

Kyoto
Mack

VICE PRESIDENT BILATERALS -- ISSUES AND POINTS TO MAKE

Japan

Background

The most important issue influencing relations with the Japanese at COP 3 is which greenhouse gases to include in the protocol. The U.S. supports inclusion of six greenhouse gases, three of which are excluded from the Japanese proposal. Including these gases in the protocol is a stronger environmental position, as the three additional gases have very high global warming potential and are longer lived than CO₂. Requiring Japan to count the three additional gases in their proposal would shift their target from 2.5% below to 2-3% above 1990 levels.

The Japanese have staked their credibility as hosts of COP 3 on their reduction target. As a result, efforts by the U.S. to include all six greenhouse gases in the protocol have put Japan on the defensive. In response, Japan has done little to work with us and other non-EU Annex 1 countries in support of emissions trading, JI, Article 10, and a follow-on process for developing countries. In addition, once strong objectors of the EU "bubble," Japan is now signaling that it would be willing to accept the bubble under slightly modified terms. The timing of this gesture is problematic for the U.S. and may undermine the leverage we have generated for key elements of our proposal.

Points to Make

- Japan and the U.S. must work very closely to shape a successful outcome in the negotiations.
- Japan and the U.S. have several issues in common such as the importance of trading, joint implementation, problems with the EU "bubble" and the role of developing countries.
- We do have a key difference over which greenhouse gases to include in the agreement, but we believe including six gases will assure the negotiations result in a stronger environmental agreement.
- Japan is critical to presenting a united front against the EU "bubble." Our united opposition is a critical leverage point for issues that are essential to both of our positions, such as emissions trading. I hope we can work together to coordinate our position on the "bubble."
- I hope you will work with us to build support for emissions trading, JI, and a future role for developing countries in solving the climate change problem.

UK

Background

In the weeks leading to the Kyoto negotiations, the UK indicated it would play a constructive role to soften EU intransigence and build greater understanding of the U.S. position. Unfortunately, their good will has not been evident in Kyoto. By actively defending the EU position in several negotiating sessions, UK negotiators have strengthened EU resolve to stand firm against the U.S. Where UK negotiators once suggested flexibility, they now show no such latitude. Perhaps more problematic is the UK resistance to our need for a national security exemption. An acceptable resolution of this issue is critical to the survival of the Kyoto protocol before the U.S. Senate.

Your meeting with DPM Prescott will come on the heels of the gathering of EU environmental ministers in Kyoto. The ministers are expected to determine areas where the EU is willing to bargain and your meeting with Prescott will be an opportunity to press him on that flexibility. Moreover, your meeting presents an

occasion to urge Prescott and the UK delegation to make good on their pledge to help resolve differences between the EU and U.S. on key issues, including the role of developing countries, emissions trading, and the national security exemption.

Points to Make

- The U.S. expected much more help from the UK delegation during the early going in Kyoto. Unfortunately, that has not happened and we now have only a few days left to find greater agreement in our positions.
- We share many common views on issues such as trading, joint implementation, and the role of developing countries, but thus far our delegations have been working at cross-purposes.
- Another key issue where you can help is in crafting a national security exemption in the protocol.
- I hope that during the Ministerial meetings, the UK will come through and work with us toward an acceptable outcome.

Mexico

Background

Relations with the Mexican delegation are strong as reflected in your conversation with President Zedillo and in formal and informal conversations in Kyoto. Nevertheless, an outcome acceptable to the U.S. on Article 10 and JI relies on the active support of Mexico, including interventions on behalf of these provisions.

Your meeting with Secretary Carabias is an opportunity to again emphasize that Article 10 and JI with credit in a Kyoto outcome provide an opportunity rather than an imposition for developing countries' participation in the climate change solution. As we have pointed out repeatedly to the Mexican delegation, Mexico would be free to judge whether commitments under Article 10 and JI are in its best economic interest. To do so, however, would benefit Mexico greatly as investment in emissions credits and JI projects would likely flow in its direction.

Mexico's support for these provisions is critical to building a case for a Kyoto outcome that includes the meaningful participation of key developing countries. Moreover, Mexico is well-positioned to rally the support of other key developing nations.

Points to Make

- I had an excellent conversation with President Zedillo. Our conversation reflected our positive working relationship on environmental issues, especially on climate change.
- We discussed the importance of Article 10 and JI with credit as critical aspects of the Kyoto outcome. I understand Mexico is seriously considering supporting these provisions and I hope you will do so.
- I want to emphasize that we see Article 10 and JI commitments as opportunities rather than impositions. But they are critical to meeting the test of key developing country participation in a Kyoto outcome.
- With your support of Article 10 and JI, and some positive words for these elements in a Kyoto outcome, I believe we could create the necessary momentum for an agreement.

Costa Rica

Background

Among the developing countries, Costa Rica has been our greatest ally in building support for Article 10 and joint implementation with credit. The positive tone of your conversation with President Figueres is indicative of the productive relationship between the U.S. and Costa Rican delegation in the Kyoto talks. Your meeting with President Figueres is an opportunity to thank him, again, for the constructive role played by Costa Rica in the negotiations and encourage him to continue building support among the Latin Americans for the Article 10 and JI provisions.

Watch out for: The Costa Rican delegation has expressed some concern over the U.S. commitment to provisions of the Kyoto protocol that would allow countries to count forest conservation as a measurable sponge or “sink” for greenhouse gases.

Points to Make

- Thank you, again, for the leadership Costa Rica has demonstrated in the climate negotiations. By building support for Article 10 and Joint Implementation with credit, Costa Rica is helping secure a place for the market mechanisms that will help developed and developing countries solve the climate change problem. I hope you can keep working with the Central and South Americans to increase support for these provisions and for a follow-on process to the Kyoto protocol.
- (If asked: The U.S. remains committed to including forest management and conservation among the sinks recognized by the protocol.)

THE WHITE HOUSE

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PRESS BRIEFING BY
DIRECTOR OF THE NATIONAL ECONOMIC COUNCIL GENE SPERLING
CHAIR OF THE COUNCIL ON ENVIRONMENTAL QUALITY KATIE MCGINTY
THE VICE PRESIDENT'S NATIONAL SECURITY ADVISOR LEON FUERTH

The Briefing Room

3:03 P.M. EST

MR. SPALTER: Good afternoon. This afternoon, Leon Fuerth, who is Vice President Gore's National Security Advisor, and Katie McGinty, who is chairperson of the Council on Environmental Quality, will provide a briefing on the Vice President's trip this weekend to Kyoto. He is leaving on Saturday. He will be in Kyoto on Monday.

I will turn the floor over to Leon Fuerth, who will have to be leaving in a few minutes to go to another meeting, but you will have some time with him. Please, Leon.

MR. FUERTH: Katie and I have been working a long time with the Vice President and we remember the early days of his engagement with this issue. So it is with great satisfaction that, as old-timers on his staff, we see him representing the United States and heading off to this conference in Kyoto. The mere fact that this conference is being held is a testament to how far the issue of the relationship between industrial civilization and the environment has gone and how high it has risen in the consciousness, not just of governments, but of people around the world.

That didn't happen by accident, and I think we are each proud of any role that we played in helping along the way, and especially proud of the role that the Clinton administration has played in truly recognizing that this issue takes its place as part of a normal set of issues that affect the security of nations.

I really don't have too much to say, except that opening comment. I will be going in just a few minutes and Katie will be carrying the brunt of the Q & A session. So let me turn this over to you and, if I'm still here when the questions begin, I'll pitch in.

MS. MCGINTY: Thanks, Leon. I would just add my own sense that as headlines have appeared on this issue trumpeting the fact that consensus emerges on climate change, that is a proud moment for an issue that is really coming into its own and the understanding of which has increased enormously in the last five years, 10 years at the most, that it has emerged on the radar screen.

The Vice President's attendance at the conference on Monday is a sign of the United States' commitment to this issue, to the process of negotiations that are under way there. We have an extraordinary team of people committed to help work through the complex issues that are presented there. Negotiations led for us by Stu Eizenstat, who is a long-term negotiator on this issue, has been involved with us on this issue but on many other issues as well, a very skilled negotiator.

It is an issue that is of the utmost importance to us, and we are going to do our best, both throughout this week and then as we get into the ministerial level sessions of this meeting in the early days of next week, to try to bring some consensus among the more than 160 nations that are participating in Kyoto.

I think it is important for us to keep in mind that the job here is not one of just reconciling the differences, for example, between the United States and the European Community or the United States and Japan. There are 160 nations. Their opinions range from those of the Netherlands to those of Saudi Arabia. The leadership the United States is called to show here is neither to be extremist to the left, extremist to the right, but to try to provide that common ground on which these many and quite diverse nations can stand.

Second, I think it is important to keep in mind that Kyoto won't be the final answer in any circumstances to the issue of climate change, and the critical thing is that Kyoto be an important step along a much longer path where the nations of the world seriously and responsibly will come to grips with this issue, and, post-Kyoto, continue to make progress on it. The Vice President is committed to being there to try to help further that cause, and we have the job of traveling with him on what is going to be an arduous journey.

Q He is really there to hold the flag, isn't he? I mean, he's not going to be negotiating. What is he really going to be doing except representing --

MS. MCGINTY: Well, let me say a couple things. Leon, you may want to add to it, too. First and foremost, we want to underscore the seriousness and importance that we attach to these negotiations. We have worked very hard. The Vice President personally has worked very hard not just on the issue in general but, in the last several years, to bring the nations of the world to

the point where we are actually talking about a legally binding treaty.

It was the United States three years ago that said, first, the treaty that was negotiated in Rio is not adequate to the challenge of climate change and we won the agreement of the nations of the world to that principle. It was the United States a year and a half to two years ago that said to the nations of the world, a voluntary agreement has not proven effective enough on this issue; we need to move into a legally binding regime.

This process we are now in is the culmination of those efforts and that work we have done over the last several years and, frankly, that the Vice President has led the way for us in accomplishing. So he is there to help move us now through this next set.

Q Wasn't the Vice President supposed to make calls this week to European leaders, and could you tell us who he called?

MR. FUERTH: Let me respond to that. First of all, you are right. He is not going there to negotiate. Our negotiator is Stu Eizenstat. But the Vice President's willingness to be there and his presence there are helpful to Stu in his effort to underscore the seriousness of intent of the United States and the general process and in the United States position that we have announced previously.

The Vice President has been making a number of phone calls to some leaders who are involved in the conference on his way there, and he will probably continue to make calls on his way back. So, for him, it is a continuous effort and not just a one-shot trip to Kyoto and back.

Q Leon, could you talk about how the Vice President is going to try and get the developing countries, especially China, on board -- what you may have planned, what your expectations are? And if all of this can't be done in a day, would he consider staying on through the end of the conference?

MR. FUERTH: I can answer the second question, which is I don't think he has any plans to extend his stay. There are ongoing commitments.

As for the first part of the question, I am interested in it, as I think you know, because of matters such as the development of the U.S.-China energy environment initiative. But that is a matter which is separate from the question you ask, and so I turn to Katie to deal with it.

MS. MCGINTY: We are working very hard to encourage the support of developing countries on things like joint implementation, which will both bring emissions down in developing countries and provide sources of new economic investment into developing countries. We are also working with them on an article in the proposed treaty that would invite the voluntary assumption by developing countries of binding targets and timetables, and then would allow those countries to participate in the international emissions trading regime that the

United States has proposed.

Again, an initiative that we believe, first, is critical in terms of an environmentally effective treaty, but also an initiative that would provide economic opportunity, both domestically and for developing countries.

Q Will this satisfy the Senate, the voluntary assumption of responsibilities?

MS. MCGINTY: We will see what comes out of Kyoto. We are working hard on these fronts and there are other delegations who have other ideas, so we will see what the product is.

Q Katie, there are some reports in Kyoto, mostly from European sources, that the United States is more or less moving toward agreeing to some additional reductions beyond stabilization.

MS. MCGINTY: No, that is not -- those are inaccurate reports.

Q The reports are that the U.S. is about to announce that it is ready to cut emissions by up to 5 percent. You are ruling out such a gesture?

MS. MCGINTY: Those are inaccurate reports.

Q Is the figure 5 percent inaccurate or the --

MS. MCGINTY: It is inaccurate that we are moving at all from the target and timetable that the President proposed.

Q What is the purpose of the phone calls to the world leaders?

MS. MCGINTY: Let me underscore too that we will be losing Leon sooner than Gene and I, but we are joined also by the President's Economic Policy Advisor, Gene Sperling.

Q Just before we lose Leon, can I ask, you know, five years ago I remember Gore going to Rio and complaining that the United States should be more aggressive and commit more and the administration then was kind of holding the line. I mean, it now seems as through the critics are saying the same thing about the current U.S. position, that it should be much further.

MR. FUERTH: You ask me the question. I will anticipate, in part, my colleagues' answers, and that is that the United States position involves some pretty substantial things. We are not pitching softballs here. This is a serious proposal. It is one the United States is prepared to carry out. And when you talk about making changes in the way an economy of our size does business, you are talking about some fairly substantial things. The President has said nothing that he isn't prepared to follow through on, and that is a serious matter.

I've got to scram.

Q What is the purpose of the calls to world leaders?

MS. MCGINTY: For the world leaders, first, better to understand what the important elements are of the United States position; to understand things like joint implementation, that these are ways, yes, we can achieve our environmental goal but that it provides economic opportunity for developing countries, which many of them have not heard that message; and, frankly, for us to hear firsthand from those world leaders too their perspective on these negotiations and what their view is as to how we can best establish some common ground.

Q Could you give us some names?

MS. MCGINTY: Yes, the Vice President spoke today to the Presidents of Mexico, Chile, and I believe Costa Rica, although we were at one point having some trouble making the connection there. But that was on the schedule.

MR. SPALTER: He also will be meeting later this afternoon with the foreign minister of Japan.

Q Katie, the President of the European Union is in town and meeting with Madeleine Albright and I think with the Vice President and the President. Will they be telling him what you just said, that the United States won't budge from its targets and timetables?

MS. MCGINTY: I actually don't know exactly what will be on the agenda, but it has been at the top of the President's agenda both in APEC and in all of the various bilateral, multilateral discussions we have been involved in to put this issue at the fore of what our present concerns are as we face Kyoto.

Q That is the position of the -- I mean, if that's the position at this instant, presumably that is the position that Madeleine Albright would be taking this afternoon.

MS. MCGINTY: Yes, yes. And there are other matters for us to -- as I said, part of the reason for these calls is to help leaders better understand the U.S. position. One example of that is that while the United States proposal has been considered less environmentally ambitious than the proposals of some other countries, as we have pointed out, the United States is the only country that has a comprehensive proposal on the totality of the greenhouse gasses.

Leaders are only now beginning to understand that, in fact, the European proposal has a big loophole in it which makes it less ambitious than they have presented. And, in fact, the Japanese proposal, also containing this loophole, would allow emissions to grow above 1990 levels, so it is less ambitious than the U.S. proposal. But it's that kind of dialogue that we have been having in helping various delegations better understand our proposals.

Q What kind of loophole is that? What kind of a loophole are you talking about now?

MS. MCGINTY: The United States proposal is comprehensive. It is based not only on three gasses, but the full six gasses which are the major greenhouse gasses. The European Union and Japan focus only on carbon dioxide, methane, and nitrous oxides. The U.S. proposal adds other gasses -- sulphur hexafluoride, HFCs, and PFCs -- which gasses are smaller in quantity than CO2 but that are on the order of 25,000 times more polluting than CO2.

Now, this is a huge detriment to the environment that the European proposal and the Japanese proposal do not include these pollutants, and that the Europeans and the Japanese so far have refused to include those pollutants in their proposal.

Q But whatever consensus seems to be emerging so far in Kyoto, it is not around the U.S. proposal for stabilization. Is the Vice President going to Kyoto with some flexibility in the U.S. position?

MS. MCGINTY: Gene, I'll ask you to join on this, too. The Vice President is going there to articulate and help to explain and to present to the countries of the world the U.S. position that the President articulated. Already, again, as we have pushed forward a more full description of what it is that the United States has proposed, it has become clear that ours is the only comprehensive proposal on the table, one; that we are the only country that has proposed a mechanism that allows developing countries to pursue a more sustainable, cleaner energy path, three; and that we are the only country that has proposed mechanisms to insure that countries actually will enforce and take seriously their obligations. And it is those things that we will articulate and try to impress upon our colleagues.

You've got the next one.

Q Will the Vice President be looking to bridge differences with Japan in his meeting with the foreign minister? What do you expect to come out of this afternoon's meeting?

MS. MCGINTY: Well, similarly to the phone conversations that we have had this morning, the Vice President will look to more fully articulate and explain the various elements of the U.S. position to try to encourage the Japanese, for example, to see the wisdom of including all of the greenhouse gasses in the targets and timetables that are proposed, and to understand the huge loophole that there exists in both the Japanese and the European proposal in not having those elements there.

We also want to ask the Japanese as the hosts of this conference, and thank them for their leadership in hosting this conference, how it is that they see the discussions going, where they think that we can be most helpful in shepherding the countries of the world towards some common ground.

Q There are people that I have talked to in Kyoto --although I am not there myself so I'm not sure about this -- who say that in the plenary sessions the developing countries have been refusing even to open for discussion the subject of their participation; that they say what we are here to discuss is the developed nations, the industrial nations.

Is that the state of play at the moment? Are you discouraged by that?

MS. MCGINTY: I don't want to say that we have had -- that there have been major breakthroughs of any kind yet in these discussions. I think that there is work under way that is increasing the understanding of the various parties of the points of view that have been expressed. But, no, I would not say that there have been major breakthroughs yet of any kind on the various elements that are being discussed.

Q Am I accurate in saying they are refusing even to have discussion about that? In the plenary sessions the topic is now allowed to be brought up?

MS. MCGINTY: I would certainly say that I'm not aware of any formally expressed position by any country or group of developing countries to the contrary. I am not aware of any. But I do believe that there are some countries within that mix who are more inclined to favorably consider some of the elements of these proposals.

Just to take an example, Costa Rica, for example, has been a proponent of joint implementation and has joined with the United States, for example, in launching various joint implementation projects. So there are individual countries that have been more favorably inclined, but I am not aware of any formal statements by the G-77 as a whole that would break with what has traditionally been their position.

The last thing I would say on this, I want to be clear and underscore again that there is nothing in our proposal which is about saying that the developed countries, the industrialized countries, should not take the lead here. We believe firmly -- the President, the Vice President believes firmly that the United States and the other industrialized countries of the world do need to lead the way. We have been the major contributors to this greenhouse gas pollution, and we need to lead the way in reducing greenhouse gas pollution. So I don't want to confuse that in the emphasis on the point that developing countries nonetheless need to become part of the solution as we work together on the issue.

Q Gene, I wonder if you would be willing to respond to critics who say that the U.S. policy essentially amounts to caving to the interests of the auto industry and big business.

MR. SPERLING: I think too few people have judged -- on both sides, have judged our proposal by actually looking at the merits and the degree of ambition in there. Our proposal would require over 30 percent reduction off the projected baseline by the year 2010. That is a highly ambitious target, and I think that it is not by any means the position that was recommended to us by the auto industry, not even close.

But what we did was we tried to come through with what we felt was a three-stage process of, number one, having a period over these next few years that, regardless of what happens in Kyoto, that we will come forward, as we are working on in our budget right now, with a series of initiatives that will include R&D and technology initiatives as well as tax cuts that will be aimed at reducing greenhouse gas emissions; and that in this period we should

be focusing on the type of what we have called win-win opportunities that are out there; and that over the next five years, to review that and then to get ready for a period where we would allow a period of emissions trading.

So I think what we tried to do was come up with an approach that hit the right balance, that was ambitious in its target and timetable but was market-sensitive in that it relies on market mechanisms and that it allows for a period of up to a decade where our overall focus would be on the type of win-win opportunities that come from using existing technologies, developing -- giving people incentives to use things that are more efficient.

And so I don't think that our -- I think our proposal was one that the President chose by listening to different people in his administration, by listening both to people who more represented the environmentalists, but also listening to what the right means to achieving this were economically from his economic team and from economic interest.

And I think that when you have a very controversial and difficult and challenging environmental issue and you are trying to hit a good balance, you may find people on both sides feeling that you have either not gone far enough or gone too far.

But I think the American people would think that we have hit exactly the right balance, which is an ambitious aspiration for this country in terms of reducing greenhouse gas emissions, but doing it in a way that is thoughtful and that relies on common sense market mechanisms, and that says let's first look at everything we can do through technology and R&D and incentives, but let's make clear that when we get to the period of the binding agreement, 2008-2012, that we do have a system that ensures that we will ultimately reach the target. But let's give the country and the market and the economy the best opportunity to adjust and prepare and to take advantages of all the possibilities that are out there now.

Q Why does this need to be done now? There is one, by no means, radical school of thought that says if you wait 10 years we will better understand the science, we will better understand the interplay between greenhouse gasses and climate change, and it will be a hell of a lot cheaper to implement the emissions.

MR. SPERLING: Well, let me respond to that. I think that the President and Vice President's view was that the science is compelling enough as to the fact that there is a discernible human influence on climate to compel action at this moment, and that the failure to act now would be irresponsible; that it would allow what is clearly the major environmental challenge of our generation to go on untreated for another decade.

On the other hand, we have put forward a plan that allows us to learn and experiment as to what is the best means of doing that so that by having a period of five-year reviews we are always looking at what is working best, what is being most effective, what we can do in terms of incentives, in terms of technology. So we are not saying that we have all the answers as to the exact means; we are giving ourselves a period of review to see what works and improve upon that.

But at some point, with any major problem, whether it's Social Security, whether -- you know, anything, you can say that things could work out differently. But as policymakers, you have to judge whether the evidence you have at the time is compelling enough to compel action. And this administration, which had a lot of different views on the means and the methods and the targets and timetables, was rock-solid unanimous that the science was strong enough to compel action at this moment.

Q But at the same time, just to play devil's advocate, in Social Security's case you know the demographics so you know what is going to happen. In this case, over the past five years, according to the economists, the computer models upon which these predictions are based have reduced by half the estimation of long-term increase in greenhouse gasses. At that rate, how can you depend on the models now?

MR. SPERLING: Well, first of all, we saw over the last year that our level of greenhouse gas emissions was 5 percent worse than we had projected in the year, which would suggest that we have had evidence over the last year that this problem requires even more action than would have been projected.

And, again, we are not saying that there is -- what we precisely did not do is say, next year we are implementing a mandatory system of A or B that we are going to use for the next 15 years. We precisely put in a period of strong policy action to be reviewed after five years in light of the science, in light of the effectiveness, and that we would give ourselves up to 10 full years of action, of experimentation, of voluntary efforts, of technology, before our period, the binding period and the trading period, would go in in the year 2008.

So, I mean, anybody who cares about compelling governmental -- compelling public policy issues has to always weigh action in the face of uncertainty. And I think one has to distinguish between the uncertainty as to the magnitude or the speed or the means for dealing with it, with what we feel is strong certainty that the problem is significant, compelling, and getting worse without action. And that requires us to act for it.

And that is -- and I should point out that is a place of which I think you have international agreement, among scientists and among the countries at Kyoto. Again, the differences are more on the exact areas of the mechanisms and the timetables. There really, I believe, is strong international agreement and strong agreement in our administration that the science is compelling enough to warrant action. And really with what we saw was the worst report on emissions over the last year, I think that conviction is held even stronger.

Q Katie, you said the Vice President is not going to negotiate there, but in addition to giving the speech Monday morning he is meeting extensively during the day. Can you tell us a little but about who he is meeting with and what his intentions are in those meetings?

MS. MCGINTY: Well, the meetings will be at the -- in part, at the suggestion of our lead negotiator, Stu Eizenstat, who he believes it would be most helpful and effective for the

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Vice President to meet with. So we will have to see. We have not, I don't think, finalized a list of countries that we would meet with there.

And I guess the point to be made is that whether he is here or whether he is there, the President and Vice President, of course, are at the top of the policy chain in this government and they singularly and exclusively have their finger on the trigger in terms of the policies we articulate and the decisions we ultimately will make. The meetings that Stu Eizenstat will recommend for the Vice President and participate in with the Vice President are ones which, in his judgment, will help to inform the President and Vice President's decision-making.

MR. SPALTER: Thank you very much, unless there is one last question.

Q When the \$5 billion energy tax cut package was announced in October, Gene, you said the details would be coming forth in December when the budget process is under way. It's December. Do you have any details yet on it?

MR. SPERLING: I said we would make the decisions on it in December when we make our budget. As always, we generally announce our budget and the policies in it around the State of the Union, with a few sprinkles before for interest.

But what we said is that we would have a combination of \$5 billion, at least \$5 billion over five years. That would be a combination of tax incentives and R&D. We have had at least one full-level principles' meeting at NEC and a meeting on the tax incentives. We met with the President's Science and Technology advisors yesterday. One of the things we talked about was what the exact package would be.

But it is like everything else. The next two weeks -- not this week but really the next two weeks are the weeks where, for the fifth year in a row, is the period where we really get to crunch time and make the decisions as to how much we can afford in different areas.

But the one thing we have laid out a commitment on is that there will at least be five years above what is the -- \$5 billion above the current baseline, in combination of tax incentives and R&D. And we are getting recommendations from Treasury Department on the tax incentives and we are looking very heavily at the PCAST recommendations on the R&D and they will be part of our budget.

Q Well, other than the energy cuts and child care credits the President has indicated would be in the '99 budget, is the administration considering any form of broad-based tax reductions that would simplify the tax code and make it fairer?

MR. SPERLING: I think that we all understand that the issue of how to improve the tax system at IRS is an important issue. It is an issue we are working on, have worked on, have made progress on, and expect to be a significant policy debate over the next few years.

We will be pressing very hard for the passage of the IRS reform bill that came out of the

House that had strong bipartisan support that was an honest and good faith compromise between Democrats and Republicans. We will be hoping to pass that soon.

In terms of tax cuts and tax simplifications, we are certainly studying a variety of things. But the tests we hold things up to are three: Is it good for the economy, is it fair for working families, and is it fiscally responsible? I think the things we have done, the EITC and the HOPE Scholarship tax credit, child tax credit and IRA have all met that proposal, that test.

I think anybody who puts forward a proposal, whether it's us or Republicans or Democrats, has to be able to hold their proposal against that test and make sure it passes that test before they try to sell it to the American people. And we will be holding any proposal we have internally up to that test as well as external proposals.

I think you have to have a bit of the Hippocratic middle class family test here. You have to make sure any reforms you are doing do no harm to working families, and many of the proposals we have seen in the past would, in fact, have done harm by either raising the tax rates of working families or turning back the progress we have had on deficit reduction.

But we certainly are engaged in a process to see what further steps we can take to complement what we have done in the past that would meet that test.

MR. SPALTER: Thank you very much.

END

3:38 P.M. EST