same approach in the rest of the Department, but need the investment monies requested now to put the Department on the right track for the next three years.

But my bottom line concern is more basic - - preserving your legacy as a pro-veteran President. If your 1999 discretionary budget requests less than the Congress appropriated for 1998 - - even 1% less - - Congress will restore the funds, take credit for restoring them and portray you as a President that doesn't have veterans as one of his priorities. You can avoid that mischaracterization by asking for a flat-line budget for veterans - - adding back the $220 million that OMB has denied - - $18.895 billion in 1999, the same amount appropriated by Congress in 1998.

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Hershel W. Gober
Acting Secretary

THE WHITE HOUSE
WASHINGTON

Date 12/17

To: Gene

From: The Staff Secretary

I should get this to the President soon.

Do you want to do a cover note?

Phil

CC: Frank Raines

DEPARTMENT OF VETERANS AFFAIRS
WASHINGTON DC 20420

FHL 4U

The President
The White House
Washington, DC 20500

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Sincerely,

Hershel W. Gober
Acting Secretary

Ltr from Acting Secretary
Gober, VA re Budget

THE WHITE HOUSE
WASHINGTON

Date 12/17

To: Gene Sperling, Frank Raines

From: The Staff Secretary

Would you like to do a cover note?

Phil Caplan

DEPARTMENT OF VETERANS AFFAIRS
WASHINGTON DC 20420

The President
The White House
Washington, DC 20500

'97 DEC 17 AM10:0(

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I am writing to express my deep personal concern about the OMB-proposed budget level for my Department which will be presented for your consideration soon. It is $220 million less than was enacted by Congress for the Department in 1998. While that difference represents only about 1% of VA's discretionary budget, it is a serious shortfall which Frank Raines and I thus far have not been able to resolve.

My concerns are two-fold. First, we have some very serious issues which need to be addressed, such as processing veterans' claims for disability compensation, keeping up with demands for burials in the National Cemetery System and improving the Department's management systems. I believe our track record in veterans' medical care, where we have agreed to live with a flat-line budget while still making improvements in service, shows that we can deliver on our promises. I want to take the same approach in the rest of the Department, but need the investment monies requested now to put the Department on the right track for the next three years.

But my bottom line concern is more basic - - preserving your legacy as a pro-veteran President. If your 1999 discretionary budget requests less than the Congress appropriated for 1998 - - even 1% less - - Congress will restore the funds, take credit for restoring them and portray you as a President that doesn't have veterans as one of his priorities. You can avoid that mischaracterization by asking for a flat-line budget for veterans - - adding back the $220 million that OMB has denied - - $18.895 billion in 1999, the same amount appropriated by Congress in 1998.

Thank you in advance for your consideration.

Sincerely,

Hershel W. Gober
Acting Secretary

McCaffrey Ltr
re Budget

THE WHITE HOUSE

WASHINGTON

Date 12/17

To: Gene Sperling, Frank Raines

From: The Staff Secretary

Would you like to do a cover note on this before I send it to President?

Phil

Phil -
Should you all handle? -
NH

244662

THE WHITE HOUSE
WASHINGTON

December 5, 1997

MR. PRESIDENT:

Attached for your signature is a PD that will waive Anti-Terrorism Act provisions regarding the PLO. You have waived these provisions several times, but your ability to continue to do so expired in August under the Middle East Peace Facilitation Act.

12-5-97

The Foreign Ops Appropriations bill you signed last week provided you this authority once again. By exercising it, the PLO will be allowed to legally reopen its office here. Sandy notes that this will have an important symbolic and practical effect and enhance the confidence of Palestinians in their relationship with the U.S. It will also enable the U.S. to maintain more regular contacts with PLO authorities by enabling them to travel to the U.S.

By exercising this authority you will certify to Congress that suspension is in the national interest of the United States. If you agree, please sign the PD where indicated.

Phil Caplan
Phil

Add to file

45

244662

8033

THE WHITE HOUSE

WASHINGTON

December 3, 1997

'97 DEC 2

ACTION

MEMORANDUM FOR THE PRESIDENT

THROUGH: THE EXECUTIVE CLERK

FROM: SAMUEL BERGER
JOHN HILLEY

SUBJECT: Presidential Determination on Waiver and Certification of Statutory Provisions Regarding the Palestine Liberation Organization

Purpose

Exercising this waiver authority will allow the PLO legally to reopen its Washington Office. This office was officially closed on August 12 following the expiration of waiver authority under the Middle East Peace Facilitation Act. This expiration of authority seriously impeded our efforts to promote the Middle East peace process by interfering with the ability of Palestinian officials to travel to the United States and maintain contacts with U.S. government officials. Allowing the office to reopen will also have an important symbolic and practical effect and enhance the confidence of Palestinians in their relationship with the United States.

Background

Section 539(d) of the FY-98 Foreign Operations Act gives you the authority to waive the Anti-Terrorism Act prohibitions (against a PLO Office in the United States and receipt or expenditure of PLO origin funds) if you determine that it is important to the national security interest of the United States to do so. The waiver requires renewal after six months and is no longer available beyond a year from enactment. We intend later to seek your approval for a delegation of this waiver authority to the Secretary of State.

RECOMMENDATION

That you sign the Presidential Determination at Tab A.

cc: Vice President
Chief of Staff

Attachments

Tab A Presidential Determination on Waiver under section 539(d) of the Foreign Operations, Export Financing, and Related Programs Act, 1998

Tab B Justification (to be transmitted to Congress with transmittal letter of Presidential determination)

THE WHITE HOUSE

WASHINGTON

Presidential Determination
No._______________________

MEMORANDUM FOR THE SECRETARY OF STATE

SUBJECT: Presidential Determination on Waiver and Certification of Statutory Provisions Regarding the Palestine Liberation Organization

Pursuant to the authority vested in me under section 539(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998, Public Law 105-118, I hereby determine and certify that it is important to the national security interests of the United States to waive the provisions of section 1003 of the Anti-Terrorism Act of 1987, Public Law 100-204, through June , 1998.

You are authorized and directed to transmit this determination to the Congress and to publish it in the Federal Register.

JUSTIFICATION

A fundamental and overarching foreign policy and national security goal of the United States is to obtain a just, lasting and comprehensive peace between Israel and its neighbors. An Israeli-Palestinian peace is critical in that regard. The President has waived the operation of Section 1003 of P.L. 100-204 for six months because it is a serious impediment to the United States playing an effective role in achieving that objective.

The application of Section 1003 interferes with the ability of Palestinian officials to travel to the United States for negotiations with Israel or carry out contacts with U.S. officials. Moreover, the PLO office, which functions as the Palestinian Authority's office, serves to facilitate contacts and to enhance the confidence of Palestinians in their relationship with the United States. Maintaining the kinds of relations with the PLO that are subject to Section 1003 impacts our effort to broker a peaceful Middle East settlement. This relationship is of particular importance now, as the United States seeks to help Israelis and Palestinians reach agreement on the implementation of the Interim Agreement and launch negotiations on permanent status.

The PLO office in Washington is not and never has been an Embassy. The United States has never accorded the PLO office any of the immunities or privileges of a diplomatic mission. This waiver would not in any way change these practices and the office would resume operations under the same guidelines that have applied since its opening in 1994.

THE WHITE HOUSE

WASHINGTON

Presidential Determination
No. ____________

MEMORANDUM FOR THE SECRETARY OF STATE

Subject: Presidential Determination on Waiver and Certification of Statutory Provisions Regarding the Palestine Liberation Organization

Pursuant to the authority vested in me under section 539(d) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, ~~FY~~ 1998, Public Law 105-118, I hereby determine and certify that it is important to the national security interests of the United States to waive the provisions of section 1003 of the Anti-Terrorism Act of 1987, P.L. 100-204, through June __, 1998.

You are authorized and directed to transmit this determination to the Congress and to publish ~~this determination~~ it in the Federal Register.

Do: Hold
ET 12-3-97
330p

NSC LEGAL CONCURRS WITH ALL EDITS.

Clerk's edits 12/3/97

7510
245369

THE WHITE HOUSE

WASHINGTON

December 9, 1997

12/10/97
ok for signature
per Phil Caplan
D. Bird

'97 DEC 9 PM4:31

12-10

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER Fn
GENE SPERLING
DANIEL TARULLO DT
BRUCE LINDSEY BL
JOHN HILLEY

SUBJECT: Letter from Senator Dorgan and Others Regarding U.S.-Japan Civil Aviation Negotiations

Purpose

To reply to a letter from Senators Dorgan, Levin, Grams, Helms and Abraham expressing concern about our civil aviation negotiations with Japan.

Background

The attached letter responds to Senator Dorgan and four other senators who wrote expressing their concern regarding the U.S.-Japan civil aviation negotiations and to request a meeting with you. Erskine Bowles, John Hilley and others met with Senator Dorgan and Senator Levin in the fall. Your reply outlines our policy and objectives in these negotiations and states we are firmly committed to achieving those objectives. It states that Administration officials would be pleased to brief the Senators.

RECOMMENDATION

That you sign the letters at Tab A.

Attachments
Tab A Letters to Members of Congress
Tab B Incoming Correspondence

cc: Vice President
Chief of Staff

Tab A

THE WHITE HOUSE

WASHINGTON

Dear Senator Abraham:

Thank you for your letter regarding our civil aviation negotiations with Japan.

Let me first state that the international civil aviation policy of the United States is to achieve open skies as quickly as possible with all countries. To that end, our objectives in the Japan negotiations are to achieve substantial opening of the Japanese market for our carriers and the resolution of disputes that have prevented our carriers from serving the important and fast-growing aviation markets beyond Japan. We seek to deregulate the market in a way that will enhance competition and quicken the transition to a fully liberalized regime. We will not yield rights that have been obtained for any of our carriers in prior agreements.

I appreciate your comments on these negotiations. I can assure you that my Administration is firmly committed to achieving the above stated objectives. Administration officials would be pleased to brief you further at your convenience.

Sincerely,

The Honorable Spencer Abraham
United States Senate
Washington, D.C. 20510-2203

THE WHITE HOUSE

WASHINGTON

Dear Byron:

Thank you for your letter regarding our civil aviation negotiations with Japan.

Let me first state that the international civil aviation policy of the United States is to achieve open skies as quickly as possible with all countries. To that end, our objectives in the Japan negotiations are to achieve substantial opening of the Japanese market for our carriers and the resolution of disputes that have prevented our carriers from serving the important and fast-growing aviation markets beyond Japan. We seek to deregulate the market in a way that will enhance competition and quicken the transition to a fully liberalized regime. We will not yield rights that have been obtained for any of our carriers in prior agreements.

I appreciate your comments on these negotiations. I can assure you that my Administration is firmly committed to achieving the above stated objectives. Administration officials would be pleased to brief you further at your convenience.

Sincerely,

The Honorable Byron L. Dorgan
United States Senate
Washington, D.C. 20510-3405

THE WHITE HOUSE

WASHINGTON

Dear Senator Grams:

Thank you for your letter regarding our civil aviation negotiations with Japan.

Let me first state that the international civil aviation policy of the United States is to achieve open skies as quickly as possible with all countries. To that end, our objectives in the Japan negotiations are to achieve substantial opening of the Japanese market for our carriers and the resolution of disputes that have prevented our carriers from serving the important and fast-growing aviation markets beyond Japan. We seek to deregulate the market in a way that will enhance competition and quicken the transition to a fully liberalized regime. We will not yield rights that have been obtained for any of our carriers in prior agreements.

I appreciate your comments on these negotiations. I can assure you that my Administration is firmly committed to achieving the above stated objectives. Administration officials would be pleased to brief you further at your convenience.

Sincerely,

The Honorable Rod Grams
United States Senate
Washington, D.C. 20510-2304

THE WHITE HOUSE

WASHINGTON

Dear Mr. Chairman:

Thank you for your letter regarding our civil aviation negotiations with Japan.

Let me first state that the international civil aviation policy of the United States is to achieve open skies as quickly as possible with all countries. To that end, our objectives in the Japan negotiations are to achieve substantial opening of the Japanese market for our carriers and the resolution of disputes that have prevented our carriers from serving the important and fast-growing aviation markets beyond Japan. We seek to deregulate the market in a way that will enhance competition and quicken the transition to a fully liberalized regime. We will not yield rights that have been obtained for any of our carriers in prior agreements.

I appreciate your comments on these negotiations. I can assure you that my Administration is firmly committed to achieving the above stated objectives. Administration officials would be pleased to brief you further at your convenience.

Sincerely,

The Honorable Jesse Helms
Chairman
Committee on Foreign Relations
United States Senate
Washington, D.C. 20510-3301

THE WHITE HOUSE

WASHINGTON

Dear Carl:

Thank you for your letter regarding our civil aviation negotiations with Japan.

Let me first state that the international civil aviation policy of the United States is to achieve open skies as quickly as possible with all countries. To that end, our objectives in the Japan negotiations are to achieve substantial opening of the Japanese market for our carriers and the resolution of disputes that have prevented our carriers from serving the important and fast-growing aviation markets beyond Japan. We seek to deregulate the market in a way that will enhance competition and quicken the transition to a fully liberalized regime. We will not yield rights that have been obtained for any of our carriers in prior agreements.

I appreciate your comments on these negotiations. I can assure you that my Administration is firmly committed to achieving the above stated objectives. Administration officials would be pleased to brief you further at your convenience.

Sincerely,

The Honorable Carl Levin
United States Senate
Washington, D.C. 20510-2202

Tab B

7510

United States Senate

WASHINGTON, DC 20510

October 23, 1997

The Honorable William J. Clinton
President
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. President:

As you know, U.S. and Japanese negotiators are currently meeting to reach an agreement on a new aviation bilateral agreement. The recent controversy over cargo ships and the increasing trade deficit with Japan, one of our largest and most important trading partners, underscores the fact that our Nation has a great deal at stake in the aviation talks.

We believe that the United States has the correct policy with respect to aviation agreements; that is, adoption of an open skies policy that will permit free and open trade with respect to air transportation services. However, we are concerned about the direction of the current talks with Japan on this issue because we fear U.S. negotiators may accept conditions that may have the end result of increasing our existing trade deficit with Japan.

We are writing to ask that you meet with a bipartisan group of Senators, including us, at your earliest convenience to discuss this important issue. This is an urgent matter and we would appreciate a meeting as soon as your schedule can accommodate us.

Thank you for your consideration and we look forward to meeting with you soon.

Sincerely,

Byron L. Dorgan
U.S. Senate

Carl Levin
U.S. Senate

Rod Grams
U.S. Senate

Jesse Helms
U.S. Senate

Spencer Abraham
U.S. Senate

THE WHITE HOUSE

WASHINGTON

November 3, 1997

MEMORANDUM FOR GLYN DAVIES
NSC Executive Secretariat

FROM: **SUSAN BROPHY**
Legislative Affairs

SUBJECT: **Presidential Correspondence**

Attached are copies of letters sent to the President by various Members of Congress. Since these letters address national security issues, we would appreciate your assistance in drafting a response.

Thank you very much for your assistance. If you have any questions, please feel free to call Chris Walker at x67500.

The following is a brief description of the letters:

1) Sen. Daniel P. Moynihan (D-NY), concerning his constituent, Mr. John M. Furst,

2) Rep. Spencer Bachus (R-AL), concerning the U.N. Convention on Climate Change,

3) Rep. Loretta Sanchez(D-CA), concerning the Presidential delegation to India and Pakistan,

4) Sen. Byron Dorgan (D-ND) and others, concerning the open-skies agreement between the U.S. and Japan,

5) Sen. Alfonse M. D'Amato (R-NY), concerning trade agreements between the U.S. and Japan; and,

6) Sen. Connie Mack (R-FL) and Sen. Bob Graham (D-FL), concerning trade with China.

Enclosures

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THE WHITE HOUSE

WASHINGTON

'97 DEC 8 PM6:45

O

December 8, 1997

12-9-97

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER (K) FOR

SUBJECT: Report of the National Defense Panel

This memorandum addresses your question on how you should respond to the Report of the National Defense Panel (NDP). The NDP report is more innovative and forward looking than was the Quadrennial Defense Review report. Although some will probably portray the NDP's call for a transformation strategy as criticism of Administration defense policy, the report actually supports many of your policies and provides an important endorsement of Bill Cohen's efforts to reduce Defense infrastructure and reform Defense business practices. The report also calls for continued U.S. engagement in the world to ensure regional stability and endorses the report of the President's Commission on Critical Infrastructure Protection. A more detailed overview of the report is provided at Tab A.

As you know, the NDP report was submitted to Bill Cohen on December 1. Bill has until December 15 to forward the report with his comments to Congress -- he will provide you a copy of his comments before they go to the Hill and will probably ask for your support for actions he would like to take that are endorsed by the Report, such as requesting BRAC authorization from the Congress.

In light of the above sequence of events, you should wait until receiving Bill's views before responding to the NDP report.

Attachments
Tab A Overview of the NDP Report
Tab B NDP Membership

Oval today

cc: Vice President
Chief of Staff

December 5, 1997

Overview of the Report of the National Defense Panel

The NDP Report acknowledges that the United States cannot ignore the near-term threats posed by Iran and Iraq in the Persian Gulf and by North Korea in Northeast Asia, concluding that, "to some degree," the two nearly simultaneous major theater wars criterion remains useful for force planning today. However, the NDP rejects two nearly simultaneous major theater wars as a basis for planning future U.S. forces because it will inhibit the transformation needed for the national security challenges of 2020. Instead, the report recommends that national security planning focus on six core functions: homeland defense, ensuring regional stability, projecting military power, space operations, information superiority and countering weapons of mass destruction.

The NDP briefly discusses future force capabilities but does not propose a specific alternate force structure. The report's discussion of strategic nuclear forces endorses every Administration initiative in this area, from START III to the stockpile stewardship program. The Report recommends against immediate NMD deployment, but supports a "hedging strategy" that permits rapid deployment if a threat should develop. The NDP recommends several major changes to the Army National Guard, including shifting some Guard combat forces to the Active component, placing Guard enhanced readiness brigades under the command of Active units, giving the Guard a central role in homeland defense (WMD, counter-terrorism and NMD), and reducing the Guard's role as a strategic reserve.

The NDP concludes that the wide range of future national security challenges demands that the United States transform not just the military, but the entire national security establishment. To accomplish that transformation, the report recommends a broad strategy with five major elements:

- The national security establishment would be transformed by institutionalizing a broad approach to national security, including interagency training and career paths analogous to the "jointness" requirements in the military, making the Treasury Secretary and Attorney General statutory NSC members, improving State-Defense regional coordination and establishing an interagency national crisis center.

* Innovation, experimentation and change would be institutionalized in the military by establishing joint organizations--battle lab, national training center, urban warfare center and concept development center--to integrate Service efforts in these areas.

* The Unified Command Plan would be transformed by creating a Joint Forces Command to perform the joint training function now performed by USACOM and an Americas Command that would take over the regional responsibilities of USACOM and Southern Command (both disestablished).

* The industrial base would be transformed by emphasizing commercial-off-the-shelf and dual-use technology, revamping the acquisition process to promote innovation and de-emphasize long production runs, identifying military-unique industrial technologies that must be preserved, and keeping industrial mobilization policies current with technological advances.

* Infrastructure would be transformed by two more BRAC rounds, supporting Secretary Cohen's Defense Reform Initiative, reforming the planning, programming and budget process to promote innovation and change, and reducing constraints on DoD financial management.

The NDP estimates that $5-10 billion would be required annually to fund this transformation, which would come from the many of same sources identified in the QDR report (reducing infrastructure, acquisition reform, canceling some procurement, and reducing force structure and end strength). Almost all of these "bill payer" recommendations would require Congress to support initiatives more extensive than those in the QDR report, which it refused to support. Some of the NDP proposals would require Congress to partially sacrifice its control over the details of defense spending, which it has been reluctant to do in the past.

The NDP report will be criticized for not making specific alternative force structure recommendations, for not identifying "legacy" systems that should be retired and for not nominating procurement programs to be canceled. National missile defense (NMD) advocates will criticize the report for not calling for immediate NMD deployment and the Army National Guard and its supporters may criticize its recommendations for restructuring the Guard as an attempt to justify significantly downsizing the Guard.

National Defense Panel

Mr. Philip Odeen, Chairman

Mr. Richard Armitage

Gen. Richard Hearny

Adm. David Jeremiah

Hon. Robert Kimmitt

Dr. Andrew Krepinevich

Gen. James McCarthy

Dr. Janne Nolan

Gen. Robert RisCassi

FYI

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'97 DEC 8 PM5:17

THE WHITE HOUSE

WASHINGTON

December 8, 1997

12-10-97

12/10/97
OK for sig per
Phil Caplan
D. Bird

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER (K) For
JOHN HILLEY

SUBJECT: Letter from Senator Specter Regarding Religious Persecution in China and Elsewhere

Purpose

To respond to a letter from Senator Specter.

Background

In a letter written just prior to the Jiang visit, Senator Specter criticizes the Administration's opposition to the Specter-Wolf legislation on religious persecution, and asks that we rethink our position in view of our nation's commitment to religious freedom.

Senator Specter also indicates that he hopes to travel to China (among other countries) to investigate religious freedom issues, and asks that you pass a letter conveying this information to President Jiang. As the letter was received by NSC staff after Jiang's meetings at the White House, it was not delivered to the Chinese during the visit. However, after subsequent consultations with Senator Specter's staff, NSC staff passed the Specter-Jiang letter to the Chinese through diplomatic channels.

The proposed response reiterates our concerns about the Specter-Wolf legislation, and indicates we will assist Senator Specter in his efforts to visit China.

RECOMMENDATION

That you sign the attached letter at Tab A.

Attachments
Tab A Letter for Signature
Tab B Incoming Correspondence

cc: Vice President
Chief of Staff

THE WHITE HOUSE

WASHINGTON

Dear Mr. Chairman:

Thank you for your letter regarding the Specter-Wolf legislation and your upcoming trip to China.

I regret we did not receive your letter to President Jiang in time to deliver it during his visit. However, your letter has been forwarded to the Chinese through diplomatic channels, and I understand the National Security Council staff has been in contact with your office on how we might help to ensure that your trip is successful.

Regarding your legislation on religious freedom, I assure you that we share your commitment to combating religious persecution wherever it takes place and are prepared to work with you and other Members of Congress on this issue. At the same time, we have a number of serious concerns about the legislation which have prevented us from supporting the bill as introduced.

First, the legislation appears to establish a hierarchy of human rights abuses by granting preferential treatment to victims of religious persecution compared to victims of other forms of persecution. We are concerned by any possible suggestion that some fundamental human rights are more deserving than others, particularly as this could strengthen the position of those governments now arguing that civil and political rights reflect only Western values.

Secondly, we are concerned that the automatic sanctions provisions are blunt instruments that will be counterproductive. Because our laws and policies give significant weight to human rights, the United States already limits aid to repressive governments, and the bill's automatic sanctions would likely have little impact on government-sponsored persecution. In fact, we fear that some sanctioned governments might react by encouraging reprisals against those they deem responsible for the sanctions -- that is, the victims themselves.

Moreover, because the bill could adversely impact our diplomacy in places like the Middle East and South Asia, it would undercut our efforts to promote the very regional peace and reconciliation that can foster religious tolerance and understanding and respect for other human rights.

Finally, we are concerned that establishing a White House Director to deal with this issue creates a confused bureaucratic structure for dealing with religious persecution at the very time the Department of State is consolidating its authority and expanding its effectiveness on these issues.

Despite our concerns about this legislation, we are prepared to consider a range of measures to enhance our efforts to promote religious freedom. These include increased public reporting on religious freedom and on U.S. Government efforts to combat religious persecution; the designation of additional senior level personnel at the Department of State to deal with religious freedom issues and complement the efforts of the Secretary's Advisory Committee on Religious Freedom; the inclusion of language on religious freedom in existing human rights sanctions regimes, as long as those regimes continue to provide for the discretion and flexibility in implementation that is essential on this issue; and increased procedural safeguards for asylum seekers at ports of entry, as long as we do not provide special benefits to one category of victims that are not available to others.

We are confident we can address these issues in a manner that meets the objective of eliminating religious persecution. We look forward to working with you to help enhance worldwide respect for the religious freedoms that reflect our country's most honored traditions.

Thank you again for writing to me on this important issue.

Sincerely,

The Honorable Arlen Specter
Chairman
Committee on Veterans' Affairs
United States Senate
Washington, D.C. 20510

1341

ARLEN SPECTER
PENNSYLVANIA

COMMITTEES
JUDICIARY
APPROPRIATIONS
VETERANS' AFFAIRS
GOVERNMENTAL AFFAIRS

United States Senate
WASHINGTON, DC 20510-3802

October 24, 1997

The President
The White House
Washington, DC 20500

Dear President Clinton:

I am writing to you on an issue of great concern to me -- the unacceptable and ongoing persecution of religious minorities by the government of China and those of other foreign nations.

As you know, earlier this year Congressman Frank Wolf and I introduced the "Freedom from Religious Persecution Act," legislation which would put real teeth into our nation's effort to end religious persecution abroad. Our legislation has as its target the brutal acts which some foreign governments perform every day against religious minorities within their own countries. These acts are motivated by religious intolerance and include enslavement, crucifixion, torture, rape and murder of men, women and children.

I note with concern the comments of Secretary of State Madeleine Albright in today's *New York Times* underscoring the Administration's opposition to our legislation. I am particularly offended by Secretary Albright's statement that, "if we are to be effective in defending the values we cherish, we must also take into account the perspectives and values of others."

If another country's "values" include the right to torture and murder young children, I hardly believe that America should continue to sit idly by, simply taking those values "into account." Action is necessary, and our legislation would provide such firm action in a measured and responsible manner. Accordingly, I urge you to rethink your Administration's position as soon as possible with respect to Specter-Wolf, and to whether or not our legislation reflects our nation's values as you interpret them.

On a related matter, and in furtherance of our legislative efforts on religious persecution, I am planning to travel to China and Tibet in December as part of a worldwide trip to investigate first-hand the persecution of religious minorities in China, the Middle East and Africa. To this end, I would appreciate it if you would hand-deliver the attached letter to President Jiang Zemin and use your influence to secure the necessary approval for my visit. I will also be submitting a similar request for approval directly to the Chinese Embassy in Washington.

I appreciate your assistance on these important matters.

Sincerely,

Arlen Specter

Arlen Specter

AS/wm
Enclosure

THE WHITE HOUSE

WASHINGTON

October 29, 1997

MEMORANDUM FOR GLYN DAVIES
NSC Executive Secretariat

FROM: **SUSAN BROPHY**
Legislative Affairs

SUBJECT: **Presidential Correspondence**

Attached are copies of letters sent to the President by various Members of Congress. Since these letters address national security issues, we would appreciate your assistance in drafting a response.

Thank you very much for your assistance. If you have any questions, please feel free to call Chris Walker at x67500.

The following is a brief description of the letters:

1) Rep. Gerald B. Solomon (R-NY) and others, concerning a prisoner in China,

2) Sen. Arlen Specter (R-PA), concerning religous freedom,

3) Sen. Daniel K. Inouye (D-HI), concerning his constituent Ms. Melissa Vincenty,

4) Sen. John Ashcroft (R-MO) and others, concerning trade with China,

5) Sen. John Ashcroft (R-MO) and others, concerning trade with China and weapons of mass destruction,

6) Rep. Donald A. Manzullo (R-IL), concerning religous freedom in China,

7) Sen. Barbara Boxer (D-CA), concerning human rights in China,

OCT 29 20:09

8) Sen. Mike DeWine (R-OH) and others, concerning a prisoner in China,

9) Rep. Jon D. Fox (R-PA), concerning human rights in China,

10) Rep. Richard K. Armey (R-TX) and others, concerning religious freedom in China; and,

11) Rep. John P. Murtha (D-PA), concerning nuclear power generation equipment and technology in China.

Enclosures

THE WHITE HOUSE

WASHINGTON

October 27, 1997

MEMORANDUM FOR GLYN DAVIES
NSC Executive Secretariat

FROM: SUSAN BROPHY SB
Legislative Affairs

SUBJECT: Presidential Correspondence

Attached are copies of letters sent to the President by various Members of Congress. Since these letters address national security issues, we would appreciate your assistance in drafting a response.

Thank you very much for your assistance. If you have any questions, please feel free to call Chris Walker at x67500.

The following is a brief description of the letters:

1) Sen. Mike DeWine (R-OH) and others, concerning the abduction to China of an American citizen,

2) Sen. Arlen Specter (R-PA), concerning the persecution of religious minorities by the government of China,

3) Sen. Max Baucus (D-MT) and others, concerning unfair agriculture barriers with China,

4) Sen. Kent Conrad (D-ND), concerning the ban on pork exports to China,

5) Senator John Ashcroft (R-MO) and others, concerning the weapons proliferation of China,

6) Rep. Newt Gingrich (R-GA), concerning US-Japan aviation negotiations,

7) Rep. Ron Klink (D-PA) and Rep. Michael F. Doyle (D-PA), concerning the implementation of the 1985 US-China Agreement for Nuclear Cooperation,

OCT 27 18:21

8) Rep. Bernard Sanders (I-VT), concerning the freedom of a constituent wrongly jailed in Tibet,

9) Rep. George P. Nethercutt, Jr. (R-WA) and others, concerning agriculture barriers with China,

10) Rep. Henry J. Hyde (R-IL) and others, concerning the release of Wei Jingsheng; and,

11) Rep. Walter H. Capps (D-CA), concerning the clemency petition of Huseyin Yildirim.

Enclosures

245038

THE WHITE HOUSE

WASHINGTON

December 6, 1997

12-9-97

MR. PRESIDENT:

Attached is a Kyoto update and recommendation for certain telephone calls your negotiating team may ask you to make over the weekend. Jim Steinberg is available to answer any questions or concerns you may have and requests to speak with you by telephone after you have reviewed the attached.

Sean Maloney

'97 DEC 6 PM2:59
245038

Memorandum to the President

From Jim Steinberg

Subject: Climate Change

Attached is a draft memo prepared by your negotiating team in Kyoto, recommending several phone calls for you to make this weekend (it has not been reviewed by all the named addressees, as several are travelling). While we still face enormous difficulties on issues relating to developed countries (including targets and timetables, number of gases included, trading, etc.), it's our sense that an agreement is at least possible.

We are in far more difficult straits on the range of developing country issues. If we are to have any chance, we need for two things to happen:

1. at least a handful of developed countries have to step out of the shadow of the G-77 bloc and show some leadership

2. key vocal opponents have to be persuaded to mute their opposition.

As for point 1, we have been focusing on the more advanced developed countries, especially Mexico, Argentina, Chile, Costa Rica and Korea. The Vice President has made some real progress with Mexico and Costa Rica; but we think it is important to give another push with Argentina, building on your good conversations with Menem.

As for point 2; one of the most serious stumbling blocks, unfortunately, is Brazil, which has been fighting very hard on all aspects of developing country participation. While there is no certainty that Cardoso will respond to your appeal, we at least need him to tone down their opposition among the Latin American Group, thus allowing others in Latin American to play a more helpful role. Two other key actors are Tanzania (the head of the G-77) and the Philippines, both good friends of the US, but not playing a helpful role here.

Thus our priority would be for calls to Cardoso, Ramos, Menem and Mkapa (Tanzania). Two other useful, but lower priority, would be India (because of it role as key developing country emitter) and the Netherlands (an EU friend who has been among the least helpful.

Please call me after you've decided what you'd like to do.

December 6, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Jim Steinberg
Katie McGinty
Gene Sperling
Todd Stern
Dan Tarullo

SUBJECT: Phone Calls in Support of Climate Change Negotiations

Your interventions at recent summits with the EU and APEC nations have helped narrow the differences over the main issues separating industrialized nations. However, at the end of the first week of negotiations, issues surrounding the participation of key developing nations remain the main obstacle to an agreement.

As you know, we expected that developing nation issues would be contentious but the atmosphere at the end of the first week is worse than anticipated. On Friday, New Zealand proposed a "decision on next steps" that would require developing nations to negotiate binding commitments in the future. Even this relatively mild proposal provoked a firestorm of criticism, with only eight of 50 nations speaking in favor – and all developing nations speaking loudly in opposition.

In the wake of Friday's events, both elements that we need as vehicles for developing countries to take on their own commitments in the future -- the provision (Article 10) which allows countries to opt into the treaty voluntarily, and the concept of a follow-on process in which developing countries would negotiate their own commitments -- are in serious jeopardy of being lost altogether. Such a result would almost surely make the treaty unacceptable for the United States.

On joint implementation, we have been negotiating with the Brazilians and the EU to achieve a compromise that would merge our joint implementation with a Brazilian proposal for a Clean Development Fund, under a new banner. The original Brazilian proposal for such a fund was unacceptable for a variety of reasons, but our negotiators have been exploring a hybrid concept with the Brazilians. While the hybrid might preserve our core objective of allowing private sector firms to cooperate with developing countries on emissions reduction projects and be more attractive to the developing country bloc, it is unclear whether we can preserve our basic concept at this stage. Moreover, some of our closest allies in the developing world (e.g. Argentina, Costa Rica, Pakistan, Mexico) are increasingly suspicious of Brazil's intentions.

The calls we suggest are designed (1) to preserve essential elements such as Article 10, a follow-on process for developing countries, and joint implementation for credit, and (2) to underscore our need for the private sector core of our joint implementation proposal. We believe that a small group of key developing nations, if approached properly, could make an important difference in achieving these objectives.

Based on consultations with our negotiators, including Stu Eizenstat, we recommend that you call leaders in the following developing countries: the Philippines, Tanzania, India, Brazil, Argentina.

We also recommend calling one EU country -- the Netherlands -- which could be helpful in the meeting of EU ministers on Sunday. Since you have talked a good deal to Tony Blair and Helmut Kohl on these issues, we are not recommending separate calls to them.

7619 244683

'97 DEC 3 PM6:50

THE WHITE HOUSE

WASHINGTON

ACTION

December 3, 1997

12-9-97
ok my for signature per Phil

Sent to Clerk

MEMORANDUM FOR THE PRESIDENT

THROUGH: THE EXECUTIVE CLERK

FROM: SAMUEL BERGER
JOHN HILLEY

SUBJECT: Report to Congress on Burma under the International Emergency Economic Powers Act and the National Emergencies Act

12-9-97

Purpose

To submit to Congress a report concerning the national emergency with respect to Burma as required by the International Emergency Economic Powers Act and the National Emergencies Act.

Background

Under the International Emergency Economic Powers Act, you are required every six months to submit to Congress a report concerning the national emergency with respect to Burma. You declared this national emergency in Executive Order No. 13047 dated May 20, 1997.

In addition, you are required under the National Emergencies Act to report to Congress at six month intervals during the declared emergency the total expenditures incurred by the United States Government which are directly attributable to the implementation of the powers and authorities conferred by the declaration of emergency. The Department of the Treasury estimates these expenditures totaled approximately $300,000, primarily reflecting, wage and salary costs for Federal personnel.

The Department of the Treasury has prepared a combined report which addresses the requirements of these two statutes.

RECOMMENDATION

That you sign the report to the Congress at Tab A.

Attachments
Tab A Report to Congress
Tab B Incoming Correspondence

cc: Vice President
Chief of Staff

TO THE CONGRESS OF THE UNITED STATES:

I hereby report to the Congress on developments concerning the national emergency with respect to Burma that was declared in Executive Order No. 13047 of May 20, 1997, pursuant to section 570 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act and the International Emergency Economic Powers Act ("IEEPA"). This report is submitted pursuant to section 204(c) of IEEPA, 50 U.S.C. 1703(c) and section 401(c) of the National Emergencies Act, 50 U.S.C. 1641(c). This report discusses only matters concerning the national emergency with respect to Burma that was declared in Executive Order No. 13047.

On May 20, 1997, I issued Executive Order No. 13047 (62 Fed. Reg. 28301, May 22, 1997), effective on May 21, 1997, to declare a national emergency with respect to Burma and to prohibit new investment in Burma by U.S. persons, except to the extent provided in regulations, orders, directives, or licenses that may be issued in conformity with section 570 of the Act. The Order also prohibits any approval or other facilitation by a U.S. person, wherever located, of a transaction by a foreign person where the transaction would constitute new investment in Burma prohibited by the Order if engaged in by a U.S. person or within the United States. This action was taken in response to the large-scale repression of the democratic opposition by the Government of Burma since September 30, 1996. A copy of the Order was provided to the Speaker of the House and the President of the Senate by letter dated May 20, 1997. A copy of the Order is attached to this report.

By its terms, nothing in Executive Order No. 13047 is to be construed to prohibit the entry into, performance of, or financing of a contract to sell or purchase goods, services, or technology, except: (1) where the entry into such contract on or after May 21, 1997, is for the general supervision and guarantee of another person's performance of a contract for the economic development of resources located in Burma; or (2) where such contract provides for payment, in whole or in part, in (i) shares of ownership, including an equity interest, in the economic development of resources located in Burma; or (ii) participation in royalties, earnings, or profits in the economic development of resources located in Burma.

The prohibitions of Executive Order 13047 apply to U.S. persons, defined to include U.S. citizens and permanent resident aliens wherever they are located, entities organized under U.S. law (including their foreign branches), and entities and individuals actually located in the United States. The sanctions do not apply directly to foreign subsidiaries of U.S. firms, although foreign firms' activities may be affected by the restriction on U.S. persons' facilitation of a foreign person's investment transactions in Burma.

The term "new investment" means any of the following activities, if such an activity is undertaken pursuant to an agreement, or pursuant to the exercise of rights under such an agreement, that is entered into with the Government of Burma, or a nongovernmental entity in Burma, on or after May 21, 1997: (a) The entry into a contract that includes the economic development of resources located in Burma; (b) the entry into a contract providing for the general supervision and guarantee of another person's performance of a contract that includes the economic development of resources located in Burma; (c) the purchase of a share of ownership, including an equity interest, in the economic development of resources located in Burma; or (d) the entry into a contract providing for the participation in royalties, earnings, or profits in the economic development of resources located in Burma, without regard to the form of participation.

Since the issuance of Executive Order No. 13047 on May 20, 1997, the Department of the Treasury's Office of Foreign Assets Control ("OFAC"), acting under authority delegated by the Secretary of the Treasury, has implemented sanctions against Burma imposed by the Order. During the current six-month period, OFAC issued several determinations with respect to transactions provided for by agreements and/or rights pursuant to contracts entered into by U.S. persons prior to May 21, 1997. One license was granted authorizing a U.S. person's disinvestment in Burma, since this transaction necessarily facilitated a foreign person's investment in Burma.

On May 21, 1997, OFAC disseminated details of this program to the financial, securities, and international trade communities by both electronic and conventional media. This included posting notices on the Internet and on ten computer bulletin boards and two fax-on-demand services, and providing the material to the U.S. Embassy in Rangoon for distribution to U.S. companies operating in Burma.

In addition, in early July, OFAC sent notification letters to approximately 50 U.S. firms with operations in or ties to Burma informing them of the restrictions on new investment. The letters included copies of Executive Order No. 13047, provided clarification of several technical issues, and urged firms to contact OFAC if they had specific questions on the application of the Executive Order to their particular circumstances.

The expenses incurred by the Federal Government in the six-month period from May 20 through November 19, 1997, that are directly attributable to the exercise of powers and authorities conferred by the declaration of a national emergency with respect to Burma are estimated at approximately $300,000, most of which represent wage and salary costs for Federal personnel. Personnel costs were largely centered in the Department of the Treasury (particularly in the Office of Foreign Assets Control, the Office of the Under Secretary for Enforcement, and the Office of the General Counsel), and the Department of State (particularly the Bureau of Economic and Business Affairs, the Bureau of East Asian and Pacific Affairs, the Bureau of Intelligence and Research, and the Office of the Legal Adviser).

The situation reviewed above continues to present an extraordinary and unusual threat to the national security, foreign policy, and economy of the United States. The declaration of the national emergency with respect to Burma contained in Executive Order No. 13047 in response to the large-scale repression of the democratic opposition by the Government of Burma since September 30, 1996, reflected the belief that it is in the national security and foreign policy interests of the United States to seek an end to abuses of human rights in Burma, to support efforts to achieve democratic reform which would promote regional peace and stability, and to urge effective counter-narcotics policies.

In the past six months, the State Law and Order Restoration Council ("SLORC") has shown no sign of willingness to cede its hold on absolute power. Since refusing to recognize the results of the free and fair 1990 elections in which the National League for Democracy won a vast majority of both the popular vote and the parliamentary seats, the ruling junta has continued to refuse to negotiate with pro-democracy forces and ethnic groups for a genuine political settlement to allow a return to the rule of law and respect for basic human rights. Burma has taken limited but insufficient steps to counter narcotics production and trafficking.

The net effect of U.S. and international measures to pressure the SLORC to end its repression and move toward democratic government has been a further decline in investor confidence in Burma and deeper stagnation of the Burmese economy. Observers agree that the Burmese economy appears to be further weakening and that the government has a serious shortage of foreign exchange reserves with which to pay for imports. While Burma's economic crisis is largely a result of the SLORC's own heavy-handed mismanagement, the SLORC is unlikely to find a way out of the crisis unless political developments permit an easing of international pressure. I shall continue to exercise the powers at my disposal to deal with these problems and will report periodically to the Congress on significant developments.

THE WHITE HOUSE,

7619

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

November 6, 1997

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Under the International Emergency Economic Powers Act, you are required every six months to submit a report to the Congress concerning the national emergency declared with respect to Burma in Executive Order No. 13047 on May 20, 1997.

In addition, under the National Emergencies Act, you are required to report to Congress during each six-month interval of a declared national emergency the total expenditures incurred during that interval by the United States Government which are directly attributable to the exercise of the powers and authorities conferred by the declaration of emergency.

Enclosed is a proposed report covering events under the Burmese emergency declaration for the six-month period beginning May 20, 1997. The proposed report indicates that it is a combined report submitted pursuant to each of the foregoing statutes. The current report is due to the Congress on November 19, 1997. I recommend that you sign and transmit the proposed report to the Congress. The report has been reviewed and approved by the Department of State.

Sincerely,

Robert E. Rubin

Enclosures

NOV 7 12:30

TO THE CONGRESS OF THE UNITED STATES:

I hereby report to the Congress on developments concerning the national emergency with respect to Burma that was declared in Executive Order No. 13047 of May 20, 1997, pursuant to section 570 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act and the International Emergency Economic Powers Act ("IEEPA"). This report is submitted pursuant to section 204(c) of IEEPA, 50 U.S.C. 1703(c) and section 401(c) of the National Emergencies Act, 50 U.S.C. 1641(c). This report discusses only matters concerning the national emergency with respect to Burma that was declared in Executive Order No. 13047.

1. On May 20, 1997, I issued Executive Order No. 13047 (62 *Fed. Reg.* 28301, May 22, 1997), effective on May 21, 1997, to declare a national emergency with respect to Burma and to prohibit new investment in Burma by U.S. persons, except to the extent provided in regulations, orders, directives, or licenses that may be issued in conformity with section 570 of the Act. The Order also prohibits any approval or other facilitation by a U.S. person, wherever located, of a transaction by a foreign person where the transaction would constitute new investment in Burma prohibited by the Order if engaged in by a U.S. person or within the United States. This action was taken in response to the large-scale repression of the democratic opposition by the Government of Burma since September 30, 1996. A copy of the

Order was provided to the Speaker of the House and the President of the Senate by letter dated May 20, 1997. A copy of the Order is attached to this report.

By its terms, nothing in Executive Order No. 13047 is to be construed to prohibit the entry into, performance of, or financing of a contract to sell or purchase goods, services, or technology, **except:** (1) where the entry into such contract on or after May 21, 1997, is for the general supervision and guarantee of another person's performance of a contract for the economic development of resources located in Burma; or (2) where such contract provides for payment, in whole or in part, in (i) shares of ownership, including an equity interest, in the economic development of resources located in Burma; or (ii) participation in royalties, earnings, or profits in the economic development of resources located in Burma.

2. The prohibitions of Executive Order 13047 apply to U.S. persons, defined to include U.S. citizens and permanent resident aliens wherever they are located, entities organized under U.S. law (including their foreign branches), and entities and individuals actually located in the United States. The sanctions do not apply directly to foreign subsidiaries of U.S. firms, although foreign firms' activities may be affected by the restriction on U.S. persons' facilitation of a foreign person's investment transactions in Burma.

The term "new investment" means any of the following activities, if such an activity is undertaken pursuant to an agreement, or pursuant to the exercise of rights under such an agreement, that is entered into with the Government of Burma, or a nongovernmental entity in Burma, on or after May 21, 1997: (a) The entry into a contract that includes the economic development of resources located in Burma; (b) the entry into a contract providing for the general supervision and guarantee of another person's performance of a contract that includes the economic development of resources located in Burma; (c) the purchase of a share of ownership, including an equity interest, in the economic development of resources located in Burma; or (d) the entry into a contract providing for the participation in royalties, earnings, or profits in the economic development of resources located in Burma, without regard to the form of participation.

3. Since the issuance of Executive Order No. 13047 on May 20, 1997, the Department of the Treasury's Office of Foreign Assets Control ("OFAC"), acting under authority delegated by the Secretary of the Treasury, has implemented sanctions against Burma imposed by the Order. During the current six-month period, OFAC issued several determinations with respect to transactions provided for by agreements and/or rights pursuant to contracts entered into by U.S. persons prior to May 21, 1997. One license was granted authorizing a U.S. person's disinvestment in Burma, since this transaction necessarily facilitated a foreign person's investment in Burma.

On May 21, 1997, OFAC disseminated details of this program to the financial, securities, and international trade communities by both electronic and conventional media. This included posting notices on the Internet and on ten computer bulletin boards and two fax-on-demand services, and providing the material to the U.S. Embassy in Rangoon for distribution to U.S. companies operating in Burma.

In addition, in early July, OFAC sent notification letters to approximately 50 U.S. firms with operations in or ties to Burma informing them of the restrictions on new investment. The letters included copies of Executive Order No. 13047, provided clarification of several technical issues, and urged firms to contact OFAC if they had specific questions on the application of the Executive Order to their particular circumstances.

4. The expenses incurred by the Federal Government in the six-month period from May 20 through November 19, 1997, that are directly attributable to the exercise of powers and authorities conferred by the declaration of a national emergency with respect to Burma are estimated at approximately $300,000, most of which represent wage and salary costs for Federal personnel. Personnel costs were largely centered in the Department of the Treasury (particularly in the Office of Foreign Assets Control, the Office of the Under Secretary for Enforcement, and the Office of the General Counsel), and the Department of State (particularly the Bureau of Economic and Business Affairs, the Bureau of East Asian and Pacific Affairs, the Bureau of Intelligence and Research, and the Office of the Legal Adviser).

5. The situation reviewed above continues to present an extraordinary and unusual threat to the national security, foreign policy, and economy of the United States. The declaration of the national emergency with respect to Burma contained in Executive Order No. 13047 in response to the large-scale repression of the democratic opposition by the Government of Burma since September 30, 1996, reflected the belief that it is in the national security and foreign policy interests of the United States to seek an end to abuses of human rights in Burma, to support efforts to achieve democratic reform which would promote regional peace and stability, and to urge effective counter-narcotics policies.

In the past six months, the State Law and Order Restoration Council ("SLORC") has shown no sign of willingness to cede its hold on absolute power. Since refusing to recognize the results of the free and fair 1990 elections in which the National League for Democracy won a vast majority of both the popular vote and the parliamentary seats, the ruling junta has continued to refuse to negotiate with pro-democracy forces and ethnic groups for a genuine political settlement to allow a return to the rule of law and respect for basic human rights. Burma has taken limited but insufficient steps to counter narcotics production and trafficking.

The net effect of U.S. and international measures to pressure the SLORC to end its repression and move toward democratic government has been a further decline in investor confidence in Burma and deeper stagnation of the Burmese economy. Observers agree that the Burmese economy appears to be further weakening and that the government has a serious shortage of foreign exchange reserves with which to pay for imports. While Burma's economic crisis is largely a result of the SLORC's own heavy-handed mismanagement, the SLORC is unlikely to find a way out of the crisis unless political developments permit an easing of international pressure. I shall continue to exercise the powers at my disposal to deal with these problems and will report periodically to the Congress on significant developments.

William J. Clinton

The White House
November __, 1997

Federal Register
Vol. 62, No. 99
Thursday, May 22, 1997

Presidential Documents

Title 3—

The President

Executive Order 13047 of May 20, 1997

Prohibiting New Investment in Burma

By the authority vested in me as President by the Constitution and the laws of the United States of America, including section 570 of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1997 (Public Law 104–208) (the "Act"), the International Emergency Economic Powers Act (50 U.S.C. 1701 *et seq.*) (IEEPA), the National Emergencies Act (50 U.S.C. 1601 *et seq.*), and section 301 of title 3 of the United States Code;

I, WILLIAM J. CLINTON, President of the United States of America, hereby determine and certify that, for purposes of section 570(b) of the Act, the Government of Burma has committed large-scale repression of the democratic opposition in Burma after September 30, 1996, and further determine that the actions and policies of the Government of Burma constitute an unusual and extraordinary threat to the national security and foreign policy of the United States and declare a national emergency to deal with that threat.

Section 1. Except to the extent provided in regulations, orders, directives, or licenses that may be issued in conformity with section 570 of the Act and pursuant to this order, I hereby prohibit new investment in Burma by United States persons.

Sec. 2. The following are also prohibited, except to the extent provided in section 203(b) of IEEPA (50 U.S.C. 1702(b)) or in regulations, orders, directives, or licenses that may be issued pursuant to this order:

(a) any approval or other facilitation by a United States person, wherever located, of a transaction by a foreign person where the transaction would constitute new investment in Burma prohibited by this order if engaged in by a United States person or within the United States; and

(b) any transaction by a United States person or within the United States that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in this order.

Sec. 3. Nothing in this order shall be construed to prohibit the entry into, performance of, or financing of a contract to sell or purchase goods, services, or technology, except:

(a) where the entry into such contract on or after the effective date of this order is for the general supervision and guarantee of another person's performance of a contract for the economic development of resources located in Burma; or

(b) where such contract provides for payment, in whole or in part, in:

(i) shares of ownership, including an equity interest, in the economic development of resources located in Burma; or

(ii) participation in royalties, earnings, or profits in the economic development of resources located in Burma.

Sec. 4. For the purposes of this order:

(a) the term "person" means an individual or entity;

(b) the term "entity" means a partnership, association, trust, joint venture, corporation, or other organization;

(c) the term "United States person" means any United States citizen, permanent resident alien, juridical person organized under the laws of the

United States (including foreign branches), or any person in the United States;

(d) the term "new investment" means any of the following activities, if such an activity is undertaken pursuant to an agreement, or pursuant to the exercise of rights under such an agreement, that is entered into with the Government of Burma or a nongovernmental entity in Burma on or after the effective date of this order:

(i) the entry into a contract that includes the economic development of resources located in Burma;

(ii) the entry into a contract providing for the general supervision and guarantee of another person's performance of a contract that includes the economic development of resources located in Burma;

(iii) the purchase of a share of ownership, including an equity interest, in the economic development of resources located in Burma; or

(iv) the entry into a contract providing for the participation in royalties, earnings, or profits in the economic development of resources located in Burma, without regard to the form of the participation;

(e) the term "resources located in Burma" means any resources, including natural, agricultural, commercial, financial, industrial, and human resources, located within the territory of Burma, including the territorial sea, or located within the exclusive economic zone or continental shelf of Burma;

(f) the term "economic development of resources located in Burma" shall not be construed to include not-for-profit educational, health, or other humanitarian programs or activities.

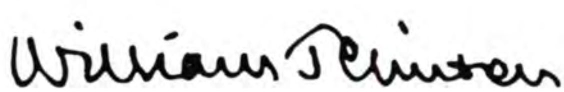
Sec. 5. I hereby delegate to the Secretary of State the functions vested in me under section 570(c) and (d) of the Act, to be exercised in consultation with the heads of other agencies of the United States Government as appropriate.

Sec. 6. The Secretary of the Treasury, in consultation with the Secretary of State, is hereby authorized to take such actions, including the promulgation of rules and regulations, and to employ all powers granted to me by section 570(b) of the Act and by IEEPA, as may be necessary to carry out the purposes of this order. The Secretary of the Treasury may redelegate the authority set forth in this order to other officers and agencies of the United States Government. All agencies of the United States Government are hereby directed to take all appropriate measures within their authority to carry out the provisions of this order.

Sec. 7. Nothing contained in this order shall create any right or benefit, substantive or procedural, enforceable by any party against the United States, its agencies or instrumentalities, its officers or employees, or any other person.

Sec. 8. (a) This order shall take effect at 12:01 a.m., eastern daylight time, May 21, 1997.

(b) This order shall be transmitted to the Congress and published in the **Federal Register**.



THE WHITE HOUSE,
May 20, 1997.

[FR Doc. 97–13704
Filed 5–21–97; 8:45 am]
Billing code 3195–01–P

245741
7870

THE WHITE HOUSE

WASHINGTON

ACTION

December 12, 1997

12-12-97
okay to sign per Phil Caplan
Sent to Clerk

MEMORANDUM FOR THE PRESIDENT

THROUGH: THE EXECUTIVE CLERK

FROM: SAMUEL BERGER K For
JOHN HILLEY
DANIEL K. TARULLO DT
GENE SPERLING RH for

SUBJECT: Ratification of Tax Conventions between the United States and Five European Countries and Canada

12-12-97

Purpose

To sign the instruments of ratification for six tax Conventions to which the Senate gave advice and consent on October 31, 1997:

(1) Convention between the United States of America and the Republic of Austria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, signed at Vienna on May 31, 1996;

(2) Protocol Amending the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital, signed at Washington on September 26, 1980 as Amended by the Protocols signed on June 14, 1983, March 28, 1984 and March 17, 1995, signed at Ottawa on July 29, 1997;

(3) Convention between the Government of the United States of America and the Government of Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains, together with a Protocol and Exchange of Notes, signed at Dublin on July 28, 1997;

(4) Convention between the Government of the United States of America and the Government of the Grand Duchy of Luxembourg for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains, signed at Luxembourg on April 3, 1996;

(5) Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with

cc: Vice President
Chief of Staff

Respect to Taxes on Income, together with a Protocol, signed at Washington on October 2, 1996; and

(6) Agreement between the Government of the United States of America and the Government of the Republic of Turkey for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, together with a Protocol, signed at Washington on March 28, 1996.

Background

In general, these Conventions follow the pattern of other U.S. income tax treaties and are intended to reduce the distortions (double taxation or excessive taxation) that can arise when two countries tax the same income. They will also modernize tax relations and facilitate greater private sector U.S. investments.

The Senate has given its advice and consent to ratification of these Conventions. The Senate's advice and consent to ratification of the Convention with Luxembourg was subject to reservation, in the instrument of ratification, which requires acceptance by Luxembourg prior to entry into force of the Convention.

In order for these Conventions to take effect for 1998, your signature is required by year-end.

RECOMMENDATION

That you sign the attached instruments of ratification, in duplicate (Tabs A-F).

Attachments

Instruments of Ratification for:

Tab A	The Republic of Austria
Tab B	Canada
Tab C	The Government of Ireland
Tab D	The Government of the Grand Duchy of Luxembourg
Tab E	The Swiss Confederation
Tab F	The Government of the Republic of Turkey

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the United States of America and the Republic of Austria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed at Vienna on May 31, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention, subject to the following understanding:

OECD COMMENTARY. Provisions of the Convention that correspond to provisions of the Organization for Economic Cooperation and Development (OECD) Model Tax Convention on Income and on Capital generally shall be expected to have the same meaning as expressed in the OECD Commentary thereon. The United States understands, however, that the foregoing will not apply with respect to any reservations or observations it enters to the OECD Model or its Commentary and that it may enter such a reservation or observation at any time.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention, subject to the aforesaid understanding.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the United States of America and the Republic of Austria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed at Vienna on May 31, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention, subject to the following understanding:

OECD COMMENTARY. Provisions of the Convention that correspond to provisions of the Organization for Economic Cooperation and Development (OECD) Model Tax Convention on Income and on Capital generally shall be expected to have the same meaning as expressed in the OECD Commentary thereon. The United States understands, however, that the foregoing will not apply with respect to any reservations or observations it enters to the OECD Model or its Commentary and that it may enter such a reservation or observation at any time.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention, subject to the aforesaid understanding.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Protocol Amending the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital Signed at Washington on September 26, 1980 as amended by the Protocols Signed on June 14, 1983, March 28, 1984 and March 17, 1995, was signed at Ottawa on July 29, 1997; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Protocol.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Protocol.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Protocol Amending the Convention between the United States of America and Canada with Respect to Taxes on Income and on Capital Signed at Washington on September 26, 1980 as amended by the Protocols Signed on June 14, 1983, March 28, 1984 and March 17, 1995, was signed at Ottawa on July 29, 1997; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Protocol.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Protocol.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains, together with a Protocol and Exchange of Notes, was signed at Dublin on July 28, 1997; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention with a Protocol and Exchange of Notes, subject to the following understanding:

EXCHANGE OF INFORMATION. The United States competent authority follows a practice of comity with respect to exchanges of information under all tax conventions.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention with a Protocol and Exchange of Notes, subject to the aforesaid understanding.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

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By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of Ireland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains, together with a Protocol and Exchange of Notes, was signed at Dublin on July 28, 1997; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention with a Protocol and Exchange of Notes, subject to the following understanding:

EXCHANGE OF INFORMATION. The United States competent authority follows a practice of comity with respect to exchanges of information under all tax conventions.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention with a Protocol and Exchange of Notes, subject to the aforesaid understanding.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

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nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of the Grand Duchy of Luxembourg for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital was signed at Luxembourg on April 3, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention, subject to the following reservation:

> REAL ESTATE INVESTMENT TRUSTS. Subparagraph (a)(ii) of paragraph 2 of Article 10 of the Convention shall apply to dividends paid by a Real Estate Investment Trust in cases where (i) the beneficial owner of the dividends beneficially holds an interest of 5 percent or less in each class of the stock of the Real Estate Investment Trust and the dividends are paid with respect to a class of stock of the Real Estate Investment Trust that is publicly traded, (ii) the beneficial owner of the dividends beneficially holds an interest of 10 percent or less in the Real Estate

Investment Trust and [illegible] Estate Investment Trust is diversified, or (iii) the beneficial owner of the dividends beneficially held an interest in the Real Estate Investment Trust as of June 30, 1997, the dividends are paid with respect to such interest, and the Real Estate Investment Trust is diversified (provided that such provision shall not apply to dividends paid after December 31, 1999 unless the Real Estate Investment Trust is publicly traded on December 31, 1999 and thereafter).

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention, subject to the aforesaid reservation.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

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By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of the Grand Duchy of Luxembourg for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital was signed at Luxembourg on April 3, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention, subject to the following reservation:

> REAL ESTATE INVESTMENT TRUSTS. Subparagraph (a)(ii) of paragraph 2 of Article 10 of the Convention shall apply to dividends paid by a Real Estate Investment Trust in cases where (i) the beneficial owner of the dividends beneficially holds an interest of 5 percent or less in each class of the stock of the Real Estate Investment Trust and the dividends are paid with respect to a class of stock of the Real Estate Investment Trust that is publicly traded, (ii) the beneficial owner of the dividends beneficially holds an interest of 10 percent or less in the Real Estate

Investment Trust [illegible] Investment Trust is diversified, or (iii) the person [illegible] of the dividends beneficially held an interest in the Real Estate Investment Trust as of June 30, 1997, the dividends are paid with respect to such interest, and the Real Estate Investment Trust is diversified (provided that such provision shall not apply to dividends paid after December 31, 1999 unless the Real Estate Investment Trust is publicly traded on December 31, 1999 and thereafter).

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention, subject to the aforesaid reservation.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

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America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the United States of America and the Republic of South Africa for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains was signed at Cape Town on February 17, 1997; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

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By the President:

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President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the United States of America and the Republic of South Africa for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and Capital Gains was signed at Cape Town on February 17, 1997; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention.

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DONE at the city of Washington

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America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation with Respect to Taxes on Income, together with a Protocol, was signed at Washington on October 2, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention with a Protocol.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention with a Protocol.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the United States of America and the Swiss Confederation for the Avoidance of Double Taxation With Respect to Taxes on Income, together with a Protocol, was signed at Washington on October 2, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention with a Protocol.

NOW, THEREFORE, I, [illegible] CLINTON, [illegible] United States of America, ratify and confirm the said Convention with a Protocol.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of the Kingdom of Thailand for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed at Bangkok on November 26, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
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America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of the Kingdom of Thailand for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed at Bangkok on November 26, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
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America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Agreement between the Government of the United States of America and the Government of the Republic of Turkey for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, together with a Protocol, was signed at Washington on March 28, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Agreement with a Protocol.

NOW, THEREFORE, I, [illegible]
United States of America, ratify and confirm the said Agreement with a Protocol.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Agreement between the Government of the United States of America and the Government of the Republic of Turkey for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, together with a Protocol, was signed at Washington on March 28, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Agreement with a Protocol.

NOW, THEREFORE, I, [illegible], [illegible] United States of America, ratify [illegible] confirm the said Agreement with a Protocol.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

[illegible]ur Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

245704

8162

THE WHITE HOUSE

WASHINGTON

December 12, 1997

12-12-97
Sent to Clerk
okay for signature per Phil Caplan

ACTION

MEMORANDUM FOR THE PRESIDENT

THROUGH: THE EXECUTIVE CLERK

FROM: SANDY BERGER
GENE SPERLING
DANIEL K. TARULLO
JOHN HILLEY

SUBJECT: Ratification of Tax Convention between the United States and Thailand

12-13-97

Purpose

To sign the instrument of ratification of the Convention Between the Government of the United States of America and the Kingdom of Thailand for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income ("the Convention").

Background

The Convention, which was signed on November 26, 1996, follows the U.S. model tax treaty and is intended to reduce the distortions (double taxation or excessive taxation) that can arise when two countries tax the same income. It will also modernize tax relations and facilitate greater private sector U.S. investments.

The Senate has given its advice and consent to ratification of the Convention.

In order for the Convention to take effect in 1998, your signature on the attached instrument of ratification is required by year-end.

RECOMMENDATION

That you sign by December 31, 1997 the attached instrument of ratification, in duplicate (Tab A).

Attachment
Tab A Instrument of Ratification

cc: Vice President
Chief of Staff

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of the Kingdo of Thailand for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed at Bangkok on November 26, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention.

IN TESTIMONY WHERFOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
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America the two hundred
twenty-second.

By the President:

WILLIAM J. CLINTON

President of the United States of America

TO ALL TO WHOM THESE PRESENTS SHALL COME, GREETING:

CONSIDERING THAT:

The Convention between the Government of the United States of America and the Government of the Kingdom of Thailand for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed at Bangkok on November 26, 1996; and

The Senate of the United States of America by its resolution of October 31, 1997, two-thirds of the Senators present concurring therein, gave its advice and consent to ratification of the Convention.

NOW, THEREFORE, I, William J. Clinton, President of the United States of America, ratify and confirm the said Convention.

IN TESTIMONY WHEREOF, I have signed this instrument of ratification and caused the Seal of the United States of America to be affixed.

DONE at the city of Washington

our Lord one thousand
nine hundred ninety-seven
and of the Independence
of the United States of
America the two hundred
twenty-second.

By the President:

245949

THE WHITE HOUSE
WASHINGTON

12-30-97

December 16, 1997

MR. PRESIDENT:

Attached are two budget memos that I understand you may discuss in your budget meetings tomorrow.

The first memo you have not seen before. It is from Gene, Bruce and Elena and discusses NEC/DPC recommendations for new initiatives on the discretionary side of the budget. OMB has signed off on it.

The second memo you read over the weekend. It is from Frank Raines and Jack Lew and discusses ways to create room for the initiatives in the first memo.

Phil Caplan Phil

5. *Re the Budget memos that went to POTUS last night: Phil sent POTUS the* ***original*** *of the December 12 memo. I kept the stickie so you can reattach it when it comes back.*

2459949

THE WHITE HOUSE

WASHINGTON

'97 DEC 16 PM1:43

December 15, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Gene Sperling
Elena Kagan

SUBJECT: New Initiatives on Discretionary Side of Budget

As you know, OMB is trying to find an additional $6 billion for discretionary spending. Assuming this money becomes available, the DPC and NEC recommend that you fund the new initiatives listed below -- in the amounts listed below -- in your FY 1999 budget. OMB has signed off on these recommendations. Some of the departments, however, may appeal for increases in base programs that would cut into the amount of money available for new initiatives.

We already have given you detailed memos on most of these initiatives. If you approve the initiatives, you can announce any or all of them in the State of the Union.

Because so many of the new initiatives involve education, we are attaching an appendix to this memo that shows recommended funding levels for the Department of Education's major base programs. In reviewing the education spending, you should note that the Department has just reestimated Pell Grant costs in a way that will free up additional monies. We had thought we would need a $434 million increase in the Pell Grant Program to raise the maximum award from $3,000 to $3,100. The new estimates show we can finance these policies with between $150 million and $220 million less. We are currently considering whether to keep these funds in the Pell Grant Program to support a larger increase in the maximum award and make other policy changes, or alternatively to invest them in the After-School and Head Start components of the child care initiative.

Education

1. Education Opportunity Zones ($225 million): This initiative will provide funding to about 25 high-poverty urban and rural school districts for agreeing to adopt a "Chicago-type" school reform agenda that includes ending social promotions, removing bad teachers, reconstituting failing schools, and adopting district-wide choice.

2. College-School Partnerships ($150 million): This initiative, which builds on Eugene Lang's model of helping disadvantaged youth, will provide funding for college-school partnerships designed to provide mentoring, tutoring, and other support services to students in high-poverty schools, starting in the sixth grade and continuing through high school. The six-year funding path will provide help to nearly 2 million students. The proposal also will include Chaka Fattah's idea of early notification to disadvantaged 6th graders telling them of their Pell Grant and loan eligibility.

3. Campaign on Access to Higher Education ($20 million): This initiative will fund an intensive publicity campaign on the affordability of higher education. The goal of the campaign will be to make every family aware that higher education is now universally accessible -- and that it is the key to higher earnings.

4. Teacher Recruitment and Preparation ($67 million): This initiative, which you previewed last July at the NAACP Conference, will provide scholarships to nearly 35,000 new teachers over five years for committing to work in high-poverty urban and rural schools. It also will upgrade the quality of teacher preparation programs serving these communities.

5. Technology Teacher Training (Approx. $230 million): This initiative will dedicate 30 percent (about $150 million) of the Technology Literacy Challenge Fund (which is being increased from $425 to $500 million) to ensure that at least one teacher in every school receives intensive training in the use of technology for education, so that those "master teachers" can train their colleagues. An additional $80 million will begin an effort to train every *new* teacher in the latest technology.

6. Hispanic Education Action Plan -- ($195 million or more): This initiative will increase funding for a number of existing programs to improve education for Hispanic Americans and other limited English proficient (LEP) children and adults. It would double our investment in training teachers to address the needs of LEP children; boost the Migrant Education Program by 16 percent; increase the TRIO college preparation program by 10 percent; and create a 5-year, $100 million effort to disseminate best practices in ESL training for adults. We would accompany these program increases with administrative actions to help Hispanic students complete high school and succeed in college.

7. Distance Learning -- ($50 million?): We are still in the process of developing a new initiative, related to Governor Romer's Western Governors University, to promote the use of technology to give people "anytime, anywhere" access to learning opportunities.

<u>Child Care</u>

We recommend placing most of the child care initiative -- in particular, the proposed increase in the Child Care and Development Block Grant and the establishment of a new Early Learning Fund -- on the mandatory side of the budget. The smaller pieces of the initiative that we propose placing on the discretionary side are the following:

1. After-School Program Expansion ($100-200 million): This program expansion will increase funding of the 21st Century Community Learning Center Program (now funded at $40 million) for before- and after-school programs for school-age children at public schools. Depending on the exact funding level chosen, this investment will create new programs in 1,500-4,000 schools with slots for between 75,000 and 200,000 children; at the same time, it will enable still more students to participate in other school-site activities.

2. Standards Enforcement Fund ($100 million): This new fund will support state efforts to improve licensing and accreditation of providers, and to enforce health and safety standards -- particularly through unannounced inspections of child care settings. The fund also will enable states to issue report cards, for use by consumers, on the quality of the facilities inspected.

3. Provider Training ($51-60 million): A new Child Care Provider Scholarship Fund, which you proposed at the Child Care Conference to fund at $50 million annually, will support 50,000 scholarships each year to child care workers working toward a child care credential. The students will commit to remaining in the field for one year for each year of assistance received, and will earn increased compensation or bonuses when they receive their credential. An additional $1-10 million will allow the Department of Labor to expand its Child Care Apprenticeship Training Program, which funds providers combining work toward a degree with on-the-job practice.

4. Research and Evaluation Fund ($10-30 million): This new fund will establish a National Center on Child Care Statistics, and provide grants for research projects and state and local child care hotlines and consumer education activities.

5. Head Start and Early Head Start Expansion ($284-334 million): This level of increased investment in the overall Head Start budget should permit doubling the set-aside for Early Head Start over five years without reducing the resources available for children 3-5. The doubled set-aside would enable more than 50,000 additional children to receive Early Head Start services in 2003.

Welfare, Housing, Urban

1. Welfare-to-Work Housing Vouchers ($283 million): This initiative will provide 50,000 new housing vouchers to help welfare recipients in public housing who need to move in order to find employment. HUD will distribute these vouchers on a competitive basis to public housing authorities working with local TANF agencies and/or grantees of the new $3 billion welfare-to-work program. (A separate proposal, for which no new funding is needed, would allow families in public or assisted housing to use vouchers to buy a home; HUD expects this proposal to assist some 25,000 people become homeowners over two years, though OMB believes this figure to be exaggerated.)

2. Housing Portability/Choice ($20 million): In addition to the new welfare-to-work housing vouchers discussed above, our proposed package on housing portability and choice expands Regional Opportunity Counseling sites and takes administrative actions to eliminate obstacles to portability in the Section 8 housing program.

3. "Play-by-the-Rules" Homeownership Proposal ($30 million): This initiative will assist families that always pay their rent on time to become homeowners. The Neighborhood Reinvestment Corporation will provide downpayment assistance, interest rate buydowns, or rehabilitation loans to approximately 10,000 families.

4. Homeownership Opportunity Fund ($11 million): This initiative will provide funds for HUD to develop a loan guarantee program to allow state and local governments to leverage current HOME funds with private-sector investments to fund large-scale, affordable housing developments in distressed communities.

5. Community Empowerment Fund ($300-400 million): This initiative establishes a public/private fund ("Eddie Mac"), which will invest in inner-city businesses and create a secondary market for economic development loans (like Fannie Mae).

6. Homeless Assistance ($250-325 million): This level of increased investment includes $177 million to help 32,000 homeless people receive Section 8 vouchers.

<u>Labor and Workforce</u>

1. Child Labor ($89 million): This initiative is anchored by a $30 million commitment -- up from $3 million -- to the International Program on the Elimination of Child Labor (IPEC). The initiative also will include funding to improve Customs Service enforcement of U.S. law banning the import of goods made with forced or bonded child labor ($3 million) and to double the Department of Labor's enforcement of child labor laws in the agricultural sector ($4 million). Finally, the initiative will provide additional funding to the Migrant Education Program so it can reach 50,000 more migrant children ($50 million). We are developing non-budget items to fill out the package.

2. Community Adjustment ($50 million): This initiative will fund the creation of the Office of Community and Economic Adjustment (OCEA), which we proposed as part of the Fast Track debate. As you know, this office will be modeled after the Defense Department's Office of Economic Adjustment -- the Administration's first point of contact with communities experiencing a military base closure or defense plant closing. We expect the Office to help 35-40 communities in its first year of operation. The initiative also will fund a variety of other efforts to assist communities that face sudden and severe economic dislocation.

3. Out of School Youth Opportunity Program ($250 million): Congress advance appropriated $250 million for this program last year contingent on the passage of authorization legislation. The program will fund competitive grants for efforts to increase employment among out-of-school youth between the ages of 16 and 24.

Health

1. 21st Century Trust Fund (Approx. $1 billion): This initiative will provide substantial additional funding to NIH ($750 million) and NSF ($250 million), ramping up substantially over time, for research activities -- particularly on the treatment and cure of diseases. We will provide you with a separate memo on this initiative in the next day or two. Funding for this initiative will come from comprehensive tobacco legislation.

2. AIDS Programs Expansion ($165 million): A funding increase for the Ryan White Program of almost 15 percent will go principally toward ADAP, to ensure that new and effective treatments of AIDS reach those who need them. Some of the funds will support education and prevention programs operated by states, cities, and community health centers, as well as by the CDC.

3. Racial Disparities in Health Care ($80 million): This initiative will address racial disparities in six areas of health care: infant mortality, breast and cervical cancer, heart disease and stroke, diabetes, AIDS, and immunization. The proposal includes additional funding ($50 million) to established public health programs to adapt and apply their prevention and education strategies to eliminate racial disparities. It also includes funding ($30 million) for up to thirty local pilot projects to test innovative approaches to reach this goal.

Environment
(Katie McGinty proposed and has further information about these initiatives)

1. Climate Change ($400 million): To support our broader climate change initiative (including tax incentives), this funding will go to a number of departments in accord with PCAST's recommendations.

2. Second Generation Clean Water ($450 million, including some on mandatory side): This initiative will assist in restoring 1000 watersheds that are too polluted for fishing or swimming. Funding will go to five agencies to support a variety of activities designed to address polluted runoff and implement comprehensive watershed management strategies.

Crime

1. Community Prosecutors ($50 million): This initiative will provide grants to prosecutors for innovative, community-based prosecution efforts, such as Eric Holder adopted in the District of Columbia. A full 80 percent of the grants will go to pay the salaries and training costs associated with hiring or reassigning prosecutors to work directly with community residents.

Race

A number of the above proposals -- e.g., education opportunity zones, university-school partnerships, housing vouchers -- can be presented as part of the race initiative, because they target predominantly minority areas or provide disproportionate benefits to members of minority groups. Other proposals described above -- the Hispanic dropout plan and the race and health initiative -- have obvious and explicit race connections. In addition:

1. Civil Rights Enforcement ($72 million): This initiative will fund reforms to the EEOC and the civil rights offices at DOJ, HUD, HHS, Education, and DOL. Most important, additional funding of $37 million will allow the EEOC to expand its mediation program (allowing more than 70 percent of all complainants to choose mediation by the year 2000), increase the average speed of resolving complaints (from over nine months to six) and reduce the EEOC's current backlog (from 64,000 cases to 28,000). The initiative also will fund a dramatic expansion of HUD's civil rights enforcement office (in the 30th anniversary year of the Fair Housing Act) and improve coordination among the government's civil rights offices. We are preparing a number of non-budgetary administrative actions, especially involving fair housing and lending, to accompany our budget proposals in this area.

Appendix -- Education Budget

The recommended funding level for all of the Department of Education's discretionary programs (including new initiatives) is $30.9 billion, an increase of $1.4 billion (4 percent above FY 1998). In addition to providing for the new initiatives described above, this recommended budget maintains or increases funding for the Department's major base programs, while reducing certain lower priority spending.

Major Base Programs

Education testing: $16 million. The full amount needed to maintain progress on test development.

Pell Grants: $7,779 million. A $289 million increase would maintain higher independent student eligibility and raise the maximum award from $3,000 to $3,100. The additional $150 million previously thought necessary to effect these policies would increase the maximum award by another $50; alternatively, as noted earlier, we could use these funds to increase our investments in the After-School and Head Start components of the child care initiative.

America Reads, $260 million. We did not get our America Reads bill in FY 1998. We did obtain increases for tutoring in the Corporation for National and Community Service. Congress did, however, "advance appropriate" $210 million for FY 1999 for Education, contingent upon enactment of new law. The increase to $260 million reflects our original first year plan.

Title I, Education for the Disadvantaged, Grants to LEAs: $ 7,725 million. A $350 million (4.5 percent) increase over FY 1998 to serve an additional 400,000 children in poor communities. Secretary Riley requested a $492 million increase.

Goals 2000: $510 million. A $10 million increase over FY 1998, to maintain momentum in the States for school reform.

Comprehensive School Reform: $175 million. A $30 million increase over FY 1998 for demonstrations of school reform models.

Adult Education: $394 million. A $33 million (9 percent) increase over FY 1998 for basic education and English language training for the disadvantaged, immigrants, and welfare recipients. This increase is part of Hispanic Education Action Plan discussed above.

Special Education: $4,811 million. Same as the FY 1998 level, which was increased by $775 million over FY 1997. States can spend the increase over 2 years. Secretary Riley has expressed concern about the lack of an FY 1999 increase. We are convinced that no increase will satisfy the advocates, and would prefer to negotiate this level in Congress, rather than use up scarce funds in your budget now.

College Work-Study, $915 million. An $85 million increase over FY 1998, make progress toward your goal of 1 million Work-Study positions by FY 2000. Given the reduction in Perkins loans (noted below), this increase keeps the campus-based aid programs at level funding from FY 1998.

Reductions in the Base

A number of programs have been reduced to make room for initiatives and major base programs, including: Impact Aid (-$92 million), the Education Block Grant (-$350 million), and Perkins Loans (-$85 million). Each of these has a vocal constituency. We believe we can make the case that our funding of initiatives and base programs are all higher priority than these programs.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN
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THE DIRECTOR

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December 12, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: Frank Raines and Jack Lew

SUBJECT: Savings Options to Fund Initiatives in the FY 1999 Budget

This memo reviews our proposals to create room for domestic initiatives in the FY 1999 budget. Since last Monday's budget meeting to discuss these issues had to be rescheduled, we will present here the options in writing as background for subsequent decisions on savings and spending options.

Domestic Discretionary

Earlier this year we described a plan for OMB to propose funding levels to agencies, reserving $5 billion within the FY 1999 domestic discretionary cap for you to allocate to fund either new initiatives or agency appeals. Our passback funding levels, which you reviewed over the Thanksgiving weekend, reserved $5 billion in **budget authority** under the caps. However, this level of budget authority consumed all of the room under the FY 1999 **outlay** cap in the budget agreement. (As you know, budget authority is the total funding level appropriated in a year, while outlays reflect the funds that will actually be spent in that year -- a total of outlays from current appropriations and outlays from prior appropriations.) As a result, we can only use the remaining $5 billion theoretically available under the FY 1999 budget authority cap if we are able to free up outlays to accommodate it. Since only a portion of the outlays for this $5 billion will actually occur in FY 1999, we will need to free up roughly $3 billion in FY 1999 outlays in order to use the budget authority available under the cap.

If there is no room for additional spending, agency funding levels will have to remain at the passback level to stay within the discretionary outlay cap. Under this scenario, there are no additional funds for discretionary programs, such as the various education initiatives, child care, and climate change; nor will there be additional money for base restorations to programs, such as Low Income Home Energy Assistance Program (LIHEAP), the National Science Foundation (NSF), or the State Department.

Possible Funding Mechanisms

Our goal is still to provide you with $5 billion to allocate among competing proposals for new initiatives and to resolve some of the remaining base appeals. In early December, we described to you a procedural proposal that would allow additional spending under the discretionary caps by dedicating receipts through a new budget process, which we called CAPGO. Your concern at that meeting was that while the mechanism would free up $5 billion, it would increase the deficit compared to the baseline, and might weaken our ability to block efforts to "spend the surplus." We have been working on a deficit-neutral alternative very much like the current "PAYGO" approach, which we have used in reconciliation to offset new mandatory initiatives and also in the 1996 and 1997 Omnibus appropriations bills to provide additional resources within the discretionary caps for your priorities.

In addition to providing sufficient outlays to utilize the budget authority remaining under the caps, the CAPGO approach provided a means of accommodating additional funding concerns, such as infrastructure spending (particularly highways and airports) and NIH funding, over and above the $5 billion. In order to restore the resource level to where we would have been with CAPGO, we will need to generate outlay room to use the remaining $5 billion within the caps plus make room for an additional $3 billion so that we will have a total of $8 billion in budget authority and $4 billion in outlays to allocate above the passback levels.

($ billions)	Budget Authority	Outlays
Passback	557.7	561.7
Caps	562.7	561.7
Amounts Available	5.0	0.0
Amounts Needed	8.0	4.0
Remaining Need	3.0	4.0

Thus, our total problem is to find $3 billion in budget authority and $4 billion in outlays in FY 1999. We can accomplish this in two ways: (1) we can create room under the caps by moving discretionary programs to the mandatory side of the budget or into altogether new categories; or (2) we can use mandatory offsets to finance discretionary spending (as we used spectrum auction receipts and the privatization of the U.S. Enrichment Corporation to finance FY 1997 appropriations).

We propose using a combination of these two approaches, by creating investment funds for several high priority policy areas -- a 21st Century Research Fund (including NIH), a Fund for the Environment, and an Infrastructure Investment Fund. The money for the programs included in these new funds would be moved out of the discretionary caps, but still be subject to appropriation.

None of these new funds would increase the deficit. We propose using all or part of the following revenue/mandatory proposals to pay for the spending in these investment funds:

- yes *Tobacco Tax* -- We are exploring options to use some of the revenues from the tobacco tax to pay for a 21st Century Research for America Initiative, incorporating the base and proposed expansions of existing R&D program, creating additional headroom under the caps (discussed more fully below).

- *VA Tobacco* -- We are looking at options that recognize that the VA General Counsel's ruling requiring additional compensation stands until legislation is passed, that veterans will apply, and that some will be processed despite limited administrative resources. If this new benefit is repealed, these savings could be used to fund the various high priority policy issues (discussed more fully below).

- *Extension of the Superfund Tax* (mandatory -- $1.7 billion in 1999; $7.6 billion over 5 years) -- We are looking at options to use the extension of the Superfund tax to either move the funds from discretionary to mandatory or as a mandatory source to finance additional Superfund clean-up, an environmental initiative, or research programs.

- *FAA User Fees* -- We are looking at options to use new FAA user fees coupled with existing excise taxes to create headroom to fund an infrastructure initiative.

In general, the use of revenues to offset spending initiatives runs the risk of appearing like an increase in taxes to pay for additional spending. However, in the case of research, the spending and tobacco taxes are popular policies. In the case of Superfund, the Bipartisan Budget Agreement anticipated that the revenue would not be used as an offset for a tax cut but instead would be reserved to pay for new spending. We will send you a more detailed memo on the proposal to create these three new Funds next week.

Mandatory Offsets

We will also need other mandatory/revenue offsets to pay for new mandatory initiatives. As illustrated in the memos you have seen over the past few days, this could require a small or a very large amount of resources, depending on the specific initiatives you choose to pursue. We are relying on savings in several areas, including the following:

Shouldn't we [illegible] big welfare reform windfall

- *Cost Allocation* ($0.5 billion in 1999; $2.9 billion over 5 years) -- Restricts States' ability to shift State Administrative costs from TANF to Federally-funded administrative sources such as Food Stamps and Medicaid;

- *Education Loan Reforms* ($0.9 billion in 1999; $4.0 billion over 5 years) -- Provides a direct guarantee for student loans not in the direct loan program -- rather than relying on intermediaries -- and recalls all loan guarantee reserves, plus other student loan reforms and benefits for students; and, *State Bank Exam Fees* ($0.1 billion in 1999; $0.5 billion over 5 years)-- Requires the Federal Reserve to assess fees for examinations of state-chartered banks and bank holding companies (current law permits, but does not require, fees).

There are a number of other more controversial savings proposals:

- *Child Support Enforcement* -- Savings for child support enforcement (CSE) are highly controversial, because, even if the policy is legitimate, it suggests that the Administration is cutting CSE funding. The following options are cumulative, and build on one another.

  -- Option 1 ($.06 billion in 1999; and $0.3 billion over 5 years) requires States to charge a $25 user fee (with a waiver option) for non-TANF child support enforcement cases and adjusts Federal funding to reflect the increased State fees. All TANF collections would be redirected to the States and Federal grants for State administration would be reduced by an equivalent amount;

  -- Option 2 ($0.3 billion in 1999; $1.5 billion over 5 years) also reduces Federal funding to reflect increased TANF collections to States as a result of increased incentives; and

  -- Option 3 ($0.3 billion in 1999; $3.0 billion over 5 years), the most aggressive option, also reduces Federal funding by the amount of Federal payments in excess of current State child support administrative costs.

- *Two Agriculture Savings Proposals* ($0.3 billion in 1999; $1.6 billion over 5 years) -- Reduces the Export Enhancement Program (EEP) further than requested in FY 2001 through FY 2003. This makes sense because market conditions (high world commodity prices projected for the foreseeable future) do not warrant the use of EEP. USDA wants to make this change in appropriations, rather than in authorization, and use the savings for additional agricultural spending rather than as a general offset. A second proposal would close the Agricultural Market Transition Payment (AMTA) loophole, created in the 1996 Farm Bill, by making all payments to the landowner, rather than to the tenant, since income-support payments are based on land holdings. This is controversial, not because of the policy, but because it amends the 1996 Farm Bill.

Have to carefully check

Some of these savings options may lead to additional spending. For example, in order to achieve some of the student loan savings from guaranty agencies, some funds must be spent to cover the 100 percent direct guarantee and improve terms for borrowers. In addition, since the cost allocation savings come in large part from Food Stamps, there will be pressure to use some of the savings to restore Food Stamp benefits to legal immigrants. We might also want to use some of the agricultural savings to pay for selected discretionary initiatives, such as Water Quality.

VA Tobacco

The Veterans Affairs General Counsel recently ruled that the VA must pay monthly service-connected disability compensation benefits to veterans for tobacco-related illnesses that occur after separation from the military, if a veteran became addicted to nicotine while serving in the military. OMB estimates that 542,000 veterans are potentially eligible to claim benefits under this ruling, and an additional 6,600 will become eligible annually.

The Administration has already proposed legislation to eliminate these new benefits that will, if enacted, create a PAYGO offset to new mandatory spending. However, VA tobacco benefit costs have not yet been included in either the OMB or CBO baselines. After we raise the baselines to reflect payment of these benefits, a PAYGO credit will become available for eliminating these benefits. After both steps are taken, this proposal is deficit-neutral.

We plan to raise the mandatory baseline by $2.5 billion over 5 years, which assumes that we do not provide new administrative funds to VA to process tobacco-related claims. (This $2.5 billion will become available as a PAYGO offset when we again propose to repeal these benefits.) We could raise the baseline by much more -- as much as $26 billion total -- if we decided to add significant new administrative resources to process claims. However, we thought this option would both be inconsistent with our policy to repeal the benefit and increase the deficit by too much (i.e., if we raised the baseline, then used the savings created by the repeal to spend an additional $26 billion).

While we could raise the baseline by any number between $2.5 billion and $26 billion, and use that as an offset for mandatory initiatives, the most credible figure is between $2 billion and $8.8 billion. We have preliminarily chosen the $2.5 billion option.

Tobacco Revenues

We have discussed how potential tobacco revenues could pay for a research initiative and perhaps also create some additional room under the discretionary caps to fund other initiatives.

We believe it is important to limit our assumed revenues to a level that is seen as realistic and consistent with the principles you announced last summer. This means that, although we might assume that the per-pack equivalent could rise to $1.50 (in constant dollars) over ten years, some of those revenues will go to States and other claimants. Furthermore, in your statement last August, you did not specify what portion of the payment would be fixed and what portion tied to youth smoking targets. An announcement that the Administration wanted to use the full $1.50 might be seen as foreclosing a substantial youth incentive. For this reason, we have focused on a package that assumes revenues initially equal to 50¢ per pack, rising to $1.00 per pack by 2003 ($1.16 in current dollars), and have not specified what happens after 2003. Based on preliminary estimates, this would provide the following revenues (in billions of current dollars):

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	5 years
$8.1	$10.0	$12.2	$13.4	$15.0	$58.7

However, there are two alternate views of how much of the tobacco settlement we should try to apply to Federal programs:

(1) If State claims and the uses specified in the agreement are given first priority, this produces a Federal share of about $20 billion over the first five years (and an additional $15 billion if we can direct the States to spend their share on your new initiatives, such as child care); and

not sure which category

(2) If Federal and State claims and the private litigation reserve are funded first, but not the other settlement/constituency uses, this leaves the Federal share at about $30 billion.

Bruce Lindsey and Bruce Reed support the first option, and we prefer the second option. A possible compromise between the two options might assert funding levels for Federal initiatives without discussing the balance of the settlement. This leaves open the total that Congress may be willing to agree to fund.

Medicare

Medicare savings associated with error reductions -- acceptable to OMB, Chris Jennings, and HHS -- are roughly $2 billion over five years. We could also find additional savings:

agree

- *Further Provider Savings* -- We do not recommend substantial new provider savings. Many changes in the Balanced Budget Act have not yet been implemented, and the newly-appointed Medicare Commission should be given time to do its work.

- *Income-Related Premiums* -- Depending upon the income level and phase-in schedule, early estimates are near $10-12 billion over five years, perhaps considerably more. The options are along the lines of the changes discussed last year.

agree

Clearly, using Medicare savings to fund non-Medicare spending could complicate the task of achieving Medicare solvency and be criticized.

Revenues

We are discussing a number of new revenue-based initiatives, including changes to the child tax credit, climate change tax incentives, and a revised school construction proposal. We propose financing these initiatives with revenue proposals we made last year that were not adopted, or not fully adopted, in legislation. Depending on how aggressive you want to be, these proposals would produce revenues of up to $20 billion over 5 years. Last year's package included the following:

- *Modify Foreign Tax Credit Carryover Rules* ($1.2 billion over 5 years) -- We proposed to reduce the complexity and burdens associated with carrybacks by limiting foreign tax credit carrybacks to 1 year (down from 2 years) and extend foreign tax credit carryforwards for 7 years (up from 5 years).

- *Repeal Lower-of-Cost-or-Market Inventory Method* ($1.6 billion over 5 years) -- We proposed to repeal the lower of cost or market (LCM) method, because the allowance of write-downs under the LCM and subnormal goods methods is essentially a one-way mark-to-market method that understates taxable income.

- *Deny the Dividends-Received Deduction for Certain Preferred Stock* ($0.2 billion over 5 years) -- We proposed to eliminate the deduction of 70 to 100 percent for corporations owning certain limited-term preferred stock of a U.S. corporation because such stock is more like debt than an ownership interest in the issuing corporation.

More controversial proposals not included in last year's budget include:

Reduce repeal ethanol tax credit in OBRA

- *Extend 2.5 Cent General Fund Tax on Gasohol* ($0.6 billion in 1999; $1.3 billion over 5 years) -- The 2.5 cents per gallon tax on gasohol that goes to Treasury's General Fund expires after September 30, 1999. The tax originated in 1990, as part of the nickel per gallon tax hike, of which half went to the General Fund and half to the Highway Trust Fund. In 1993, when an additional 4.3 cent tax was placed on fuels, most fuels subject to the 2.5 cent General Fund tax had this portion moved to the transportation trust funds, but ethanol did not.

- ? *Use One-Half Cent of the Gas Tax* ($.5 billion in 1999; $2.6 billion over 5 years) -- On an annual basis, current motor fuels taxes generate approximately $32 billion for the Highway Trust Fund (HTF). This includes the 4.3 cents originally earmarked for deficit reduction that was redirected from the General Fund to the HTF by the Taxpayer Relief Act of 1997. Any proposal to increase the motor fuels tax will likely generate criticism from transportation interests complaining that the HTF cash balances continue to mask the deficit while transportation needs go unmet. (The character of this criticism may change if highway spending is liberalized.) At the Bipartisan Budget Agreement spending levels, HTF cash balances rise from $26 billion in 1998 to $93 billion in 2003.