THE WHITE HOUSE
WASHINGTON

March 5, 1998 3-5-98

MR. PRESIDENT:

The attached Berger/Stein memo asks you to require high-level agency review of high-performance computer (HPC) export licensing issues to avoid a potential roll-back of your previous efforts to streamline such exports.

Background. In 1995 you eased HPC export controls by
permitting exports to c copied -called Tier 3
countries (*e.g.*, Israel, Berger hout the
requirement of an exp Stein Defense
Authorization Act, wh NSC w/desk y on November 18,
1997, threatens to neg Bowles If any one of the
relevant agencies obje export, the Act
reimposes the export l ere is no
opportunity for furthe l matter, agencies
often delegate such de officials.

Action. NSC recommends that you act to guarantee high-level review by directing that delegation of authority not extend below the Under Secretary level. All affected agencies concur.

Approve [✓] Disapprove ___ Discuss ___

If an objection is filed, NSC recommends that you require objecting agencies to go beyond the statute and specify whether proposed exports present the risk of improper HPC use. By including the rationale, Commerce will be able then to process more quickly the export license.

Approve [✓] Disapprove ___ Discuss ___

Phil Caplan Phil
Sean Maloney [illegible]

Chron

[illegible]

THE WHITE HOUSE

WASHINGTON

March 5, 1998

3-5-98

MR. PRESIDENT:

The attached Berger/Stein memo asks you to require high-level agency review of high-performance computer (HPC) export licensing issues to avoid a potential roll-back of your previous efforts to streamline such exports.

Background. In 1995, you eased HPC export controls by permitting exports to civilian end-users in so-called Tier 3 countries (*e.g.,* Israel, Russia, and China) without the requirement of an export license. The FY98 Defense Authorization Act, which you signed into law on November 18, 1997, threatens to negate that policy change. If any one of the relevant agencies objects to a proposed HPC export, the Act reimposes the export license requirement; there is no opportunity for further review. As a practical matter, agencies often delegate such decisions to lower-level officials.

Action. NSC recommends that you act to guarantee high-level review by directing that delegation of authority not extend below the Under Secretary level. All affected agencies concur.

Approve ✓ Disapprove ___ Discuss ___

If an objection is filed, NSC recommends that you require objecting agencies to go beyond the statute and specify whether proposed exports present the risk of improper HPC use. By including the rationale, Commerce will be able then to process more quickly the export license.

Approve ✓ Disapprove ___ Discuss ___

Phil Caplan
Sean Maloney

8475

'98 FEB 11 PM12:45

THE WHITE HOUSE

WASHINGTON

February 11, 1998

ACTION

MEMORANDUM FOR THE PRESIDENT

3598

THROUGH: THE EXECUTIVE CLERK

FROM: SAMUEL BERGER
LARRY STEIN

SUBJECT: Limiting Delegation of Authority Under Section 1211 of the National Defense Authorization Act for Fiscal Year 1998 (Public Law 105-85)

Purpose

To request that you direct the Secretaries of State, Defense, Commerce and Energy and the Director of the Arms Control and Disarmament Agency not to delegate below the Under Secretary level the authority to require a license for proposed exports or re-exports of certain high performance computers (HPC) and that they provide a specific rationale when exercising this authority.

Background

Your 1995 decision to streamline computer export controls permitted certain HPC exports without a license if destined for civilian end users in Tier 3 countries (which include Israel, Russia and China). The 1995 decision was based on a consensus recommendation of all relevant agencies.

Section 1211 of the 1998 National Defense Authorization Act (P.L. 105-85) represents a significant rollback to the 1995 policy and will constrain your ability to change computer export policy for Tier 3 countries in the future. It authorizes the Secretaries of State, Defense, Commerce and Energy and the Director of the Arms Control and Disarmament Agency to object in writing to a proposed HPC export to a Tier 3 country. Objections are submitted to the Secretary of Commerce. If an agency submits an objection, then a validated export

cc: Vice President
Chief of Staff

license is required (there is no provision for further review of an objection.) The directives recommended below are designed to ensure that agencies provide a senior-level review before they object to an HPC export to a Tier 3 country and to facilitate review of any license application in the event that an objection is made under section 1211.

RECOMMENDATIONS

That you direct that the authority of the Secretaries of State, Defense, Commerce and Energy and the Director of the Arms Control and Disarmament Agency under section 1211(a) to object in writing to a proposed export or re-export of a digital computer with a composite theoretical performance level of more than 2,000 millions of operations per second (MTOPS) may be delegated not lower than the Under Secretary level (in the case of ACDA, not lower than the Deputy Director level). All relevant agencies concur in this recommendation.

Approve ______________

Disapprove ______________

That you direct that objections submitted by an agency pursuant to section 1211 shall state whether the proposed export presents a risk of use in or diversion to a military or proliferation end-use/user of concern. All relevant agencies concur in this recommendation.

Approve ______________

Disapprove ______________

Attachment
Tab A Sections 1211-1215, P.L. 105-85

Guard) if tensions in the Republic of Bosnia and Herzegovina remain sufficient to delay reductions of United States military forces participating in the Stabilization Force and the estimated cost associated with each such operation.

SEC. 1206. DEFINITIONS.

As used in this subtitle:

(1) DAYTON PEACE AGREEMENT.—The term "Dayton Peace Agreement" means the General Framework Agreement for Peace in Bosnia and Herzegovina, initialed by the parties in Dayton, Ohio, on November 21, 1995, and signed in Paris on December 14, 1995.

(2) IMPLEMENTATION FORCE.—The term "Implementation Force" means the NATO-led multinational military force in the Republic of Bosnia and Herzegovina (commonly referred to as "IFOR"), authorized under the Dayton Peace Agreement.

(3) STABILIZATION FORCE.—The term "Stabilization Force" means the NATO-led follow-on force to the Implementation Force in the Republic of Bosnia and Herzegovina and other countries in the region (commonly referred to as "SFOR"), authorized under United Nations Security Council Resolution 1088 (December 12, 1996).

(4) FOLLOW-ON MISSION.—The term "follow-on mission" means a mission involving the deployment of ground elements of the United States Armed Forces in the Republic of Bosnia and Herzegovina after June 30, 1998 (other than as described in section 1203(b)).

(5) NATO.—The term "NATO" means the North Atlantic Treaty Organization.

Subtitle B—Export Controls on High Performance Computers

SEC. 1211. EXPORT APPROVALS FOR HIGH PERFORMANCE COMPUTERS.

(a) PRIOR APPROVAL OF EXPORTS AND REEXPORTS.—The President shall require that no digital computer with a composite theoretical performance level of more than 2,000 millions of theoretical operations per second (MTOPS) or with such other composite theoretical performance level as may be established subsequently by the President under subsection (d), may be exported or reexported without a license to a country specified in subsection (b) if the Secretary of Commerce, the Secretary of Defense, the Secretary of Energy, the Secretary of State, or the Director of the Arms Control and Disarmament Agency objects, in writing, to such export or reexport. Any person proposing to export or reexport such a digital computer shall so notify the Secretary of Commerce, who, within 24 hours after receiving the notification, shall transmit the notification to the Secretary of Defense, the Secretary of Energy, the Secretary of State, and the Director of the Arms Control and Disarmament Agency.

(b) COVERED COUNTRIES.—For purposes of subsection (a), the countries specified in this subsection are the countries listed as "Computer Tier 3" eligible countries in section 740.7(d) of title 15 of the Code of Federal Regulations, as in effect on June 10, 1997, subject to modification by the President under subsection (e).

(c) TIME LIMIT.—Written objections under subsection (a) to an export or reexport shall be raised within 10 days after the notification is received under subsection (a). If such a written objection to the export or reexport of a computer is raised, the computer may be exported or reexported only pursuant to a license issued by the Secretary of Commerce under the Export Administration Regulations of the Department of Commerce, without regard to the licensing exceptions otherwise authorized under section 740.7 of title 15 of the Code of Federal Regulations, as in effect on June 10, 1997. If no objection is raised within the 10-day period, the export or reexport is authorized.

(d) ADJUSTMENT OF COMPOSITE THEORETICAL PERFORMANCE.—The President, in consultation with the Secretary of Commerce, the Secretary of Defense, the Secretary of Energy, the Secretary of State, and the Director of the Arms Control and Disarmament Agency, may establish a new composite theoretical performance level for purposes of subsection (a). Such new level shall not take effect until 180 days after the President submits to the congressional committees designated in section 1215 a report setting forth the new composite theoretical performance level and the justification for such new level. Each report shall, at a minimum—

(1) address the extent to which high performance computers of a composite theoretical level between the level established in subsection (a) or such level as has been previously adjusted pursuant to this section and the new level, are available from other countries;

(2) address all potential uses of military significance to which high performance computers at the new level could be applied; and

(3) assess the impact of such uses on the national security interests of the United States.

(e) ADJUSTMENT OF COVERED COUNTRIES.—

(1) IN GENERAL.—The President, in consultation with the Secretary of Commerce, the Secretary of Defense, the Secretary of Energy, the Secretary of State, and the Director of the Arms Control and Disarmament Agency, may add a country to or remove a country from the list of covered countries in subsection (b), except that a country may be removed from the list only in accordance with paragraph (2).

(2) DELETIONS FROM LIST OF COVERED COUNTRIES.—The removal of a country from the list of covered countries under subsection (b) shall not take effect until 120 days after the President submits to the congressional committees designated in section 1215 a report setting forth the justification for the deletion.

(3) EXCLUDED COUNTRIES.—A country may not be removed from the list of covered countries under subsection (b) if—

(A) the country is a "nuclear-weapon state" (as defined by Article IX of the Treaty on the Non-Proliferation of Nuclear Weapons) and the country is not a member of the North Atlantic Treaty Organization; or

(B) the country is not a signatory of the Treaty on the Non-Proliferation of Nuclear Weapons and the country is listed on Annex 2 to the Comprehensive Nuclear Test-Ban Treaty.

(f) CLASSIFICATION.—Each report under subsections (d) and (e) shall be submitted in an unclassified form and may, if necessary, have a classified supplement.

SEC. 1212. REPORT ON EXPORTS OF HIGH PERFORMANCE COMPUTERS.

(a) REPORT.—Not later than 60 days after the date of the enactment of this Act, the President shall provide to the congressional committees specified in section 1215 a report identifying all exports of digital computers with a composite theoretical performance of more than 2,000 millions of theoretical operations per second (MTOPS) to all countries since January 25, 1996. For each export, the report shall identify—

(1) whether an export license was applied for and whether one was granted;

(2) the date of the transfer of the computer;

(3) the United States manufacturer and exporter of the computer;

(4) the MTOPS level of the computer; and

(5) the recipient country and end user.

(b) ADDITIONAL INFORMATION ON EXPORTS TO CERTAIN COUNTRIES.—In the case of exports to countries specified in subsection (c), the report under subsection (a) shall identify the intended end use for the exported computer and the assessment by the executive branch of whether the end user is a military end user or an end user involved in activities relating to nuclear, chemical, or biological weapons or missile technology. Information provided under this subsection may be submitted in classified form if necessary.

(c) COVERED COUNTRIES.—For purposes of subsection (b), the countries specified in this subsection are—

(1) the countries listed as "Computer Tier 3" eligible countries in section 740.7(d) of title 15 of the Code of Federal Regulations, as in effect on June 10, 1997; and

(2) the countries listed in section 740.7(e) of title 15 of the Code of Federal Regulations, as in effect on June 10, 1997.

SEC. 1213. POST-SHIPMENT VERIFICATION OF EXPORT OF HIGH PERFORMANCE COMPUTERS.

(a) REQUIRED POST-SHIPMENT VERIFICATION.—The Secretary of Commerce shall conduct post-shipment verification of each digital computer with a composite theoretical performance of more than 2,000 millions of theoretical operations per second (MTOPS) that is exported from the United States, on or after the date of the enactment of this Act, to a country specified in subsection (b).

(b) COVERED COUNTRIES.—For purposes of subsection (a), the countries specified in this subsection are the countries listed as "Computer Tier 3" eligible countries in section 740.7 of title 15 of the Code of Federal Regulations, as in effect on June 10, 1997, subject to modification by the President under section 1211(e).

(c) ANNUAL REPORT.—The Secretary of Commerce shall submit to the congressional committees specified in section 1215 an annual report on the results of post-shipment verifications conducted under this section during the preceding year. Each such report shall include a list of all such items exported from the United States to such countries during the previous year and, with respect to each such export, the following:

(1) The destination country.

(2) The date of export.

(3) The intended end use and intended end user.

(4) The results of the post-shipment verification.

(d) EXPLANATION WHEN VERIFICATION NOT CONDUCTED.—If a post-shipment verification has not been conducted in accordance with subsection (a) with respect to any such export during the period covered by a report, the Secretary shall include in the report for that period a detailed explanation of the reasons why such a post-shipment verification was not conducted.

SEC. 1214. GAO STUDY ON CERTAIN COMPUTERS; END USER INFORMATION ASSISTANCE.

(a) IN GENERAL.—The Comptroller General of the United States shall submit to the congressional committees specified in section 1215 a study of the national security risks relating to the sale of computers with a composite theoretical performance of between 2,000 and 7,000 millions of theoretical operations per second (MTOPS) to end users in countries specified in subsection (c). The study shall also analyze any foreign availability of computers described in the preceding sentence and the impact of such sales on United States exporters.

(b) END USER INFORMATION ASSISTANCE TO EXPORTERS.—The Secretary of Commerce shall establish a procedure by which exporters may seek information on questionable end users in countries specified in subsection (c) who are seeking to obtain computers described in subsection (a).

(c) COVERED COUNTRIES.—For purposes of subsections (a) and (b), the countries specified in this subsection are the countries listed as "Computer Tier 3" eligible countries in section 740.7(d) of title 15 of the Code of Federal Regulations, as in effect on June 10, 1997.

SEC. 1215. CONGRESSIONAL COMMITTEES.

For purposes of sections 1211(d), 1212(a), 1213(c), and 1214(a) the congressional committees specified in those sections are the following:

(1) The Committee on Banking, Housing, and Urban Affairs and the Committee on Armed Services of the Senate.

(2) The Committee on International Relations and the Committee on National Security of the House of Representatives.

Subtitle C—Other Matters

SEC. 1221. DEFENSE BURDENSHARING.

(a) EFFORTS TO INCREASE ALLIED BURDENSHARING.—The President shall seek to

3-5-98

March 4, 1998

Memorandum

To: The President

From: Nancy Hernreich
Kari Oudenhoven

Re: Minimum wage increase

To Gene's [illegible]

Abe Pollin sent you this editorial which was submitted to the Washington Post by his son, Robert Pollin, a professor of economics at the University of California Riverside.

He avidly supports your proposal to increase the minimum wage to $6.15. He writes in contrast to an article that was published by James Glassman. Glassman claims that increasing the minimum wage will actually result in a worse situation since the demand for employees and service will decrease. Pollin disagrees by citing that there are many other factors that affect job conditions, such as the unemployment rate and recession levels. With the current state of the economy, this increase is a modest step toward raising more families above the poverty line.

Additionally, increasing the wage leads to more committed workers with a lower turnover rate. He recalls Henry Ford doubling the average salary to almost $5 a day. He went for a 400 percent yearly turnover rate to an almost flawless turnover and absenteeism rate. Since 1968 the country has strongly regressed in its commitment to low-wage workers and their families, and it is time to raise the standards.

copied
Sperling
Bowles

ABE POLLIN
Chairman of the Board

CENTRE GROUP

Summary

Dear Mr. President:

I thought you enjoy reading this piece about the minimum wage written by my son Robert.

Best personal regards

Abe

Betty:

Abe Pollin asked me to give this to the President. ~~[illegible]~~

Thanks

Doug

A MINIMUM WAGE INCREASE WILL HELP WORKERS

By Robert Pollin
Professor of Economics
University of California-Riverside
Riverside, CA 92521-0427
(909) 787-5037 ext. 1579 (office); (909) 788-8106 (home)
(909) 787-5685 (fax); Pollin@mail.ucr.edu (e-mail)

March 1, 1998

Submitted to Washington Post opinion-editorial section, as a "Taking Exception" column.

[TEXT IS 966 WORDS]

If Congress increases the minimum wage from its current rate of $5.15 an hour to $6.15 over two years, as President Clinton has proposed, some 10 million low-wage workers and their families will enjoy increases in their living standard. The increase is still not enough so that a full-time working person earning the minimum wage can support a family of three above the poverty line. But it will reduce hardships for millions of families which--despite overall economic growth--have experienced a generation of decline in both average as well as minimum wages. Indeed, the minimum wage today is a full 30 percent less than its 1968 peak level.

But James Glassman argues in a recent column ("Don't Raise the Minimum Wage, 2/24/98) that increasing the minimum wage will actually hurt the very low-wage workers it intends to help, because it will make these workers less attractive to employers, and thus increase unemployment among them. Glassman invokes a "law" of economics which states, as he puts it, "all else being equal, if you raise the price of something (for instance, labor), then the demand for it (for instance, by employers) will decline."

Guided by his understanding of this law, Glassman dismisses the most important research on minimum wages of the past generation, that of Profs. David Card of University of California-Berkeley and Alan Krueger of Princeton. Card and Krueger showed that when New Jersey raised its state-wide minimum wage in 1992 by 19 percent over the national minimum wage, employment in New Jersey's fast-food restaurants along the border with Pennsylvania remained stable, even though the New Jersey restaurants faced stiff competition from the nearby Pennsylvania restaurants that could still pay their workers the lower national minimum wage. Glassman similarly dismisses a simple observation made by President Clinton, among others: that jobs opportunities have been improving, not worsening, since the minimum wage began rising in October 1995 in two steps to its current $5.15, after having been stuck at $4.25 for five years.

How can we reconcile this evidence that raising the minimum wage does not appear to worsen employment conditions for low-wage workers with the law of economics invoked by Mr. Glassman? The key issue is the qualifying phrase in the law--"*all else being equal*"--which Glassman acknowledges but then ignores. This qualification tells us that the law holds--that raising minimum wages will increase unemployment--only when nothing else is changing when the minimum wage is raised. But it is far more plausible that many things are likely to be changing along with a minimum wage increase, some of which will have a significant impact on jobs.

First of all, people tend to work harder after they are given a raise, since they become more committed to keeping their job. Absenteeism and turnover fall, and businesses are freed from spending lots of time and money in recruiting, hiring, training, and retaining workers.

Such considerations are not trivial. Henry Ford recognized this in 1913, when he nearly doubled the wage he was offering production workers to a then unheard of $5 a day. Altruism was not his motive. Before offering that wage increase, the turnover rate at Ford Motors was roughly 400 percent. Over the course of a year, in other words, Henry Ford found himself hiring four times the average number of workers he actually needed to staff production. Rates of absenteeism were similarly high. By implementing the $5-a-day wage, Ford almost completely eliminated turnover and absenteeism.

I observed similar patterns in recent research with colleagues concerning the municipal "living wage" ordinance that was passed last March in Los Angeles. The LA ordinance requires firms working under contract with the city to pay their employees a minimum hourly wage of $7.25. We found that many firms were already paying living wages to all their employees, and that these firms competed successfully with firms that paid minimum wages. According to owners and managers of the "living wage firms" that we interviewed, the key to their competitive success was that they operated a high morale/high productivity work environment, which included, as with Ford in 1913, almost no absenteeism or turnover.

Other factors will also affect job conditions when minimum wages rise. The most important is that when the demand for products is high, businesses will normally push hard to meet that demand. They will not lay-off workers or stop hiring, regardless of whether minimum wages are rising. For example, because demand was expanding strongly last year when the mimimum wage rose to $5.15, this increase did not raise unemployment, but rather "turned into one of the non-events of 1997" according to the Wall Street Journal.

By the same token, jobs will dry up when demand for products is falling, as happens in a recession, regardless of what recent changes have been in minimum wages. Because the number of jobs available depends far more on overall demand in the economy than the minimum wage, there is, in fact, no stable statistical relationship over time between U.S. unemployment rates and changes in the minimum wage.

In 1968, the minimum wage provided a living standard 17 percent above the official poverty line for a three-person family, while the unemployment rate was near a post World War II low of 3.6 percent. The U.S. economy is now 50 percent more productive than it was in 1968. And yet, at the current $5.15 minimum wage, a three-person family with one minimum wage worker today lives 20 percent below the official poverty line. No economic law can explain this 30-year regression in this country's commitment to low-wage workers and their families. In light of this history, President Clinton's proposal for a $6.15 minimum wages can be clearly seen as only a modest step toward restoring a modicum of fairness in the economy.

Robert Pollin is Professor of Economics at University of California-Riverside and co-author of *The Living Wage: Building a Fair Economy* (The New Press, forthcoming 8/98).

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Sperling
Stein
Bowles

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'98 MAR 5 PM 1:20

Gene S
I think we have
to make Pomeroy
a representative here
interested in SS [illegible]

THE WHITE HOUSE

WASHINGTON

March 5, 1998

RECOMMENDED TELEPHONE CALL

TO: Congressman Earl Pomeroy, D-North Dakota

DATE: March 5, 1998

RECOMMENDED BY: Larry Stein JS

PURPOSE: To thank him for his support of the Puerto Rico Status Referendum bill.

BACKGROUND: As you know, the Puerto Rico Status Referendum bill passed last night by the vote of 209 to 208. Democrats supported the bill 165 to 31; Republicans opposed the bill 177 to 43. The balance seesawed back and forth throughout the vote and followed the first full day of votes in the House all year.

The final vote cast was by Earl Pomeroy who switched his vote from No to Yea. The bill is not likely to move through the Senate but the overwhelming Democratic support in the House makes an important statement.

We suggest that you call Congressman Pomeroy to congratulate him on having the courage to change his vote to ensure victory.

Regarding his decision to run for re-election, Pomeroy is trying to assess whether or not Social Security is likely to come up in the next session of Congress or if it is being tied up as an issue for after the 2000 election. Any encouragement you feel comfortable giving him about your views on trying to move the issue will be relevant to his decision.

Finally, he might mention the upcoming Social Security events with AARP and the Concord Coalition. (The first one is scheduled for April 7, 1998 in Kansas City. No firm dates or sites have been selected for the three additional events.)

Your response should be that we are working to ensure that any congressional involvement in the events will have a bipartisan balance. To the extent that you have input, you will push for him to be included.

CONTACT PERSON AND PHONE NUMBER(S):	Congressman Earl Pomeroy, (202) 225-2611 **Note:** Congressman Pomeroy will leave for the airport at 4:30pm.
DATE OF SUBMISSION:	March 5, 1998

OFFICE OF U.S. PUBLIC POLICY

'98 MAR 5 AM 10:46

INTEROFFICE CORRESPONDENCE

To: Todd Stern
Phil Caplan

Date: March 5, 1998

From: Matt Gerson

Subject: 50th Anniversary Greetings

Todd:

Could you please arrange a congratulatory message from the White House on the 50th anniversary of Dorothy & Cliff Comstock? Their address is 73665 Jasmine Place, Palm Desert, CA 92260.

I realize that there is usually a long lead time for these messages. However, I would appreciate it if this could be sent as soon as possible since the Comstock's anniversary is today.

Thank you in advance.

3-5-98

Send to Burkhardt?

Yes ✓

No

C

3-5-98

FBI cybercops hunt hackers

By Stan Godlewski for USA TODAY

Hacker tracker: Lewis Schiliro heads the New York office of the FBI and oversees Criminal Squad 37, the FBI's computer crime department. Computer crime "is the wave of the future," he says.

Agents armed with laptops nab robbers

COVER STORY

By Christine Dugas
USA TODAY

NEW YORK — Vladimir Leonidovich Levin is a modern-day Willie Sutton.

Sutton robbed banks at gunpoint. Levin used a computer to hack into Citibank's computer systems from Russia and steal $10 million.

But Levin was caught by the same outfit that hunted Willie Sutton — the FBI. Agents tracked Levin down by following an electronic trail of evidence around the globe. The 30-year-old hacker pleaded guilty and was sentenced last week in New York to 36 months in prison.

High-tech crimes like the Citibank heist have pushed the Federal Bureau of Investigation into the 21st century. Two years ago, the agency's New York field office set up Criminal Squad 37 — C-37 for short. Its agents are cybercops. They carry guns and laptop computers. Their mission is to track down the criminals who attack computer systems.

The FBI won't say how many agents are in the squad. They operate out of a nondescript office in Manhattan filled with rows of desks and computers. It could be an insurance company, except for the holsters on the agents' hips.

Catching computer criminals may not be as glamorous as tracking gun-toting bank robbers, but the agents of C-37 are in the front line of modern crime fighting. Today, using a computer, "It is possible to create destruction in our economy that you used to need a bomb to do," says Edward Stroz, who is in charge of C-37.

Most computer crimes are more mundane. They range from a disgruntled employee who sabotages his former company to a company that hacks into a competitor's computer to steal trade secrets.

Last year, for example, the computer systems at Forbes Inc., publisher of *Forbes* magazine, crashed, and information on its hard drives was erased. The FBI's investigation led to the arrest of George Mario Parente, a computer consultant who had been fired by the company. He was charged with breaking into the system and causing more than $100,000 in damage. The case is pending.

The squad right now is investigating whether a subsidiary of Reuters, the worldwide news and information service, induced a consultant to steal

Please see COVER STORY next page ▶

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THE NATION'S NEWSPAPER
SECTION B
TUESDAY, MARCH 3, 1998

COVER STORY

18% of victims report computer crime

Continued from 1B

computerized data from rival Bloomberg News. That case is before a grand jury, and the FBI won't comment on it.

Computer crime "is the wave of the future," says Lewis Schiliro, an assistant director of the FBI in charge of the New York office. On Schiliro's coffee table, copies of *Wired* magazine sit next to reports on arson and skinhead activity.

C-37, and similar squads in San Francisco, Boston, Chicago, Dallas and Los Angeles, focus on computer intrusions. Those are cases in which a computer is the target of a crime, not the means of committing a crime. Currently, the FBI is investigating 500 such cases, up from 200 for all 1996. The jump is not just an indication of more crimes but also of increased public awareness, the agency says.

Shy corporations

Schiliro says the FBI is trying to overcome companies' reluctance to report computer crime. Business executives, he says, are afraid of negative publicity.

In a 1997 survey of 563 corporate and government security officers by the Computer Security Institute and the FBI, 49% acknowledged unauthorized use of their computer systems the previous year. And those are not trivial transgressions. They include sabotage, fraud and theft of proprietary information by insiders and outsiders. But only 18% of the victims reported the incidents to law-enforcement agencies.

That reluctance to report cybercrime makes it hard to tell how widespread it is, or how much it costs companies. But a recent report for Democratic members of the House Banking Committee estimates the U.S. financial services sector alone may be losing $2.4 billion a year to theft by computer attacks.

The report paints a bleak picture of financial institutions using outdated software and inadequate security pitted against sophisticated high-tech criminals who can attack from anyplace, at any time.

FBI thwarted $10M theft

The Citibank case is the best advertisement yet for the FBI's New York computer crime squad, C-37.

Never mind that the case began in 1994, before the squad was formed. It illustrates that the FBI can investigate high-tech crime and track down the wrongdoers, across borders if necessary. "This is evidence that they know what they're doing," says Richard Power, editorial director of the Computer Security Institute. "Anyone who still thinks that they're the Keystone Cops is wrong."

The case also shows that companies have little to fear from reporting such crimes. "We didn't lose a single customer over this," says Amy Dates, a Citibank spokeswoman.

Levin

In 1994, Vladimir Levin, a.k.a. Vova, hacked into Citibank from Russia. With a woefully obsolete 286 computer, he engineered a scheme to steal $10 million from what was then the largest bank in the USA. "They were doing their hacking from St. Petersburg and sending money to points all around the globe," says Steven Garfinkel, a supervisory special agent who worked on the case. "They sent mules (human couriers) to attempt to pick up the money."

Citibank alerted the FBI, then let the attack continue so agents could catch the criminals in the act. The bank eventually recovered all but $400,000.

As a result of the crime, Citibank has made encryption mandatory for corporate customers with cash management accounts that allow them to move money around the world electronically. The bank also has given those customers a device that changes their password every time they access the system.

By Christine Dugas

A report on electronic banking by the General Accounting Office found that 10% of 93 banks surveyed lacked firewalls to restrict access between computer networks; 11% lacked basic security features, such as software to detect computer viruses; and 30% indicated they had security problems.

The FBI has its work cut out for it. And some critics say it may not be up to the task. "The FBI is playing a game of catch-up," says Ronald Repka, a Brookings fellow and author of the House Banking Committee report. "A lot of people are playing catchup, including the military. Why should the FBI be any different?"

Studies show criminals do a better job of exploiting technology than the people defending the systems, Repka says.

To get up to speed, the FBI has recruited men and women with degrees in computer science and experience working with computers. The recruits gave up jobs in the private sector, in some cases taking 50% pay cuts, to become FBI agents. Entry-level agents in New York earn about $54,000 a year. And the low pay puts the FBI at a disadvantage, especially as competition increases for a relatively small talent pool, computer security experts say.

Calls for help

The agents at C-37 may be keyboard wizards, but they don't spend their time trolling the Internet for con artists. They rely on victims picking up the phone and calling the FBI.

"We don't have an Orwellian Big Brother board with gauges and dials that tells us we have a computer problem," says Timothy Dorch, acting special agent in charge of the criminal division of the New York bureau. "We need human input."

Once a company reports an intrusion, agents work with its computer staff to develop a trail of evidence they hope will lead to the criminal. Among their tools are computer logs and telephone records.

The agents can be foiled not only by fast-changing technology, corporate apathy and the global nature of many crimes, but also by poor record keeping and evidence that is quickly deleted or overwritten. They have a phrase for that perishability: Fast freeze, quick thaw.

Most important tip

Agents say if they could offer companies one tip to help them track cybercrooks, it would be this: Make sure your computer system's internal clock is synchronized to national standards. That helps agents trace an intruder's steps.

In two years, C-37's work has led to 20 indictments and criminal complaints. Most of the cases are still pending. But don't ask the FBI to point them out. The companies that reported the crimes want to keep a low profile.

Nevertheless, C-37 has begun to earn the respect of computer experts. In September 1996, when Panix, a Manhattan Internet service provider, was being bombarded by computer transmissions aimed at disabling its servers, President Alexis Rosen called the FBI. "They didn't know what I was talking about and weren't interested," he says.

"They weren't equipped to even figure out if it was a serious crime."

Working without sleep for four days, Rosen invented a defense to save his company. Since then, he has had occasion to talk to C-37's Stroz.

"I was astonished," Rosen says. "He was clever and technically aware. I don't know how good he is. But he was way better than I expected anyone at the FBI to be."

File

Draft 3/5/98 11:15am

REVISED

PRESIDENT WILLIAM J. CLINTON
STATEMENT ON MEDICARE COMMISSION
THE WHITE HOUSE
March 5, 1998

'98 MAR 5 AM 11:23

Good morning. I am joined here this morning by the members of the Medicare Commission I was proud to help appoint. In a few moments, I will talk to the commission for the first time about what we must do to preserve the Medicare system that has served our nation so well for 33 years.

This year, we balanced the budget for the first time in a generation -- and we did it in the right way, investing in our people, and honoring our oldest values. We need to use this moment of prosperity to strengthen our nation for the 21st Century -- and strengthening Medicare is one of the most important ways we will meet that challenge.

Medicare is more than a program -- it is the way we honor our duty to our parents, and build the future for our children. And it is one of our nation's greatest achievements in the 20th Century.

I am proud of what we have already done to strengthen Medicare. The balanced budget agreement I signed last summer will extend the Medicare Trust Fund for at least a decade. We have cracked down on Medicare fraud and abuse, saving $20 Billion already. And we are giving people on Medicare a wider range of health plan choices and preventive services, including mammograms and diabetes management.

When Medicare was first passed into law, President Johnson said "it proved that the vitality of our democracy can shape the oldest of our values to the needs and obligations" of changing times. I am confident that the Medicare Commission will help us to build a new consensus to meet the challenges of a new era, by strengthening Medicare for the 21st Century, and giving Americans the security they need to thrive.

And now I would like to ask Vice President Gore, Senator Breaux, and Congressman Thomas to say a few words.

3-5-98

Copied
Steinberg
Stern
McGinty
Sperling
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COS

THE WHITE HOUSE

WASHINGTON

OK

March 4, 1998

MR. PRESIDENT:

In the attached memo, your climate change advisors recommend that you permit military operations and training to be exempt from any domestic emission trading program. *Your advisors seeks your approval in advance of Stu Eizenstat's Congressional testimony tomorrow morning.*

Background. Republican critics of Kyoto have charged that the agreement will hurt military readiness. But DOD is reasonably satisfied with the agreement, which made made multilateral operations exempt. DOD accepts that emissions trading should cover DOD facilities and non-tactical vehicles, but is concerned about domestic implementation of Kyoto obligations. To protect readiness, they seek an exemption for military operations and training.

Options. Two are presented, but only the first has any support. Steinberg/Stern/McGinty/Sperling recommend that you authorize Eizenstat to make a statement tomorrow in order to defuse spiraling political charges on the issue. DOD has assured the WH that the Services will publicly express confidence that military readiness can and will be protected in the design of our climate change policies. The share of emissions at stake is small and downsizing, together with fuel efficiency improvements, may lead to reduced emissions from these sources anyway. Industry may complain about having to absorb the reductions and enviros will not be supportive, but your advisors feel these objections can be overcome.

✓ Approve ____ Disapprove ____ Discuss

Phil Caplan Phil

3-5-98

THE WHITE HOUSE

WASHINGTON

March 4, 1998

MEMORANDUM FOR THE PRESIDENT

'98 MAR 4 PM3:31

DBS for

FROM: JIM STEINBERG
TODD STERN
KATHLEEN McGINTY
GENE SPERLING

SUBJECT: Climate Change/Military

Republican critics continue to charge that the Kyoto agreement will hurt the U.S. military. In recent weeks, Senators Hagel and Inhofe have used Congressional hearings and other fora to push this line of attack. A group of prominent Reagan/Bush appointees -- including Richard Cheney and Jeanne Kirkpatrick -- make this argument in paid advertising running frequently in Roll Call and the Washington Times.

In fact, the Pentagon is reasonably satisfied with the results at Kyoto. The agreement reached there exempts emissions from most multilateral military operations (such as Desert Storm, Bosnia and Grenada) and from military (and civilian) international air and marine transport. It authorizes countries to reallocate emissions from military activities if they choose. Pentagon officials participated prominently in the U.S. delegation at Kyoto.

The Pentagon remains concerned, however, about domestic implementation of our climate change obligations. It accepts that any domestic emissions trading program should cover Defense Department facilities (i.e., buildings and non-tactical vehicles, similar to those used by other government agencies or the private sector). It argues, however, that any domestic emissions trading program should exempt military operations and training (including tactical aircraft, weapons systems, combat training and border security). Noting the unique and often unpredictable nature of its mission, the Pentagon argues that subjecting military operations and training to greenhouse gas emissions limits could compromise military readiness.

Overall, the Defense Department accounts for 1.4% of total U.S. carbon emissions, a 22% decrease from its share in 1990. *Carbon emissions from military operations and training are 0.8% of the U.S. total.*

In your October, 1997 climate change policy announcement, you said that full implementation of a domestic emissions trading program for greenhouse gases should wait until at least 2008. In that sense, consideration of the Pentagon's unique needs in designing such a program may be premature. However, there is a possibility that the spiraling political charges on this issue could be defused by an early administration statement. *Specifically, we could preempt the critics by announcing that we would oppose emissions limits on military operations and training.* For the reasons stated below, your advisors recommend this approach.

OPTIONS

The options are as follows. In both cases, we would continue to emphasize our considerable success on this issue at Kyoto.

1. Have an administration spokesman state our opposition to emissions limits on military operations and training. *Stu Eizenstat's Congressional testimony tomorrow would be a good opportunity.*

We have been assured that, with such a statement, the uniformed services will publicly express confidence that military readiness can and will be protected in the design of our climate change policies. This would significantly if not entirely neutralize political attacks on this issue. Furthermore, an exemption for military operations and training would respond to the Pentagon's concerns on readiness with only the most marginal impact on the United States' ability to meet national emissions targets. The share of emissions at stake is small, and downsizing together with fuel efficiency improvements may lead to reduced emissions from these sources in any event. Such an exemption would carry forward the spirit of the Kyoto agreement with respect to military emissions.

The biggest downside is the risk of starting a round of special pleading and complaints from industrial emitters. Industries may grouse that they will be asked to absorb emissions reductions properly attributable to the Pentagon. More broadly, opening the door to discussions on the structure of an emissions trading program could raise a series of awkward questions about our positions on other aspects of the eventual carbon emissions reduction regime. However, given the small share of emissions at issue, the unique circumstances of the military and the number of years before these industries might be subject to limits, these appear to be manageable problems.

The environmental community would not support this approach, but we do not anticipate significant criticism.

Jim Steinberg, Todd Stern, Gene Sperling and Stu Eizenstat support this option. Katie McGinty supports this option, emphasizing that the Defense Department should be asked to come forward with an aggressive plan for reducing emissions from its non-exempt facilities.

2. Continue to emphasize diplomatic success on this issue at Kyoto, and state that consideration of domestic implementation issues is premature.

The other option is to continue emphasizing and explaining our success on this issue at Kyoto (where few observers expected us to obtain exemptions for our military), while deferring questions on domestic implementation to a later time. This would avoid charges of special treatment and allow a more thorough consideration of the role of the military in any emissions trading program, against the backdrop of other domestic implementation issues. However, it would also entail a level of concern about this issue among the uniformed military that would be damaging, in the short- and long-run. It would provide opponents of our global warming agenda an argument that resonates strongly with many on the Hill. None of your advisors support this option.

______ Option 1 ______ Option 2 ______ Let's discuss