



THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D. C. 20220

December 13, 1999

Mr. E. Joseph Hillings
Vice President and General Manager
Federal Government Affairs
Enron Corporation
1775 Eye Street, NW, Suite 800
Washington, DC 20006-4607

Dear Joe:

Thanks for your kind remarks about my speech before U.S. Alliance for Trade Expansion. I am pleased to enclose a copy as you requested. I also appreciate receiving the Energy Services Coalition Introductory Packet. I will share it with my colleagues here at Treasury, and will let you know if we have any comments.

I hope to see you again soon.

Sincerely,

Stuart E. Eizenstat

Best wishes!

Bieger, Peter

From: Sharer, James
Sent: Wednesday, October 31, 2001 3:19 PM
To: Kerner, Francine; Bieger, Peter
Subject: FW: Oct 31 Noon Report -- A morning of surprises.. better-than-expected data but the curve flattens

-----Original Message-----

From: Cetina, Jill
Sent: Wednesday, October 31, 2001 1:02 PM
To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne
Subject: Oct 31 Noon Report -- A morning of surprises.. better-than-expected data but the curve flattens

[(b)(5)]

01/17/2002

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01/17/2002

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DEPARTMENT OF THE TREASURY OFFICE OF PUBLIC AFFAIRS

Embargoed until 10:00 AM
October 31, 2001

Contact Betsy Holahan
at 202-622-2960.

UNDER SECRETARY OF THE TREASURY FOR DOMESTIC FINANCE PETER R. FISHER REMARKS AT THE NOVEMBER 2001 QUARTERLY REFUNDING

As a consequence of the further weakening of the economy and the increased federal outlays that have occurred since the attacks of September 11th, the near-term financing requirements of the federal government are larger than we anticipated just three months ago at our last quarterly refunding in August. In this setting, the management of the Treasury's marketable debt needs to anticipate the possibility of a unified budget deficit for this fiscal year and, perhaps, the following fiscal year as well. However, even if this happens, we expect that the federal government will return to surpluses in the coming years.

With this outlook in mind, today we are announcing:

- The terms of the November refunding, including a new 5-year note in the amount of \$16 billion and a reopening of the 5 percent 10-year note issued in August 2001 in the amount of \$7 billion; and that
- We are adjusting the debt buyback program as follows:
 - We will continue to conduct buybacks for the remainder of this calendar year;
 - We will make no buybacks in January 2002; and
 - Beginning in February 2002, we will announce at our quarterly refundings the amount and timing of any buyback operations for the subsequent three-month period; and finally that

- We are suspending issuance of the 30-year bond: there will be no auction of 30-year securities in February 2002 and we plan no further auctions of either 30-year nominal or inflation-adjusted bonds.

Recent Changes in the Fiscal Outlook

Debt issuance over the past several years has been structured in an environment of large budget surpluses. However, the fiscal environment has changed substantially over the past few months due to the slowdown in economic activity and to the federal government's prompt response to the attacks of September 11th. The Treasury's debt management has adjusted already, and will continue to adjust, as we accommodate the federal government's increased financing needs during this period. But our expectation is that these heightened financing requirements will prove short-lived, as the economy eventually strengthens, and as the pressures for increased federal outlays stemming from the attacks of September 11th subside.

Suspension of Thirty-Year Borrowing

The debt management strategy of the Treasury has been to strive to be regular and predictable in the issuance of debt while minimizing borrowing costs over many years and interest rate cycles. The Treasury does not try to outsmart the market at any one moment or to be a "market timer" with respect to any particular shape of the yield curve. However, debt management necessarily involves judgments about the size and duration of the federal government's borrowing needs. This compels us to focus on likely borrowing needs over the coming years but we also take into account the likely consequences of unlikely outcomes.

We do not need the 30-year bond to meet the government's current financing needs, nor those that we expect to face in coming years. Looking beyond the next few years, as I already observed, we believe that the likely outcome is that the federal government's fiscal position will improve after the temporary setback that we are now experiencing.

There are two less likely outcomes that we have also considered.

First, it is possible that the federal government will return to significant and sustained budget surpluses even more quickly than we now expect. In this event, maintaining current issuance levels of 30-year bonds would be unnecessary and expensive to taxpayers.

Second, we face the possibility that sustained surpluses do not materialize as promptly as we now expect. If later in this decade it turns out that 30-year borrowing is necessary to meet the government's financing needs, it is still likely that our decision to suspend 30-year borrowing at this time will have saved the taxpayers money. In addition, the reintroduction of the 30-year bond, at some point in the future, if necessary, would likely be costless to the Treasury.

The 30-year bond no longer maintains a position of significance in the financial markets. Its role and its liquidity have been significantly impaired by the substantial reduction of issuance that has occurred over the last decade. But the markets have functioned smoothly during this period while both activity and attention have shifted to our 10-year offerings.

As long as we have borrowing requirements to finance, the Treasury will seek to maintain the liquidity and depth of the instruments we issue as a means of achieving the lowest cost of borrowing for the taxpayer over time. At this time, the best means for us to do this is to suspend issuance of the 30-year bond and concentrate our borrowing needs on our other instruments.

Adjustment of the buyback program

In response to the altered budget outlook for this fiscal year, we are also making adjustments in our buyback program. Beginning in February 2002, our decisions on whether to conduct buyback operations, and on the amount and timing of any purchases, will be made at the time of our regular quarterly refunding announcements and will be based upon three factors:

- first, our projections of the federal government's annual, unified surplus or deficit position;
- second, our projections of that three-month period's cash position; and,
- third, our analysis of how best to minimize borrowing costs over time.

In making the transition to these new procedures, our buyback operations for the remainder of this calendar year will continue in line with our prior announcements. In August we stated that we would be purchasing approximately \$9 billion during the fourth calendar quarter. So far we have purchased \$2.5 billion and the remaining \$6.5 billion will be purchased in November and December. Due to the holidays in November and December, however, the timing of our specific announcements will be altered from recent practice. We will make announcements of the specific amounts and maturities of our purchases on November 14 and 28 and on December 12 and 19 for operations to take place on the following day.

We will make no buyback purchases in January 2002. Beginning with our February 2002 quarterly refunding, we will include the details of any buyback operations to be conducted in the subsequent three months in our regular refunding announcements.

In light of the information that we now have, market participants should understand that there are likely to be periods in which we do not conduct buyback operations and that there are likely to be other periods in which we do conduct such operations, consistent with the ebb and flow of our cyclical cash position. But the

presence or absence of these operations will be clearly announced, in advance, as part of our refunding process.

Terms of the November Refunding

I will now turn to the terms of the November Refunding. We are offering \$23 billion of notes to refund approximately \$21.6 billion of privately held notes and bonds maturing on November 15, raising approximately \$1.4 billion. The securities are:

1. A new 5-year note in the amount of \$16 billion, maturing November 15, 2006.
2. A re-opening of the 5% 10-year note issued in August 2001 and previously reopened in October 2001, maturing August 15, 2011, in the amount of \$7 billion.

These securities will be auctioned on a yield basis at 1:00 p.m. eastern time on Tuesday, November 6, and Wednesday, November 7, respectively. The balance of our financing requirements will be met through 2-year note and bill offerings.

As announced on Monday, we estimate that we will have a \$35 billion cash balance on December 31 and a \$30 billion cash balance on March 31.

Our next quarterly refunding announcement will take place on Wednesday, January 31, 2002.

Constantine, Eleni

From: Constantine, Eleni
Sent: Friday, March 16, 2001 1:48 PM
To: Paulus, Michael; McInerney, Roberta
Subject: RE: Enron Meeting Request

[(b)(5)]

-----Original Message-----

From: Paulus, Michael
Sent: Thursday, March 15, 2001 6:02 PM
To: McInerney, Roberta; Constantine, Eleni
Subject: FW: Enron Meeting Request

[(b)(5)]

-----Original Message-----

From: Ellis, Dina
Sent: Thursday, March 15, 2001 5:59 PM
To: Fisher, Peter; Paulus, Michael; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

[(b)(5)]

-----Original Message-----

From: Fisher, Peter
Sent: Thursday, March 15, 2001 5:31 PM
To: Paulus, Michael; Ellis, Dina; Carleton, Norman
Cc: Gross, Jared
Subject: RE: Enron Meeting Request

I also see no reason to object.

-----Original Message-----

From: Paulus, Michael
Sent: Thursday, March 15, 2001 5:27 PM
To: Ellis, Dina; Fisher, Peter; Carleton, Norman
Cc: Gross, Jared
Subject: Enron Meeting Request

Jeff Skilling, President and CEO of Enron has requested a meeting with the Secretary for April 5 to discuss the West Coast energy crisis. I see no reason to object. Thoughts?



David W. Shields

*Managing Director
Caribbean Region*

Enron Caribbean Basin

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David.Shields@Enron.com*

November 10, 1999

His Excellency
Dr. Leonel Fernández
President of the Dominican Republic
National Palace
Santo Domingo, D.R.

Honorable Mr. President:

The purpose of this letter is to explain to you the precarious financial situation in which Smith Enron Cogeneration, Ltd. ("SECLP") finds itself and the causes that have motivated SECLP to send a shutdown notice to CDE, in conformity with our PPA Contract. For Enron, it has been a difficult decision since we understand the tenuous nature of an incipient capitalization process and your personal commitment to making such a vital reform of the electrical sector successful.

However, SECLP and Enron, as its largest shareholder, have contributed substantially to help sustain the energy production in the last five months since June without receiving any payments from CDE. Current debt arrears have reached an unprecedented and unsustainable level of US\$ 38 million. SECLP is in an extreme situation with no working capital that would allow it to continue to generate. Among the more pressing obligations are in past due fuel payments to its supplier of US\$ 34 million, a forthcoming payment to its creditor pool of banks in early December of US\$ 13 million, plus the normal operational expenses to run the plant. At present, SECLP has lost its credit with its fuel supplier, despite Enron's credit support until payment is received.

We trust Your Excellency understands that Enron has made all of the necessary efforts to develop a positive and supportive relationship with the CDE and the Government. In effect, during 1998 and 1999, SECLP and CDE successfully renegotiated the PPA Contract providing improved terms to the Dominican Republic, terminated in good faith the arbitrage litigation and collaborated jointly to better our normal working relationship.

The importance of these aforementioned successes is further supported by Enron's development of new businesses in your country. Enron has demonstrated its faith in the future of the Dominican Republic and its economy, by participating as the lead investor in the Haina Consortium. One other business opportunity currently being developed is a LNG terminal and gas distribution system that would significantly reduce the cost of energy supply

Endless possibilities.™

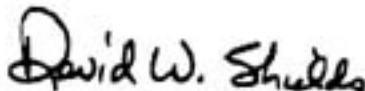
in the Dominican Republic. All this has been made possible by the creation of a proper climate for new investments based on political stability and economic growth. These encouraging developments in the investment profile of the Dominican Republic can only be adversely affected by the prevailing crisis that affects all generators in the system.

Our company understands that your staff is searching for several mechanisms to provide the IPP's with payments for all the outstanding debts. We urge Your Excellency to direct your staff to immediately implement one of these available mechanisms. SECLP also respectfully requests you to instruct the CDE to comply with the Definitive Agreement by providing the Distribution Companies orders to pay into the Escrow Account all monies due to CDE. The Escrow Account is now operational, but as late as Monday, the CDE informed a group of IPP's that CDE does not intend to comply with the Definitive Agreement during the Transition Period.

We are committed to continue to help CDE and your Government with the successful transition to a new electrical sector, but are in dire need of your attention to the payment issue and the negative effects on generation. Enron is more than willing to contribute our human resources to analyze the cash flows needs of the system, as well as any other associated technical issues. Please count on our continued assistance in the search for creative solutions that will promote the success of the capitalization reform.

With the hope that you understand our needs and immediate pressures, we remain at your services.

Yours Truly,



David Shields
Senior Vice President

cc: Temistocles Montas
Alejandrina German
Tony Isa Conde
Rhadames Segura
Marcos Cochon



Enron Caribbean Basin

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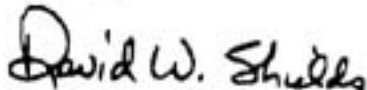
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Yours Truly,



David Shields
Senior Vice President

cc: Temistocles Montas
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CARIBBEAN - CENTRAL AMERICA - COLOMBIA - VENEZUELA

Engelhard, Joe

From: devnews@worldbank.org
Sent: Friday, April 06, 2001 10:41 AM
To: Development News
Subject: Press Review Friday, April 6, 2001

This summary is prepared by the External Affairs Department of the World Bank. All material is taken directly from published and copyright wire service stories and newspaper articles.

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Headlines for Friday, April 6, 2001:

- WORLD BANK DISCUSSING SUPPORT FOR TURKEY: LINN.
- UN HANDS ARREST WARRANT FOR MILOSEVIC TO BELGRADE.
- AIDS DRUG PRICES CUT FOR POOREST COUNTRIES AFTER ANNAN MEETS FIRMS.
- KABILA POSTERS DIPLOMATIC DRIVE TO END DR CONGO WAR.
- COSTA RICA PROPOSES TO PARDON SOME NICARAGUA DEBT.
- Also in this edition: MALAYSIA SUBMITS ALTERNATIVE TO IMF ROLE IN ASEAN SWAP PLAN. AfDB GIVES SIERRA LEONE \$12.92 MLN POST-WAR AID.

WORLD BANK DISCUSSING SUPPORT FOR TURKEY: LINN.

World Bank Vice President for Eastern Europe and Central Asia Johannes Linn said today the Bank was ready to support Turkey in implementing a new post-crisis economic program but was still discussing the exact amount of financial support, Reuters reports. "At this point we do not believe it is necessary to go beyond the \$5 billion that has been agreed in the past," Linn said following a meeting with Prime Minister Bülent Ecevit in Ankara. However, the Bank would try to ensure that any financial support could be "properly structured" and available for use in a timely fashion, he said.

Turkish Economy Minister Kemal Dervis said earlier this week he hoped to complete a new economic program by the end of next week, notes Reuters in a separate report.

Meanwhile, reports the Wall Street Journal Europe, angry demonstrations spread yesterday to five towns in Turkey with shouts for the government to resign because of price increases, economic stagnation, job losses and Ecevit's handling of the six-week-old economic crisis. Some 200 demonstrators were detained after a number of police and protesters were hurt in clashes in the conservative central city of Konya. Turkey's president called for calm, while opposition leaders tried to catch the wind of protest, says the story.

One step forward was a law liberalizing the sugar market and sugar beet-processing industry that was passed on Wednesday, says the story. It is the first of 15 legal reforms Turkey says it needs to enact to win new backing from the IMF. Dervis, notes the story, starts talks with Fund officials this weekend on a letter of intent toward a new program to replace the disinflation program abandoned on February 22. He has said the new reform program will be announced next week. Any IMF decision would be made at a late-April board meeting.

The Financial Times (p.2) also reports, noting that a Western diplomat said the government's recent progress in pushing through some of the 15 emergency economic reform laws sought by Dervis should create a more "receptive atmosphere for discussion additional funding within and outside the IMF."

UN HANDS ARREST WARRANT FOR MILOSEVIC TO BELGRADE.

Officials from the UN war crimes tribunal yesterday formally presented Yugoslav authorities with an arrest warrant for Milosevic, reports the Financial Times (p.3). Arriving in Belgrade, the officials cautioned that the tribunal had primacy over domestic proceedings. "Transfer is a non-negotiable obligation and must happen immediately," said Jean-Jacques Joris, political advisor to the chief prosecutor.

The visit by tribunal officers came amid signs that the US and its European allies have softened their resistance to Yugoslav demands to try Milosevic in Belgrade for offences allegedly committed against his own people. On Monday, EU foreign ministers are expected to issue a statement that avoids making future aid to Belgrade conditional on the extradition of Milosevic.

"We will, however, continue to insist to the authorities in Belgrade that we want to see Milosevic end up in The Hague," a senior EU official is quoted as saying.

The European Commission is set to give the go-ahead to \$133 million of assistance to Serbia in the coming weeks as part of a larger aid package this year. However, it has not yet been decided when the remaining funds will be released. An international donors conference planned for later this year could be used as leverage.

AIDS DRUG PRICES CUT FOR POOREST COUNTRIES AFTER ANNAN MEETS FIRMS.

The UN Secretary-General Kofi Annan won agreement from six major drug companies yesterday to keep cutting prices of AIDS treatments for the world's poorest nations, reports the Independent (UK, p.12). "The companies have agreed to continue and accelerate reducing prices substantially, with a special emphasis on the least developed countries," Annan said after meeting officials of the companies in Amsterdam.

The firms had also agreed "to continue to offer affordable medicines to other developing countries, on a country-by-country basis," he added. "The way we have dealt with the needs of the developing world in recent years is simply not adequate."

UN officials said Annan could not divulge financial details of the agreements because the companies were worried about accusations of anti-trust violations. Annan had met senior executives of Pfizer, GlaxoSmithKline, Abbott, Bristol-Myers Squibb, Hoffman-Laroche and Boehringer Ingelheim. Merck, which had participated in the meeting last year, was said to have been invited to join the new program but declined.

Annan said the companies' new commitments furthered the progress they had made in reducing prices since last May, when five drug companies signed a joint statement of intent with the UN. The agreement reached yesterday "represents a contribution to the global response to the epidemic, going much further than any of us could have predicted 12 months ago," Annan said.

Noting that more than 40 pharmaceutical firms are taking the South African government to court over its plans to promote the import or local manufacture of generic AIDS drugs, the story quotes Annan as saying, "Intellectual property is

key to bringing forward new medicines, vaccines and diagnostics urgently needed for the health of world's poorest people."

Health experts from around the world are preparing to discuss drugs for the poor at a gathering in Norway next weekend jointly organized by the WTO and the WHO, the story notes.

The Los Angeles Times (p. A4) and the Wall Street Journal (p. A2) report the same story, adding that Merck declined to attend the meeting, citing concerns about US antitrust laws, but the company has offered a 90% price cuts for two of its AIDS drugs in Africa. The Wall Street Journal also adds that the six drug companies won a crucial concession because Annan promised that the UN won't join the escalating crusade to strip the industry of the patents that are its lifeblood.

Meanwhile, researchers the US and India are embarking on a bold experiment to see if reasonably priced AIDS vaccines can be tested and manufactured in the developing world without violating patents in the developed world, notes the Wall Street Journal in a separate article (p. B1). The nonprofit International AIDS Vaccine Initiative, or IAVI, is negotiating a deal that would let an Indian drug company use patented vaccine-making technology developed by the small American biotechnology firm Therion Biologics Inc.

In a related development, the US Senate agreed last night that the United States should double current spending on the global battle against HIV/AIDS to more than \$1 billion within the next two years, the Washington Post (p. A6) reports. In an amendment to the Senate's nonbonding budget blueprint passed by voice veto, lawmakers added \$200 million in fiscal 2002 and an additional \$500 million the following year. This year's budget for international AIDS programs is about \$460 million, three-quarters of which is dispensed through the Agency for International Development. Secretary of State Colin L. Powell has asked for a 10 percent increase in the department's global AIDS accounts.

KABILA POSTERS DIPLOMATIC DRIVE TO END DR CONGO WAR.

New President Joseph Kabila of the Democratic Republic of Congo (DRC) arrived in Germany yesterday to promote diplomatic efforts to end a two-year civil war that has sucked in the armies of six neighboring states and devastated an already fragile economy, reports the Financial Times (p.9). "It is high time the region as a whole benefits from peace and is not involved in stupid wars," he is quoted as saying.

Just hours before, notes the story, Kabila had dismissed his entire cabinet. Congolese officials say a new team is likely to be appointed within a week, although the president made no commitment to include opposition forces. "The government [the late President Laurent Kabila] was leading is considered to have been not operational," Kabila said.

The new president pledged an audit of state companies, regional administrations and government ministries, saying donors had offered to support the process. "We have a body that will do that, but we also have contacts with the IMF and the World Bank, who will give us technical assistance," he said.

Western governments have been anxious to show support for the new president, encouraging his efforts to revive a peace process that had flagged under Kabila's late father, notes the story. This week, Zimbabwe, which with Angola and Namibia backs the Congolese government, pulled the first 200 of its estimated soldiers out of Congo as part of a UN-brokered disengagement process. Rwanda and Uganda, which backs rebels opposed to Kabila, have also begun to disengage.

The UN mission in Congo says it is broadly satisfied that most parties in the

conflict have complied with an agreement to withdraw 15 kilometers from frontline positions.

COSTA RICA PROPOSES TO PARDON SOME NICARAGUA DEBT.

Costa Rica's government on Thursday presented a plan to pardon Nicaragua of around 40 percent of the \$540 million that it owes it, Reuters reports an official from the president's office said on Thursday. According to the proposal, Costa Rica would pardon Nicaragua of some 40 percent of its debt provided that industrialized nations lent or donated the remaining 60 percent of the money to enable it to pay Costa Rica.

President Miguel Angel Rodriguez said the plan was a necessary measure to enable Costa Rica to recoup at least some of the total, recognizing that Nicaragua was unlikely to afford to pay back the full sum of its debt, the story says.

Nicaragua has received debt relief from the World Bank and IMF under the Heavily Indebted Poor Countries Initiative, aimed at eliminating debt in the world's poorest nations.

Also in this edition: MALAYSIA SUBMITS ALTERNATIVE TO IMF ROLE IN ASEAN SWAP PLAN. AfDB GIVES SIERRA LEONE \$12.92 MLN POST-WAR AID.

MALAYSIA SUBMITS ALTERNATIVE TO IMF ROLE IN ASEAN SWAP PLAN. Malaysia yesterday proposed an alternative mechanism to prevent any IMF involvement in a Southeast Asian currency swap plan aimed at averting future financial crises, reports AFP. But senior finance ministry officials from the Association of Southeast Asian Nations (ASEAN) said no agreement has been reached on the issue in preparatory meetings.

Samsudin Hitam, secretary general of the Malaysian treasury who chaired the meeting, told reporters an alternative surveillance mechanism was put forward and debated. However, he declined to give details.

Malaysia opposes any role for the IMF in the plan known as the Chiang Mai initiative, notes the story. This aims to link the international reserves of the 10 ASEAN nations with those from China, Japan and South Korea, and for Japan to provide greater resources in future currency crises.

ASEAN finance ministry and central bank officials were holding talks before a two-day ministerial meeting that begins tomorrow. Officials from China, Japan and South Korea are not taking part in the current talks but will join their ASEAN counterparts on Sunday.

Sathit Limpongpan, director general of fiscal policy in Thailand's finance ministry, told reporters that there were various views on the IMF role but "everyone agreed that there should be an ASEAN consensus. The bottom line is that we want to achieve the bilateral swap arrangement but in any international arrangement, we need a compromise, we need to negotiate with the other three countries."

AfDB GIVES SIERRA LEONE \$12.92 MLN POST-WAR AID. The African Development Bank said on Thursday its soft-loan arm was lending Sierra Leone \$12.92 million to help fund economic recovery after a devastating civil war, Reuters reports.

The AfDB said it had joined the World Bank and the International Monetary Fund in backing the government's national recovery program which focuses on restoring security, stabilizing the economy and improving governance. A ceasefire has held in the West African country since November and United Nations peacekeepers have

recently begun to deploy in rebel-controlled areas. Donors are tentatively looking to help beyond existing humanitarian programs

The IMF said in February that it could provide additional post-conflict assistance and some directors felt a full Poverty Reduction and Growth Facility might be agreed by the middle of this year, says the story.

BRAZIL SCRAMBLES FOR MORE ENERGY. Brazilians are hoping for at least 20 percent more rain than normal for this time of year to ensure that hydroelectric plants will continue to run at full capacity, averting the need for energy rationing, like the recent rolling blackouts in California, in at least part of Brazil later in the year, reports the New York Times (p. W1). For the last few years, experts have warned of an impending energy crisis in Brazil, as increasing industrialization has caused the demand for energy to outpace supply by about 20 percent. The government's three-year-old effort to attract more investors through the privatization of most of the country's power grid had had a slow start. Local companies have been hindered by a lack of financing. And uncertainties in the newly deregulated power market over such things as the pricing of electricity have stymied grid-expansion plans by the private enterprises, including Enron, that bought up the former state-owned companies, says the story.

POOR CITIZENS LEFT WITH THE LEGACY OF KLEPTOCRATS: COMMENT. Writing in a letter to the editor of the Financial Times (p.14), Ann Pettifor of the Jubilee Plus debt relief campaign says that if kleptocrats have huge foreign debts, it is because they have been financed by irresponsible and sometimes corrupt foreign creditors. Jubilee 2000 insisted that both international creditors and debtors share responsibility for unsustainable debts. They demanded that international lending to sovereign governments be made more accountable and transparent.

In contravention of a fundamental rule of law, international creditors act as plaintiff, judge and jury in their own courts (the IMF, the Paris Club and the London Club) and rule on their own claims. This is in contrast to the discipline of more independent and transparent bankruptcy codes in domestic spheres.

Because sovereigns don't go bankrupt, foreign creditors are not disciplined, says Pettifor. Long after the kleptocrat has gone, poor citizens will carry the millions of debts they were never party to.

ALSO REPORTS...The findings of a World Bank study of 10 African countries reveal that when the government of a country is committed to economic reforms, development assistance produces economic growth, the Economist also reports, noting that for decades, African rulers have been model pupils, copying every World Bank whim into their policy papers. They did just enough to get the aid money, then, as soon as the donors turned away, they started behaving like the leaders of Nigeria and Congo.

BRIEFLY NOTED...The Third World Network represents the respectable face of the anti-globalization movement, reports the FT...Trade ministers from the 34 countries negotiating the Free Trade Area of the Americas will today meet in Buenos Aires, and many in Latin America predict that the ministers will be greeted with protests much larger than the ones that exploded in Seattle in 1999, notes Naomi Klein of the Guardian (UK).

Salvadorean President Francisco Flores said on Thursday El Salvador could cope with running up debts to rebuild the country after a series of devastating earthquakes this year, Reuters reports. Flores said the government had held talks with the IMF, the World Bank and the IADB and he was confident they would help the coffee-exporting nation deal with the deficit.

The IMF on Thursday commended the Colombian government for its economic management, and advocated a range of additional reforms to promote further recovery, Dow Jones reports...Peruvians will vote for a new president Sunday, and the eventual winner faces a tougher task than triumphing at the polls, the Wall Street Journal (p.A13) reports. He or she must find a formula to unify a country divided by racial and class tensions and rebuild an economy that has been troubled since 1988, the story says...Argentina's new finance chief, Domingo Cavallo, is snipping away at regulations and changing the nation's tax structure in hopes of encouraging companies to rev up investment, the Wall Street Journal (p.A13) reports. But economists and government officials say companies also need assurances that Argentina's consumers will start buying their products again.

The World Bank is evaluating the possibility of lending fresh funds for the Sri Lankan government's program to develop the private sector, Reuters reports an official close to the Bank said yesterday, quoting the source as saying areas of possible support included reforms in the power sector and liberalization of the telecom industry and ports.

Banca Romanesca (the Romanian Bank) has announced it has signed an agreement with the International Finance Corporation, AP Press reports. The funds will be used for financing small investors in Romania... Ukrainian prosecutors have reopened a case that the IMF has done its best to shut since 1998, accusing a former central bank official of misusing Ukraine's international reserves in 1997-1998, reports the Financial Times (p.3). New revelation about the case, which became a significant scandal last year, could be on the way, following the arrest last month of Volodymyr Bondar, former first deputy chairman of Ukraine's central bank.

The World Bank has cut emerging funding to Kenya's electricity supplier because it had not completed an agreed restructuring program, throwing the power sector into crisis, Reuters reports the East African Standard said yesterday.

Indonesia plans to review its economic progress with the World Bank and the IMF at the end of April to pave the way for its annual meeting with major donors, Reuters reports an official said yesterday...The IMF said on Friday it would send a long-awaited mission to Indonesia next week to review the country's economic progress, Reuters reports. Indonesia's hopes for more money from the IMF-delayed since late last year while the two sides battled over key reforms to the damaged economy-hinge on the mission.

The IMF is expected on Friday to approve a program of loans totaling \$385 million to support communist Vietnam's reform efforts, its first lending to the country in five years, Reuters reports. Dennis de Tray, the IMF's Vietnam representative, said the IMF board would meet in Washington on Friday to consider Vietnam's request for balance of payments support under the Fund's poverty reduction and growth facility.

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Engelhard, Joe

From: devnews@worldbank.org
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Headlines for Thursday, February 22, 2001:

- WORLD BANK WELCOMES TURKISH LIRA FLOTATION.
- WORLD BANK BACKS NIGERIA ECONOMIC REVIVAL PLAN.
- KENYA AIDS HOSPICE TO IMPORT GENERIC DRUGS.
- WORLD BANK UNVEILS WATCHDOG FOR CHAD/CAMEROON PIPELINE.
- STUDY SAYS QUICK ACTION KEY IN FINANCIAL CRISES.
- Also in this edition: MIGA AGAIN INSURES POLITICAL RISK FOR INDONESIA PROJECTS. INDONESIA NIKE WORKERS ALLEGE SEXUAL HARASSMENT: REPORT.

WORLD BANK WELCOMES TURKISH LIRA FLOTATION.

The World Bank yesterday said it welcomed the Turkish government's decision to float the lira following a financial crisis that caused it to abandon an IMF-backed controlled-currency regime, Reuters reports.

Turkish officials said earlier today they would allow the lira to float freely when markets open at 0800 GMT, and analysts said they expected the lira to drop 30 to 40 percent. "The World Bank today welcomed the decision by the Turkish authorities to float the lira," said a statement faxed to Reuters from the Bank.

The Bank said it supported Turkey's decision to continue with economic reforms and would work closely with the government and the IMF to ensure international support. Key lending rates have topped 5,000 percent in recent days and the stock market tumbled a record 18 percent yesterday after a public row between Prime Minister Bulent Ecevit and President Ahmet Sezer this week terrified markets.

Meanwhile on Thursday, CNN.com reports Turkey's lira tumbled by 23 percent in early trade, plummeting to 850,000 against the dollar. On Wednesday, the central bank's dollar purchase rate was 685,391 lira to the dollar.

Separately, AFP reports Turkey today scrapped a predetermined exchange rate policy in the face of sky-rocketing interest rates amid financial turmoil, but said it would stick to anti-inflation policies. "Due to recent developments, the foreign exchange rate will be left to float," a statement from the prime minister's office said, according to the NTV channel.

The pegged currency rate was a key element of a three-year \$4 billion stand-by deal with the IMF that Turkey began implementing in December 1999 to primarily reduce its chronic inflation. The statement, which came after a 13-hour emergency meeting chaired by Prime Minister Bulent Ecevit, asserted that "the government is determined to strictly follow the economic program."

"Structural reforms will continue as scheduled and all necessary steps will be taken speedily for the privatization of Turkish Airlines and the Turkish Telekom," two priority pledges to the IMF, the statement said.

"The financial policies will be implemented meticulously," it added. The statement said that letting the exchange rate free would provide more revenues from exports and tourism. "The government will continue to protect the working classes against inflation," it said.

The decision followed a cash crunch on Turkey's volatile markets, sparked by fears of political instability after Ecevit and President Ahmet Necdet Sezer clashed in an unprecedented row on Monday over ways to fight corruption.

The turmoil yesterday sent interest rates on the interbank money market up to an average of 2,056 percent, while overnight repo interest rates shot to an average of some 4,000 percent, hitting 7,500 percent in some transactions. The Istanbul stock market national index, meanwhile, slumped by 1,587 points, or a massive 18.1 percent, to close the day at 7,180 points.

The crisis hit the markets at a time when they had just began recovering from a severe liquidity squeeze last December with some \$10 billion of rescue aid from the IMF.

Meanwhile, Anatolia News Agency says that Stanley Fischer, the IMF first deputy managing director, said on Tuesday that the economic programme, implemented by Turkey, was a broad one, and that it covered \$11 billion loan.

The Wall Street Journal (p. A16) also reports, noting Köhler said the IMF would start work with Turkey this week on necessary changes to the program in order to continue disbursements "within the coming weeks," including possible extra resources to cover "increased fiscal costs of bank restructuring."

All major US and European newspapers also report.

WORLD BANK BACKS NIGERIA ECONOMIC REVIVAL PLAN.

The World Bank and the IMF yesterday gave the thumbs-up to Nigeria's economic revival plans and pledged support for its efforts to eradicate poverty in the oil-producing country, Reuters reports.

World Bank President James Wolfensohn told a news conference in the Nigerian capital after meeting President Olusegun Obasanjo that the Bank was expanding its program of financial support with the provision of \$400 million during the current fiscal year ending June 2001.

"We are delighted by the progress Nigeria is making since its return to democratic governance less than two years ago," Wolfensohn said. The World Bank and IMF would work with the government to get the Nigerian economy going again, Wolfensohn added.

Koehler told the news conference Nigeria should shelve its persistent demand for debt cancellation and concentrate on getting relief on its huge foreign debt. He said demand for debt cancellation could injure Nigeria's credibility in the eyes of foreign investors. "I do believe that more debt relief is necessary for Nigeria," Koehler said. "But you are asking for debt cancellation, and if you go too far it will be an obstacle," he added.

The Washington Times (p.A11), SAPA (South Africa), Middle East Intelligence Wire , and Xinhua also report on the Bretton Woods leaders' joint trip to Africa.

On March 31 the IMF will have to certify whether Nigeria's economic track record is good enough to get substantial relief from the Paris Club of creditors on its \$23 billion debt, says Reuters. The IMF has expressed concern over unchecked capital spending by Nigeria as well as its inability to curb inflation, now in double figures.

It also criticized Nigeria's implementation of privatization programs. But Nigerian economic analysts say they believed the oil-producing country should get the nod from the IMF, needed to turn the economy around. "For political reasons, the IMF should give Nigeria the pass mark if only not to discourage government's efforts so far to turn the economy around," Bismarck Rewane, Managing Director of Financial Derivatives said.

Separately, the FT (p.4) reports that democratic government has brought changes to Nigeria's oil industry. The story reports on the control of oil income, and Shell's efforts to improve its image.

Meanwhile, AFP reports the presidents of Nigeria and Ghana called yesterday for their counterparts in Guinea and Liberia to "show restraint" in the border dispute that has flared into fighting in the past six months. President Olusegun Obasanjo of Nigeria and Ghana's President John Kufuor made the call as Kufuor paid his first visit here since his election last month.

Speaking at a state banquet given in his honor, Kufuor called on "our brother presidents of Guinea and Liberia to exercise restraint in the border region of Mano River." He urged the two to "be mindful of the tragic consequences it (their conflict) has brought to the residents of the two countries."

Both Obasanjo and Kufuor pleaded for greater cooperation and economic integration in the West African region and Obasanjo praised the change of government in Ghana last month as a sign of deepening democratic traditions in the country.

KENYA AIDS HOSPICE TO IMPORT GENERIC DRUGS.

The charismatic Jesuit founder of a Nairobi AIDS hospice yesterday issued a direct challenge to the multinational drug trade, announcing he would accept the recent offer by Cipla, an Indian manufacturer of generic medicines, to supply cheap antiretroviral (ARV) drugs, despite the threat of a confrontation with Kenyan patent law, reports the Financial Times (p.4). "We've decided to go ahead and order," said Father Angelo D'Agostino, a medical doctor from Boston whose Nyumbani hospice cares for 70 AIDS orphans, but which can only afford ARV therapy for 12 of them. "I am sick and tired of funerals." The Independent (UK, p.15) also reports.

The move comes amid growing pressure by organizations such as Oxfam and Médecins sans Frontières (MSF) upon an industry they argue is keeping prices too high, while many regions of Africa are being decimated socially and economically by AIDS and other diseases.

In a separate story, the FT (p.4) reports GlaxoSmithKline yesterday pledged to improve access to HIV medicines by offering deep discounts to NGOs and employers that could distribute them efficiently in poor countries. The Wall Street Journal (p. A19) also reports on GlaxoSmithKline's plans to strengthen efforts to offer poorer nations discounted AIDS drugs.

In other news, the New York Times (p. A9) reports the office of US trade representative said today that the Bush administration would not change the Clinton administration's generous but contentious policy concerning AIDS drugs for impoverished countries. The Bush administration, a trade official said,

will not seek sanctions against poor countries overwhelmed by the AIDS epidemic that try to force down the price of patented anti-AIDS drugs by legalizing the importation or manufacture of generic versions. The administration, the official said, will not try to punish such countries even if American drug makers complain or American patent laws are being broken - as long as the country adheres to the rules agreed under WTO treaties. The Chicago Tribune also reports.

The news comes as WTO Director General Mike Moore writes in the International Herald Tribune (p.6) that by promoting free trade we can make a difference. Openness is essential for economic growth, which can help pay for better health care and sanitation.

Meanwhile, reports the Wall Street Journal Europe (p.22) in a feature, Brazil's acclaimed AIDS program involves more than just free distribution of local knockoffs of patented drugs for people with HIV. Brazil also serves up an unconventional but potent mix of activists, the story says.

WORLD BANK UNVEILS WATCHDOG FOR CHAD/CAMEROON PIPELINE.

The World Bank yesterday announced the creation of a new panel to act as a watchdog over the controversial Chad/Cameroon oil pipeline, Dow Jones reports.

The Bank said in a statement that the six-seat International Advisory Group will be headed by former Senegal Prime Minister Mamadou Lamine Loum. This group will be charged with guarding against misuse of public money pumped into the \$3.7-billion oil project, and that the project developers fulfill their promises of reducing environmental damage while sharing the benefits of the project with the poor.

The IAG is one of at least three independent panels expected to oversee the financing and construction of the pipeline that it designed to transport oil from fields in Chad through Cameroon to a port on the Atlantic coast.

Last June, the World Bank approved \$93 million in financing for Chad and Cameroon and \$100 million - through its IFC arm - for the pipeline developers despite fierce opposition from non governmental organizations, concerned about damage to environment and the social impact on local inhabitants.

Controversy flared within four months when it became known that Chad's President Idriss Deby had authorized \$4 million in weapons purchases out of a \$25-million bonus paid to his government by Chevron Corp. (CHV) and Malaysia's Petronas Gas Bhd. (P.PGS).

This is the kind of activity the World Bank hopes the independent panel will reveal and perhaps discourage to protect it from further criticism over what it views as an enormous opportunity to alleviate poverty in the two countries. "There is a risk that the projects will not achieve their poverty alleviation objectives, could have negative impact on affected populations and result in adverse environmental impacts," the World Bank said.

Accordingly, the IAG is expected to "identify potential problems as they arise, concerning issues such as the misallocation or misuse of public revenues," ensure the involvement of NGOs, and scrutinize the project's record on environmental and social matters.

"The work of the IAG is expected to continue for up to 10 years," the World Bank said. "It will visit Chad and Cameroon at least twice a year, and report periodically to the president and board of directors of the World Bank group." IAG reports are to be made public the day they are presented to the World Bank board, it added.

Joining Loum on the board will be: Jacques Gerin, a former Canadian deputy minister of the environment; Jane Guyer, a professor and director of the program of African studies at Northwestern University in the U.S.; Hilde Frafjord Johnson, former Norwegian minister of development and human rights; Abdou El Mazide Ndiaye, president of Senegal's Forum of African Voluntary Development Organizations; and Dick de Zeeuw, a "Dutch agricultural specialist" who served on a similar oversight board in Laos.

STUDY SAYS QUICK ACTION KEY IN FINANCIAL CRISES.

Governments must act quickly to support banks facing liquidity problems during financial crises, a study by academics and World Bank economists argues, the Wall Street Journal Europe reports.

The soon-to-be-published paper warns that "unconditional support for unsound intermediaries makes crises worse by facilitating looting and gambling for resurrection," but argues that "prompt public intervention in all distressed financial institutions limits the macroeconomic costs."

The study will be incorporated into a paper entitled "Is the crisis problem growing more severe?" for publication in the April issue of the journal Economic Policy.

The paper avoids offering de facto guarantees, arguing that liquidity support shouldn't be used "to support insolvent institutions and delay the recognition of financial distress." But it stresses that "waiting to intervene until after the crisis has passed risks throwing good money after bad."

The paper's authors are Michael Bordo, professor of economics at Rutgers University; Barry Eichengreen, professor of economics and political science at the University of California Berkeley; and World Bank economists Daniela Klingebiel and Maria Soledad Martinez-Peria.

The authors support the foreign-exchange policy the US Treasury and the IMF have generally endorsed since the Asian and Russian financial crises of 1997/98: Let exchange rates float freely. "We find that banking crises are more costly in the presence of pegged rates," because official assurances of exchange-rate stability encourage the accumulation of unhedged exposures, the survey states. This is "a lesson of the 1920s as well as the 1990s," the report states.

Also in this edition: MIGA AGAIN INSURES POLITICAL RISK FOR INDONESIA PROJECTS. INDONESIA NIKE WORKERS ALLEGE SEXUAL HARASSMENT: REPORT.

MIGA AGAIN INSURES POLITICAL RISK FOR INDONESIA PROJECTS. MIGA will resume providing political risk insurance coverage for foreign direct investment in Indonesia, Dow Jones reports MIGA said in a press statement yesterday.

MIGA, part of the World Bank, decided to offer the insurance after the Indonesian government agreed to reimburse MIGA for a \$15 million insurance claim paid out to Enron on a canceled power project last year. "Indonesia's economic environment has shifted significantly since Enron entered into this venture, and the project was caught up by larger forces in the country's power sector that affected other sponsors and insurers as well," Luis Dodero, MIGA's general counsel and World Bank Group vice president.

"While we understand the circumstances that led to the project's suspension, international law dictates that the cancellation be compensated," Dodero said.

The claim was the first ever for MIGA. The project involved a 500-megawatt power plant near Surabaya, Indonesia, one of many suspended by presidential decree in

1997 in response to the country's economic crisis.

Meanwhile, AFP reports a World Bank unit promoting direct foreign investment in developing countries said yesterday it was ready to resume activities in Indonesia after the country agreed to reimburse the agency 15 million dollars.

The news comes as Lee Kuan Yew, Paul A. Volcker, Nobuo Matsunaga and Ulrich Cartellieri write in an op-ed addressed to President Wahid in the IHT (p.6) that the IMF and the World Bank are not alone in expressing concern about the pace, consistency and transparency of efforts by your government to speed asset disposals by the Indonesian Bank Restructuring Agency, recapitalize the banking system and remove barriers to foreign investment.

Close IMF surveillance of those programs should be welcomed as a counterweight to political or special interests that tend to impede or frustrate evenhanded treatment of investors and rapid recovery of asset values.

INDONESIAN NIKE WORKERS ALLEGE SEXUAL HARASSMENT: REPORT. The FT (p.1) reports a study into conditions at Indonesian contract factories used by sport shoes group Nike has uncovered allegations of sexual harassment and physical and verbal abuse. Interviewees claimed two employees in different plants had died at work having been denied medical attention. Workers in one factory claimed female recruits were encouraged to "date" managers to ensure promotion.

Nike, which will release the report today, said the findings were "disturbing". It promised to implement a detailed "remediation plan" involving harassment training, grievance systems and stronger workplace policies.

The 104-page report was produced by the Global Alliance for Workers and Communities, a group of not-for-profit foundations, international institutions such as the World Bank and corporations including Nike and Gap.

In a separate story, the FT (p.4) reports Rick Little, chairman of the operating council of the Global Alliance for Workers and Communities, says: "Unfortunately, it's a story that could be told about hundreds of major brands and companies, in many countries." The main thrust of the Global Alliance's report is not about such controversial issues as harassment or abuse. The alliance's stated mission is to "improve the lives and future prospects of workers involved in global production and service supply chains."

The WSJE (p.1) and the New York Times (p.C2) also report.

LOAN TO ZAMBIA WAS ENTIRELY APPROPRIATE: IMF. Far from ignoring indications of irregularities in Zambian cobalt sales, the IMF was the first to raise the issue with the Zambian government, writes IMF African Department Associate Director Ernesto Hernandez-Cata in a letter to the editor of the Financial Times. The government agreed to the commissioning of an independent, outside audit as a condition for Fund lending and debt relief, and immediately launched the audit, Hernandez-Cata notes.

It was an IMF economist who discovered the discrepancy between the market price of cobalt and the actual return under the contract signed by Zambia Consolidated Copper Mine (ZCCM) two years ago, Hernandez-Cata adds. As a result, the June 30, 2000 letter of intent for the IMF's concessional loan to Zambia indicated that the audit of the cobalt arrangement would be launched.

It was precisely Zambia's agreement to proceed with the audit that allowed the IMF loan and the subsequent debt reduction accord to go ahead. With that agreement in place-and because ZCCM is no longer a government entity and has new management-it was entirely appropriate to move rapidly to help a country facing a heavy debt burden and severe poverty.

EUROPE THREATENS MUGABE WITH END TO AID PACKAGE. Europe is to take the

unprecedented step of delivering a final warning to Zimbabwe over its human rights record in a move that could result in the ending of a multimillion dollar aid package, reports the Independent (UK, p.14). The action reflects growing international concern over the intimidation of the judiciary, harassment of the independent media and the expulsion of foreign journalists.

Sweden, which holds the EU presidency, is planning to confront the Zimbabwean authorities under the terms of a new treaty that governs relations between the EU and developing countries. A meeting of officials in Brussels today is expected to finalize details of how the EU will force a new "dialogue" with Harare over its abuse of human rights.

POOR COUNTRIES MOST VULNERABLE TO GLOBAL WARMING. Developing countries are particularly vulnerable to the negative effects of global warming, says Libération (France, p.4), also reporting on the latest UN report on the phenomenon. The so-called "big five" developing countries-China, India, Indonesia, Brazil and Argentina-are big polluters but vulnerable, while the least developed countries (LDCs), which are small polluters, are the most vulnerable, an OECD official points out. "The poorer they are, the more difficult it will be for them to address [the effects of global warming], says the official. "Who is going to pay so that a small island state can construct dikes like those of The Netherlands?"

The OECD deplores the failure of last year's climate change negotiations in The Hague. Efforts have come to a standstill despite the fact that the world is faced with an unprecedented challenge, notes François Falloux of the World Bank.

The developing world, represented by the G77, is also divided on the issue of carbon emissions trading, the story notes. The emissions trading market has been estimated to be worth as much as \$50 billion, which is almost as much as all official development aid, the story says the World Bank has said.

The IMF says it is too early to work on the issue, the story notes, while some NGOs say the solution cannot lie in the "technological pressure" of, for instance, genetically modified organisms, but in "practical adaptations" in the agrarian sector and in free access to natural resources, such as water.

Addressing the problems will take financial resources and patience, says the story. It will also require fighting a certain fatalism in southern countries, where it is said that climate change might indeed strike the day after tomorrow, but hunger will kill people tomorrow, Falloux is quoted as saying.

CORRUPTION-HIT PERU PUTS STATE ACCOUNTS ON SHOW. Peru, mired in the worst corruption crisis in its history, said yesterday it was opening its state accounts for unprecedented scrutiny in a drive for transparency and to stop fraud in the future, Reuters reports.

"This is a weapon in the fight against corruption. We're going to make the weapon as powerful as possible," interim Economy Minister Javier Silva Ruete told a news conference to present the ministry's new "economic transparency portal".

International institutions such as the IMF and the World Bank, which Silva Ruete has just tapped for fresh credits, are likely to be delighted by the open-doors policy, which has reaped dividends elsewhere.

In Guatemala, for example, when the government published details of its procurement contracts, competing companies were able to offer lower prices for goods and services "so transparency is cost effective as well as salutary" a World Bank source in Washington said.

73 PERCENT OF WORLD BANK PROJECTS HAD SATISFACTORY OUTCOMES: OED. Responding to a recent article that quotes Bruce Rich as saying that only every second

World Bank project is sustainable, Robert Picciotto of the World Bank's Operations Evaluation Department writes in a letter to the editor of Die Zeit (Germany) that the most recent data, which his department just reported to the Bank's shareholders, show that 73 percent of the projects that closed during fiscal 1999 and the first half of fiscal 2000 had satisfactory outcomes.

Satisfactory outcome is the main measure of project success, Picciotto notes. It means that the project was judged relevant to the country's needs, likely to achieve its stated goals, and efficient. Moreover, the satisfactory share seems to be on an improving trend, because the projects most recently completed (in the first half of 2000) have a 77 percent satisfactory outcome, he writes.

WORLD BANK DISCUSSES ENERGY REFORMS IN BULGARIA. A World Bank team this week will discuss with Bulgarian officials energy law amendments which are needed for reforms required by IMF funding rules, reports Reuters (Bulgaria, 2/21). Final disbursement of funds under a three-year agreement with the IMF will hinge on the country introducing the amendments to parliament by mid-March, IMF Bulgaria team leader Juha Kaekoenen said last month.

Bulgaria's lag in energy sector restructuring and liberalization prompted IMF criticism during its final review of the three-year program in January, the story says. Last year Bulgaria pledged to begin restructuring its state utility monopolies and prepare them for privatization over the next three years, but the process has fallen behind schedule. Improving viability of district heating plants was part of this year's targets.

Bulgaria has so far received some \$680 million under the deal and is due to get two last tranches of around \$60 million each. Other funding criteria include the country's end-March financial performance based on reserves, incomes policy and other fiscal indicators. "The country had no problems meeting the fiscal criteria, but the energy law amendments will involve extensive talks," a government official who declined to be named told Reuters.

WORLD BANK TO HELP UZBEKS WITH SOUTHERN DRAINAGE PROJECT. The implementation of another investment project financed by the World Bank will begin next month, reports Pravda Vostoka (Uzbekistan, 2/15, p.8).

The project will help resolve the problems of drawing off water from the right bank of the River Amudarya on Uzbekistan's southern border. Specifically, the project will modernize the major drainage system of southern Karakalpakstan, carry out work to improve the irrigation channels where there is a high loss of water, build a channel linking the Sultandag and Dengizkul lakes, improve the level of drainage water collected and strengthening the monitoring facilities.

The project will reduce the level of mineralization of the water in the River Amudarya, and make it possible to drain more water from irrigated areas. It will also pave the way for large-scale upgrading of the major drainage within and between economic entities, which will help improve the quality of the river water.

The total cost of the drainage improvement project is approximately \$105 million, of which the Uzbek government will allocate \$35million, and the World Bank, \$70 million. It will take about five years to carry out the project, the piece concludes.

BRIEFLY NOTED...A joint IMF and World Bank mission has arrived in Moscow to study the country's banking system, a representative of the IMF Moscow office

said yesterday, Reuters reports. The World Bank's local office confirmed the mission would study development of the Russian financial sector...Russia faces an unparalleled "people crisis," says the Christian Science Monitor (p.15) in a report. Among other things, its population is collapsing, communicable diseases are spreading, hospitals are overwhelmed, and environmental problems like heavy

metal pollution have increased birth defects, the story says.

Dams under construction risk destroying a third of the world's still-wild rivers in the next 10 years, displacing up to 10 million people, AFP reports said the World Wildlife Foundation. About 10,000 dams are to be built in coming years, principally in India, China and Turkey, the foundation said. The WWF statement precedes a World Commission on Dams meeting from February 25 to 27 in Cape Town, South Africa. The 68-member WCD, which includes government agencies, multilateral organizations like the World Bank, utility companies and non-governmental organizations, will discuss ways to stop harmful dam construction.

A year after floods that wreaked havoc in one of the world's poorest countries, Mozambique yesterday appealed for aid to fight a new disaster that has killed at least 41 people and displaced tens of thousands, AFP reports. Foreign Minister Leonardo Simao, who heads an emergency commission to deal with the floods, said most of the deaths occurred in the coastal province of Zambezia, which was hit by a tropical storm between January 23 and 25. He said over 77,000 people had been displaced, and large tracts of farmland swamped. Earlier reports have said that some 280,000 people have been affected by the new floods.

Pakistan has asked some 100,000 Afghan refugees to leave their homes in a 20-year-old camp to make way for a housing development, AFP reports officials said today. The government of North West Frontier Province (NWFP) has told them to either move to another camp nearby or go back to Afghanistan, where drought and war have created a new exodus of refugees in recent months... Nearly three quarters of a million displaced Afghans are struggling to survive freezing temperatures in refugee camps with scarce supplies in various parts of Afghanistan and Pakistan, prompting the UN to warn that many face imminent death unless drastic steps are taken to alleviate their misery, the Washington Post (p.A1) reports.

Thousands of unemployed Argentines marched into Buenos Aires yesterday to demand jobs and food from the government to help those left jobless by an extended recession in Latin America's third biggest economy, Reuters reports. "There is a national emergency. People are dying of hunger," said Victor De Gennaro, head of Argentine Workers Central, one of the country's most active unions. "It is a slap in the face that people are dying of hunger in a country that exports food." The World Bank meanwhile estimated some 13 million people live in poverty in Argentina, where official unemployment currently stands at nearly 15 percent. An estimated 1 percent of the population is malnourished.... The World Bank said yesterday that talks about a potential guarantee to help Colombia issue bonds worth \$1.3 billion were going according to plan and that the guarantee would be decided upon in the first half of March, Reuters reports. "Everything is going according to schedule. It's still not before the board but it will be presented to the board sometime in the first half of March," said World Bank spokeswoman Alejandra Viveros, confirming that the board meeting would take place on March 8.

The World Bank is demanding greater disclosure from the more than 20 hedge fund managers it employs, the Wall Street Journal (p.C16) reports. It uses Measurisk, a service which has full access to the hedge funds' portfolios and offers a monthly breakdown of the type of securities and industries represented. IT also analyzes each fund's whole portfolio to see how it would perform in various crisis situations.

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Jaskowiak, Mark

From: Jaskowiak, Mark
Sent: Monday, October 15, 2001 9:25 AM
To: 'Robertson, Linda'
Subject: RE: Portfolio

Sorry - was away last week. I've got EBRD, GEF (Global Environment Facility), IFAD (International Fund for Agricultural Development), NADBank and, to the the extent of Treasury involvement (not much), the Global HIV/AIDS/TB/Malaria Trust Fund. Also a few other responsibilities, including 150 A/C budgeting, some G-7 coordination, MDB anti-corruption stuff, but these are the IFIs I worry about.

Cheers.

-----Original Message-----

From: Robertson, Linda [mailto:Linda.Robertson@enron.com]
Sent: Thursday, October 11, 2001 7:00 PM
To: mark.jaskowiak@do.treas.gov
Subject: Portfolio

What IFIs do you have in your portfolio?

.....
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.....



ENRON

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FAX

TO: Elizabeth Stewart

DATE: 9-28-01

622-2505

FROM: John Hardy, Jr.

PAGES: 4
(INCLUDING COVER PAGE)

MESSAGE:

Issue paper re the
DR.

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**Smith Enron Cogeneration Limited Partnership (SECLP)
An Independent Power Producer (IPP)
Puerta Plata, Dominican Republic**

September 2001

Project Description

[(b)(4)]

[(b)(4)]

[(b)(4)]

From: ex.mail."tcrawford@worldbank.org"
To: ex.mail("elizabeth.k.stewart", "gary.sampliner"), DO...
Date: 3/15/00 7:52pm
Subject: MIGA R2000-6, Dominican Republic, Guarantee to Coastal Power

forgot to copy you on this. apologies.

----- Forwarded by Todd W. Crawford/Person/World Bank EDs on
03/15/2000 07:52 PM -----

Todd W. Crawford
03/15/2000 07:32 PM
Extn: 80112 EDS01

To: Gay.Sillis@Do.Treas.Gov, Greg.Christopoulos@Do.Treas.Gov,
Gene.Clapp@Do.Treas.Gov, Meg.Donovan@Do.Treas.Gov
cc: Alisa D. Abrams, Deborah A. Wooldridge Eds

Subject: MIGA R2000-6, Dominican Republic, Guarantee to Coastal Power

Thanks for all your help to prepare me for the Board discussion of the subject
guarantee. The talking points I used are attached.

There wasn't a whole lot of discussion in the Board. The only other speakers
were the German, French and one of the African chairs [(b)(5)]

Alisa/Deborah -- could you put a copy of my TPs into your file of statements?
Thanks.

(See attached file: MIGA R2000-6, DR, Coastal Power - 031400.doc)

Todd Crawford
Temporary Acting U.S. Alternate Executive Director
World Bank
tel: 202-458-0112
fax: 202-477-2967
e-mail: tcrawford@worldbank.org

0050000001157

[OUTSIDE SCOPE , (b)(5)]

Davis, Michele

From: Shortridge, Pat [Pat.Shortridge@enron.com]
Sent: Friday, November 02, 2001 2:45 PM
To: Michele.davis@do.treas.gov
Subject: Cornerstone school



Cornerstone Christmas
2001.doc

Michele -

I forgot to hit you up for this yesterday.

Best,

Pat

PS I need your fax number.

<<Cornerstone Christmas 2001.doc>>

.....
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Nichols, Robert

From: Wheelock, Robert S. [Robert.S.Wheelock@abc.com]
Sent: Thursday, January 10, 2002 3:06 PM
To: 'Robert.Nichols@do.treas.gov'
Subject: RE: Secretary on FoxNews "Your World with Cavuto" at 4:00p Today

any chance that the Secretary would be available tomorrow to talk

- 1) Enron
- 2) Terrorist Financing
- 3) Economy, taxes, budget

I left a message with your office and have a call into Adam Levine at the WH as well.

Thanks

-----Original Message-----

From: Robert.Nichols@do.treas.gov [mailto:Robert.Nichols@do.treas.gov]
Sent: Thursday, January 10, 2002 11:33 AM
Subject: Secretary on FoxNews "Your World with Cavuto" at 4:00p Today
Importance: High

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

The Secretary will appear in an interview on FoxNewsCH "Your World with Cavuto" at 4:00p today. Topics of discussion will be the economy and terrorist financing.

Nichols, Robert

From: Nichols, Robert
Sent: Thursday, January 10, 2002 4:28 PM
To: 'Wheelock, Robert S.'
Subject: RE: Secretary on FoxNews "Your World with Cavuto" at 4:00p Today

we will contact you to discuss

Rob Nichols
Deputy Assistant Secretary for Public Affairs
Department of the Treasury
(202) 622-2910

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CNN LATE EDITION WITH WOLF BLITZER
Colin Powell Discusses Mideast Situation; Paul O'Neill Discusses
Tax Cut's Impact on Economy;
'American Terrorist' Authors Discuss McVeigh
Aired June 3, 2001 - 12:00

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MAY BE UPDATED.</p>

THIS IS A RUSH TRANSCRIPT. THIS COPY MAY NOT BE IN ITS FINAL FORM
AND MAY BE UPDATED.

WOLF BLITZER, HOST: It's noon in Washington, 9:00 a.m. in Los Angeles, 7:00 p.m.
in Tel Aviv and midnight in Beijing. Wherever you're watching from around the world,
thanks for joining us for this two-hour LATE EDITION.

We'll get to our interview with Secretary of State Colin Powell
shortly, but first, the hour's top story. We begin We begin in the
Middle East, where tensions remain very high following Friday's suicide
bombing in Tel Aviv that killed 19 Israelis and left dozens more
injured, mostly young people.

NEWSBREAK)

BLITZER: Here in Washington, the White House is closely watching
the hour-by-hour, very tense situation in the Middle East. Secretary
of State Colin Powell canceled a weekend visit to Costa Rica to
personally monitor the crisis. I spoke with Secretary Powell earlier
today.

 (BEGIN VIDEOTAPE)

BLITZER: Mr. Secretary, welcome back to LATE EDITION, and thanks for
joining us.

 COLIN POWELL, U.S. SECRETARY OF STATE: Thank
you, Wolf.

 BLITZER: Do you believe that the Palestinian
Authority, President Yasser Arafat is now committed to a cease-fire?

 POWELL: It's not so much what I believe, it's what we
all see. He spoke yesterday in very, very strong terms. He said things
I had not heard him say previously. He spoke about the unconditional
cessation of violence, which is called for by the Mitchell Committee
Report. He spoke to his people as well as speaking to the
international audience.

 And now we have seen him take
actions with respect to his security forces that are encouraging, and
there has been no serious violence in the last 12 to 18 hours.

 So, it's not so much what we believe -- and the Israeli's will
say this to you very, very quickly. It's not what we believe or read,
it's what we see.

 And so, what Mr. Arafat has to do now,
what I encouraged him very strongly to do yesterday, was to show action
on the ground that everybody can see so that we can start to get into a
cease-fire and cooling-off period again, and then move into the
confidence-building measures called for by the Mitchell Committee
Report, and at the end of a long period of time, hopefully not too
long, get back into final status negotiations. So what is important
now is action on the ground.

 BLITZER: Well,
specifically on that action, do you want him to rearrest some of those
Palestinian prisoners who were let go, allowed to leave prison over
these past eight months of this so called intifada?

POWELL: If they are individuals who had been arrested for crimes that they had committed and they have not been brought to the bar of justice, then I think they ought to be rearrested. But I don't know who they are or what the names are or what charges were against these individuals.

 I do know that the Israeli government is anxious to see those who are responsible for such atrocities and terrorist actions arrested. And they had been arrested at one point, so Mr. Arafat's authorities must have thought they had done something wrong. And unless those charges were resolved one way or another, then it's not clear why they should have been released.

BLITZER: Do you believe that President Arafat is in control and can determine what is going to happen in the West Bank and Gaza?

POWELL: I don't think one can say he is in control of every single Palestinian who may wish to perform act of violence, but I think he does have a considerable degree of control over the organizations within the Palestinian Authority and organizations not in Palestinian Authority that are under his direct supervision. Even more than just control, what he has is the most powerful voice in the Palestinian world. And so, he can speak out as an authority to his people.

 With respect to his people, he is a moral authority as they see him. And if he speaks to them about ending the violence, about getting on to a new track toward a cease-fire and toward peace and toward finding a way for these two peoples to live in this one land, then I think he will be meeting the kinds of obligations that I think he has under the Mitchell Committee report.

 BLITZER: As you know, the Israeli Prime Minister Ariel Sharon has, at least for the last 10 days, imposed a unilateral Israeli cease-fire. Are you urging the Israeli government right now to avoid retaliation for the Friday night suicide blast in Tel Aviv?

POWELL: I have not given that direct comment to the Israeli government. The Israeli government and Mr. Sharon, they are well aware of the very, very delicate, volatile nature of the situation right now after Friday night's terrible tragedy -- those young people who just lost their lives just trying to entertain themselves and find a little bit of fun on a Friday night.

 He understands how volatile this situation is. And as we have seen over the last 24 hours, the Israeli government is very serious about getting the violence down, and they are responding so far in a matter befitting of the delicacy of the situation. They have not suddenly launched military attacks -- but I'm sure they are reserving that right to themselves -- and they are taking non-military actions at this time.

 So, I spoke to Mr. Sharon in measured and responsible terms yesterday, and I'm sure I'll speak to him again today and get his assessment of the situation. This is the time for caution, because if this just turns into another cycle of violence back and forth, we are on the edge of a very, very deep hole, and we don't want to fall into it.

BLITZER: Well, then why not ask the Israelis specifically, "Don't retaliate, keep it calm"?

POWELL: I think it is better for me to make the points I want to make in a manner befitting the delicacy of this situation.

BLITZER: Last time the Israelis did retaliate, they used U.S.- made F-16 fighters. Is that a problem, in the U.S.-Israeli relationship, when the Israelis use equipment they purchased from the United States for these kinds of retaliatory strikes?

POWELL: It does create something of a difficult situation, because questions are immediately asked whether or not these U.S. weapons are being used in accordance with the conditions of sale and for defensive purposes. And then you get into very interesting

discussions as to whether that is the case or not. And so it always causes something of a problem when those kinds of weapons are used.

 BLITZER: So you haven't specifically asked the Israelis, don't use U.S.-made equipment?

 POWELL: We always examine -- a good deal of their equipment is U.S.-made. I mean, there's always that possibility.

 And I do take note of the fact that we have not seen the use of F-16s in some time since they were used a couple of weeks ago. And I think it's better if that remains the case in the future.

 BLITZER: Your call for an immediate cessation of violence, a cease-fire is to be followed by what you called a cooling-off period. How long should that cooling-off period be before there's a resumption of real negotiations?

 POWELL: That has to be decided between the two parties, but it would seem to me some matter of weeks. And you need that cooling-off period so that both sides can see the seriousness of the other side, and that you can start to put in place security arrangements.

 I have people on the ground. The United States has people on the ground -- Ambassador Indyk, Ambassador Burns, Consul General Schlicker (ph), they're all on the ground. We have other people on the ground, from different agencies, that are prepared to convene security officials to get together and start to structure this cooling-off period, structure the cease-fire, as soon as the parties are ready to do so, and then start us on a road toward the confidence-building measures.

 We have people on the ground now with ideas with respect to the kinds of timeline one should adopt, and steps along that timeline, to bring into effect these confidence-building measures. And all confidence-building measures outlined in the Mitchell Committee report are on the table to be determined and to be discussed and to be decided how they will be implemented.

 And then, at the end of the confidence-building measure, we are prepared to help the two sides and others interested -- who have been party to negotiations in the past -- get back together to get serious negotiations going toward final status issues.

 BLITZER: On the joint Israeli-Palestinian security talks that had been successful over several years, many people think it was in large measure successful because the United States played a very direct role, the CIA in particular, including the CIA director, George Tenet.

 Do you want George Tenet now to resume that active CIA participation in these Israeli-Palestinian security talks?

 POWELL: That is an option, and we do have it under consideration. George knows a great deal about this, and so we'll consider that.

 But it is not so much who does it, as to whether the sides are serious. I mean, we've had security meetings for weeks now. I mean, we set in place two levels of security dialogue between the two sides. Regrettably, until now, the two sides have just come into the room and accused each other, and we didn't get any action going.

 And so, it is not so much who is in the room, but are the people coming into the room serious about actually putting in place new security arrangements that will help us separate the two forces.

 To the extent that George could help with that process more so than other people, we'll take that into consideration.

 BLITZER: Are there are plans right now to send George Tenet back to the region?

 POWELL: We are always looking at what plans you might have, but I'm not prepared right now to say George Tenet is on a plane heading back to the region this afternoon.

 BLITZER: But he might be pretty soon.

 POWELL: One never knows.

 BLITZER: All right, I'll take that as possibly a yes. Dennis Ross, the past special envoy for

the Middle East, who worked the eight years of the Clinton administration, before that he worked in the Bush administration as...

 POWELL: Dennis worked for me.

 BLITZER: That's right.

 He thinks that it's time that the U.S., given the fragile situation right now, the potential for major escalation, for the Bush administration right now to rethink its attitude towards these negotiations.

 Listen to what Dennis Ross told us only over the past day or so, listen to this.

 (BEGIN VIDEO CLIP)

 DENNIS ROSS, FORMER SPECIAL ENVOY TO THE MIDDLE EAST: We had security representatives there on our side. I think it would be wise for us to raise the level of those representatives on our side, and I think those representatives should go to those meetings with a kind of responsibility to help set the agenda.

 (END VIDEO CLIP)

 BLITZER: Good advice?

 POWELL: We have representatives at a senior level.

 POWELL: I have an ambassador, and I have consul general, and we have other people.

 BLITZER: But Ambassador Burns and Ambassador Indyk...

 POWELL: Let me finish my conversation.

 Dennis has a different view, I guess, that he thinks that these security discussions require a higher-level person to be in the room.

 During the last eight months or the months before we came into power on the 20th of January, the highest-level people you could imagine in the United States were working in the room at the highest levels imaginable, and we ended up with a failed peace process and an Israeli government that essentially lost an election.

 The issue right now is security. The problem we have had -- and it isn't a function of who is in the room for security chats. It's whether the two sides were at a point in their relationship where they were prepared to make those hard calls on security.

 And America coming in and tabling various ideas and positions, we are more than able to do that, but it wasn't going to be terribly useful if the two sides were not ready to come into agreement. That's what caused the last administration to have difficulty at end of the day. They created huge expectations as to what might be possible, and then the two sides were not able to come into the room and agree to what had been put on the table in the form of the Taba Agreement, as it is called, and the whole process collapsed.

 We had want to make sure that we will intervene at a time and at a level when it is appropriate to do so and we can see some progress.

 I think the Bush administration has handled this well. You have to remember that for the first six weeks of the Bush administration, we were watching transition in the Israeli government: an election, the end of one administration, and Mr. Sharon taking over on the 7th or 8th of March. And he took over on the basis of "We're not going to start negotiations until there is security, and I'm not going just accept assurances of security. I have to see other side end the violence."

 The security arrangements don't end the violence. The security arrangement is what happens after political decisions have been made to end the violence and now you're trying to knit together a structure that will make sure that remains the case.

 So I don't think we've done anything improperly here. And I don't disagree with Dennis. It's just that we're not doing it quite the same way that he suggests we should do it. But that's why there has been a change of administration.

 BLITZER: You just came back from trip to Africa and Europe. You were pretty close to the Middle East. You could have stopped off and met with the Israelis and the Palestinians.

Would that have been a useful purpose?

 POWELL: No, there was nothing to meet about. I talk to them all of the time. You can't simply drop in every time you are in the region. And you know, there is a limit to how much you can just drop in if the two sides are not ready to have a serious engagement.

 In fact, it is over-involvement on occasion. Over-involvement on the part of the most senior people in government tends to keep people from making the kinds of decisions they have to make, because they are always looking for a little better deal, and "The Americans are coming. They'll make it happen," or, "The Americans will put pressure here, the Americans will do that."

 Sometimes it's wise to handle things at not the highest level, everybody dropping in at the drop of a hat. I will go to the Middle East. I will talk to the parties concerned in person when there is something that I can bring to the table that is useful helping to solve the problem and not just chat for the sake of chatting. I'm able to talk to them any time I wish, and I do on a regular basis.

 BLITZER: I just want to tie up one loose end from the Mitchell report, former Senator George Mitchell's recommendations, most of which you accepted. Although, one nuance, there seems to be a problem, the freeze on Israeli settlements, including the natural growth freeze. What is the position of the Bush administration? Must the Israelis right now completely freeze settlement activity, including the so-called natural growth activity?

 POWELL: Our position has been -- and it reflects the Israeli position -- that there will be no new settlements. The natural growth issue is a very, very sensitive one. The Israelis say, "You know, families have children, and they live in that settlement. How can there be no natural growth?" The Mitchell Committee said that should stop. The Palestinians want that to be stopped.

 In the deal that Mr. Arafat was unable to accept in January, the Taba deal, the settlement issue was to a large part solved as a result of that negotiation. He couldn't accept it.

 The American position is that we believe that two sides have to discuss this expanding-of-existing-settlements issue. But for everybody to categorically say to Israelis at this point that this is simply not anything that can be discussed might have caused a different sort of response to Mitchell Committee report.

 POWELL: And so we tried to at least leave this as an issue to be resolved between the two sides as part of the confidence-building measures discussion.

 For 20 years, American administrations have always said to the Israelis, "These kinds of activities are provocative, and they don't help get to us a settlement." And so we really have to find out a way to break through this settlement issue in a way that is acceptable to both the Israeli and Palestinian sides.

 BLITZER: We only have a few seconds left, but I want to ask a quick question on China. The EP-3 is about to be returned in pieces to the United States from Hainan Island. Will that set the stage for a visit by Colin Powell to China in the next several weeks, or set the stage for the president's visit later this year to Beijing?

 POWELL: My judgment as to whether or not it's appropriate for me to visit China will be driven by a number of issues, and not just when the plane comes out or if the plane comes out.

 I'm confident the plane will come out. We now have an arrangement with the Chinese that will allow the plane to be brought out and in a manner that we can hopefully put it back together without too much difficulty. And we have our plane back, which is what our objective was.

 BLITZER: Mr. Secretary...

POWELL: And I'll make a different -- I'll make a lot of judgments as to whether or not it is appropriate for me to visit China in the very near future. I'm looking forward to it, haven't been there in 16 years, and I'm looking forward to visiting at some point in the future when it's appropriate to visit.

 BLITZER: And as far as the president's visit, that's still set for later this year?

 POWELL: It is still on his calendar, and we haven't had any discussions recently about changing his calendar.

 BLITZER: You have a full calendar, a full agenda.

 POWELL: Yes.

 BLITZER: Mr. Secretary -- General Powell, it's hard for me to still call you "Mr. Secretary," I'll call you "Mr. Secretary," though. Thanks for joining us.

 POWELL: Well, thank you very much, Wolf.

 (END VIDEOTAPE)

 BLITZER: And just ahead, with Democrats expected to take control of the Senate, there's a new question that has come up: Will another Republican change sides?

 We'll talk about the impact of the new power shift with two leading senators, Utah Republican Orrin Hatch and Nevada Democrat Harry Reid.

 LATE EDITION continues right after this.

 (COMMERCIAL BREAK)

 (BEGIN VIDEO CLIP)

 SEN. TOM DASCHLE (D-SD), MINORITY LEADER: We will be providing for 51 place settings in our caucus, beginning on Tuesday. Fifty-one place settings is, I think, ample precedent for the one-vote majority that we'll expect to have in all of the committees.

 (END VIDEO CLIP)

 BLITZER: South Dakota Democrat Tom Daschle discussing the Senate reorganization scheduled for this Wednesday. Senator Daschle will assume the title of U.S. Senate majority leader.

 Welcome back to LATE EDITION.

 Joining us now to talk about the change and its impact on the legislative agenda are two leading members of the Senate. Here in Washington, Utah Republican Senator Orrin Hatch. As a result of the power shift, he'll be the ranking member of the Judiciary Committee. And joining us from his home state of Nevada, Senator Harry Reid. He's the Senate's second ranking Democrat and will assume the title of majority whip.

 Senators, good to have you back on LATE EDITION.

 I want to get right to power shift and all of that, but I want to begin quickly, Senator Hatch, are you satisfied with the way the Bush administration has been trying to conduct its policy between the Israelis and as the Palestinians?

 SEN. ORRIN HATCH (R), UTAH: I think General Powell, Secretary of State Powell summed it up pretty well. I think they're doing their very best. It's a serious set of problems that's gone on for centuries, as you know. And I believe that he knows that there is a point where they have to get involved, but both sides have to be at that point.

 My heart goes out to these families that lost their kids over the weekend. And there is no question Arafat, in making that statement, made a good statement, but now it's time to show that he means something.

 He let all of those terrorists go last fall. I think he has to arrest those responsible, and he's got to put them in jail.

 BLITZER: Senator Reid, is it time for the U.S. to step up its involvement in the effort to the resume peace negotiations?

 SEN. HARRY REID (D), NEVADA: Wolf, one thing I've learned is that we have 535 secretaries of state. Every member of Congress thinks they could do a better job than whoever is secretary of state.

 I have the philosophy that we kind of to leave this in the hands of those that are doing the foreign policy. Secretary Powell is in on a lot of confidential information that I'm not party to. I have confidence in him. I think he should be

a good secretary of state. I hope the president gives him full leeway to do what Secretary Powell thinks is the best thing.

 So I'm satisfied at this stage. I know that we need more attention there, but I'm going to leave that attention to Secretary Powell.

 BLITZER: All right. Let's talk about politics, here in the United States, specifically in the Senate.

 As both of you know, the Republican senator from Arizona, John McCain, has been hosting a very important visitor at his ranch in Arizona over the weekend, the new Senate Democratic majority leader Tom Daschle.

 He issued a statement, yesterday, McCain. I want to read a little excerpt from it. Among other things, he said this: "I have not instructed nor encouraged any of my advisers to begin planning for a presidential run in 2004. I have not discussed running for president with anyone. As I have said, I have no intention running for president, nor do I have any intention of, or cause to, leave the Republican Party. I hope this will put an end to further speculation on the subject."

 Senator Reid, does that put an end to the possibility that Senator McCain could bolt and follow in Senator Jeffords' footsteps and become an independent?

 REID: I came to Washington in 1982 with John McCain. We served in the House together. We went to Senate together. So I know John very well. And I know one thing about John McCain: As popular as he is in Arizona and all over this country, no one should predict what he is going to do. John McCain does what he feels appropriate. He is an individual who has very strong views.

 So I'm going to leave all of the predicting up to John McCain. We'll see what happens to John McCain, but no one -- no one -- should predict what he is going to do on any given day.

 BLITZER: Are you ready to stop predicting what John McCain might do, Senator Hatch? You know him quite well as well.

 HATCH: I know him really well, and I predict that John will live up to what he said, and that is that he is a Republican. He is going to stay a Republican, and he will be an effective force in Republican Party, as he has been.

 BLITZER: But you know that on so many issues, he has lined up with Democrats. I will give a few examples: on campaign finance reform with Russ Feingold.

 HATCH: Right.

 BLITZER: On the issue of gun control, he's now come out with Senator Joe Lieberman to tighten loopholes on gun show sales. On patients' bill of rights, he's teamed up with Senator Ted Kennedy and Senator John Edwards for legislation that the president has vowed to veto. He opposed the tax cut legislation that was recently enacted and sent to the president.

 Wouldn't he feel more comfortable, perhaps, in the Democratic Party?

 HATCH: Well, you have named four issues out of the thousands and thousands of issues that come before the Congress, most which of John votes with us on on. And on those four issues, he has particular reasons why he has voted in each of those cases and why he has led the fights in some of these cases.

 So, you know, I don't have any problem with that. We all have our own way about doing things. I agree with Harry: John McCain is going to be John McCain. And he is going to have my friendship and the friendship of, I think, both sides.

 HATCH: And he's going to be as effective as he wants to be. I personally believe that John's going to continue to be a great Republican, and I expect him to.

 BLITZER: Senator Reid, you were among the few Democrats that had those secret meetings with Senator Jim Jeffords of Vermont, now the independent, that set the stage for his leaving the GOP.

 Can you tell us that the meeting, the visit that Senator Daschle, your good friend, to Arizona

to meet with Senator McCain this weekend was simply social, that there is nothing going on that could lead to another Republican senator leaving the GOP? REID: First of all, John McCain has fans all over this country. Millions of people voted for him in the Republican primary. A lot of Democrats would like to have voted for him. So I think this visit to Arizona is instructive only in that John McCain is an individual.

 This trip has been planned for a long time. John McCain is a close, personal friend of Tom Daschle. They are pals, so to speak. So I don't think that we can read too much into this visit, other than it just came at this time when Senator Jeffords, as a matter of conscience, decided to switch. We'll wait and see what John McCain's going to do, but whatever he does is not based on this trip to Arizona by Linda and Tom Daschle.

 BLITZER: But as you know, Senator Reid, it's not just Tom Daschle who's visiting Senator McCain in Arizona. It's also Bruce Reed, who was the chief domestic policy adviser to President Clinton, who's now president of the DLC, the Democratic Leadership Council, a new Democrat organization here in Washington.

 Doesn't that simply fuel all this speculation that something is perhaps going on?

 REID: Well, I hope what it would fuel is that the Republicans now would do the right thing. Let's get the bill on this campaign finance over to the House. You know, it's been held up for months. I think we need to get that done in the House. We need to have a conference done there. I think we need to have now, which we are going to have with Daschle as the leader, we're going to have a full public debate for the first time on the patients' bill of rights. I think that's more what John McCain is talking about.

 Let's open up the process. Let's have an open dialogue on some of these issues that are so important to the American people. And I think if that's allowed to take place, John McCain will be just fine.

 I think what he is tired of is the backroom sniping at him for his being an individual. John McCain is who he is, and Tom Daschle or Harry Reid or Orrin Hatch are not going to change that. But I think he needs to understand that there's not going to be a lot of back-stopping and trying to do things to prevent him from having his voice heard. I think that's what John McCain wants.

 BLITZER: John McCain has been severely criticized, Senator Hatch, by a lot of Republicans behind the scenes, and presumably that affects his kind of thinking, wouldn't you think?

 HATCH: Well, you can only take so much from people, and frankly I think there has been some unfair criticism of John.

 You know, John's controversial. He does do some things that Republicans disagree with. Campaign finance reform is one I disagree violently with him on, but that doesn't stop us from being friends. The fact is, I think the bill's so unconstitutional that it's not justifiably passed, and I think in the end that will be proven to be true. But I'm glad he's got Tom Daschle out there. It'll be good for Tom to be out there in the intermountain West and understand some of our needs. I think maybe we'll get more out of Tom because of John's good work here this weekend.

 BLITZER: As Senator McCain joked, he said maybe he can convince Senator Daschle to leave the Democratic Party.

 (LAUGHTER)

 HATCH: Well, yes. See, it's about time -- I think Harry -- I think it's more likely we'll get Harry.

 But I'll tell you, Harry, I'm going to work on you Harry.

 BLITZER: You know, Senator Hatch, Trent Lott the Republican leader in the Senate issued sort of a parting shot at Senator Jeffords. He wrote this in a letter that he's sending out to a lot of Republicans. He said this: "This coup of one

puts at peril the agenda that Republicans were given a mandate by the American people to deliver."

 Is it appropriate for Trent Lott to be speaking about Senator Jeffords engaged in a coup of one?

 HATCH: Well, you know, he may have used different words, but frankly what he's doing is rallying the Republicans, saying, "Look, we're in the minority now. We have a different set of responsibilities. We've got to live up to them, and we've got to try and get this agenda of lower taxes, stronger defense, better education, et cetera, passed. And so, we're going to have to really get tough and do what's right."

BLITZER: Senator Reid, with you in the majority, starting Wednesday morning, the business day in Washington, what's going to be the major change? Are you going to be trying to obstruct so much of the president's remaining agenda, or are you willing to compromise with them?

REID: Wolf, I was very disappointed to see on the front page of the New York Times today this memo that Trent has sent to his Republican colleagues. I don't think this is the time to be passing blame and saying, "The war's going to start now."

I personally believe that on Wednesday we should have an open dialogue. I believe that the president needs us; we need him. I think we really need to do more than just talk about bipartisanship. We have some important issues that we need to complete, and we're going to do them right away.

REID: We're going to complete the education bill quickly. We're going go on then to the patients' bill of rights.

 And I think it's time that President Bush realized that he doesn't have a mandate. He is the president, and I support him as being the president. But I think it's time that we really start being bipartisan. And Senator Daschle and I are going to do everything within our power to make sure that we are bipartisan and try to move legislation out of the Senate.

BLITZER: Senator Hatch, you agree with that assessment?

HATCH: Well, I wish more Democrats were like Harry Reid. And Harry does help move legislation on the floor, he does bend over backwards from time to time to make things work between the two parties. Unfortunately, a lot of the others don't.

And I think -- I want to compliment Harry. I think Harry has really tried to do a very good job. I know, myself -- in the majority, I've gone to Harry to say, look, can't we get this done? And he's worked it out, in many cases. So if we had more Harry Reids, I think we'd get a lot more done.

BLITZER: Only one Harry Reid, and only one Orrin Hatch.

 (LAUGHTER)

 BLITZER: I want to thank both of you for joining us. Senator Hatch, Senator Reid, always good to have you on LATE EDITION.

 REID: Orrin, Wolf, thanks.

BLITZER: Thank you.

 And just ahead, some Americans will be receiving a tax rebate this year, but is the country headed into a recession? I'll ask U.S. Treasury Secretary Paul O'Neill in just a moment. Stay with us.

 (COMMERCIAL BREAK)

BLITZER: For many Americans, the check will be in the mail. But as they look forward to a tax rebate this year, what about the long-term future of the U.S. economy? We'll ask the treasury secretary, Paul O'Neill, in just a moment. Stay with us.

 (COMMERCIAL BREAK)

(BEGIN VIDEO CLIP)

 DASCHLE: These projections are no better than weather reports, and so we're very concerned about the fragile nature of the surplus we have and the fiscal position that we have today.

 (END VIDEO CLIP)

BLITZER: Democratic leader Tom Daschle speaking a week ago about the economy's uncertain future.

Welcome back.

 Earlier today I spoke with the U.S. Treasury Secretary Paul O'Neill about the tax cut and what he thinks its impact will be on the economy. (BEGIN VIDEOTAPE)

 BLITZER: Mr. Secretary, thank you so much for joining us.

 I want to begin right way with the issue a lot of Americans are anticipating, those tax rebate checks, \$600 for married couples, \$500 for single parents and \$300 for individual taxpayers who pay \$6,000 in federal -- who have income of \$6,000 in taxable income.

 When specifically will those checks start arriving?

PAUL O'NEILL, U.S. TREASURY SECRETARY: We're going to mail out a letter to all the taxpayers -- all the federal income taxpayers on the 12th of July, and that letter will tell people when their check is coming and how much it's going to be for. The following week, in fact on the 20th of July, we'll send out the first 11 million checks, and then each week after that we'll send out another 11 million checks. And we'll finish up the last mailing on the 28th day of September.

 And so, the money's going to be flowing, and we're anxious to get it out there to people.

BLITZER: One group here in Washington estimated that 34 million taxpayers won't be eligible to receive any

O'NEILL: I guess I would say this: All people who paid a federal income tax in the year 2000 are going to get a rebate. There are going to be some people who didn't file by the 15th of April that are going to have a little delay in when they actually get their money.

 And for people who didn't pay any taxes in the year 2000, they will get a refund when they file their 2001 taxes, so there will be staving in this. But the great bulk of 100 million people are going to see a check before the first of October.

BLITZER: Do you believe this will do the job to stimulate the economy, which some have described as stalled these past several months?

O'NEILL: Well, I think this will be. You can't look at this first stage of tax relief as though it stands alone, because it doesn't stand alone. There's a phase-in of rate reductions over the next five years or so. And so this is the beginning of a return of people's money to them, which they can count on going forward into the future.

 And I think it is clearly true that, as a result of the rate reductions that people are going to get and the other provisions of this tax bill, we're going to see a relatively higher level of economic performance than we would have had without this tax reform.

 I think the president has done a fabulous job of staying focused on the target of, let's get this done, let's get it done quickly. It's a record in terms of actually being able to turn a policy prescription into legislative action. And the money's going to flow faster, I think, than anyone could have imagined, except maybe for the president and a few of us who were determined that we needed to get this done.

BLITZER: On these taxes, I just want to tie up two ends. Specifically, you sound a little bit different today than you did during your confirmation hearings on the economic stimulus benefits of these kinds of tax cuts.

 I want you to listen to what you said on January 17, during those confirmation hearings, on the stimulus impact of what was then envisaged as a \$1.6 trillion across-the-board tax cut. Listen to this.

 (BEGIN VIDEO CLIP)

O'NEILL: Would I do it with an expectation that this is somehow -- provides a boom economy? No, I would not do it for that reason.

 (END VIDEO CLIP)

BLITZER: You still agree with that assessment?

O'NEILL: Well, Wolf, let's put this into perspective for your viewers. At the time I was asked the question, the amount of stimulus that was going to be provided in the year 2001 was \$5 billion. Do I think that was a huge amount of money in the context of a \$10 trillion economy? No. Do I think that \$50 billion is a significant amount of money to a \$10 trillion economy? Yes, I do. So, I don't think what I've said is anything but consistent.

 And, you know, if people expected me to say something I thought was untrue at the time, that \$5 billion dollars was a lot of money, I'm not in the business of dissembling. I tell people the truth whether they like it or not.

BLITZER: On that issue, though, the stimulus portion this year, most of that coming from the tax rebate, that was really a Democratic proposal to have the tax rebates, as opposed to keeping some of that money spread out over long-term income tax reductions.

O'NEILL: I think the thing that's really interesting about where we are is that the president was able to organize a bipartisan majority. 25 percent of the senators voted for this legislation. And I'd be willing to bet you something: There will not be a single member of Congress that will send a letter to their constituents saying, "I'm sorry you're going to get tax relief."

 This, I think, is evidence that there is bipartisan support for doing the things the president believes are principled, that they are right thing for the American people. And so I think this is a great victory for the American people because principle is winning.

BLITZER: The next chairman of the Senate Budget Committee, Kent Conrad, wrote an editorial this week, this Thursday, in one of his newspapers in North Dakota. He said that the tax cut that has now been approved and sent to the president, to his desk, is in his words, quote, "irresponsible. Unless we pay down our debt and strengthen Social Security and Medicare now, our surpluses will turn into deficits within the next decade." Do you accept his criticism?

O'NEILL: No, I'm sorry, I really don't. And I think soon-to-be Chairman Conrad knows that we have dedicated every dollar of Social Security and Medicare money to come in to pay down the public debt so that we are honoring the idea that Social Security and Medicare money should only be used for those purposes.

 And we can well afford this tax reduction and take care of Social Security and Medicare. The Social Security, Medicare money is what is called locked

up in the lockbox, and we have another trillion dollars on top of that.

 There is plenty of money to do these things and let the American people have the fruits of their own labor instead of hauling it into Washington so it can be turned into more wasteful Washington programs.

BLITZER: How worried should Americans be right now, Mr. Secretary, about a recession?

O'NEILL: Well, you know, I'm an optimist, and I think that most Americans are optimistic. And so long as we do the things that we know from economic history are right -- monetary policy that eases and provides the interest rate that Chairman Greenspan has provided, fiscal policy that lets people spend their own money, and then the American people out there, individually and together, working hard to improve productivity -- our economy is going to be a continuing fabulous economy. It's the envy of the whole world.

 And we are going to have 3.5 percent real growth rates going forward. We're going to produce more money that can be sent back to the people than most people can imagine.

BLITZER: 3.5 percent growth rate this year? Is that what you're predicting?

O'NEILL: No, no, no, I didn't say this year. I said, it is the natural tendency, I think, of our economy to be able to grow in the rate of someplace between 3 and 4 percent real growth. We've got the fundamentals in place to achieve that. We have the technology, we have the energy and spirit to make these things happen. We're going to be fine.

BLITZER: On that note, I'm going to thank you very much, Mr. Secretary, for joining us.

O'NEILL: My pleasure. Thanks very much.

 (END VIDEOTAPE)

BLITZER: And up next, the wait for justice in the Timothy McVeigh case. Now that the Oklahoma City bomber is asking for a stay of execution, what does his request mean for a final resolution to the case? We'll ask two men who spent hours talking with McVeigh, authors Lou Michel and Dan Herbeck. LATE EDITION will continue right after this.

 (COMMERCIAL BREAK)

 BLITZER: Welcome back to LATE EDITION.

 This past week, Oklahoma City bomber Timothy McVeigh asked his lawyers to seek a stay of his scheduled June 11 execution. He made the request after the Justice Department announced it was turning over more previously unreleased files related to McVeigh's case.

 With us now from Buffalo, New York, to offer some insight into this story are two guests: Buffalo News reporters Dan Herbeck and Lou Michel. They conducted extensive interviews with Timothy McVeigh. Those interviews were chronicled in their book, the book they co-authored, entitled, "American Terrorist: Timothy McVeigh and the Oklahoma City Bombing."

 Gentlemen, welcome to LATE EDITION.

 And I want to begin with you, Lou. Is it your sense right now that Timothy McVeigh no longer wants to be executed, wants to fight this execution as much as he can?

 LOU MICHEL, CO-AUTHOR,

"AMERICAN TERRORIST": Timothy McVeigh, at this point -- he was surprised initially that the federal government did come forward, although he had always professed that they had withheld evidence and submitted tainted evidence. But he wants to see this through to the end now. He's just as curious as any other American on how this is going to play out.

 But ultimately I do think that he wants to die. He does not want to spend the rest of his life in prison. But, Wolf, if per chance that Matsch granted a stay and ultimately it went to a trial, he has confessed in our book. But I think he would see a necessity defense. That's something McVeigh has always wanted to employ, but never got the chance under his former defense council.

 BLITZER: Dan, the attorney for Timothy McVeigh, Robert Nigh, emerged from the federal prison in Terre Haute, Indiana, Thursday morning after their two-hour meeting, and he made this statement on McVeigh's behalf. I want you to listen to what Rob Nigh said in Terre Haute. Listen to this.

 (BEGIN VIDEO CLIP)

 ROBERT NIGH, MCVEIGH DEFENSE ATTORNEY: Mr. McVeigh has asked us to say that he understands and recognizes the impact that his decision may have upon his family, the victims in the Oklahoma City bombing case, the community of Terre Haute and others. His decision in no way stems from a desire to cause these people any additional pain or trauma.

 (END VIDEO CLIP)

 BLITZER: In all of the hours of interviews that you had with McVeigh, he never seemed to express any remorse. Is he expressing remorse right now to a certain degree through his attorney?

 MICHEL: Well, I don't know if remorse is the right word, but I don't think that he wants to torture people in Oklahoma City or anywhere else any longer with this thing.

 But at the same time, he really wants to put all the mistakes of the federal government right back in their face, and I think that's something he really wants to do. His only true sworn enemy is the U.S. government. The other people, as he put it in our book, were collateral damage. The one he really wants to battle with is the U.S. government.

 BLITZER: On that issue of collateral damage, Lou, in your book American Terrorist, you write this. Quoting Timothy McVeigh based on one of the interviews you did with him, he says this: "I didn't define the rules of engagement in this conflict. The rules, if not written down, are defined by the aggressor. It was brutal, no holds barred. Women and kids were killed at Waco and Ruby Ridge. You put back in the government's faces exactly what they're giving out."

 In effect, what he's doing is justifying what he's called collateral damage, the 168 people, the 19 children, who were killed in that daycare center in the Murrah Federal Office Building in Oklahoma City. How could anyone deal with a man like this?

 MICHEL: Well, McVeigh sees himself as -- I know some, many will disagree -- a statesman and a political activist in an extreme that most of us would never dream of.

 But he goes back to the fact that he tore a page out of foreign policy, U.S. foreign policy, when we fly over to Bosnia or to Iraq and drop bombs or send Tomahawk missiles off of Navy warships. He was doing the same thing. He called the Murrah Building a legitimate target.

 In the same breath he says, "I have nothing against the people of Oklahoma City," though certainly they disagree. But he feels that his target was the federal government and any federal building would have made a legitimate target. He calls them command-and-control centers.

 BLITZER: Dan, you spent a lot of time with Timothy McVeigh, talking to him.

 BLITZER: He grew up in western New York, just as I did, where both of you are living right now, in

Buffalo, or just outside of Buffalo.

 What made him snap? What convinced him to begin this warfare, if you will, against the U.S. government?

 DAN HERBECK, CO-AUTHOR, "AMERICAN TERRORIST": Well, I wish I had an easy answer to that question, Wolf. But I think that the real changes in his life that really put him over the edge took place in the army and immediately after his army service, because in the army, he learned -- and I am not blaming the bombing on the army --but he learned that killing can be used to accomplish a goal. And then after being in the army, he got more and more ingrained in the gun culture, and he felt that the U.S. government was treating gun owners unfairly.

 And then, I think, if you want to find any real turning point, it would be the day that he saw the Waco siege on television in Terry Nichols' living room -- James Nichols' living room, and stood there and watched the Waco compound burning. I think if there was any one turning point, McVeigh has told us that was it.

 BLITZER: Let's take a quick caller from Georgia. Please go ahead with your question.

 CALLER: Thank you, Wolf.

 Do you think that the death penalty deters crime? And do you think that McVeigh ought to be executed June 11, or do you support the delay?

 BLITZER: What about that, Lou?

 MICHEL: I don't think that the death penalty does deter crime. I think police chiefs, police commissioners, law enforcement, judiciary who have been queried over the years, have found no change in the death penalty. In fact, in some states where they have the death penalty, particularly down South, you have a higher murder rate.

 So I think capital punishment sends a subtle message of pushing violence further and further in our society. We are so enmeshed in it, from our entertainment to the way we live.

 BLITZER: Dan, we only have a few seconds left, but there has been some speculation in recent days, fresh speculation, about a John Doe number two. Do you believe that McVeigh is possibly concealing evidence, is trying to protect someone else who may have been involved in this conspiracy?

 HERBECK: I really don't, Wolf. And if anyone wants to find out more about it -- and I don't mean this as an ad for our book -- but read the book. And it lays out step by step what was done to assemble this bomb and deliver this bomb.

 Then after reading the book, I would ask people to ask themselves if there was John Doe number two, if there were all of these other so-called conspirators, what were their jobs? What was there for them to do? You'll see in the story that there really wasn't any need for other people.

 And if there were other John Does, what have they been doing for the last six years? It just doesn't make sense.

 BLITZER: All right. On that note, unfortunately, we have to leave it. Lou Michel and Dan Herbeck, I want to thank both of you for joining us on LATE EDITION.

 MICHEL: Thanks, Wolf. HERBECK: Thanks you.

 BLITZER: Thank you, and we have to take a quick break.

 For our international viewers, World News is next.

 For our North American audience, stay with us for the second hour of LATE EDITION. We'll have a conversation about the fight against cancer. How close are we to a cure?

 Plus, our LATE EDITION roundtable and Bruce Morton's "Last Word." It's all ahead in the next hour of LATE EDITION.

 (COMMERCIAL BREAK)

 BLITZER: This is the second hour of LATE EDITION, the last word in Sunday talk.

 (BEGIN VIDEO CLIP)

 PRESIDENT GEORGE W. BUSH: I hope, I believe and I pray that we are on the verge of great victories against cancer.

 (END VIDEO CLIP)

 BLITZER:

The capital hosts a race for the cure. How close are we to beating cancer? We'll get perspective from Breast Cancer Foundation founder Nancy Brinker, Dr. Steve Rosenberg of the National Cancer Institute, and cancer activist Michael Milken.

 Plus our LATE EDITION roundtable: Steve Roberts, Susan Page and David Brooks.

 And Bruce Morton has the "Last Word" on the president's fiscal fairytale.

 Welcome back. We'll get to our discussion about cancer and the possibility of a cure in just a moment, but first, let's go to Donna Kelley in Atlanta for a check on the hour's top stories.

 (NEWSBREAK)

 BLITZER: We turn now to the fight to cure cancer. Joining us, three guests: Nancy Brinker is the founder of the Susan G. Komen Breast Cancer Foundation and Race for the Cure. The foundation is named in honor of her sister, who died of the disease. Dr. Steve Rosenberg is chief of surgery at the National Cancer Institute. And joining us from Los Angeles is philanthropist and cancer activist Michael Milken.

 Thanks to all of you for joining us on LATE EDITION.

 And, Dr. Rosenberg, I want to begin with you. The war on cancer, how winnable is it?

 DR. STEVE ROSENBERG, NATIONAL CANCER INSTITUTE: It's important to keep the problem of cancer in perspective. We can today cure about half of all people who develop the disease by the application of conventional treatments such as surgery, radiation therapy and chemotherapy.

 And so, in many ways, cancer is a very curable disease. The problem is, the incidence is so high, over 1,200,000 cases in the United States each year, that the half of people that cannot be cured amount to almost 600,000 deaths.

 But we're learning a great deal about the scientific basis of cancer, its cause, how it progresses, how it spreads through the body. And the more we understand, the more likely we are to develop good rational treatments. And I think we're seeing substantial progress based on this scientific explosion of information.

 BLITZER: Well, one of the dramatic developments that's been widely reported the last few weeks is this pill, Gleevec, that deals specifically with a rare form of leukemia that seems to have this incredible success rate. It goes after only the bad cells. It doesn't go after the good cells like chemotherapy and radiation does. How encouraged should we be by this development?

 ROSENBERG: It's a wonderful example that concerns how increased scientific understanding can lead to a new treatment. This disease, which is uncommon, acute myeloid leukemia, is the result of two chromosomes that break and join together in a very unique way. And in joining together they form a molecule that can be the target of attack. And a small-molecule drug has been developed that can attack that new molecule that exists only in patients with this disease and only in the bad cells.

 And so it's an example of how, the more we understand scientifically, the more likely we are to develop effective treatments. And so I think it bodes well for the future.

 BLITZER: Is it the sense in the community, among the experts -- and you're one of them -- that this breakthrough in this rare form of leukemia, with this pill, could be used in other forms of cancer?

 ROSENBERG: This drug itself will only be effective in patients with this one unique kind of leukemia and some other rare diseases...

 BLITZER: But the concept?

 ROSENBERG: But the concept is what's critical. And that is, if we understand the molecular basis of the cause of cancer and its progression, we can develop rational therapies to combat the disease. And I think it bodes very well for the application of this scientific information to patients with cancer.

 BLITZER:

Nancy, in 2000, according to the American Cancer Society, 182,800 women were diagnosed with breast cancer. You organized this incredible event yesterday, this Race for the Cure, and you've been involved in this for a long time.

 How close do you think the community is to resolving this issue of breast cancer?

 NANCY BRINKER, SUSAN G. KOMEN BREAST CANCER FOUNDATION: Wolf, I think we're getting closer, and I just want to build on what Dr. Rosenberg said.

 The fact is, today we have over 400 compounds in the pipeline ready to be delivered to the patient. Twenty years ago maybe we had a 100. The translational research piece of this is going to be extraordinarily important all the way down the line: overcoming disincentives for patients to access care, payment issues, integrating science and knowledge, making sure that we have enough physicians all the way down the pipeline -- pathologists, nurses -- so we really can translate the care from the lab to the bedside.

 That's when we're going to see incredible progress, because many of these drugs and compounds are tailor-made. And as they become more effective, our technologies are going to have to move through the system faster -- faster FDA approval, all of those issues.

 BLITZER: But you've seen some dramatic developments over the past few years. Are you optimistic that there can be a cure for breast cancer within, let's say, our lifetime?

 BRINKER: I am extraordinarily optimistic that within the next few years we will have a real management process for this disease, that it will become, in essence, more chronic. We at the Komen Foundation understand this is probably going to be built on stages rather than using the word "cure" right away.

 The fact is, if we can learn how to prevent the disease, treat it in its earliest stage, give people more quality of life through quality of care, people will live longer with it. And then, hence, maybe some day we will have a cure soon.

 BLITZER: Michael Milken in Los Angeles, I know you've been very active in dealing with prostate cancer. Breast cancer primarily affects, not exclusively, but primarily affects women; prostate cancer, of course, men.

 Give us your sense where we are right now in the battle against prostate cancer.

 MICHAEL MILKEN, CANCER SURVIVOR: Well, we've made a lot of progress, Wolf.

 And I want to say hi to Nancy and Steve, we've known each other a long time. This is actually my 29th year of supporting breast cancer. I'm kind of a new arrival, only eight years in prostate cancer.

 But I think the most telling thing would be that 70,000 less American men have died in the last eight years from prostate cancer than was originally projected -- 70,000. That's the same number of people that saw the Super Bowl in Tampa this year. And so we have had a lot of progress.

 Like breast cancer, there has been a growth, maybe 80 to 100 different things for men with advanced prostate cancer, that are in clinical trials, and that's probably up from zero 10 years ago. So there's been significant progress.

 But Wolf, for many of us we got introduced to you in the Gulf War 10 years ago. That was a \$61 billion effort that carried over eight months, involved 30 nations and more than a half million people. That's more than has been invested in the war on cancer in the last 30 years. So it takes capital. It takes human capital like Dr. Rosenberg, and it takes commitment in technology.

 All those things are available today, and we at CAPCARE, the Association For the Cure of Prostate Cancer, are looking forward to going out of business in 2003. And hopefully by that time we'll have prostate cancer under control.

 BLITZER: And Michael Milken, I know that when a man is

diagnosed with prostate cancer the two treatments that are generally available now are either the radiation treatment or surgery.

 What is your sense, is it on a case-by-case basis? Or are these both equally appropriate in your opinion?

 MILKEN: Well,

there's many forms of radiation therapy, and it is improved dramatically over the last eight years. I had radiation therapy myself back in 1993, and it is far better today than even when I had it.

 Surgery is very effective when it's confined to your prostate. But there are other things. There are some men with very low-grade prostate cancer, confined, who are just undergoing nutrition and stress therapy today with some very interesting results.

BLITZER: All right, we're going to take a quick break.

We have a lot more to talk about including your phone calls. Stay with us.

 (BEGIN VIDEO CLIP)

 GEORGE W. BUSH,

PRESIDENT OF THE UNITED STATES: For the first time in human history, we can say with some measure of confidence that the war on cancer is winnable.

 (END VIDEO CLIP)

 BLITZER:

President Bush speaking on Friday at the White House gathering of participants in Saturday's Race for the Cure. He pledged more federal support for breast cancer research.

 Welcome back to LATE

EDITION. We're continuing our discussion about cancer with Susan G. Komen Breast Cancer Foundation founder Nancy Brinker; Dr. Steve Rosenberg of the National Cancer Institute; and cancer activist and philanthropist, Michael Milken.

 Dr. Rosenberg, here are a

couple of numbers: 1.2 million new cancer cases were diagnosed in 2000, according to the American Cancer Society. And it's estimated, 552,000 people will die of cancer this year -- about 1,500 people a day. Those numbers are staggering.

 ROSENBERG: It's a

devastating problem. One in every three Americans now alive will develop an invasive cancer at some time during their life. And unless we find better ways to treat the disease, one in every six Americans now alive will die of cancer.

 BLITZER: What should

someone do? He or she goes to the doctor, and the doctor says, "You have cancer," and you get scared immediately. But what is the immediate advice that you should give these people who are diagnosed with some form of cancer?

 ROSENBERG: Well, the

devastating impact of a cancer diagnosis is, of course, real. But it's important for people to realize that if they receive the appropriate care, they have about a 50 percent chance of being cured by modern treatments that exist today. So a diagnosis of cancer is not a death sentence at all. Half the people can be cured and live out their normal life spans.

The greatest advice I could give to someone, of course, is to not smoke cigarettes; 100,000 of those 520,000 deaths that will occur this year are completely preventable if we could only convince people to stop smoking. Lung cancer now exceeds breast cancer as a cancer killer of women. Lung cancer in women was almost unheard of 50 years ago. But because of this relentless campaign to convince women to smoke, it's now become the greatest cancer killer of women -- a totally preventable disease.

BLITZER: And as far as smoking and breast cancer, there's a link there, too, right?

 BRINKER: I think there's a link

between smoking and everything.

 But the real issue, another issue, Wolf, which you sort of alluded to is, we have spent -- though, as Michael and I agree, we haven't spent enough money in this country in this fight against cancer -- but also, some people don't even believe that we've made the progress we have.

 And we have to do a better job of communicating what is in the clinic today,

what people can do about diagnosing your disease earlier, listening to the messages that we tell them, and then making it easier for them to access care when they finally get to treatment.

 These issues are huge and will make, I believe, the discernible difference between living with cancer and living a longer life with it if we execute them properly.

 BLITZER: Very quickly to you, Michael Milken -- I know you want to jump in. But if somebody is diagnosed with prostate cancer, what advice do you have immediately? What is the first thing that they should do?

 MILKEN: I think they ought to make sure they see a good urologist and an expert in the area rather than their local doctor. You know, I've been very active in nutrition and what that can do. And I think they should have a positive attitude since there are so many things capable for them to do today.

 However, I want to come back to one quick point here: There is enormous progress and hope that's been made. The public awareness, particularly, of organizations such as CNN, has dramatically changed the public's view of cancer.

 It was less than five or six years ago when you hardly ever saw this in a public arena. Prostate cancer alone, we've gone from maybe 2,000 stories to 18,000 stories a year.

 And I think it's this awareness -- but we need human capital, scientific capabilities, cooperation. We still only have 3 to 5 percent of adults in clinical trials versus maybe 75 percent for children.

 So there is a significant difference today in what we can do. We just need to get participation. And I think that requires cooperation of patients, for-profit, nonprofit. And it's this cooperation that's allowed us to actually win wars, whether it's World War II, Gulf war and others, and be successful. And we have the technology today to do it, and let's get on with it.

 BLITZER: We have a lot of viewers who want to ask the three of you questions. Let's take a caller, first of all, from Illinois.

 Please go ahead with your question.

 CALLER: Hi, Wolf, I'm 13 years old. And I was wondering what kind of cancer education programs there are for biology students such as myself.

 BLITZER: All right, let's ask Dr. Rosenberg.

 ROSENBERG: The National Cancer Institute has many booklets and programs that are available. There is a number that the people can call -- 1-800-4CANCER -- that is sponsored by the National Cancer Institute that will supply, not only patients with cancer, but their families, with information about a whole variety of topics related to cancer. And so that is certainly one way to do it.

 BLITZER: I know, though, Nancy, there was a lot of commotion when Suzanne Somers went on Larry King a few weeks ago.

 BLITZER: And she was diagnosed with breast cancer. And then she then came up and defended an alternative approach, not the standard traditional approach. I want you to listen to what she said on Larry King Live.

 (BEGIN VIDEO CLIP)

 SUZANNE SOMERS, ACTRESS: We're all looking for all the alternatives. You know, I straddle the fence between Western, Eastern and holistic medicine. And, if I can heal first with Eastern and holistic, I'd rather go there than take chemicals. I'm very antichemical. That's what my books are about.

 (END VIDEO CLIP)

 BLITZER: Now, she could obviously influence a lot of people out there. Is that wise, what she's saying, to try some alternatives before you go with the recommended procedures?

 BRINKER: I don't want to comment on anyone's treatment. I mean, what she's decided, we each have a free choice to make on that issue. And I agree with Michael, there are some conventional people looking at complementary medicines, and there

already are some data which are somewhat convincing.

 But I would say that I still think and believe, as a breast cancer survivor myself, and as someone who's lost someone very dear to me, that the best route really is still to understand, look at the literature, take a long look at it.

 Patients today have a better chance than ever of being advocates for their own care. You know, check with the National Cancer Institute, do all the research in the world you want to do. But it's still a combination of some very, very good conventional therapy.

 And, if you want to try some, make sure whatever you do doesn't conflict with the therapy you're having. That is the real problem we get into.

 BLITZER: Dr. Rosenberg?

 ROSENBERG: Good medicine is based on evidence. And certainly in breast cancer there is wonderful evidence that conventional chemotherapy can prevent the recurrence of breast cancer, following initial treatment of a primary disease, that it can prolong life even after the disease has spread.

 And so, although we'll take any treatment that works, whether it's called complementary or conventional, certainly people should use treatments that have been proven to be effective. And certainly many of the conventional treatments in breast cancer have been shown to be very effective.

 BLITZER: Michael Milken, you know that there are a lot of people looking for that magic pill out there, that bullet to deal with their cancer, but that's obviously very, very unrealistic.

 MILKEN: Well, I have explored, myself, both what we might call alternative -- Indian, Chinese -- medicine, as well as traditional Western medicine. And I believe some day there will be that pill.

 But being a cancer patient takes courage. It takes courage to undergo the treatments. And it's not always an easy course, and many people don't have that courage.

 The promise is that, as Dr. Rosenberg has said, many of these things are totally successful today. And when we see people like Scott Hamilton, who had testicular cancer, Lance Armstrong, who had cancer spread throughout his entire body, they are living symbols of the commitment of Western, modern medicine and its advances. And I think this is what the future holds, if we have the commitment.

 But I think a combination of both the best that Western medicine has to offer and alternative medicine -- and many of these medicines are 5,000 years old. They're not just started last week.

 BLITZER: All right.

 We're going to take another quick break, but we still a lot more to talk about, including your phone calls for Nancy Brinker, Dr. Steve Rosenberg and Michael Milken.

 LATE EDITION will be right back.

 (COMMERCIAL BREAK)

 BLITZER: Welcome back. We're continuing our discussion about cancer with Susan G. Komen Breast Cancer Foundation founder Nancy Brinker, Dr. Steve Rosenberg of the National Cancer Institute, and cancer activist and philanthropist Michael Milken.

 We have another caller from New Jersey. Please go ahead with your question.

 QUESTION: Yes, hi. I'd like to address it to Mr. Milken, Mike. I'm undergoing right now under chemo, I'm a cancer patient. And I can't tell you how devastating this is losing your hair and everything else. But is there anything I can do to fight this crazy disease?

 MILKEN: I think there's a lot of things you can do, and one of the things you can do is participate in your own treatment.

 But I think the other thing is to look at this period of time where you're losing your hair -- I've lost my hair a long time ago -- as a short period of time in your life. And you're looking forward to that period of time in life when you're healthy, you're spending time with your children

and your grandchildren and enjoying what you want to do. But you're making that decision.

 We have a lot of people that have gone to boot camp in our country's history to become better soldiers and defend our country and defend democracy, who didn't like that boot camp experience either. But they made them better men, better women.

 And so, this is just a period of time that you have to make a commitment. And as we all know, sometimes life is not easy, but it's a commitment you're making to living for you and your family.

 Some day we all hope that we take a little pill or get a little shot like a polio vaccine, and I think that's what all three of us on this show are focused on.

 That the American people 50 years ago, more than 70 percent of them thought we'd have a cure for cancer by the year 2000. Very few of them thought we'd have a man or a woman step on the moon by the year 2000. Well, both of those things proved to be inaccurate. And I think it's partly a fact that we have not invested enough money or made it a high enough national priority or brought the human resources.

 It wasn't that long ago, Steve, you remember we were sitting in a table maybe 15 years ago, and you were talking about, did you have enough money to rent a Winnebago to take your three girls on vacation. And I think we've got to create opportunities for our best scientists to work in the field of cancer research.

 BLITZER: Dr. Rosenberg, is enough money being funneled towards this problem right now, or should the U.S. government come up with a lot more?

 ROSENBERG: We have today, I believe, remarkable opportunities. The public often hears about cures that they here in the media. But in fact the problems of cancer are enormously complex, and one requires an enormous scientific base of information if we're going to solve the problems.

 We have available today good ideas, new technologies, but the funding of grants to do research is quite low, and a good deal of good work is not being funded. And so, there's no doubt in my mind that more funding will result in more progress and bring us closer to the successful treatment of many more patients with cancer.

 BLITZER: Nancy, you've raised a lot of money for breast cancer research. Is money still a problem, or there is enough money right now?

 BRINKER: Money is always a problem. And, you know, I think that Steve makes a great point, that even with the amounts of money we raise at the Komen Foundation -- we've raised over \$400 million since we began -- we can still only fund the top 25 percent of grants that we receive. And the bittersweet day is in all those grants arrive in the office, and we know that somewhere serendipitously maybe in that stack of grants is something we desperately need but don't have the funding to go below that level.

 BLITZER: All right.

 MILKEN: Wolf, I think even goes farther than that. Our best scientists are spending sometimes 50 percent to two-thirds of their time trying to raise money.

 BRINKER: Right.

 MILKEN: We'd sure rather have them working in the laboratories trying to find the solution to the problems than trying to figure out how to get money.

 One of the heads of one of the major cancer centers in America, a number of years ago, less than 10, when he said he wanted to work in the field of prostate cancer research, he was told that that was career suicide because there was no money to work in that field. Well, I'm happy that is not the case today.

 But we have to give a promise to our best and brightest that if they choose to work in the field of cancer, and make available the technologies that are available today to them, that there will be funds for them, for their careers, for their families, and to conduct their research.

 BLITZER: All right, Michael Milken, unfortunately we have to leave it right there. We could go on and on but we don't have the time.

 Michael Milken in Los Angeles, thank you very much.

 Dr. Steve Rosenberg, always a pleasure to see you here.

 Nancy Brinker, you're getting ready to be confirmed as the next U.S. ambassador to Hungary. Good luck overseas once you get that confirmation. Thanks.

 And thanks for all your excellent good work to all of you.

 BRINKER: Thank you, Wolf.

 BLITZER: And just ahead, did President Bush score any points on energy and the environment with his visit to California? We'll go 'round the table on that and much more with Roberts, Page and Brooks.

 LATE EDITION will be right back.

 (COMMERCIAL BREAK)

 BLITZER: Time now for our LATE EDITION roundtable. Joining me, Susan Page, Washington bureau chief for USA Today; Steve Roberts, contributing editor for U.S. News and World Report; and David Brooks, senior writer for the Weekly Standard.

 Thanks for joining us.

 Steve, the McCain-Daschle get together this weekend in Arizona, what's your take?

 STEVE ROBERTS, CNN COMMENTATOR: Well, I think clearly John McCain loves all the attention we're giving him. He's gone around saying, "No, no, no, I'm really not leaving the Republican Party," and I don't think he is contemplating leaving the Republican party.

 But I do you think he is intending to work more closely with Democrats on certain specific issues. Already done this on campaign financing, HMO reform, certain gun control matters.

 You know, and Trent Lott says, "We're going to war, and we're going to" -- it's like he's not listening. He tried to bully Jim Jeffords. Look where it got him. He's trying to bully John McCain, and I don't think it's going to work.

 I think McCain's got a lot of leverage, he's going to work with Democrats. I think he's going to stay in the Republican Party, but he's going to be a pain in the neck for Trent Lott and for George Bush.

 BLITZER: You know, we heard Senator Hatch, David, say that, yes, McCain agrees with the Democrats on a whole host of issues, but on many, many more he agrees with the Republicans. Is that accurate?

 DAVID BROOKS, CNN COMMENTATOR: That is true.

 BLITZER: He does?

 BROOKS: Yes. I mean, he's conservative on abortion. He's conservative on budget issues, way more conservative than George Bush. He's conservative on defense, way more conservative than Bush, wants to spend a lot more money.

 There are two issues here. There's the one that is the McCain issue, and then there's the third-party issue. McCain, I know for a fact, was upset yesterday when The Washington Post headlined a story that he was considering leaving the party. He generally does not want to leave the party. He doesn't think he's going to run for president. He thinks he's going to be too old in three years. He thinks Bush is going to be running again.

 But then there's the third-party issue. The Republican Party has moved a little to the right. The Democratic Party, I think, has moved way to the left. There is room there for a third party. I don't think McCain will leave it. But I think it's possible that we could see something over the next couple of years if the Bush presidency goes down the tubes.

 BLITZER: Should the Republicans be at all nervous about the possibility that John McCain could follow in Jim Jeffords' footsteps and, at a minimum, become an independent?

 SUSAN PAGE, CNN COMMENTATOR: Well, one thing to remember is that it wouldn't have the kind of cataclysmic effect that Jeffords did, because the Senate's already been tipped to Democratic control.

But, yes, I think it would be of concern for the Republican Party if they can't seem to hold a more moderate wing of the party. I mean, they don't necessarily need liberal Republicans, but they need people other than conservatives.

 I thought one of the interesting things is that, not only is Tom Daschle at the McCain ranch this weekend, but so is Bruce Reed, who was a domestic policy adviser to Bill Clinton for eight years and is now head of the Democratic Leadership Council, which tries to occupy that kind of center ground. And I wonder, why is Bruce Reed there?

 (CROSSTALK)

 ROBERTS: You know, during...

 BLITZER: Do you think you can answer that question?

 ROBERTS: To some extent, because I think that McCain does have an interest, as I say, in certain issues. Bruce Reed is interested in -- a domestic policy adviser to Clinton -- very interested in HMO reform, a very good example of an issue where McCain is probably more closely allied with the Democrats.

 But, you know, one of the things that struck me during the campaign was, George Bush knew how to count. You know, he had his conservative base, but he knew he had to run through the middle, he knew he needed moderate votes in order to win the election.

 But it's suddenly as if he can't count anymore. You know, you've got all of these Republicans saying, "Well, we got to stick to our conservative principles." Fine, that's 35, 40 percent of the country, and it's not a majority in the U.S. Senate.

 And if you continue to play to your base and not court the moderates, whether it's on certain issues, whether it's McCain or Jeffords or Susan Collins of Maine or Olympia Snowe of Maine, you're going to lose. And suddenly he's lost his ability to calculate.

 BROOKS: Yes, but here's where the Jeffords thing really transforms that. Now Bush really can't be very conservative for the next couple of years. I think what we are going to have in the next couple of years is sort of nothing politics, a lot of bills like the tax bill which are such a mishmash of things -- they have no ideological coherence -- or like the education bill. And we're just going to have a little of this, a little of that, and there will be no big issues for either party to hit the other upon.

 PAGE: Of course, that is exactly what happened to Bill Clinton after the 1994 midterms, and it probably got him reelected in 1996. So, while to conservatives that may sound like the worst of all worlds, to a president who wants to get reelected, maybe that's not all bad news.

 ROBERTS: One person's ideological mishmash is another person's reasonable centrist compromise, which is where the balance of power in this country is. And conservatives and liberals both have to accept that, that that's where the balance is.

 BLITZER: And getting back to what Susan said about Bruce Reed, who was the domestic policy adviser to President Clinton for eight years, he's there at -- he was at the ranch with Tom Daschle as well, at McCain's ranch. But we know that Bruce Reed is passionate about, not only health care, patients' bill of rights, but tobacco -- McCain is passionate about that -- and guns, a big issue. Those are not traditionally associated with the conservative wing of the Republican Party.

 BROOKS: Yes, that's true, but I was at a Democratic Leadership Council meeting in Florida a couple of weeks ago, and many of the leaders in that movement had a sense the Democratic Party was moving to the left, a little way from them. And so there is naturally going to be looking to the other side.

 The other issue I would finger, aside from the ones you've mentioned, is national service. Bush really ran on reinstilling faith in America, in America's young people. I know he and Will

Marshall of the DLC have gotten together to talk about national service, to really find ways to get people, especially young people, reengaged in public life.

 BLITZER: How...

 PAGE: David makes a good point in talking about the Democratic Party, as well as the Republican Party, because I think the Democrats do have a problem.

 PAGE: It's going to be a real task for Daschle not to have them run off to the left and not to have all of this pent-up demand for kind of identifiable, liberal, Democratic positions, because that is going to be no more popular, no more sustainable than it is for Republicans to pursue only conservative positions and conservative bills.

 BLITZER: All right. We're going to talk about that shift in the Senate and some other issues, including Timothy McVeigh, but we're going to take a quick break.

 When we come back, got more of our LATE EDITION roundtable.

 (COMMERCIAL BREAK)

 BLITZER: Welcome back to our roundtable.

 Steve, on Wednesday, Wednesday morning at the end of the business day, Tuesday there will be a new majority and a new minority in the U.S. Senate. Trent Lott will be the minority leader; Tom Daschle will be the majority leader.

 Listen to what Trent Lott was quoted as saying in the Washington Times earlier this week on Thursday. He said this: "There is something liberating about being in the minority. You're not as consumed with trying to move the train. You're freer to advocate positions and amendments you really think should be adopted."

 ROBERTS: Absolutely, it's true. You know that when are you in the minority, you throw hand grenades. When you're in the majority, you have to catch them. It's a much higher-risk occupation.

 But this shift is going to be important. It's not going to be that important in terms of the Democratic agenda, because there is still a veto power in the Republican House.

 But there are two areas to watch. I was talking to Orrin Hatch about this, and he mentioned this when you talked to her earlier. Already we see judicial nominations that are not being made because if they're perceived as too ideological they won't get through.

 And also, this hasn't received a lot of attention: the power of hearings, the power to use the Senate. You take an issue like energy, and the whole involvement of big energy companies in the Republican Party and spending money. We saw this week Enron (ph), a big energy company - half the Bush team has got stock in this company. That's the kind of thing that Democrats in control of the Senate can hold hearings on, make life very uncomfortable. A very important part of this shift.

 BLITZER: How worried should Trent Lott be about remaining the Republican leader in the Senate? When he became the majority leader six years ago I think there were 55 Republicans. Now there are 49 Republicans in the Senate. Is there grumbling going on there?

 BROOKS: There's a lot of grumbling, but no opponents. There are people who aren't thrilled with the way he has behaved or the way he'd led the party. But there's no one person who everyone else can rally around. There's lots of talk about Senator Nickles, and five or six other senators get mentioned, but none of them have the votes to challenge Trent Lott. So I think Trent Lott is reasonably secure.

 And one of the interesting things about this hearings thing, you know, when the Republicans took over and Clinton was in office, I remember Republicans would say, "Oh, we've got hearings power. We're going to just dominate the agenda." It didn't work. The presidency is still the dominant player in town, and I can't imagine the Democrats...

 (CROSSTALK)

 ROBERTS: But

the hearings on campaign financing certainly embarrassed and distracted the Democrats, the Thompson hearings. There are ways in which the Republicans used that power.

 BROOKS: In a limited way.

 What I would think is an interesting dynamic is how the Bush team goes to the House and tries to use the House to get on the offensive, rather than waiting for the Senate and the Democrats to be on the offensive.

 BLITZER: But it's not as if they have a huge majority in the House either.

 BROOKS: But they've got a working majority.

 PAGE: Given House rules too, you know, it's easier to use one or two votes to keep everybody in line on the House side. I wonder if that's not going to -- it seems to me that's not exactly a strategy that's going to convince us all they are on the offense.

 (CROSSTALK)

 BROOKS: We're just going to get mishmashed for a few years.

 ROBERTS: Look, part of Lott's problem - Lott's biggest problem comes from the right. It comes from the hardline conservatives who say he's being too moderate when he formed this deal with Daschle to share power in the Senate. He got tremendous heat from his own conservative wing. These are the guys that can't count.

 BROOKS: This is your fantasy about the Cossacks coming over the Caucasus and attacking Trent Lott. He's got no problem with the right, I don't think.

 BLITZER: And Susan, I want to just button this up, judicial nominees. That obviously - and Steve suggested it - they're going to have to be careful, sending over moderates. If there is an opening, if Judge Rehnquist, for instance, the chief justice, if he were to retire, Antonin Scalia becoming the next chief justice, is that out of the question now?

 PAGE: I think that if the first Supreme Court justice position to be filled, it would be filled by one of two people. One would be an Hispanic judge, and there are a couple of possibilities. And the other is the man who was on this show, Orrin Hatch, because Senator Hatch is a conservative Republican, but he's a senator with good relations with Democratic senators. And those are the two nominations, the two types of nominations that could get confirmed, I think, without very much trouble.

 BLITZER: All right. I want to spend a little bit of time talking about the media's coverage of the Bush twin daughters. It's been a subject that's caused a lot of controversy. We've been flooded with e-mails from both sides to a certain degree, but a lot of people think we shouldn't even mention this subject, these 19-year-old girls who are about to be sophomores in college.

 Some people say, though, Bush himself, the president brought this on us by referring to his own daughters. Listen to this montage of statements the president said about his daughters and the issue that came up at the end of the campaign on November 2 when it was revealed he was arrested many years earlier driving under the influence of alcohol. Listen to this.

 (BEGIN VIDEO CLIP)

 BUSH: I made the decision that, as a dad, I did not want my girls doing the kinds of things I did.

 (END VIDEO CLIP)

 (BEGIN VIDEO CLIP)

 BUSH: I didn't want to talk about this in front of my daughters. I told my daughters they shouldn't be drinking and driving.

 (END VIDEO CLIP)

 (BEGIN VIDEO CLIP)

 BUSH: I'm a dad. I'm trying to teach my children right from wrong. I chose the course that, to my daughters, I was going to tell them they shouldn't drive and drink, and that's the course of action I took.

 (END VIDEO CLIP)

 BLITZER: Is this a story, shouldn't we be reporting when the girls get cited for false ID or whatever? ROBERTS: Yes, and I know the

public doesn't agree with us. CNN poll, 84 percent said this should be a private matter, so it's an unpopular point of view.

 A, this is a fact, not a rumor. They were cited.

 Secondly, one of the daughters, Jenna, has been cited twice in the last month.

 Third, and most importantly, as what we just saw, Bush himself used his daughters to deflect criticism. He said, "I'm not going to talk about my own past because I want to be a good role model for my kids." Fair enough.

 But he has injected that idea, he used them in the campaign. He is the one who introduced the whole issue of his daughter's behavior in the political campaign. It's justified for us to cover it, and it's justified for us to expect as a country for him to be talking about it now and setting a better example than he's doing right now.

 BLITZER: David?

 BROOKS: I'm for a little discretion here. They're 19-year-old kids. They're behaving the way college kids do. Their chance now is to lead a normal life so they can grow up normally, mature normally. And, you know, they just turn into emotional freaks if they have to become national celebrities like the British royal family.

 BROOKS: You know, I'm generally a member of the leave-them-alone club as a mother of two teenagers. You know, I understand that there's things you do when you're teenagers you don't want subjected to scrutiny. But I do think when the police are involved and it's an official police matter that the rules are somewhat different, and it's hard to expect the news media not to cover that.

 BLITZER: On that note, we will obviously continue to cover it, but it's going to be a source of a lot of controversy.

 Susan, David, Steve, thanks for joining us.

 And up next, Bruce Morton's "Last Word."

 (BEGIN VIDEO CLIP)

 BRUCE MORTON, CNN CORRESPONDENT (voice-over): Remember when Ronald Reagan came into office saying, "We're going to cut taxes, increase defense spending and balance the budget"?

 (END VIDEO CLIP)

 BLITZER: The president's budget, can he and Congress stick to the numbers?

 (COMMERCIAL BREAK)

 BLITZER: Time now for Bruce Morton's "Last Word" on why, when it comes to the federal government, sticking to a budget is easier said than done.

 (BEGIN VIDEOTAPE)

 MORTON (voice-over): The House and the Senate have approved President Bush's budget for the fiscal year that starts October 1. History, though, suggests the budget is about as real as the Tooth Fairy.

 Under the budget, federal spending would increase by 4 percent, half the previous year's rate. Does that sound like Congress to you?

 First, the budget assumes the projected \$5.6 trillion surplus over the next 10 years will really happen, even though a number of economists think maybe it won't.

 The budget includes no money for the big new education bill -- the House version of that comes to \$24 billion -- and no money for whatever increases in defense spending Secretary Rumsfeld may ask for when he finishes his review of U.S. defenses.

 Finally, to believe in the budget, you have to believe that Congress really will stick to that 4 percent spending increase limit. Uh-huh.

 A White House spokesman says, "Our intention is to enforce the numbers in the budget."

 Democratic Senator Kent Conrad of North Dakota says the budget is a fiction.

 (BEGIN VIDEO CLIP)

 SEN. KENT CONRAD (D), NORTH DAKOTA: We don't have the money for item after item. And the reason is, when we get all of those items together, what we'll find is that the overall package does not add up.

 (END VIDEO CLIP)

 MORTON: History says, bet on Conrad.

 Remember when Ronald Reagan came into

office, saying how we're going to cut taxes, increase defense spending and balance the budget? He did two out of three, but he and the first President Bush ran up enormous deficits, most of the national debt we have today.

 Consider: Roll Call, the Capitol Hill newspaper, reports the House Appropriations Subcommittee on Transportation -- that's roads, bridges, the good stuff -- has received roughly 10 requests for special projects per congressman, twice as many as last year.

 Consider: A Colorado Republican denounced spending: "This place is just a nut house when it comes to spending." But the same day he asked for \$6.6 million to buy the Beaver Brook watershed in, of course, his district. He explained that this was an especially worthwhile project, but of course, that's what they all say. Nobody stands up and says, "We don't really need this, but give me the money anyway."

 Conservatives like tax cuts because they think they will hold down spending and the size of government. Republican Orrin Hatch of Utah says, "If we don't cut taxes, they" -- the Congress -- "will spend every dime of it."

 The trouble is, if you do cut taxes, they're likely to spend it anyway, every dime and a little bit more.

 I'm Bruce Morton.

 (END VIDEOTAPE)

 BLITZER: Thanks, Bruce.

 Now, it's time for you to have the last word. Senator Jim Jeffords' decision to leave the Republican Party generated the most response from you.

 Pat writes this: "Blame should not be placed on President Bush or the Republican leadership for "Turncoat Jeffords'" jump. It's time for the Republicans to move on and forget about Jeffords. He did nothing to help the party. He is now where he belongs."

 But Dan from Michigan says, "I applaud Senator Jeffords for the courage of his convictions last week. I now hold out great hope that the Senate can work to restore the true bipartisanship and the voice of the moderate, which our nation so desperately needs."

 Carlton from Oklahoma says, "Others in Congress, both Democrat and Republican, should follow his lead and do what's right, not what's popular."

 But Bobby and Patty from Texas disagree. They say this, "When a person is elected as a member of a particular party, they should be obligated to remain in that party until their term expires."

 As always, I invite your comments. You can e-mail me at lateedition@cnn.com. And don't forget to sign up for my weekly e-mail at cnn.com\email.

 When we return, we'll reveal what's on the cover of this week's major news magazines. Stay with us.

 (COMMERCIAL BREAK)

 BLITZER: Beautiful day here in Washington.

 And now a look at what's on the cover of this week's major news magazines.

 "TIME" magazine welcomes you to "America: The border is vanishing before our eyes, creating a new world for all of us", on the cover.

 "Newsweek" has a special report: "Aids at 20. Can this man find a vaccine?" with Seth Berkley (ph), founder of the International Aids Vaccine Initiative, on the cover.

 And on the cover of "U.S. News and World Report," "Sin City no more? Why Las Vegas is the face of America's future."

 And that's your LATE EDITION for Sunday, June 3. Please join us again next Sunday and every Sunday at noon Eastern for the last word in Sunday talk.

 And if you missed any of today's program, you can tune in tonight, 7:00 p.m. Eastern, for a one-hour replay of LATE EDITION.

 I'll see you tomorrow night on Wolf Blitzer Reports, 8:00 p.m. Eastern. My special guest, New York Mayor Rudy Giuliani.

 Until then, thanks very much for watching. Enjoy the rest of your weekend. I'm Wolf Blitzer in Washington.

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Strickler, Marie

From: Harvey, Christy [Christy.Harvey@wsj.com]
Sent: Monday, January 14, 2002 10:01 AM
To: 'Marie.Strickler@do.treas.gov'
Subject: One last question

Am i correct if i say there have been no other Treasury statements RE Enron and Rubin? Is this all that's been said?

-----Original Message-----

From: Marie.Strickler@do.treas.gov [mailto:Marie.Strickler@do.treas.gov]
Sent: Monday, January 14, 2002 9:46 AM
To: Harvey, Christy
Subject: Statements by Michele Davis
Importance: High

Here is the statement -- it is everything that Michele said on Friday.

Statement by Michele Davis, Assistant Secretary of the Treasury (Public Affairs):

Following Ken Lay's call to the Secretary, the president of Enron called Undersecretary Fisher. Undersecretary Fisher spoke with president of Enron 6 to 8 times in late October and early November.

The calls were informational. The Undersecretary's job is to monitor the effect of any major development on the capital markets. In that role, he is in contact with people in the markets everyday to be aware of their concerns.

As Enron's negotiations with its bankers for an extension of credit neared a decision point, the president of Enron asked Undersecretary Fisher to call its banks. Undersecretary Fisher inferred that he was being asked to encourage the banks to extend credit. He made no such calls.

LATER STATEMENT

:
Robert Rubin of Citigroup called Peter Fisher on November 8 and asked Fisher what he thought of the idea of Fisher placing a call to rating agencies to encourage them to work with Enron's bankers to see if there is an alternative to an immediate downgrade.

Fisher responded that he didn't think it advisable to make such a call.

Rubin said he thought that was a reasonable position.

Fisher made no such call.

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[OUTSIDE SCOPE]

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schedule, and I'll be happy to take questions.

The President this morning had breakfast with a bipartisan congressional leadership to discuss the remaining issues that Congress has on its plate for the rest of the year. He urged the Congress to continue to work together so that the economic stimulus package could be approved by the Congress, he signed this year, he hopes, so that we can help America's unemployment workers.

Following the breakfast, the President met with the CIA for his intelligence briefing; met with the FBI for an update on the domestic front. And then he convened a meeting of the National Security Council.

Throughout the afternoon, the President will meet with members of Congress on trade promotion authority. The House of Representatives is scheduled to take a very important vote tomorrow on whether or not President Bush will have the authority to enter into trade agreements around the world. The President urges members of Congress to vote for that. It will be a very interesting vote, to see whether or not Congress or the House will go along.

The President also early this afternoon will have an event in the Oval Office, where he will announce a new Chairman of the Republican National Committee. And the President will meet with the Prime Minister of Norway this afternoon to discuss cooperation on the war on terrorism.

One update. As a result of the action the President took yesterday in the fight against international terrorism on the financial front, I want to report to you this morning that over \$5 million has been blocked in assets belonging to the Holy Land Foundation. And as a result of the freezes and blocking orders the President has implemented on the financial front worldwide against the war on terrorism, more than \$61 million has been either frozen or blocked around the world.

Q Ari, what makes the President -- I'm taking note of his wide-swinging threats in speeches recently. What makes him think that he has the right to go into a sovereign country and bomb the people?

MR. FLEISCHER: His threats?

Q Any country. Yes, he's --

MR. FLEISCHER: Would you like to be more specific?

Q Does he think he can go beyond Afghanistan or anywhere else?

MR. FLEISCHER: The President has made it clear to the American people that the United States, in the wake of an attack on our country, will defend itself. And as a result of defending ourselves, you can see what is happening in Afghanistan. The President has said that this is a war against terrorism because terrorists continue to pose a threat to the United States and to others around the world, and that he is involved in phase one of defending this country against terrorists, and he will continue to do so.

Q What gives him the authority to go into other countries and bomb them, which is what he is threatening to do?

MR. FLEISCHER: The right as the Commander-in-Chief to protect and defend the American people.

Q Ari, what's the White House reaction to the agreement signed in Bonn by the parties who have been negotiating a future for the Afghan government? Does it meet the standards that the White House has set out -- broad-based, ethnically diverse, women involved?

MR. FLEISCHER: The President is very pleased with the agreement that's been reached on Bonn concerning the future of the Afghanistan government. He believes it is a positive agreement that bodes well for the people of Afghanistan. This vote will allow the people of Afghanistan to take -- this

development will allow the people of Afghanistan to take their country back, and the President is very pleased by that. He's pleased by the multiethnic nature of the agreement. He's pleased by the role that women will play in the future government of Afghanistan. He wants to express his congratulations and praise to Secretary General Annan, as well as to Ambassador Brahimi, for their hard work in delivering this accord.

But much more work remains ahead. This is an important development in the future of Afghanistan, but it's only, in many ways, the beginning. A lot of hard work remains for Afghanistan now to have a stable government that represents and respects the people of Afghanistan. It still will be difficult because Afghanistan is still a nation that is the middle of a war.

Q Ari, on the Middle East, since last weekend's suicide bombings, has Mr. Arafat done anything to impress the President that, in fact, he is making a commitment to peace and to rooting out terrorists?

MR. FLEISCHER: I think if you listen to what the President said yesterday -- now, it's about 16 hours after what he said -- it's too soon to say. The President will keep a very close eye on the events in the Middle East and on the actions that Chairman Arafat takes, to make certain that Chairman Arafat is dedicated to the cause of peace and to making sure that he takes action against the terrorists who are challenging not only the security of Israel, but the authority of Chairman Arafat.

Q But what's the timetable here? Because, I mean, day after day, the President keeps calling on him to do something. I'm wondering when the timetable, when the deadline is for Yasser Arafat.

MR. FLEISCHER: The President has not established it in such a manner. I think that, as always, the President wants to allow events to develop over time in a way that he hopes will be fruitful to convincing the parties in the Middle East that their best interest is to work together, Chairman Arafat and Israel, to forge meaningful peace. And one of the best tests of that will be to see whether Chairman Arafat will take meaningful, long-term, enduring action against the terrorists who are operating out of Palestinian territory.

Q But for now the peace process is dead, is it not, in the President's mind?

MR. FLEISCHER: I think you heard the President address that yesterday, when he said that he has a dream that peace will be achieved in the Middle East. And as I indicated earlier, the Middle East has historically been a cycle between violence and hope. And even in the midst of the violence, the President has not given up hope and he will remain committed to achieving peace.

Q What has President Bush been told about the death of the two Americans in Afghanistan under friendly fire this morning and how it happened?

MR. FLEISCHER: Upon his arrival into the White House, shortly before 7:00 a.m. this morning, the President was informed about the deaths of the Americans and the injuries in Afghanistan that affected people of Afghanistan, as well. And the President offers his condolences to the families and the loved ones of those who have been killed, and he regrets the loss of life very much and also wishes that the injured will have a full and speedy recovery.

Q And what caused it? Does he know anything about what went wrong?

MR. FLEISCHER: The Department of Defense will have more information about any of the specifics, and I'll refer you over to DOD on it.

Q What do you think your chances are in the trade vote tomorrow?

MR. FLEISCHER: Well, I think it's risky business, always, to predict what a congressional vote will be. It has historically been an uphill fight, at least over the last some 10 years, for the President to be given this authority. But the President thinks it is crucial that he be given the authority to enter

into trade agreements around the world, one, to help protect the economy long-term; but, two, to help other nations around the world so they have opportunities to grow and prosper.

Q With the people he's meeting today, are they leaners or how do you see them?

MR. FLEISCHER: They fall into a variety of categories. Clearly, he won't meet with people whose minds are already made up and there's no use talking to them. So the President is going to meet with people where he thinks it can make a difference.

I can report to you that the President has held, prior to today and not including yesterday's flight, six meetings with members of Congress, exclusively on the topic of trade promotion authority. He's met with 41 members of the House, 8 members of the Senate, 19 Republicans and 30 Democrats.

Q Are those large meetings, or one-on-one, or --

MR. FLEISCHER: A variety of forums.

Q Is this over recent, Ari, or --

Q Has he been on the phone with them also?

MR. FLEISCHER: The President may be making some phone calls.

Q Spread over the last six months?

MR. FLEISCHER: Yes, if you recall, in anticipation of this, because the President is such a dedicated believer in the importance of free trade, the President over the summer started having meetings with members of Congress to talk about trade promotion authority. He had a few additional ones, and now, of course, on the eve of a major vote, the efforts are accelerated.

Q This is over that whole period?

MR. FLEISCHER: That's correct.

Q Has the President talked to Sharon or Admiral Zinni? What has been the President's activity in terms of the Mideast?

MR. FLEISCHER: Well, as you know, the President met directly with Prime Minister Sharon here at the White House on Sunday. No, to my knowledge, the President has not had any additional conversations.

Q Has the President had a chance to look at this new proposal by Chairman Thomas that provides additional assistance to workers who lose their jobs?

MR. FLEISCHER: TIA? The President is aware of the proposal by Chairman Thomas and the President is hopeful that as a result of a series of conversations that are taking place, that members of Congress will agree to grant the President the authority to enter into trade agreements around the world.

Q Does he support the Thomas proposal?

MR. FLEISCHER: Well, the President does believe in TIA, the program of trade adjustment assistance. He thinks it is a very helpful way to help people who in individual sectors might lose their jobs as a result of trade agreements. Having said that, the President, as you know, believes that trade agreements create a net increase in jobs. But the President supports the program. The President hopes that in negotiations and discussions they will be successful.

Q Chairman Arafat is saying that he can't get to General Zinni to return any calls to him. Are you aware of that? Has that been a directive to General

Zinni?

MR. FLEISCHER: I'd refer you to the State Department.

Q Ari, in light of the Army's decision to reverse itself on Captain Burlingame, can you tell us how and when the President was advised of that situation? Also, the President's thoughts on that?

MR. FLEISCHER: Yes. As I indicated this morning, this is a matter for the Department of Defense, the Department of Army, specifically. And I don't have anything beyond that.

Q Do you know if the President was at least aware of it?

MR. FLEISCHER: As I say, I don't have anything beyond that.

Q Ari, why do we have to be referred to the State Department on that? I mean why can't we -- can't we know if the administration is having conversations with Yasser Arafat?

MR. FLEISCHER: Because I think you'll get -- well, if you ask me about the President, I can report to you the President has not. If you ask about Ambassador Zinni --

Q -- the Security Council? I mean, obviously, everybody around here knows, don't they?

MR. FLEISCHER: Well, I don't have a phone list of everything that Zinni is doing. He's in the Mideast --

Q That's not the issue. Are there -- do you know of any contacts with Yasser Arafat?

MR. FLEISCHER: His direct report is to the State Department, which is why I said refer you to the State Department.

Q But everybody reports to the President, don't they? I'm asking you as the President's spokesman why you can't comment on whether the administration has contact with Yasser Arafat when they're in the middle of war over there.

MR. FLEISCHER: Well, if you ask me about the President, I'll give you that answer.

Q Ari, following up on this situation at Arlington, we just spoke with the spokesman for the Army Secretary who says there has been no reversal, that they can bury this man in an existing family plot, but not in a separate grave as his family has requested. What are the prospects that the President might get involved and overrule this?

MR. FLEISCHER: Well, again, I said this is a matter for the Department of Defense, the Department of Army. If there's anything further to be added to it, you will know from the White House.

But these are always very sensitive and difficult matters. Arlington National Cemetery is the final resting place where countless numbers of Americans want to be buried. Arlington National Cemetery is also a place that is running out of space. It makes for some of the most difficult emotional issues for the families of loved ones who have been lost in any type of military or any other type of action, having served in the military, also with a nation that wants to honor its promises to people who will be able to be buried into Arlington in the future.

It is always a very emotional and difficult issue, and the military has very stringent rules that they try to comply with, because it makes it easier for everybody to understand what the criteria are. So that's why the Department of the Army is the one who is charged with this. They worked very hard at it, and they understand the sensitivities involved.

Q So are we to take the initial part of your response as an indication that the President might get involved? You said --

MR. FLEISCHER: No, I just said to you -- you asked me and I told you, you know where it stands, that the Department of the Army made the announcement made this morning, and that's where it stands.

Q To follow up on Ken's question and the point he was making on the Middle East, why can't you tell us as the White House spokesman, what, if any, contacts White House officials -- Card, Karl Rove -- has had on this issue with the Department of the Army?

MR. FLEISCHER: Oh, I thought you were asking about, again, Zinni and Arafat. The Department of the Army?

Q Well, again, I'm asking you to tell us what contact --

MR. FLEISCHER: Ron, I'm not aware of any. If I had something to report, I would report it.

Q Can you check to see whether or not there has been any contact or if the White House is involved in this?

MR. FLEISCHER: I raised it this morning, and I had nothing to advise you of. If I had something to advise you of involving the President or the White House's involvement in this case at Arlington, I would advise you of it.

Q So you're saying the White House hasn't been involved as far as you know?

MR. FLEISCHER: There is nothing that I've been made aware of.

Q Ari, two things, real quick. On Ann's question, is the President planning, or has he talked to the families of those soldiers who were killed?

MR. FLEISCHER: I'll try to let you know. And as you know, the President's habit has been to send notes to the families. But if there is anything, I'll let you know.

Q And a second question, quickly. The President, since September the 11th, has showed extreme patriotism, brandishing his flag, talking about this country, the love of this country. What are his thoughts about the American who has fought for the Taliban and his patriotism?

MR. FLEISCHER: Well, the President's first thought is that we need to collect the facts about what has taken place. But I think until then, the President hasn't really entered into the realm of conjecture. I think that -- I would just leave it right there, until the facts can be ascertained about if it's all true what we've read, and why somebody may have done this. But beyond that, I don't think it's fair to speculate.

Q From the initial facts, is it treason?

MR. FLEISCHER: I think Secretary Rumsfeld was asked that question yesterday, and I'm not going to go beyond what he said.

Q I'm asking you, the White House.

MR. FLEISCHER: This is a matter for the people who were involved to ask the appropriate questions, to gather the appropriate information. It's not a time for people in the government to guess or to speculate. These are important matters.

Q But he's fighting against the American government, basically --

MR. FLEISCHER: I understand.

Q Ari, after the breakfast, Speaker Hastert and Leader Gephardt both said that they believe Congress is right to engage in a broad investigation of Enron. And both said that they were open to the idea of having some remedial legislation drafted to protect shareholders, such as those of Enron's, who were affected when their 401(k)s were frozen as the stock value of the company plummeted.

Question one, does the White House support any kind of inquiry into legislation like that? And, two, Mr. Gephardt said the entire Enron situation raises questions anew about the President's ideas about privatizing, even partially, Social Security, because assets held in those funds are subject to all sorts of market pressures, they could disappear overnight. And the Enron situation adds more evidence, the Democrats complain, you just simply cannot and should not privatize Social Security. Your reaction?

MR. FLEISCHER: Okay. On the two points -- on the first point, as you know, right from the beginning I announced that the Department of Treasury and other government agencies are monitoring the events in the wake of the announcement about Enron. And since I said that, Enron has, of course, filed for bankruptcy.

You may want to talk to the Department of Labor. The Department of Labor has jurisdiction over pension issues. It is not uncommon for the Department of Labor, in a time like this, to keep a watchful eye over people's pensions to make sure that any consequences are fairly and adequately dealt with. So they are the agency that would be involved. They have their own criteria to determine whether or not they will have any type of investigation. But the President wants to make certain that all agencies are monitoring events and will take action as their criteria warrant.

On the second point about markets, you know, one of the things about our country is that unfortunately, we can be a land of haves and have-nots. And one of the things that distinguishes the have-nots and the haves is the haves have access to ownership of stock and mutual funds. And, therefore, they have a little piece of a rock that can grow and allow them to enjoy more wealth and a better life.

There are many people in society who would like to have access to markets, so that way they can accumulate wealth. And often, they can't. Social Security is one of the reasons they can't. Young people have all this money taken out of their paychecks, and often they do not receive any return on it, specifically people who are young today pay taxes for a system that is scheduled to go broke before they have any return.

So one of the ways the President sees as helping workers who have a low income is to allow them to have the same market access that upper-income and middle-income people have, so they, too, can accumulate wealth.

Q That doesn't do anything for the Enron 401K.

Q Yesterday, the President and Secretary O'Neill went out of their way to talk about Hamas as a terrorist group with global reach. Is that the first time that that definition has been applied to a Palestinian group? And secondly, this was the first time the President had acted against a group not associated with al Qaeda. What significance should we attach to that?

MR. FLEISCHER: On the first point, I couldn't tell you if that's the first time. I think you would have to take a review of that and see what you -- I can't tell you from everybody in every government -- branch of the government if people have ever used such language. But as you know, Hamas was added to the executive order that the President issued on November 2, allowing the United States to block or to freeze the assets of groups.

The announcement yesterday was on top of that. It was built on the foundation of his November 2 announcement. And I think it shows the world that the President is sincere and will act when he says that this is a multi-front

war and financing of terrorist organizations is one of the fronts at which the United States and others will actively engage.

Q When he first began the war on terrorism, they used terrorist groups with a global reach to apply specifically to al Qaeda. And as part of the rationale for going after these groups, militarily if necessary, should we apply the same criteria to what is now happening in the Middle East? Would the U.S., for instance, consider military action against Middle Eastern terrorist groups?

MR. FLEISCHER: Again, as you know, the President has repeatedly said he's focused on phase one on the war against terrorism, and that's where I think I'll leave it.

Q Ari, two questions on Afghanistan. As part of the agreement today, there was discussion of having some kind of a U.N. force in Kabul, at least for a while. How long -- I know the President has expressed reluctance to have American forces there for long. What kind of contribution is he willing to make, and with what range of time parameters? And, secondly, in order to reach this agreement, were there any American commitments made on aid?

MR. FLEISCHER: The principal contribution the United States is making is creating an environment in which peace can take place in Afghanistan. And if there are to be any international security forces put into Afghanistan, it will only be as a result of winning a war against al Qaeda and the destruction of the Taliban. So I think events are still somewhat fluid involving what type of steps will come next with any international security force. You know, the President is unchanged in what he has always said, that the American military should be used for the purpose of fighting and winning wars, and the President has not changed his opinion on that.

Q On the aid issue?

MR. FLEISCHER: On the which one?

Q On the aid issue, were there any further commitments of American aid for Afghanistan made as part of this agreement?

MR. FLEISCHER: Nothing that I'm aware of, David.

Q Democrats are still, as far as I know, trying to add \$15 billion in spending on homeland security to the defense bill. As I understand it, Republicans, in order to stop that, may end up involving stalling the defense appropriations bill. Does the President think it's worth it to end up doing that in order to keep this money, extra money, off of the bill?

MR. FLEISCHER: In the meeting with the members of Congress this morning, the President made it as plain as day that if the Senate were to send the President a bill that complicates our nation's defense needs, he will veto it. And by "complicate," he means if they try to attach extra spending beyond what has already been promised and agreed to by the Congress to a Defense Department appropriation bill at a time of war, the President will immediately veto it, send it back so Congress can back to work on something that can indeed be done.

There is also a letter that is now circulating up on Capitol Hill, and Senator Lott's office is distributing, that has a sufficient number of senators to sustain any presidential veto. So why on Earth would the Senate go through this exercise when it clearly won't go anywhere, other than to delay America's national defense needs.

America is at war and the war should not be fought on last year's budget. And that's why the President feels so strongly that Congress should send him a defense appropriation bill that has the funding increases for the Pentagon to fight a war and that that bill should not get bogged down by other issues beyond what has already been agreed to by the Congress.

Q Do you want Republicans to vote against that bill?

MR. FLEISCHER: Well, it has yet to be attached on the floor. It passed in the committee with the extraneous spending that the President has said goes beyond how much is necessary to immediately take care of the needs we have on the homeland. And so let's see what happens on the Senate floor.

It's unclear yet whether or not this proposal will actually make it through the Senate floor. But the President has sent Congress as direct a message as you can about the need to pass a defense bill that can get quickly signed into law so our troops can have the resources they need.

Q Ari, in front of the Senate Judiciary Committee yesterday, Senator Hatch said that he saw an element of partisanship in the oversight hearings that are taking place over the way the Justice Department is carrying out its investigation. Does the White House share that view that partisanship is creeping into the Congress's oversight role on the investigation?

MR. FLEISCHER: Well, the President understands very clearly and welcomes Congress's legitimate oversight of all the activities that the Executive Branch engages in. That is how our Constitution is built, and the President is keenly respectful of it. And I don't think it should surprise anybody that the Senate will exercise that review. But I think the President has also noted that there have been some positive statements by many Democrats about the actions that the President has taken on the home front, military tribunals, et cetera, to fight and to win the war on terrorism.

Now, clearly, the American people are overwhelmingly with the President on this. But there very well may be people who represent a small minority and they have that right to do so.

Q Just to follow up. Do you think that there are people that are trying to score political points against the Attorney General or against the President in their criticism of his handling of the situation?

MR. FLEISCHER: You know, there very well may be. But that doesn't bother the President. The President understands that -- he came to Washington from a very different background than many people who have been here for a while. The President came from a state government where you'll see -- not only in Austin, Texas, but throughout many of the states -- less partisanship, less strife. And that's the spirit that the President has been trying to bring to the Congress. I think many people accept that new spirit that has come to Washington. There may be some who won't.

Q Going back to Holy Land Funding, there are many other groups who are raising funds from this country and sending overseas, including many groups in Kashmir and funding terrorists' activities. Do you think the President is going to go now after all those groups who are raising funds from this land?

MR. FLEISCHER: Well, yesterday's announcement was one announcement in a series of announcements the President has been making on the financial front in the war on terrorism. And I really urge you to look at this as a front in a war. And given that fact -- and that's the President's approach to it and that's the message that he has given the Secretary of Treasury and the government investigators and the law enforcement community -- you need to look at this as an ongoing series of events designed to protect this country by drying up the money that's available to those who would do us harm or engage in terrorism around the world. So, as the President has always said, there very well may be more actions to be taken.

Q Just to follow, because the Prime Minister of India when he was here at the White House and met with the President, and also, the Foreign Minister of India, they all said that there are groups here who are funding terrorist groups in Kashmir. And they urged the President and this administration to take action on this --

MR. FLEISCHER: And I think the President is putting groups on notice that no one is going to be safe, no one is going to be immune; if they practice terrorism, the war will be brought to them on a number of fronts.

Q Ari, despite philosophical differences between Democrats and Republicans on the economic stimulus package, it's already December 5th. Does the President feel he will get an agreement?

MR. FLEISCHER: He just doesn't know. No one can say what Congress will do. It's up to Congress, finally. The President will continue to be helpful, but obviously, the Senate was not even able to pass a bill. Unlike the House of Representatives, which was able to pass a stimulus bill, the Senate could not. Now the administration is going -- taking the extra step of working with the Senate in a way that really is unprecedented, it's not common that one branch of the Congress passes a bill -- or one House in the Congress passes a bill, the other doesn't. But the President thinks it's so important to help the economy that a new -- an entirely new procedure has been put in place to help the Senate to complete its work.

Q Let me ask you about fast track authority, which, as you said, is an uphill fight, hasn't been approved for a President since 1994. Dick Gephardt is the leader of the House, a Democrat. He opposed it then, he hasn't stopped opposing it. What makes the President believe that this time he'll get the votes? He needs at least 30 Democratic votes.

MR. FLEISCHER: Well, that's why I make no predictions about how votes will go. This has been in modern times a very difficult issue. But because the President believes in it so strongly, because of the points I made earlier about its ability to create jobs on the home front and give the President the authority he needs when he meets with heads of state and others to negotiate trade agreements, the President is hopeful that the power of reason and the principle behind free trade will convince enough members of Congress to put it over the top. We'll see.

Q Ari?

MR. FLEISCHER: Lester?

Q All nine Republican members of the Senate Judiciary Committee have charged that Chairman Patrick Leahy has used what they termed, quote, "misleading statistics," to try to defend what they charge is a disgraceful effort to block President Bush's judicial nominees. And my question: Does the President agree with these nine fellow Republicans, and what does he think of Leahy's objections to military tribunals?

MR. FLEISCHER: You're asking two questions, one on judicial nominees and the other on tribunals.

Q Make it one. (Laughter.) Does he agree with the other Republicans?

MR. FLEISCHER: I'm not sure how to make that one. Well, military tribunals, I think you've heard that directly from the President himself, and as I said earlier, the President is respectful of those who represent the minority point of view, but that is their right. The President clearly disagrees.

Q He disagrees with Leahy, doesn't he, and he agrees with the nine Republicans?

MR. FLEISCHER: I would ask you for further amplification. Mischievous two-part, one question.

Q U.S. Attorney for the southern district of New York, Mary Jo White, was assigned the criminal investigation of last January's Clinton pardons. But she is now retiring, and there has not been even a report after 11 months. And my question: Can you assure us, Ari, that the President is neither considering a Jerry Ford-type pardon of the presidential predecessor, nor planning that this criminal investigation, so long out of the news, will just expire and kind of let bygones be bygones?

MR. FLEISCHER: Lester, I have no information for you on any presidential pardons. And anything dealing with a matter that's under investigation by the

Department of Justice needs to be --

Q Will it continue? Who is going to continue it? She's leaving.

MR. FLEISCHER: Anything involving investigations with the Department of Justice are sensitive matters that need to be addressed to the Department of Justice.

Q On trade promotion, as the President meets with members of the House who are on the fence, is he prepared to do some horse trading?

MR. FLEISCHER: Well, again, as I indicated, the President believes that trade is right on principle and that is the -- in all the meetings that I have been in, that has been the argument that he's been making with members of Congress, about the need to address trade because on principle, he thinks it helps create jobs.

Having said that, there are certain elements of trade that are always up for discussion; that there are valid points that members can make that typically do get discussed. And there is a lot of consultation that goes on in the trade process; many members of Congress, in exchange for giving up their right to amend an agreement that is submitted to them, seek an additional role in the negotiations. And so that is not an uncommon request from members of Congress. So the President will continue to at on principle as he works with members of Congress and listens to their ideas.

Q Ari, the President is going to be announcing a new Party Chairman this afternoon. How active is the President going to be in next year's campaigns?

MR. FLEISCHER: Well; I think that the President will make his determination about that. But politics, elections are an ongoing part of a democracy, even a democracy that's at war. So I think as the President sees fit, he will increasingly play a role as the election year rolls around and we'll duly report that.

Q Ari, can I follow on that? Some Democrats are raising the question if Governor Racicot will continue in his role as a lobbyist next year, as he heads the Republican Party. What is the President's position? Does he believe that the Governor should no longer be a lobbyist next year as he heads the Party?

MR. FLEISCHER: Well, again, I think the President has made no such announcement yet. So I think until an announcement is made, it's a premature discussion. But there has been an ample history on both the Democrat and Republican side of chairmen being involved in other lobbying or having outside sources of income; that's not an uncommon practice for both parties.

Q Ari, on the principles the President outlined in the stimulus package back on October 5th, it seems there is progress being made on all of them, except accelerating individual tax rates. You said this morning that you consider that one of the more stimulative aspects of a package. Does that mean that the President will not sign a package if it does not contain individual acceleration rates?

MR. FLEISCHER: Well, the President has been very clear about what he thinks Congress needs to do. And one of the centerpieces of what Congress needs to do is accelerate the tax cuts so that it can have an impact on the economy, so people have more money to spend and so that the economy can get the boost that it needs. That is a core component of what the President has proposed.

Q But is it a deal-breaker?

MR. FLEISCHER: No, the President is right now in the middle of discussions with members of Congress about how to reach agreement, not how to reach disagreement. So he'll focus on that.

Q What can you tell us about the EPA decision to force GE to engage in, I think, a \$500 million cleanup of the Hudson River?

MR. FLEISCHER: Let me take another one, then I'll come right back to that.

Q Ari, does the President believe Osama bin Laden has been making a dirty bomb? And, if so, does he think it has been smuggled into the United States? Defense Secretary Rumsfeld is not sure.

MR. FLEISCHER: As you know, the President, himself, several weeks ago raised this very issue. And he said that Osama bin Laden has said it's a religious duty of his adherence to develop such weaponry and to use it if they can. So it is something that the President is concerned about and takes seriously and every precaution is being in place. And that's one of the reasons it's so important to fight and to win this war against the terrorists. So it's a source of concern.

On your question about the Hudson River, EPA Administrator Whitman and the EPA are moving forward on this cleanup of the Hudson River. The Administrator has made it clear the EPA will continue to have an open process that involves all the interested parties, including the people in the affected communities. So that's really the only information I have on it. You may want to talk to EPA. But they are moving forward.

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MORE

#116-12/05

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Q She has not said yet, she is waiting to hear from those who are protesting?

MR. FLEISCHER: She's listening to the various parties as she moves forward, and you may want to get more specific information from her.

Thank you.

END

12:36 P.M. EST

Bradshaw, Tara

From: Bradshaw, Tara
Sent: Thursday, November 08, 2001 8:18 AM
To: Davis, Michele
Subject: Is this the whole transcript???

Importance: High

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The Nightly Business Report

SHOW: NIGHTLY BUSINESS REPORT (NBR 6:30 pm ET)

November 7, 2001 Wednesday

Transcript # 110701cb.118
SECTION: BUSINESS

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HEADLINE: Nightly Business Report

GUESTS: Paul O'Neil

BYLINE: Paul Kangas, Susie Gharib

BODY:

THIS IS A RUSH TRANSCRIPT. THIS COPY MAY NOT BE IN ITS FINAL FORM AND MAY BE
UPDATED.

PAUL KANGAS, NIGHTLY BUSINESS REPORT ANCHOR: The Treasury secretary says, "follow the
money," and Federal agents do just that today as the administration tightens the financial noose on terrorism.
Good evening. I'm Paul Kangas in Miami.

SUSIE GHARIB, NIGHTLY BUSINESS REPORT ANCHOR: And I'm Susie Gharib at the New York Stock
Exchange. Here on Wall Street, investors pull back, waiting for the next round of economic reports. The Dow
breaks its four-day winning streak, losing 36 points, and the NASDAQ inches up two. Then, what kind of cars
are these? Ones you'll see only at the world's most unusual auto show. We take you to Tokyo.

Good evening, everyone. Another attack on terrorism today: the US government once again cracked down on
Osama bin Laden's money supply. Federal agents raided nine locations in four cities this morning: Boston,
Minneapolis, Columbus, and Seattle. They seized evidence allegedly connected to two of bin Laden's financial
networks, called Al Taqwa and Al- Barakat. The government also froze assets of nine organizations and two
people. Treasury Secretary Paul **O'Neill** told "NIGHTLY BUSINESS REPORT's" Washington bureau chief
Darren Gersh that the key to fighting terrorism is choking off the cash.

PAUL O'NEILL, TREASURY SECRETARY: I'm confident that we have interrupted what they consider to be

their normal flow of funds. But I'm not going to be satisfied until their forces in the field melt away because they can't afford to pay them anymore because they don't have the money to pay them anymore.

GHARIB: The Treasury secretary's comments came as part of an exclusive and wide-ranging interview with "NIGHTLY BUSINESS REPORT" on the status of the economy. We'll have that full interview a bit later in the program. Paul?

KANGAS: It was a mixed opening on Wall Street today, with the Dow Industrial Average falling 28 1/2 points by 10:00 a.m. on profit-taking pressures after it rose 267 points, or 2.9 percent, since the week began. The NASDAQ Index, however, posted a six-point gain at the outset as investors continued to look for high-tech bargains. The report of an unexpectedly strong 2.7 percent rise in third quarter US productivity helped the blue chips join the NASDAQ in positive territory as morning trading continued and a firm bond market reacting to low interests extended the gains into early afternoon.

By 1:30 p.m., the Dow was up 31 points. NASDAQ up 25. Unimpressive market breadth and the desire by some traders to take some more profits caused a general downturn for the rest of the session. The Dow Industrial Average closed with a loss of 36 3/4 points at 9554.37 and the NASDAQ Index saw its gain trimmed to only 2.45, putting it at 1837.53.

Big board volume did move up a touch to 1.42 billion shares and about a 4 to 3 margin of down volume over up volume.

The Dow Transport Index up 16 1/3 points.

Utilities however, fell just over 3 points.

The Closing Tick just barely bullish at +146.

Standard & Poor's 500 down just over 3 points.

A 2 2/3 point drop in the 100.

The MidCap 400 edge up .15.

Bridge Futures Price Index gained 1.08.

A loss of 1.81 in the New York Composite.

A 5/100 loss in the Value Line.

Russell2000 was down nearly 2 points.

And the broadly based Wilshire 5000 lost almost 25 1/4 points.

The bond market, still riding high after yesterday's 1/2 percent rate cut, was further bolstered by news that third quarter US productivity rose 2.7 percent when only a 1.8 percent increase was expected.

This certainly helped lift tax-free and corporates to closing gains of 3/8 to 5/8 on average and it gave the Treasury market a strong close.

The 5-year notes up 9/32.

10-year notes up 20/32.

30-year bond up 1 2/32.

And the Lehman Brothers Long-Term Treasury Bond Index up 12.14.

I'll be back shortly to show you where the action was on Wall Street today. Susie.

GHARIB: Paul, returning now to today's developments on the financial battle against terrorism, Treasury Secretary Paul **O'Neill** says the focus of US action today was the Al-Barakat financial organization. In an exclusive interview with "NIGHTLY BUSINESS REPORT," Washington bureau chief Darren Gersh asked **O'Neill** how easy will it be for the terrorists to replace these financial networks.

O'NEILL: It's not easy to create an effective organization overnight to replace one that took 12 years to develop and involved operations in more than 40 countries, including several operations in the United States. These are not easy things to replace, especially if you're lurking in the shadows of illegality. So I would say what we did today is a significant action.

DARREN GERSH, NIGHTLY BUSINESS REPORT CORRESPONDENT: Given that hundreds of millions of dollars were flowing through these organizations and you blocked tens of millions of dollars, are you beginning to get a sense of the size of the overall organization's cash flow? Can you sort of say this is how big this organization was? We think we have an idea.

O'NEILL: I don't think we have enough information yet to draw a firm conclusion about how large this activity is in its totality. But with each new discovery of individual and organization, we're creating a map if you will of a spider web set of connections and it's growing every day.

GERSH: There has been a lot of reporting that bin Laden gets a lot of his funding from wealthy Saudi businessman. Have we been able to trace any of this money back to individual Saudi businessmen?

O'NEILL: Let me say we are looking at every allegation and every individual that's suspicious without regard to their nationality. I think it's significant that a lead was taken today in going after Al-Barakat by the people of Dubai where there seem to be a nexus of Al-Barakat operations, a hub of their financial operations and with regard to the Saudis, I would say as the president did earlier today in his remarks, they have responded to our request. I don't think there are any direct connections of Al-Barakat to Saudi Arabia. There are 40 countries and yes, maybe a minor connection, but I think the evidence is that terrorism is a worldwide threat, that there are many organizations, not just bin Laden's and Al Qaeda that have to be brought to the ground and we're going to do that.

GERSH: Let me ask you about our economy. You have a lot of experience in the auto sector. With the zero percent financing, there's a lot of concern that that's just sort of taking sales from the future. Do you think that that's sustainable and if it's not, what's going to happen to the economy?

O'NEILL: Well, I don't know if it's sustainable. From past evidence, one would have expected some increase in aggregate sales activity for automobiles but what happened is way beyond what anyone would have expected. And so I think we don't know the degree to which we're borrowing from the future.

I had a meeting in this room this morning with eight or nine CEOs of major companies, including one of the auto companies. And we talked about this very issue. And what they're finding is that their inventories are very much in control. As a matter of fact, they're very much lower than they were at the beginning of 2001. Their sales have skyrocketed. They haven't added anything to production plans for the rest of the year and if things continue as they are, they're going to be short of product.

GERSH: Let's talk about the stimulus package. That's something that a lot of people and you are spending a lot of time on.

O'NEILL: Right.

GERSH: It's looking like that stimulus package might end up being something that's on the president's desk, kind of like a Christmas present, just in time for the holiday. Is that how long it's going to take, and if it takes that long, are we going to run into the old problem of fiscal stimulus came a little bit too late and the economy almost didn't need it by the time it got it into effect?

O'NEILL: I must say I worry a lot about that. The president first said in a very concrete way on October the 5th, which is now over a month ago, that he believed we needed a stimulus package on the order of \$60 billion to \$75 billion and that we needed it right away and we've already lost a twelfth of a year in discussion. And I'm very, very anxious that we get this done. I don't know why we can't get it done by the middle of November. But we're running out of days to accomplish it by then.

GERSH: Mr. Secretary, thank you.

O'NEILL: My pleasure. Thank you.

KANGAS: The upward momentum of the previous four sessions kind of ran out today. The Dow ran into some profit taking, off 36 3/4 points, pretty mild, and actually 71 more issues higher than lower overall. 129 new yearly highs, only 37 new lows.

Enron (ENE) topped the active list on a massive 72.4 million shares. The stock traded as low as \$7 a share today and then it came back up rather nicely. The "Wall Street Journal" online says Dynegy (DYN) is talking to the company about making a \$2 billion investment and that includes \$1.5 billion from ChevronTexaco (CVX). And there was also a lot of talk after the market closed about an outright buyout bid.

Compaq Computer (CPQ) down \$0.51. David Packard, one of the sons of a founder of Hewlett-Packard, came out against Hewlett's acquisition of Compaq today, just like the Hewlett family did yesterday.

AOL Time Warner (AOL) down \$0.65.

EMC (EMC) fell \$0.28.

And Qwest Communications (Q) also fell \$0.28.

Hewlett-Packard (HWP) itself was off \$0.63.

Lucent Technologies (LU) down \$0.36.

American Tower (AMT) off another \$1.04. Yesterday, it dropped \$3.84 on a third quarter loss of \$0.65 a share. Today, Lehman Brothers dropped its price target from \$47 all the way down to \$33. But that's a little after the fact it looks like, to me.

Nortel Networks (NT) was up \$0.01.

And then Nokia (NOK) down \$0.86, tenth in big board volume.

Aetna (AEF), the big insurance company, down \$0.77. It traded as low as \$28.80, though. The company had a

third quarter loss of \$0.34, excluding one time items. That's versus earnings of the previous year. The Street estimate was for a bigger loss, though, of \$0.55.

British Airways (BAB) up \$2.67. The CEO says the company's cash position is stronger than a lot of analysts have been thinking.

International Game Technology (IGT) up \$4.25. Yesterday it had higher fourth quarter earnings, \$0.73 versus \$0.66. Today Merrill Lynch upgraded it from "accumulate" to "near term buy."

Polo Ralph Lauren (RL) up \$1.01. Second quarter earnings higher, \$0.52 versus \$0.50, and the company reaffirmed its third quarter estimate in the range of \$0.42 to \$0.46. ABN Amro Brokerage repeated a "buy."

Symbol Technologies (SBL) up \$1.15. ABN Amro there upgraded it from "hold" to "buy."

And Waste Management (WMI) up \$1.63. Third quarter earnings higher, \$0.36 versus \$0.33 despite a seven percent drop in revenues. Standard & Poor's repeated an "accumulate" rating.

Lands' End (LE), the big catalog retailer, had a good day, up \$6.41. Third quarter earnings \$0.41, way up from \$0.15 last year, and the Street estimate was only \$0.18. Goldman Sachs upgraded the stock from "market perform" to "outperform."

AmeriCredit (ACF) up \$2.30. It's involved in auto financing, of course, and the CFO today said the company had a very solid October.

Aquila (ILA) up \$2.56. Utilicorp United (UCU) is going to back -- buy back the 20 percent it doesn't already own for about two thirds of a share of its stock. Today that would be worth about \$19.75 to Aquila shareholders.

Vesta Insurance (VTA) tumbling \$5.83. Third quarter operating earnings only \$0.04, down from the Street estimate of \$0.26.

And Alparma (ALO), the big international pharmaceutical, third quarter earnings lower, \$0.35 versus last year's \$0.45. The company sees a fourth quarter loss of \$0.15. The Street was expecting earnings of \$0.40.

And AON (AOC), this is another insurance company, down \$4.21. Third quarter earnings lower, \$0.37 versus \$0.47, and the company says weakness in the stock market could be hurting the fourth quarter.

NASDAQ trading, a gain of nearly 2 1/2 points. Volume just over two billion shares. 1640 up and 1889 on the down side.

QUALCOMM (QCOM) topped the active list. It closed up \$0.38, although it traded as low as \$51.19 after reporting after the close yesterday earnings below expectations by \$0.02 at \$0.23 a share.

Cisco (CSCO) was up \$0.46.

Microsoft (MSFT) fell \$0.53, some light profit taking.

Intel (INTC) edged up \$0.04 a share.

And Sun Microsystems (SUNW) gained \$0.20.

Juniper Networks (JNPR) was up \$0.59.

QLogic (QLGC), a \$0.78 gain.

Dell Computer (DELL) gained \$0.01.

And then Broadcom (BRCM) losing \$0.68.

Oracle (ORCL), tenth in volume, was up \$0.36. Narrow movement on that board.

Napro Biotherapy (NPRO) had a good day, up \$2.11. The company says yesterday's appeals court ruling against Ivax's (IVX) generic version of Paclataxol (ph) will not prevent marketing approval of its own version of that cancer drug.

And Genencor International (GCOR) was up \$2.18. The company received a five year contract from Procter & Gamble to provide enzymes for laundry and dish detergents.

And Nanogen (NGEN) down \$1.34. UBS Warburg downgraded it from "buy" to just a "hold."

The American Exchange Index (XAX) up just over 4 1/2 points. Ivax rebounded \$1.95. The company thinks yesterday's appeals court ruling will not keep it from marketing its generic form of Taxol.

And Sifco Industries (SIF) down \$0.83, sharply lower third quarter earnings, \$0.03, down from \$0.19 the year before.

And finally, the Index Shares all fractionally lower, but not by much.

That's the Wall Street Wrap Up. Susie?

GHARIB: Paul, the Tokyo Auto Show wrapped up today. The four day extravaganza showcased some of the most unusual cars ever to hit the road.

But as Lucy Craft reports, some of the out of the box designs were so unusual they seemed to belong in a home builders exhibition.

LUCY CRAFT, NIGHTLY BUSINESS REPORT CORRESPONDENT: Wacky, outrageous and bizarre, just another day at the Tokyo Motor Show, where Japanese auto makers have refined the so-called concept car to a high art.

CHRIS RICHTER, AUTO ANALYST, HSBC SECURITIES: It's a little bit akin to having a meeting and brainstorming and throwing out every impractical idea that you might have.

CRAFT: How's this for impractical, a car with a tail that cries when it needs more gas or flashes red in anger when driven recklessly? In fact, Toyotas' (TM) pet like Pod concept car, based on robotics technology from Sony (SNE), is a bundle of color-coded emotions aimed at keeping its owner amused as well as safe.

STEVE USHER, AUTO ANALYST, J.P. MORGAN: I think the Pod was a perfect example of sheer creativity. I don't think that Toyota or Sony have any immediate plans to commercialize the vehicle. The idea, though, is to say OK, this is where we can go. This is what can be done with a vehicle. How it ultimately manifests itself on a commercial offering is going to be a very different issue. But it's just, you know, testing the edge of the envelope.

CRAFT: Like replacing the steering wheel, brake and gas pedals with a single control, a drive by wire joy stick, or installing Internet connected consoles, allowing drivers and their passengers to surf for the weather, a

restaurant reservation or an online game.

RICHTER: The idea was it's not necessarily to say this is the future, but sort of to pack into a car everything that might be the future and maybe start to get a little bit of gauge what bits of I.T. technology consumers really want in their car and what's merely decoration.

CRAFT: Some of the concepts on display seemed more like rec rooms on chassis, like Honda's (HMC) see through Unibox (ph), equipped with its own set of built in motorcycles. Or take the Zen from Isuzu. Forget the usual scuff resistant floor pads. This elongated car features delicate straw Tatami (ph) mat floors. Analysts say there's a cultural rationale driving these radical designs. While Americans see cars primarily as transportation, on Japan's overcrowded roads, cars and naturally evolved to become an extension of the living room.

MORGAN: It's important to remember that it's the Japanese, really, who have advanced ergonomics in vehicle interiors -- cup holders, a very simple example -- but really were pioneered by the Japanese, a very obvious idea, but an idea that had to come from people who spend an awful lot of time sitting in their car, not necessarily driving their car. And the idea that you want to make the interior of the car more multi functional and much more comfortable, I think, is an idea that by necessity has come out of the Japanese market.

CRAFT: Analysts say it's impossible to predict how badly the worldwide downturn will hurt car sales over the coming months but there's no uncertainty about the fate of these concept cars. Most of the high tech gizmos on display here, say observers, will never make it onto the road, destined to stay on the sci-fi dream list of their designers.

Lucy Craft, NIGHTLY BUSINESS REPORT, Tokyo.

KANGAS: Tomorrow, what's ahead for the markets? We talk with Mario Gabelli (ph), Chairman of Gabelli Funds.

GHARIB: Bridgestone/Firestone reportedly agreed late today to a huge settlement to head off lawsuits by states preparing to sue over defective tires. According to published reports, the tire maker will pay \$41.5 million. Each state will get a half million dollars. Six and a half million Bridgestone/Firestone tires were recalled last year. Those tires were linked to 271 deaths.

KANGAS: A major break, a major break for Exxon Mobil (XOM) today. A federal appeals court threw out a \$5 billion punitive damage award Exxon was ordered to pay for the massive 1989 Exxon Valdez (ph) oil spill in Alaska's Prince William Sound. It was the worst oil spill in U.S. history. The appeals court ordered a district court to review the case and set a new, lower amount. Even so, Exxon Mobil's stock fell \$0.16, to close at \$39.08.

GHARIB: The Concorde is back. Two supersonic planes, one from Air France (ph), the other British Airways (BAB), touched down within an hour of each other this morning at New York's JFK Airport. They're the first passenger flights of the Concorde since a fatal accident 15 months ago near Paris. The Air France plane carried 92 passengers, including France's transport minister. The British Airways Concorde had 91, including rock star Sting.

KANGAS: So far, 2001 is a year that most stock market investors would rather forget. But since launching last December, Ameristock Focused Value Fund has not only been able to beat the market, it's achieved a return well into the double digits. In fact, for the year through yesterday, Ameristock Focused Value D Fund was up more than 32 percent. That's a record exceeded by only a handful of funds. The fund's Co-Portfolio manager is Howard Mah, who joins us now from San Francisco. And Howard, welcome to NIGHTLY BUSINESS REPORT.

HOWARD MAH, AMERISTOCK FOCUSED VALUE FUND: Thanks for having me on, Paul.

KANGAS: First, there are quite a few value mutual funds out there, but what exactly do you focus on in your Focused Value Fund?

MAH: We focus on not having to really focus on any sector of the economy. Our focus is on holding 12 to 15 stocks that we like with the philosophy that holding a small number of good stocks with good up side potential is better than holding a large number that has little or no potential up side.

KANGAS: Now, I understand that your fund's holdings tend not to be household names. Tell us some of these stocks that you like and explain why you like them.

MAH: The first one is Media Arts, ticker symbol MDA. That's our favorite and our largest holding. They manufacture, design and market the home-based art work of Thomas Kincaid (ph), which is a very popular artist, currently trading a shade over \$2, book value about \$6. So there's a lot of up side potential there.

KANGAS: OK.

MAH: We also like Shopko Stores, symbol SKO. They operate up in the Midwest-Pacific Northwest.

KANGAS: Oh, yes. OK.

MAH: A discount retailer.

KANGAS: I know that one of Ameristock's key policy is to have low turnover, meaning that you tend to hang onto your stocks. But at what point would you sell some of your current holdings?

MAH: Our current holdings would be sold if they met our pre-designated sell price.

KANGAS: They get up to a certain price-earnings multiple and out you go, right?

MAH: When they get -- that's correct. When they get to a certain multiple that we deem to be a fair market value then we just remove them from the portfolio.

KANGAS: Right. Now, looking ahead, do you see the economy and the stock market picking up any time soon?

MAH: Well, I was asked that question earlier this year and I said probably by the middle of next year but with the events of September 11 I think that's probably pushed back to the following year, 2003. I would look for it to pick up the first or second quarter of 2003.

KANGAS: OK, now looking into your own background, you were a tax consultant and financial adviser before becoming a money manager. In light of the success that you've had, any advice to the smaller investor at this stage?

MAH: My advice is for those investors sitting on the sideline, now is a good time to get back into the market. I'm certain we have reached a buying opportunity and there's certainly a lot of buying opportunities in the small and mid cap arena at this point in time.

KANGAS: OK, very good. Howard, thanks very much for being with us.

My guest, Howard Mah, Co-Portfolio manager of the Ameristock Focused Value Fund.

GHARIB: And recapping today's market action, the Dow fell 36 points and the NASDAQ gained about 2.

And please be sure to join us at our World Wide Web site, nbr.com.

And that's NIGHTLY BUSINESS REPORT for Wednesday, November 7. I'm Susie Gharib. Good night, everyone. And good night to you, Paul.

KANGAS: Good night, Susie. I'm Paul Kangas wishing all of you the best of good buys.

LOAD-DATE: November 7, 2001

Bradshaw, Tara

From: Bradshaw, Tara
Sent: Tuesday, October 23, 2001 6:45 PM
To: Weinberger, Mark; Davis, Michele; Smith, Chris; Nichols, Robert
Subject: AP wire story w/ O'Neill quote re: Baucus bill

Attacks-Economy, 1st Ld-Writethru, a0750,770
House stimulus bill would give billions to huge companies; Senate

Democrats present alternative
Eds: INSERTS new grafs 14-15, But Treasury ..., to UPDATE with
O'Neill comment
By CURT ANDERSON=
AP Tax Writer=

WASHINGTON (AP) General Motors, IBM and Kmart are among corporations that would receive billions of dollars in tax refunds under a \$100 billion House Republican economic stimulus package. Democrats say it is far too generous to companies and does too little for individuals.

Seven companies would get a total of \$3.3 billion in refunds of alternative minimum taxes they paid as far back as 1986. The tax, which the House legislation also would repeal outright, is intended to ensure a basic minimum income tax is paid by companies and individuals that claim numerous deductions and credits.

IBM would get a \$1.4 billion refund, according to the nonpartisan Congressional Research Service, while GM would get \$832 million, Kmart \$102 million and General Electric \$671 million. Others specified for big refunds include energy giant Enron, at \$254 million; U.S. Steel, \$39 million; and grocery chain Kroger, \$9 million.

In addition, the study found that Ford Motor Co. would get a refund that could total \$2.3 billion, while Chevron's could reach \$314 million.

Counting repeal of the tax, corporations would get more than \$25 billion in tax relief from these minimum tax provisions in 2002 alone. In addition, the bill would make permanent a temporary tax break for financial services firms doing a lot of overseas business, providing them \$21 billion in tax relief over 10 years.

The generous corporate tax breaks are among the most contentious items in the House GOP measure, scheduled for a floor vote Wednesday. Democrats say the measure is certain to change once it reaches the Senate; the Bush administration also has signaled that \$100 billion is too costly.

"It's clear the House bill cannot pass the Senate as it is," said Sen. John Breaux, D-La.

For individuals, the House legislation includes a new round of tax rebate checks for workers who didn't get them this summer and a cut in the current 27 percent income tax rate to 25 percent in 2002, four years earlier than under the just-enacted tax cut. The measure also reduces capital gains rates from 20 percent to 18 percent for most taxpayers, enhances business equipment write-offs and allows companies to deduct current losses against taxes paid five years earlier.

The primary sponsor, Ways and Means Committee Chairman Bill Thomas, said in a newspaper opinion piece published Tuesday in USA Today that the legislation "is a shot of adrenaline" that will help restart the economy while not triggering inflation.

"Businesses generate jobs, and jobs are the core of a strong

economy," wrote Thomas, R-Calif.

While bipartisan support backs some of the House items, Senate Democrats have been pushing for expanded unemployment benefits and help for workers who lose health insurance. Sen. Max Baucus, chairman of the Senate Finance Committee, presented a \$70 billion proposal Tuesday that would extend unemployment benefits by 13 weeks, provide a 50 percent federal match for COBRA health insurance policies and allow more workers to qualify for Medicaid.

The legislation also includes rebate checks and some business items similar to the House bill but not the capital gains reduction or the alternative minimum tax relief. Tax cuts in the Baucus measure would total \$35 billion in 2002, far below the House GOP level.

"This proposal appropriately responds to the sign of the times, helping this nation get back to work and recover quickly," said Baucus, D-Mont.

But Treasury Secretary Paul O'Neill, who has been the Bush administration's point man in stimulus negotiations, said he was "disappointed" in the Baucus proposal. He said it contained \$50 billion in new spending instead of focusing more on tax cuts.

"This is a spending package, not a stimulus package," O'Neill said.

Other Democrats were working on still more spending programs. Senate Appropriations Committee Chairman Robert Byrd, D-W.Va., said he was putting together a \$20 billion package that included hiring extra customs and border agents and food inspectors, augmented security at nuclear plants and purchase of more vaccines.

Sen. Charles Grassley, R-Iowa, said President Bush does not want the stimulus bill laden with additional spending.

"Everything in this package needs to be stimulative," Grassley said. "There needs to be more done on the investment side."

Granat, Rochelle

From: FedNews OnLine [georgev@fpmi.com]
Sent: Friday, April 27, 2001 6:15 AM
To: *FedNews
Subject: FPMI's FedNews OnLine (tm)

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Editor: John Southerland (mailto:johns@fpmi.com)

Friday, April 27, 2001

In Today's Edition:

- 1) VOTING MACHINE PROBLEMS BEHIND AFGE ELECTION PROBLEM
- 2) ADMINISTRATIVE JUDGE GIVES TIPS ON MSPB HEARINGS
- 3) FINAL RULE OUT ON ELECTRONIC ACCESS FOR FEDS WITH DISABILITIES
- 4) BUSH TO NOMINATE FOUR TO SERVE IN HIS ADMINISTRATION

VOTING MACHINE PROBLEMS BEHIND AFGE ELECTION PROBLEM

Mark Roth, the general counsel for the American Federation of Government Employees, informed FedNews OnLine that the Department of Labor is deliberating what should be done concerning an August, 2000 election in which a number of ballots weren't correctly counted in the AFGE National Secretary Treasurer race.

Roth said a recent three-day manual recount of the original machine count (and machine recount) revealed that former AFGE National Secretary Treasurer Rita R. Mason ended up with about 34 percent of the vote, compared to about 29 percent for sitting AFGE National Secretary Treasurer Jim Davis. According to the machine count and recount, David Schlein finished a close third in the balloting with just under 29 percent of the vote, Roth said.

However, a manual recount under the Department of Labor's supervision revealed that a number of Schlein's votes were not counted, even though they were filled out correctly, Roth said. Had the machine counted the votes correctly, Schlein, a national vice president of AFGE, would have been in a run-off with Mason for the national secretary treasurer position.

Roth said it was the first time this particular machine had been used and that the machine can be reprogrammed to eliminate mistakes in the future.

Mason issued a press release April 16 calling attention to the mistake and asking that she and Schlein be put in a run-off to settle the election and that Davis should not have even been allowed to

participate in the run-off.

Roth said that before anything can happen the Department of Labor will issue a letter announcing what it intends to do concerning the election. He said they have a "very flexible" deadline of June 9 to issue a letter. Even then, Roth also said Schlein hasn't announced what he intends to do, if anything, to see about getting the matter resolved.

"We are really at the beginning of this. You could say we are at the end of the beginning. There are still a lot of options for (the Department of Labor) to consider," Roth said.

The problems with the machine count occurred at AFGE's national convention in Orlando, Fla.

ADMINISTRATIVE JUDGE GIVES TIPS ON MSPB HEARINGS

Administrative Judge Stuart Miller of the Atlanta office of the Merit Systems Protection Board was the featured speaker at the April 26 meeting of the North Alabama Chapter of the Federal Bar Association.

He presented "13 Ways to Lose a Case Before the MSPB" The following are the top five:

1. Be unprepared - many appellant's representatives are not prepared for the pre-hearing conference thus losing the opportunity to provide and gain valuable insight into their case.
2. Not know the burden of proof that applies to the case - this occurs both as agency rep and appellant's representative.
3. Don't present case in civil way - not showing respect for the judge and opposing counsel can lead to reducing your own credibility in the eyes of the judge.
4. Fail to listen - some representatives are too busy talking they fail to listen to what the judge or opposing counsel is saying.
5. Don't know or ignore MSPB regulations - failure to observe timeframes for submissions or requirements for discovery may lead to procedural deficiencies you may not be able to cure.

FINAL RULE OUT ON ELECTRONIC ACCESS FOR FEDS WITH DISABILITIES

The Civilian Acquisition Council and the Defense Regulations Council have agreed on a final rule amending the Federal Acquisition Regulation (FAR) to implement Section 508 of the Rehabilitation Act of 1973. These regulations were published in the Federal Register of April 25 with an effective date of 60 days after publication. Subsection 508(a)(3) requires the FAR to be revised to incorporate standards developed by the Architectural and Transportation Barriers Compliance Board.

For other than indefinite-quantity contracts, this amendment applies to contracts awarded on or after the effective date. For indefinite-quantity contracts, it is applicable to delivery orders or task orders on or after the effective date.

For background on this rule, Subsection 508(a)(1) requires that when federal departments or agencies develop, procure, maintain, or use electronic and information technology (EIT), they must ensure that the EIT allows federal employees with disabilities to have access to and use of information and data that is comparable to the access to and use of information and data by other federal employees. Section

508 also requires that individuals with disabilities, who are members of the public and who are seeking services or information from a federal department of agency, have access to and use of information and data that is comparable to that provided to the public without disabilities.

Topics covered in the final rule include applicability of the regulations, exceptions to the regulations, what is meant by an undue burden, and related issues. For more information, interested parties should contact the FAR Secretariat at (202) 501-4755 for information pertaining to status or publication schedules. For clarification of the content of the rule, interested parties should contact Linda Nelson, Procurement Analyst, at (202) 501-1900.

BUSH TO NOMINATE FOUR TO SERVE IN HIS ADMINISTRATION

President Bush recently announced his intention to nominate four more individuals to serve in his administration, including secretaries of the Army, Navy and Air Force, respectively.

Bush announced his intention to nominate James G. Roche to be Secretary of the Air Force. He is presently corporate vice president and president of the electric sensors and systems sector of the Northrop Grumman Corporation. He has served with Northrop Grumman Corporation since 1984 in a variety of posts. Before joining the private sector, Roche served as democratic staff director for the U.S. Senate Committee on Armed Services from 1983 to 1984 and served at the State Department as principal deputy director of the policy planning staff.

The President intends to nominate Thomas E. White to be Secretary of the Army. He is currently the vice-chairman of Enron Energy Services. He has served as chairman and CEO of Enron Operations Corporation and as chairman and CEO of Enron Power Corporation since joining Enron in 1990. After 23 years, White retired from the U.S. Army as a Brigadier General. He served as executive assistant to General Colin Powell while he served as chairman of the Joint Chiefs of Staff from 1989 to 1990 and served as director of the armor/anti-armor special task force in the Office of the Chief of Staff of the U.S. Army.

Bush said he intends to nominate Gordon England to be Secretary of the Navy. He is presently the executive vice president of General Dynamics. He has served with General Dynamics since 1980, excepting four years when he served as president of Lockheed Fort Worth, as a program manager for Amecom (Litton Industries) and as CEO of GRE Consultants. He has held several positions at General Dynamics including director of Avionics, president of the land systems division and president of General Dynamics Fort Worth.

The President also said he intends to nominate Richard Henry Jones to be ambassador extraordinary and plenipotentiary of the U.S. to the State of Kuwait. A career member of the Senior Foreign Service, he has held the post of U.S. Ambassador to Kazakhstan since October of 2000. He served as ambassador to Lebanon from 1996 to 1998 and served as the director of the Office of Egyptian Affairs from 1993 to 1996. He has held a variety of posts both at the Department of State and abroad and has received several awards including a Distinguished Service Honor Award.

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**Enron Global Assets and Services**

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713-646-7000

P.O. Box 1188
Houston, TX 77251-1188

November 27, 2001

David Katz
Director, Bilateral Investment Affairs
USTR
Washington, D.C.

Fax: (202) 395-3891

Dear David:

As we discussed last week, Azurix Corp. which is a subsidiary of Enron, is involved in a half a billion dollar investment dispute with the Province of Buenos Aires. Attached is a confidential briefing paper that provides a history of the dispute; our efforts to resolve it amicably; the lack of good will on the part of the Provincial authorities to find a resolution, and some suggestions to break the impasse to the benefit of all parties concerned.

John Garrison, President and CEO of Azurix Corp., and I would be available to be in Washington on either December 10 or 11 to meet with government officials who are handling U.S. foreign policy relations (State and NSC) with Argentina, as well as economic/investment relations (USTR and Treasury). I would like to take advantage of your kind offer to organize a meeting at USTR with the various offices that have various levels of involvement in this type of investment dispute. I'll give you a call to discuss how you want to proceed. Meanwhile, I can be reached on (713) 345-5956 or keith.miceli@enron.com.

Sincerely,

A handwritten signature in black ink that reads "Keith".

Keith L. Miceli
Senior Director
International Public Relations
Enron Corp

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Fax: 713-646-7078

INTERNATIONAL PR

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U.S. Presses Indonesia on Utility Accords

Jakarta Is Urged to Honor Suharto-Era Contracts; Critics Call Pacts Unfair

By JAY SOLIMON

Staff Reporter of The Wall Street Journal

JAKARTA, Indonesia—The U.S. government is pressuring Indonesia to honor contracts to buy electric power that many in the country claim are Suharto-era sweetheart deals it can no longer afford.

The majority of the contracts were signed with U.S. companies whose partners include family or friends of former President Suharto. None of the contracts were awarded through an open bidding process, and few of the Suharto-linked companies were required to invest their own cash in return for their stakes in the projects.

Some senior managers at the state utility PT Perusahaan Listrik Negara, or PLN, say they were against many of the power contracts from the start—due to a tariff structure that is on average 30% higher than the rest of the world's, according to Deutsche Bank AG—but were pressured into the deals by Suharto associates.

Now the U.S. wants Indonesia to honor the contracts, and that is confusing many Indonesian politicians. On the one hand, they say, they are being told to reform Indonesia's economy by reducing government interference, but on the other hand they are being asked to back contracts widely seen as overpriced. "We want to respect international contracts, but we also have an obligation to investigate" the origins of the high prices, said Laksono Sukardi, a top aide to presidential front-runner Megawati Sukarnoputri.

Among the U.S. companies that tied up with Suharto-linked companies to build power plants are Edison Mission Energy, a unit of Edison International, Rosemont, Calif.; El Paso Energy Corp., Houston; and CalEnergy International Ltd. All now face breaches in their contracts, though all say that their projects are fairly priced and were negotiated in a transparent manner. "Our project is among the lowest priced energy sources in Indonesia," a spokeswoman for El Paso Energy said.

These lucrative contracts helped underwrite PLN's finances once economic crisis swept through Asia in 1997. Since then, PLN has either postponed development of independent power plants or is paying their operators at significantly reduced rates.

"Strong and Binding Contract"

Robert Muller, president and chief executive officer of Edison Mission Energy, says he recognizes that Indonesia has financial and social problems but adds that his company has "a strong and binding contract" with PLN and that Jakarta needs to take the necessary steps to honor it. Under that contract, signed in 1991, PLN agreed to buy power beginning at 1.5 cents per kilowatt hour and at an average of about 5.2 cents for 20 years from the Edison Mission group's Paiton I coal-fired power plant when it starts producing power later this year.

Mr. Muller says at least a rest of that

Short Circuited?

Some of the Indonesian power projects at issue.

U.S. COMPANY	INDONESIAN PROJECT	POWER CAPACITY (in megawatts)
Edison Mission Energy	Paiton I	1,230
Unocal	Satak Geothermal	165
CalEnergy	Dieng Geothermal	150
CalEnergy	Pataha Geothermal	220
El Paso Energy	Senglang Gas-fired	135
Enron	Patanan Gas-fired	500
Florida Power & Light	Karaha Geothermal	220

Source: the companies

power is to recoup the cost of "consumer facilities" that will be used by other power producers. Still, critics of the deal say that independently produced power in neighboring Thailand costs an average of just 2.4 cents per kilowatt hour. In the Philippines, the price averages 4.4 cents.

Hashim Djohadikusuma, the brother-in-law of Mr. Suharto's daughter, Siti Hediati Pratiwi, controls 50% of the Paiton I venture, and Mrs. Prabowo herself once owned a stake. Mr. Hashim says the contract is fairly priced and was vigorously negotiated over a number of years. PLN, however, has indicated that it won't buy any power from the plant this year. Mr. Muller said it was only "logical" and "appreciate" for Washington to be supporting U.S. companies.

To press its point, the U.S. Agency for International Development, or USAID, terminated its funding of a legal adviser to PLN, after units of CalEnergy and another U.S. company entered into arbitration against PLN charging breach of contract. And U.S. government officials attempted to lead up \$80 million in Asian Development Bank loans to Jakarta. The loans were contingent on Jakarta implementing power-sector reforms.

Arbitration Panel's Decision

Robert S. Silberman, president and chief operating officer of U.S. power company CalEnergy International, said his company actively pushed everyone from the U.S. Treasury to the State Department to get the adviser pulled. "We found it astounding the U.S. government would be funding the legal defense of a country that breached international contracts," Mr. Silberman said.

Since 1991, CalEnergy has generated the support of over a dozen U.S. legislators to pressure Indonesia to honor CalEnergy's two-stalled geothermal projects, Mr. Silberman said. The company's partner in one of the projects is the son-in-law of one of Mr. Suharto's longest-serving ministers.

This May, a United Nations supervised arbitration panel awarded CalEnergy \$12 million in damages; PLN has counter-sued in a Jakarta court, alleging technical errors and an ignorance of Indonesian law by the arbitration panel. Mr. Silberman said PLN's "spurious accusation of corruption" regarding the stalled projects was "unanimously rejected by the three-

person arbitration panel," which included an Indonesian.

In a written statement, the U.S. Embassy in Jakarta confirmed the contract for PLN's legal adviser was terminated but didn't answer whether CalEnergy's lobbying influenced the decision. "It is our belief that both Indonesia's economic recovery and its longer-term interests will be best served by the constructive resolution of current IPP [independent power producer] payment and contract issues," the U.S. Embassy said.

Linda Tsao Yang, U.S. ambassador to the Asian Development Bank, said Washington voted against the bank loan because it wanted a firmer commitment from Jakarta that it would honor the private-power contracts. The U.S. also wanted a more stringent timetable for Indonesia to raise electricity prices and privatize some of PLN's assets, Ms. Yang said. Multilateral agencies have advised these measures to help the company meet its fiscal obligations and improve its efficiency.

But the U.S. demands are falling on deaf ears in Indonesia. Hartarto Sastronegoro, the Indonesia minister in charge of resolving PLN's disputes, says that while Indonesia is already in negotiations with many international power companies, his country can't raise electricity tariffs and sell off assets amid the current political uncertainty. Parliamentary elections held in June have yet to yield a clear governing coalition.

Umar Hano, an adviser to President B.J. Habibie, says Indonesia "simply doesn't have the money" to cover the contracts and fears social unrest should tariffs be quickly increased. In May 1998, widespread rioting rocked Indonesia and hastened the resignation of Mr. Suharto after the government increased fuel and electricity prices.

The U.S. has its own reasons for wanting the contracts honored. CalEnergy says it will claim \$40 million in political risk insurance from the U.S. government's Overseas Private Investment Corp., or OPIC, if PLN doesn't pay. The U.S. Export-Import Bank and OPIC also allotted a total of \$95 million in loans and political-risk guarantees for Edison Mission's \$2.5 billion Paiton I project. Officials from OPIC and representatives of four other export-credit agencies were in Jakarta earlier this month to look into the private power disputes.

Alcatel, T Agree to Phone-G

By DAN

SAF Reporter of The
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Wasted Energy:
How U.S. Companies
And Suharto's Circle
Electrified Indonesia

Power Deals That Cut In
First Family and Friends
Are Now Under Attack

Mission-GE Sets the Tone
---- By Peter Waldman and Jay Solomon
Staff Reporters of The Wall Street Journal

JAKARTA, Indonesia -- It looked like one of commercial diplomacy's finest hours: \$40 billion of business agreements signed between Indonesian and U.S. companies on a single day, honchoed personally by President Clinton and then-Secretary of Commerce Ron Brown.

The date was Nov. 16, 1994, at the Asia-Pacific economic summit here. Among those deals, U.S. companies especially cleaned up on one of the world's most coveted emerging-market opportunities at the time: Supplying electric power to Indonesia's booming economy. Winners included Unocal Corp., CalEnergy Co. and a \$2.5 billion joint venture led by Edison International's Mission Energy unit and General Electric Co.

"As markets expand, as information flows," said a beaming Mr. Clinton to Jakarta's business elite after the signings, "the roots of open societies will grow and strengthen and contribute to stability."

Today, of course, Indonesia is struggling to stave off anarchy. Far from being a force for stability, most of the power deals have only contributed to the chaos here. They underscore how American companies operated in President Suharto's Indonesia -- and how, critics say, they cut overpriced, politically influenced deals that undermined the Indonesian economy. In the end, the deals may prove costly for many of the American companies, as well.

Most of the billions of dollars of U.S. electric-power investments in Indonesia went through cronies and relatives of Mr. Suharto, who was ousted in May after 32 years of dictatorship. Nearly all the Suharto relatives involved in the power projects got shares in joint ventures from their American partners without investing money of their own. The Mission-GE megaproject, Indonesia's first private-power venture, set the tone: It bagged one of the richest private-power contracts of the 1990s when its local partner, a relative of Mr. Suharto by marriage who received shares in the project essentially free, sealed the deal by getting Mr. Suharto himself to weigh in in favor of Mission-GE at a key juncture in price negotiations.

Now, because of Indonesia's economic crisis, the country's state-owned electric utility, called PLN, is \$2.6 billion in debt and is effectively broke. Yet the utility -- and through it, ordinary Indonesians -- are on the hook for decades to come for high-priced power that, even in the go-go years when the projects were proposed, many of its own technocrats and foreign consultants argued Indonesia neither needed nor could afford. Only one of Indonesia's 26 private-power contracts was competitively bid -- one reason the average contracted cost of privately produced power here is 30% higher than in

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the rest of the world, according to Deutsche Bank AG. Adjusted for local purchasing power, the contracted cost of private electricity is 60% more than in the neighboring Philippines and 20 times as much as in the U.S.

The U.S. "power companies dictated terms to us because they had Indonesia's first family behind them," says Djiteng Marsudi, PLN's president from 1995 until his dismissal this summer after he complained publicly about corruption. "Resisting them was like suicide."

Government lawyers say they are marshaling evidence of Suharto-linked corruption to push for renegotiating electricity rates with private producers. Many of the projects have been delayed. PLN is paying several electricity suppliers just 30% of their contracted rates. It has told Mission-GE it doesn't plan to buy any electricity at all from the consortium's 1,230-megawatt coal-fired plant next year, when it is scheduled to go on-line. That would cost the project hundreds of millions of dollars.

"Based on what I've seen, there's plenty of ammunition to wage war and get the banks and sponsors to eat their share of the losses," says Peter Jezek, private-power adviser to Indonesia's ministry of mines and energy from 1990 through 1995. But he and others see a potential obstacle: Though Mr. Suharto has moved on, many of the ministers who helped put together the deals are still in power.

Mission, GE and other power companies say they did nothing improper to land their contracts. Several power companies are taking PLN to arbitration to force it to honor the pacts. They say the real problems are the collapse of Indonesia's currency and the perennial mismanagement of PLN -- neither the fault of power developers, most of whose plants haven't even come on-line yet.

"It's the exchange rate, stupid," says D. Reid Morgan, a managing director of Chase Manhattan Corp., which syndicated \$1.8 billion of loans for the GE-Mission project, called Paiton One. The U.S. also has been pushing Indonesia to stick to its commitments. George Munoz, president of the U.S. Overseas Private Insurance Corp., a federal agency that has \$665 million of exposure to Indonesia, much of it from power deals, recently said in Jakarta: "The contracts have to be honored."

Critics say corruption dogged the power deals from the start. When government advisers from power consultant Lahmeyer International AG, Lazard Freres & Co. and other Western firms complained about what they regarded as exorbitant prices for coal in the Paiton One project, senior Indonesian officials ordered the consultants to stop reviewing fuel costs immediately, the advisers say. "We were slapped back so fast our heads were spinning," says one. The plant's coal costs 30% to 40% more than coal at other PLN plants.

The advisers say there's no mystery about why they were shut out. Paiton One's exclusive coal supplier is a company co-owned by the Mission-GE group's Suharto-clan partner, Hashim Djojohadikusumo, and Agus Kartasasmita, brother of then-Minister of Mines and Energy Ginandjar Kartasasmita, who was a key early booster of Paiton One. They got the coal contract without competitive bidding.

Mr. Ginandjar, who is now Indonesia's top economics minister, denies promoting Paiton One in any way. He emphasizes that many of the project's key terms and contracts weren't finalized until after he left the ministry of mines and energy. Mr. Hashim, whose family has been close to the Suhartos for decades, says his coal is priced at a premium because of its environmentally friendly low sulfur content; technocrats involved in the project say that doesn't justify the high price.

In addition to the coal contract, Mr. Hashim, Agus Kartasasmita and some partners received a 15% stake in Paiton One without investing any cash. To pay

for those shares, Mission, GE and Japan's Mitsui & Co., also part of the Paiton One consortium, extended a \$49.6 million loan to the Indonesians. The loan was to be repaid from project dividends, the companies and the recipients of the loan confirm. This so-called carried-interest arrangement was a staple of Suharto crony capitalism. Mission and GE say extensive reviews by their lawyers found no problems with making the loan. Many experts on U.S. anticorruption laws

say carried-interest arrangements are generally legal, although others disagree. The Foreign Corrupt Practices Act bars U.S. companies from paying foreign officials for business favors, but not from assisting local partners.

Mr. Hashim says GE hectoring him to sign "all sorts of forms" assuring that there would be no corruption. The forms aren't required by law but are used by some companies as protection against possible corruption allegations. Mr. Hashim wouldn't sign. "I said, 'Look, I'm an Indonesian citizen doing business in Indonesia,'" he recalls. "I said, 'No, it's a deal-breaker.'" Finally, after Mr. Hashim pointed out Mission "can live with this," he says, "GE didn't argue."

In Stamford, Conn., a GE Capital spokesman said it did "extensive due diligence" on Paiton One and its Indonesian partners and found nothing improper. Mission Chief Executive Edward Muller says its dealings with Mr. Hashim and other actions in pursuit of the Paiton One contract were legal and proper, adding that terms of the deal were "negotiated vigorously" over years by the Indonesian government and its "world-class advisers."

Faced with a similar issue, Entergy Corp., New Orleans, pulled out of Indonesia, according to executives familiar with the case. They say Entergy's partner, Siti Hediati Prabowo, Mr. Suharto's second daughter and Mr. Hashim's sister-in-law, flew into a rage when Entergy lawyers insisted she sign some anticorruption documents. Entergy dropped the deal, executives say. An Entergy spokesman declines to comment; Ms. Prabowo didn't respond to requests for comment. Atlanta-based Southern Co., the biggest U.S. power producer in Asia, also backed away from Indonesia because of concerns over cronyism and other risks, its executives say.

CalEnergy, Omaha, Neb., linked up with Mr. Suharto's oldest son, Sigit Harjojudanto, Indonesian officials and others say. Government records available to anyone in Jakarta for 30 cents show Mr. Sigit is majority owner of the Indonesian company that was CalEnergy's original partner in a geothermal project in Bali. Indonesian officials and one former CalEnergy executive say they were well aware that Mr. Sigit was CalEnergy's partner.

CalEnergy says it didn't know that Mr. Sigit was a partner, and that it is unaware that any of its Indonesian partners have ties to the Suhartos. It says company policy mandated that CalEnergy not do deals with partners linked to the family. Mr. Sigit didn't respond to requests for comment.

Mission-GE's Paiton One project got political support on both sides of the Pacific. In addition to a slew of U.S. congressmen and senators who wrote letters for the project, Dan Quayle, Robert Rubin and Ron Brown all pushed for Paiton One at various times while they were in government. Warren Christopher and Henry Kissinger pushed for it as Mission-GE lobbyists. To nail down the deal, the U.S. Export-Import Bank and its sister agency, OPIC provided \$805 million of loans and political-risk guarantees, one of their biggest joint commitments ever.

In Jakarta, however, technocrats were alarmed by where the project seemed headed. Indonesia's economy was growing 7% a year in the early 1990s; the nation needed more electricity. But government planners knew PLN was in no shape to handle big private-power initiatives. The utility's transmission grid leaked like a sieve. PLN was seldom allowed to raise rates for fear of social

an even bigger coal-fired project won by Entergy with Ms. Prabowo as a partner, struck a tariff of 5.8 cents, 32% lower than Paiton One's. (It was later that Entergy dropped out of that deal after its disputes with Ms. Prabowo over anticorruption forms, executives say.) A comparable coal-fired project in Sual in the Philippines, also competitively bid, has a 5.1-cent tariff. But Paiton One set the pricing benchmark for most Indonesian private-power deals that followed. An Indonesian power executive laments that after Paiton One, banks "expected the same spectacular returns" or they wouldn't lend.

Now the scramble is on to clean up the mess. It won't be easy. PLN, in addition to being broke, has less flexibility than ever to raise the electricity

rates it charges Indonesians. Those rates have fallen to the equivalent of two cents an hour because of Indonesia's currency collapse. (Government subsidies are supposed to plug the gap between what PLN charges and the substantially higher tariffs it pays power suppliers.) The last time Indonesia raised energy prices, in May, the ensuing riots helped lead to Mr. Suharto's downfall.

A Harvard Business School consultant has advised the government to renegotiate the power tariffs "to terms that would have emerged under competitive bidding." Mission's lawyer, former Secretary of State Christopher, recently visited President Habibie to propose talks on a possible new tariff, Mission says.

Other power producers are taking a tougher line. CalEnergy has taken PLN to arbitration over nonpayment of tariffs and alleged contract violations. CalEnergy's three geothermal projects in Indonesia owe local suppliers and contractors about \$30 million, which it isn't paying because, it says, the projects' bank loans have been frozen.

The standoff angers many Indonesians, who say the Americans should help pay for the allegedly tainted deals they helped foster. Drilling contractor Samuel Sahetapy has had to lay off workers because, he says, CalEnergy owes him more than \$8 million; CalEnergy confirms it owes Mr. Sahetapy's company money but won't say how much. "Indonesians can't find food," Mr. Sahetapy says. "And this big American company won't pay its bills."

All in the Family

Selected U.S. firms' Indonesian power deals:

COMPANY (Project): Mission Energy & General Electric
(Paiton I)

SUHARTO REGIME PARTNER: Hashim Djojohadikusomo, Suharto's
relative; Siti Hediati Prabowo,
Suharto's daughter; Agus
Kartasasmita, minister's brother

CONTRACTED TARRIFF (U.S. Cents/KWH): 8.6*
STATUS: Early 1999 startup

COMPANY (Project): Unocal Corp. (Salak Geothermal)

SUHARTO REGIME PARTNER: Mohamad Hasan, former minister &
Suharto family business partner**

CONTRACTED TARRIFF (U.S. Cents/KWH): Phase 1, 8.47; Phase
11, 4.9

STATUS: On-line***

COMPANY (Project): CalEnergy (Dieng Geothermal)

SUHARTO REGIME PARTNER: Retired Military Association

by announcing the government would accept a tariff of eight cents. He offered no detailed case for the tariff, and the government's Western advisers believed it was still economically indefensible. The advisers say they concluded that deals were being cut behind the scenes.

They were. After heated negotiations in which participants say Mission executives blew up at government officials for refusing to take Mission's offer to Mr. Suharto, Mr. Hashim had gone to the president. Mr. Hashim's father was one of Mr. Suharto's earliest economic ministers. Mr. Hashim's brother-in-law was governor of Indonesia's central bank. His brother was one of the fastest-rising army officers in Indonesian history -- and husband of Mr. Suharto's daughter, Ms. Prabowo. (Through a partnership with Mr. Hashim, Ms. Prabowo also got a carried interest in Paiton One.)

In a July 1993 letter to Mr. Suharto, Mr. Hashim presented Mission-GE's case. But the letter left out certain details. Comparing tariff proposals, Mr. Hashim described a 0.59-cent variation in one component of the pricing as "not a big difference." Actually, it meant \$53 million a year more for PLN to pay. Mr. Hashim followed up the letter with a private audience with Mr. Suharto where the deal was struck, according to other project documents. In that meeting, Mr. Suharto said Paiton One's tariff shouldn't exceed nine cents, in order to avoid "unrest and socio-political consequences," another letter from Mr. Hashim to Mr. Suharto says. Soon after that, Mission told its partners in a memo that nine cents was "the magic figure" and suggested ways to structure a tariff of 8.99 cents by shifting more debt to OPIC, among other steps.

Three weeks later, the consortium submitted its "final offer:" 8.6 cents, on average, for 30 years. The technocrats had no choice but to accept, officials say. "It was a presidential decision," says Nengah Sudja, a former head of research for PLN. "Everybody knew it was nepotism, but we couldn't do anything about it." Mr. Hashim acknowledges speaking to Mr. Suharto many times about Paiton One, but says the president's own aides and ministers advised him on tariffs and other issues.

The technocrats still hoped lenders would balk at the high price, especially after the World Bank and others started warning of looming overcapacity in electric supply. But in those days, Asian power deals were hot. When Dianne Rudo of the U.S. Ex-Im bank visited Jakarta to evaluate financing for Paiton One, several government and PLN officials told her they didn't want and couldn't afford Paiton One, recalls an American industry expert who accompanied her. This expert says political pressure in Washington in support of Asian power deals for U.S. companies made Ex-Im's backing inevitable.

Ms. Rudo, now with a different bank, declines to comment. A spokesman for the Ex-Im bank says it wasn't under inordinate pressure, and that the project looked viable when financing was approved in early 1995. "The bottom line from our point of view was that we were supporting 25-plus U.S. exporters," he says.

Mr. Muller, Mission's CEO, says that Paiton One's tariff in part reflects the fact that the consortium, at the government's request, built extra infrastructure at the plant, including coal-handling and storage facilities that serve other power projects too. He emphasizes that Mr. Hashim's involvement "in no way caused the tariff to be higher." GE sold much of its stake in the project after financing and the tariff agreement were finalized; a spokesman says that was a typical move for GE, which often finances and helps design big projects, then sells to take profits before the projects are completed.

Today, Paiton One stands as one of the most expensive power deals of the decade -- anywhere. By contrast, Indonesia's only competitively bid project,

unrest, yet it was milked for huge markups by politically linked suppliers and contractors.

So the advisers urged caution. Mr. Jezek, the government power consultant, recommended starting with geothermal and small gas-fired plants that could be expanded once PLN tackled its many problems. He and others also argued for competitive bidding. Instead, Mr. Suharto, Mr. Ginandjar and Research and Technology Minister B.J. Habibie, now Indonesia's president, hand-picked developers to lead the charge into big, high-risk, coal-fired power stations, Mr. Jezek and other advisers say.

"Ginandjar told me Indonesia had nothing to learn from the private-power experiences of Pakistan, the Philippines and Latin America, because Indonesia wasn't a banana republic," says Mr. Jezek.

Mr. Ginandjar says he doesn't recall that conversation. He says he doesn't dismiss other developing countries' private-power experiences, and in fact commissioned studies of them. He notes that the World Bank and other multilateral agencies were pushing big power projects.

At Paiton One, cronyism reared up from the start. According to Paiton One project documents, Mr. Suharto, after a personal appeal by then-Vice President Quayle, first chose closely held Intercontinental Electric Inc., Hingham, Mass., along with the president's second son, Bambang Trihatmodjo, to build the first Paiton plant. (Mr. Quayle declines to comment.) The \$1 billion in debt the project required put Indonesia over its self-imposed limits on foreign debt at the time. Not only had Mission-GE lost out on the first Paiton deal, but it couldn't do other power projects in the country because they would further bust Indonesia's debt limits.

Mr. Habibie came to the rescue. In a December 1991 letter, he instructed Mission-GE to circumvent Indonesia's debt restraints by creating an offshore company to finance Indonesian power projects. It's not clear how that would have overcome the debt limits; in fact, many project advisers think it was pure artifice. Still, Mission-GE agreed to the plan, praising Mr. Habibie's "innovative and creative approach" in a letter back to him. (Eventually, Indonesia allocated Paiton One enough borrowings so that the offshore mechanism wasn't needed.)

The Bambang-Intercontinental deal fell apart because of various disagreements over terms. Mission-GE won the contract on the rebound -- with conditions. The government ordered Mission-GE to negotiate a possible link with Mr. Bambang's consortium, and to purchase Paiton One's boilers -- among the costliest components in any power plant -- from ABB Combustion Engineering. Mr. Habibie was chairman of Combustion's state-owned Indonesia affiliate, according to a report by government-consultant Lahmeyer. Mr. Bambang was ABB Combustion's commercial agent in Jakarta, the company confirms.

Extra cost of the mandated boilers, over boilers Mission-GE had wanted: \$20 million.

An ABB Combustion spokesman says it sold boilers to Paiton One after winning bidding, but doesn't know other details of the bidding process. Mr. Bambang and Mr. Habibie declined to comment for this article, as did Mr. Suharto.

Talks on Paiton One's electricity tariff dragged on for months. The Mission-GE consortium was asking 10.3 cents per kilowatt-hour of electricity, nearly double the government's bid of 5.2 cents. Indonesia's advisers disputed Mission-GE's cost justifications, particularly its estimates for construction costs, coal prices and return on equity. Mission-GE argued its projections reflected unexpected delays, extra construction demands by the government and a risk premium as Indonesia's first private-power venture.

The logjam broke in mid-1993. Indonesia's chief negotiator shocked his team

CONTRACTED TARRIFF (U.S. Cents/KWH): 6.6*
STATUS: In arbitration and completed

COMPANY (Project): CalEnergy (Bali Geothermal)
SUHARTO REGIME PARTNER: Sigit Harjojudanto, Suharto's son
CONTRACTED TARRIFF (U.S. Cents/KWH): 7.2
STATUS: Postponed

COMPANY (Project): El Paso Energy (Sengkang Gas-fired)
SUHARTO REGIME PARTNER: Siti Hardijanti Rukmana,
Suharto's daughter
CONTRACTED TARRIFF (U.S. Cents/KWH): 6.5
STATUS: On-Line***

COMPANY (Project): Enron Corp. (Pasuruan gas-fired)
SUHARTO REGIME PARTNER: Bambang Trihatmodjo, Suharto son
CONTRACTED TARRIFF (U.S. Cents/KWH): 5.8
STATUS: Postponed

COMPANY (Project): Duke Energy Corp. (Cilicap)
SUHARTO REGIME PARTNER: Bambang Trihatmodjo, Suharto son
CONTRACTED TARRIFF (U.S. Cents/KWH): 6.3
STATUS: Postponed

COMPANY (Project): Coastal Corp. (Palembang)
SUHARTO REGIME PARTNER: Martini Sulaiman, Suharto
half-sister**
CONTRACTED TARRIFF (U.S. Cents/KWH): 6.4
STATUS: Postponed

COMPANY (Project): Morrison Knudsen (Serang)
SUHARTO REGIME PARTNER: Sudwikatmono, Suharto cousin
CONTRACTED TARRIFF (U.S. Cents/KWH): 6.0
STATUS: Postponed

* Stepped tariff levelized over 30 years

** Stake recently sold

*** Payments at reduced rupiah rate

Sources: the companies, Indonesian government

CC: Dom13.DOPO8.CHRISTOPULOS, Dom13.DOPO8.CRAWFORDT, D...

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David W. Shields
 Managing Director
 Caribbean Region

Enron Caribbean Basin
 P. O. Box 1188
 Houston, TX 77251-1188
 713-646-6575
 Fax 713-646-7768
 David.Shields@enron.com

*Fax for
 Gary S.*

Novem,

His Excellency
 Dr. Leonel Fernández
 President of the Dominican Republic
 National Palace
 Santo Domingo, D.R.

*from Greg -
 call me after you
 read this.*

Honorable Mr. President:

The purpose of this letter is to explain to you the precarious financial situation in which Smith Enron Cogeneration, Ltd. ("SECLP") finds itself and the causes that have motivated SECLP to send a shutdown notice to CDE, in conformity with our PPA Contract. For Enron, it has been a difficult decision since we understand the tenuous nature of an incipient capitalization process and your personal commitment to making such a vital reform of the electrical sector successful.

However, SECLP and Enron, as its largest shareholder, have contributed substantially to help sustain the energy production in the last five months since June without receiving any payments from CDE. Current debt arrears have reached an unprecedented and unsustainable level of US\$ 38 million. SECLP is in an extreme situation with no working capital that would allow it to continue to generate. Among the more pressing obligations are in past due fuel payments to its supplier of US\$ 34 million, a forthcoming payment to its creditor pool of banks in early December of US\$ 13 million, plus the normal operational expenses to run the plant. At present, SECLP has lost its credit with its fuel supplier, despite Enron's credit support until payment is received.

We trust Your Excellency understands that Enron has made all of the necessary efforts to develop a positive and supportive relationship with the CDE and the Government. In effect, during 1998 and 1999, SECLP and CDE successfully renegotiated the PPA Contract providing improved terms to the Dominican Republic, terminated in good faith the arbitrage litigation and collaborated jointly to better our normal working relationship.

The importance of these aforementioned successes is further supported by Enron's development of new businesses in your country. Enron has demonstrated its faith in the future of the Dominican Republic and its economy, by participating as the lead investor in the Haina Consortium. One other business opportunity currently being developed is a LNG terminal and gas distribution system that would significantly reduce the cost of energy supply

Endless possibilities.™

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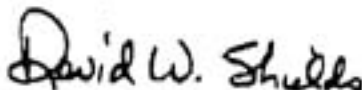
in the Dominican Republic. All this has been made possible by the creation of a proper climate for new investments based on political stability and economic growth. These encouraging developments in the investment profile of the Dominican Republic can only be adversely affected by the prevailing crisis that affects all generators in the system.

Our company understands that your staff is searching for several mechanisms to provide the IPP's with payments for all the outstanding debts. We urge Your Excellency to direct your staff to immediately implement one of these available mechanisms. SECLP also respectfully requests you to instruct the CDE to comply with the Definitive Agreement by providing the Distribution Companies orders to pay into the Escrow Account all monies due to CDE. The Escrow Account is now operational, but as late as Monday, the CDE informed a group of IPP's that CDE does not intend to comply with the Definitive Agreement during the Transition Period.

We are committed to continue to help CDE and your Government with the successful transition to a new electrical sector, but are in dire need of your attention to the payment issue and the negative effects on generation. Enron is more than willing to contribute our human resources to analyze the cash flows needs of the system, as well as any other associated technical issues. Please count on our continued assistance in the search for creative solutions that will promote the success of the capitalization reform.

With the hope that you understand our needs and immediate pressures, we remain at your services.

Yours Truly,



David Shields
Senior Vice President

cc: Temistocles Montas
Alejandrina German
Tony Isa Conde
Rhadames Segura
Marcos Cochon

TOTAL P.03

TOTAL P.02

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TREASURY CLEARANCE SHEET

NO.
 Date: November 10, 1999.

MEMORANDUM FOR: SECRETARY DEPUTY SECRETARY EXECUTIVE SECRETARY ACTION BRIEFING INFORMATION LEGISLATION PRESS RELEASE PUBLICATION REGULATION SPEECH TESTIMONY OTHER

FROM: Tom McGivern
 THROUGH:
 SUBJECT: Letter to Senators Grassley and Torricelli regarding proposed changes to the financial contract netting provisions (title IX) of the S. 625, the "Bankruptcy Reform Act of 1999"

REVIEW OFFICES (Check when office clears)

- Under Secretary for Domestic Finance
 - Financial Institutions
 - OCC
 - OTS
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 - PMS
 - Public Debt
 - Federal Finance
 - Government Financial Policy
- Under Secretary for International Affairs
 - International Affairs
- Under Secretary for Enforcement
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- Legislative Affairs
 - General Counsel
 - Economic Affairs
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- Management
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 - Mint
 - Engraving & Printing
 - Savings Bonds
 - Public Affairs
 - Tax Policy
 - Inspector General
 - IRS
 - Public Liaison
 - Other

NAME	INITIAL	DATE	OFFICE	TEL. NO.
INITIATOR(S)				
McGivern	← MM	11/08/99	DAGC	622-2317
REVIEWERS				
Ireland	by phone	11/10/99	Federal Reserve Board	
Krimminger	by phone	11/10/99	FDIC	
Yanofsky	by phone	11/08/99	CFTC OGC	
Rosen	by e-mail	11/10/99	NEC	
Toohy	/s/	11/08/99	Leg. Affairs & Public Liaison	
Carleton			Domestic Finance	
Gary Genter	GG	11/10/99		
Robert...				

SPECIAL INSTRUCTIONS: PLEASE RETURN TO TOM MCGIVERN IN ROOM 1418 OR CALL 622-2317.

Review Officer _____ Date _____ Executive Secretary _____ Date _____



DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

November 10, 1999

The Honorable Senator Charles Grassley
The Honorable Robert G. Torricelli
Subcommittee on Administrative Oversight and the Courts
Committee on the Judiciary
United States Senate
Washington, D.C.

Dear Chairman Grassley and Senator Torricelli:

I am writing regarding proposed amendments to title IX of S. 625, the "Bankruptcy Reform Act of 1999." Title IX includes financial contract netting provisions, the primary purpose of which is to reduce systemic risk in the event of the insolvency of a financial firm with obligations that could create a ripple effect throughout the financial markets. We strongly support passage of title IX.

We understand that proposals may have been sent to you to amend title IX by changing the definition of "swap agreement" and by expanding the automatic stay provisions. Staff of the agencies that comprise the Working Group on Financial Markets have reviewed these proposed amendments and discussed them with industry representatives. As a result of our review, we support some of the proposed changes but oppose others because they would not reduce systemic risk, may prefer one creditor over another with no apparent justification, and would reduce legal certainty.

Proposed amendments to the definition of "swap agreement." One of the proposals we reviewed would expand the definition of "swap agreement" in S. 625 to include instruments based on an economic "or other" index or measure of economic risk or value. This change would provide financial contract netting treatment for those financial instruments that are not based on economic indices, e.g., a weather derivative contract. We do not oppose this change. It adds to the list of instruments covered in the definition an important category of risk-shifting tools. Providing netting treatment to such instruments would provide additional support for the development of markets for these products.

A second proposal would change the definition of "swap agreement" by adding to the list of the types of agreements covered "a weather swap, weather derivative, or weather option." We believe these weather-related instruments are included in the definition of swaps currently in the bill, and in particular would be included following the proposed change noted above to include in the definition instruments based on an "other" index. Thus, we believe the proposed language on weather-related instruments is unnecessary but do not oppose its inclusion.

A third proposal would change the definition of "swap agreement" by eliminating the requirement that contracts be "regularly entered into in the swap market." We strongly oppose this proposal. We reiterate that the primary purpose of the financial contract netting legislation is to reduce

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systemic risk. If a swap instrument is not "regularly" entered into, we fail to see how a default of a counterparty on this instrument creates systemic risk. Before favoring one class of creditors over another, as this proposal would, there must be a public policy justification. No such justification exists for this proposed change.

A fourth proposal would change the definition of "swap agreement" by replacing the phrase "swap market" with the phrase "swap participants." As support for this change, proponents state that swap transactions take place over-the-counter as opposed to on federally-regulated markets. While this is true, it does not provide support for this change. Swap transactions are agreements between parties that are negotiated in what generally is described as the OTC "market." The proposed change would broaden the definition of swaps to include any agreement that may be characterized as a swap, regardless of the nature of the agreement, as long as one of the parties was a swap participant. We also strongly oppose this proposed change. Again, there is no evidence that this proposed change would reduce systemic risk. In addition, by taking such agreements out of the bankruptcy estate, this change could harm other creditors whose debts are incapable of being characterized as swaps, such as local businesses who supplied valuable inputs to the debtor.

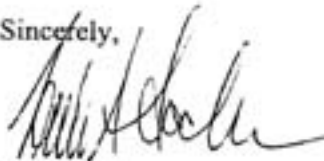
Proposed exceptions to the operation of the automatic stay. S. 625 would amend the automatic stay provisions found at section 362(b) of title 11 by excluding from the automatic stay the setoff of claims against the debtor for margin or settlement payments against the cash, securities, or other property held by, pledged to, and under the control of, or due from the debtor. Excluding these set-off rights from the automatic stay would permit netting against obligations of the insolvent party and thus reduce systemic risk.

We understand that you may have received a proposal to expand the exclusion from the automatic stay to include set-offs of any payment or transfer due from the debtor, as opposed to claims against the debtor for margin or settlement payments. It is not clear what payment streams other than margin or settlement payments need to be protected for commodity contracts, forward contracts, or securities contracts, nor how this proposed change would reduce systemic risk. This proposed change also would decrease legal certainty because "margin payments" and "settlement payments" are defined in title 11, while the phrase "any payment or transfer" is not defined. Thus, we strongly oppose this change.

* * * * *

Thank you for your attention to these issues. We would be happy to respond to any questions you have on this subject.

Sincerely,



Lee Sachs

Assistant Secretary for Financial Markets

Weekly Activity Report, Federal Finance Policy Analysis, September 13 - 17, 1999

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

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Weekly Activity Report, Federal Finance Policy Analysis, February 28 - March 3, 2000

[OUTSIDE SCOPE , (b)(5)]

01801

01200000000457

Weekly Activity Report, Federal Finance Policy Analysis, November 5, 2001

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

[OUTSIDE SCOPE , (b)(5)]

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Weekly Activity Report, Federal Finance Policy Analysis, November 19, 2001

[OUTSIDE SCOPE , (b)(5)]

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[OUTSIDE SCOPE , (b)(5)]

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Weekly Activity Report, Federal Finance Policy Analysis, December 3, 2001

[OUTSIDE SCOPE , (b)(5)]

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Weekly Activity Report, Federal Finance Policy Analysis, December 10, 2001

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

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Weekly Activity Report, Federal Finance Policy Analysis, December 17, 2001

[OUTSIDE SCOPE , (b)(5)]

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**Weekly Activity Report, Federal Finance Policy Analysis
December 21, 2001 – January 11, 2002**

[OUTSIDE SCOPE , (b)(5)]

[(b)(5)]

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Richard Cohen

Enron's 'Con'

As usual, I was awakened by a sudden draft through the closed windows, saw the curtains ominously rustling and sensed instantly that someone was in my bedroom. Without even looking up I knew it had to be my grandfather, this long-dead immigrant of socialist leanings. I knew I was in for another of his wearying lectures with his tiresome references to "the working man." He was holding a newspaper.

"This Enron," he said without so much as a greeting. "You know from it?"

"Sure," I said. "The Houston-based conglomerate which just went bust. It was seventh on the Fortune 500, worth almost \$50 billion. It sold everything. Electricity, natural gas—even water."

"It sold smoke," he yelled. "It sold the Brooklyn Bridge over and over again. It sold the up-town version of dream sheets and prayer handkerchiefs, only it used brokers and banks and not guys in fedoras and shiny suits. A bunch of con men."

"Oh, no, grandpa," I said with weary resignation. "These were some of the most upstanding people in the land. The chairman, Kenneth Lay, is a friend of the president's. He's an innovator, a major success story. He was even considering writing a book telling how he did it all. It might have been as important a book as Jack Welch's or even Lee Iacocca's. Unfortunately, Enron misstated its profits..."

"Misstated? Is this how you college people talk? They *lied*."

"No, you don't understand. They set up partnerships and dealt in derivatives."

"They lied. They said they made maybe half a billion more than they did. That's a lie. I was in

business myself once. They 'misstated' what they made by \$140 million one year and \$250 million in another and then \$140 million again in another year. This is a lot of misstating. This is what they really sold—misstatements."

"It's all very complicated," I explained. "But don't worry, the SEC is looking into it."

"Don't tell me not to worry. I worry about the workers. These people had their money in the company's 401(k) plan. Their company was encouraging them to buy worthless stock—\$90 one day, zip the next. And when the stock started to fall, the company locked down the retirement so the workers couldn't sell. Now they have nothing. This company ripped off their own workers."

"Yes," I agreed, "many of them lost all their savings. They're busted."

"But not the big shots. This Lay character made more than \$200 million. Others in the company made almost as much. Tell me, you think it's right that the big shots get to be rich while the workers get to go to some soup kitchen?"

"You're talking class warfare."

"I'm talking fairness. And anyway, how come it's class warfare when the rich are asked to give back what they steal? How come it's not called justice?"

"It's the market system. There's always risk." "But not for the bosses, with their options and golden parachutes. The workers get a parachute that doesn't open."

"The market will correct itself," I pointed out.

"And what does your president say, this George Bush? Nothing! Not a word about these poor workers. And what about the Treasury sec-

retary, this O'Neill character? Nothing! No indignation. No anger. Roosevelt would have said something. Truman would have screamed bloody murder. Even Teddy Roosevelt—did you know I once met him?—would have blasted them for stealing from their own people. But Bush...? Don't get me started."

"Enron is in bankruptcy now. We call it Chapter 11. The creditors will be taken care of."

"You can go from chapter one to chapter 11 and not find anything for the workers. Chase Bank will get something and Barclays Bank will get something and the lawyers will make out like bandits, but the workers, I'm telling you, are going to get nothing. They lost their jobs, they lost their savings, and some lawyer is going to give his wife a nice Packard car and a rock for his tootsie."

"There's no Packard anymore."

"There's no anger anymore, either. I want you should write something, Mister hot-shot columnist. I want you should say something about the workers."

"Okay, let me talk to some experts."

"You don't need experts. You only need to use your common sense. Use your heart. The bosses exploited the workers. Maybe they should be tried by military tribunal."

"Now you've gone too far."

"Okay. Maybe. Listen, I gotta go. Give my love to your mother. She'll be 90 in July. Don't forget."

"Don't worry about..." I started to say. But then I felt a breeze from nowhere and my grandfather was gone. I tried to go back to sleep, but couldn't.

I wonder how the Enron bosses can.

Wa Post 12/04/01 p. A25

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Nickoloff, Peter

From: Info @atm [info@atmarkets.org]
Sent: Thursday, January 17, 2002 3:38 PM
To: Info @atm
Subject: @Markets Newsletter

> @Markets Newsletter
> @Markets Association News
> Vol. 2, Issue 1
>
> Industry News
>
> Online Chemicals Exchanges Merge
> On January 10, ChemConnect announced plans to acquire CheMatch, a
> rival online chemical marketplace. The combined companies handled \$4
> billion in transactions and over 10 million metric tons of product in
> 2001. ChemConnect features auctions, reverse auctions and price
> negotiation while CheMatch is primarily a spot market for chemicals.
> CheMatch also trades futures on benzene and mixed xylenes through its
> partnership with the Chicago Mercantile Exchange. While still subject to
> shareholder approval, the deal should be completed by the end of April,
> and the new company, called ChemConnect, expects to achieve profitability
> by the end of the year. ChemConnect's CEO, John Robinson, will continue
> to serve as CEO for the combined company, which will move its headquarters
> from San Francisco to Houston. This is the second major acquisition by
> ChemConnect, which bought Envera, a transaction hub for the chemical
> industry, in June of last year.
> More info:
> <http://www.chemconnect.com/about/press_releases/Jan10-02.html>
>
> UBS Warburg Takes Over Enron's Trading Platform
> On Friday, January 11, UBS Warburg, a division of Swiss banking giant UBS
> AG, was selected to acquire Enron Corp.'s trading business, beating out
> Citigroup Inc. UBS and Enron will file for approval of the deal with the
> Federal Trade Commission and the Justice Department within five business
> days, according to documents filed Tuesday, January 15 in U.S. Bankruptcy
> Court in Manhattan. UBS Warburg will not pay any cash up front to
> purchase the operation. According to the details of the deal, Enron and
> its creditors will get 33 percent of the new business' pretax profits for
> at least two years. It is a 10-year deal, but UBS Warburg will have the
> option of buying one-third of Enron's profit-sharing rights after three
> years, and buying the rest of its stake in subsequent years. UBS will
> bring to the trading operation a AA+ credit rating in hopes of rebuilding
> what generated about 90 percent of the Enron's \$101 billion in revenue
> last year. However, the deal does not include existing contracts Enron
> has to supply power, valued at between \$6 billion and \$7 billion.
> In separate but related news, accounting firm Arthur Andersen has
> responded to criticism about their involvement with Enron. Recently,
> Andersen revealed that "thousands" of documents involved in the Enron
> audit were destroyed in October after regulators began gathering
> information about Enron's collapse. Andersen Managing Partner and CEO,
> Joe Berardino, stated that the company has "recovered many of these
> documents from electronic sources and have provided the government with
> them." Also, Andersen has fired the lead auditor involved in the Enron
> audit and placed three other partners on leave.
>
> Enron Announces Successful Bidder For Wholesale Trading Operation
> <<http://www.enron.com/corp/pressroom/releases/2002/ene/011102releaseltr.htm>>
> ml>
>
> Enron Releases Details of UBS Warburg Agreement
> <<http://www.enron.com/corp/pressroom/releases/2002/ene/01152002Release.htm>>
> l>

>
> New York Bankruptcy Court: Enron-Related Documents
> <<http://www.nysb.uscourts.gov/enron.html>>
>
> Andersen CEO responds to Enron-related Events
> <http://www.arthurandersen.com/resource2.nsf/vAttachLU/AA_MediaCenter_Ande
> <[rsenOpenLetterENGLISH/\\$File/openletter.pdf](http://www.arthurandersen.com/resource2.nsf/vAttachLU/AA_MediaCenter_Ande)>
>
> Andersen Dismisses Lead Enron Auditor
> <<http://www.arthurandersen.com/website.nsf/content/MediaCenterNewsReleaseA>
> <[rchiveEnronActions0115021OpenDocument](http://www.arthurandersen.com/website.nsf/content/MediaCenterNewsReleaseA)>
>
> Political Reaction to the Enron Collapse
> The White House, responding to the scandal surrounding Enron, has
> asked the four regulatory agencies that make up the President's Working
> Group on Financial Markets to review corporate disclosure rules. The
> Working Group consists of the Treasury Department, the Federal Reserve,
> the Securities and Exchange Commission, and the Commodity Futures Trading
> Commission.
> "The Secretary of Treasury, along with the SEC, the Fed, and the
> CFTC, are going to convene a working group to analyze corporate disclosure
> rules and regulations," said President Bush in a Jan. 10 speech announcing
> the review. "In light of the most recent bankruptcy, Enron, there needs to
> be a full review of disclosure rules, to make sure that the American
> stockholder, or any stockholder, is protected."
> Meanwhile, several Congressional committees are investigating the causes
> of Enron's troubles, a development that could lead to stricter accounting
> rules and greater scrutiny of energy trading.
> The Senate Government Affairs Committee, chaired by Sen. Joe Lieberman
> (D-Conn.), announced on Jan. 2 that it plans to conduct a two-pronged
> investigation of Enron's collapse and will hold a series of hearings on
> the regulatory implications of the collapse, with the first one scheduled
> for Jan. 24.
> Speaking at a press conference held to announce the probe, Lieberman
> said the full committee will look at three main areas-investing and
> regulation of the financial markets, energy and derivatives trading, and
> pensions and retirement savings-to see if "cracks need to be filled in the
> regulatory system." He mentioned in particular the SEC, PERC, CFTC, and
> the Labor Department, in that order, as targets for his review.
> While the full committee examines the overall impact of the
> collapse, the panel's investigative subcommittee, chaired by Sen. Carl
> Levin (D-Mich.), will concentrate on gathering and analyzing information,
> with particular attention to the role of the board of directors, the role
> of the auditor, and Enron's use of limited partnerships and special
> purpose entities. As part of this investigation, the panel's
> investigations subcommittee will file subpoenas to obtain documents from
> top company officials and its board of directors, as well as its auditor,
> Arthur Andersen, Levin said.
> "The full committee will be looking at what the experts are saying
> about the collapse and what role various federal agencies had in
> overseeing Enron-that will be an outside view," Levin said. "The
> Subcommittee will be looking at Enron from the inside-what did Enron's top
> officers and Board members know about the financial condition of Enron,
> when did they know it and what did they do about it. Both of us will be
> looking to identify the loopholes or failures in our current laws and
> regulatory schemes that allowed this disaster to happen," he continued.
> Senator Paul Sarbanes (D-Md), Chairman of the Senate Banking Committee,
> has requested that the General Accounting Office investigate the
> investment of employee retirement funds in company stock. The Enron
> collapse raises the question of whether employees are given sufficient
> information by their employers about the risks of investing. Also,
> Senator Sarbanes has asked the GAO to evaluate the governance of the
> accounting industry focusing on the reporting of financial information.
> An oversight hearing will be held on Tuesday, Feb. 12 to examine these
> issues and will include testimony from five former chairmen of the SEC
>
> Bush Statement on Pension Regulations and Corporate Disclosures (Jan. 10)

> <<http://www.whitehouse.gov/news/releases/2002/01/20020110-1.html>>
>
> Committee Announcement of Enron Investigation:
> <http://www.senate.gov/~gov_affairs/010201press.htm>
>
> Sen. Lieberman Statement on Enron Investigation:
> <http://www.senate.gov/~gov_affairs/010201statement.htm>
>
> Sen. Levin Statement on Enron Investigation:
> <<http://www.senate.gov/~levin/releases/010202pr2.htm>>
>
> Sen. Sarbanes letter to the GAO:
> <<http://banking.senate.gov/prel02/0115gao.htm>>
>
> ICE Reports Record Volumes
> IntercontinentalExchange announced that average daily trading volumes in
> January are up 30 percent compared to last month. The online commodity
> marketplace also announced record volume for North American electricity
> volume on January 14 when more than 17 million megawatt hours moved across
> the ICE platform. The exchange expects volume to continue to rise in
> February when ICE will begin offering clearing services through the London
> Clearing House.
> More info: <<http://www.intcx.com/pressjan02d.html>>
>
> FERC Preparing Derivatives Reporting Rule
> The Federal Energy Regulatory Commission agreed at a Dec. 19 open
> meeting to issue a "notice of proposed rulemaking" regarding changes to
> its accounting and reporting requirements for derivatives and certain
> other financial instruments. The notice also asked for public input on
> whether FERC should continue to exempt power marketing companies from
> these accounting rules.
> At the public meeting, FERC officials noted that the proposed
> changes to its accounting rules had been in the works for some time and
> stressed that this was not an Enron-inspired attempt to expand the
> agency's regulatory powers. However, several officials acknowledged that
> "recent events" had made the proposed changes more relevant.
> The public will have 60 days to comment on the notice, which in
> essence would conform FERC reporting rules to accounting standards
> recently issued by the Financial Accounting Standards Board, notably FAS
> 133 and FAS 138.
> "The addition of new accounts and new reporting schedule is intended
> to address and resolve the problems of lack of visibility, completeness
> and consistency of accounting and reporting changes in the fair value of
> certain financial instruments, items of other comprehensive income,
> derivative instruments and hedging activities," the notice said.
>
> Proposed Rule: <<http://cips.ferc.fed.us/Q/CIPS/RULES/RM/RM02-3.000.TXT>>
>
> Transcript of Dec. 19 FERC Commission Meeting:
> <<http://www.ferc.gov/calendar/commissionmeetings/transcripts.htm>> (go to
> pages 163 to 193)
>
> BMA Reports Sharp Fall-off in Number of Bond Trading Platforms
> The Bond Market Association, the trade group for the U.S. fixed
> income markets, released its annual survey of electronic trading systems
> on Dec. 12. The BMA found that the number of electronic systems that trade
> fixed-income securities and derivatives dropped from 68 systems in 2000 to
> 49 systems this year, due to a "significant change" in the business
> environment for these systems, the contraction in the Internet economy,
> and the "over-capacity" that existed in 2000. The report also includes
> expanded coverage of European bond trading systems and electronic loan
> trading systems.
> More info:
> <<http://www.bondmarkets.com/research/ecommerce/ecommercedraft.shtml>>
>
> For more news check out the B2B Clips archive at:
> <<http://www.atmarkets.org/content/b2bclipsarchives.asp>>

>
> @Markets Magazine
> Read the latest issue of @Markets Magazine online at:
> <<http://www.atmarkets.org/content/preview.asp>>
>
> @Markets@Expo
> On Nov. 28-30, @Markets Association organized six panel discussions
> on various aspects of online marketplace evolution as part of the annual
> Expo conference in Chicago sponsored by the Futures Industry Association.
> Audio files of the six sessions have been posted on the Web site, as well
> as summaries of the panels.
> For Audio Files, go to:
> <<http://www.atmarkets.org/content/@Markets@Expoaudio.asp>>
> For Session Summaries, go to:
> <<http://www.atmarkets.org/content/preview.asp>>
>
> -----
> -----
>
> If you would like this newsletter sent to others within your firm, please
> contact David Bruderle at <<mailto:dbruderle@atmarkets.org>>
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> future, you may opt out by notifying us via e-mail at
> <mailto:optout@atmarkets.org> or by writing us at 2001 Pennsylvania Avenue
> N.W., Suite 600, Washington, DC 20006.
>
> Comments and suggestions may be sent to David Bruderle at
> <<mailto:dbruderle@atmarkets.org>>
>
>

Nickoloff, Peter

From: InvestorGuide Daily [daily@investorguide.com]
Sent: Thursday, January 17, 2002 6:06 PM
To: peter.nickoloff@do.treas.gov
Subject: InvestorGuide Daily - January 17, 2002

InvestorGuide Daily

January 17, 2002

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Contents:

- Market Summary
- Business News and Analysis
- Earnings
- Word of the Day
- On This Date
- Notable Quotable

market summary

After a big tumble of the major indexes yesterday, investors put their money back on the market following the positive earnings reports from Compaq, Apple and General Electric, together with some encouraging economic news. The Dow recovered nearly half of yesterday's loss gaining 137.77 points and the Nasdaq managed to return to a positive territory gaining 41.38 points.

Dow Jones Industrials:	9850.04	+137.77	+1.42%
Nasdaq Composite:	1985.82	+41.38	+2.13%
S&P 500:	1138.88	+11.32	+1.00%
30-year Treasury Bond:		5.405%	+0.060

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business news and analysis

Jobless claims fell to their lowest level in six months for the week ended Jan. 12, down 14,000, to 384,000. On average, economists were expecting claims to rise to 438,000. (source: The Street)

<http://www.investorguide.com/cgi-bin/daily.cgi?05623>

Senator Kennedy called yesterday for postponing \$350 billion in scheduled tax cuts for Americans making more than \$130,000 a year, becoming the most senior Democrat to propose a rollback of the tax cut that was the signature accomplishment of President Bush's first year. (source: Washington Post)

<http://www.investorguide.com/cgi-bin/daily.cgi?05624>

Analysis:

The aftershocks from the collapse of Enron, a Texan energy-trading firm, in history's biggest corporate bankruptcy, may yet destroy the firm's auditors, Andersen, reducing the Big Five of global accountancy to the Big Four. The survivors might find themselves facing a harsher regulatory climate. (source: The Economist)

<http://www.investorguide.com/cgi-bin/daily.cgi?05625>

A recent report by Sweden's central bank examines 52,000 forecasts made by 250 institutions for inflation and economic growth in the U.S., Japan, Great Britain, France, Italy and Sweden during the period 1991-2000. The most potentially useful finding is that forecasts for inflation are significantly more accurate than are those for growth. Investors who engage in short-term market timing might do best trading on forecasts of CPI and ignoring or trading against those for GDP. (source: Forbes)

<http://www.investorguide.com/cgi-bin/daily.cgi?05626>

The U.S. government has been quietly taking some giant steps forward over the past few weeks in the fight against cybercrime. In November, the Department of Defense awarded a \$86 million contract to Computer Sciences Corporation to train cybercrime fighters. According to Jupiter Media Metrix, at least 25 cents of every \$100 spent online is lost to online fraud. (source: Ecommerce Times)

<http://www.investorguide.com/cgi-bin/daily.cgi?05627>

If you have any friends or colleagues who would appreciate getting this news every day, follow this link (or if you prefer, simply forward this issue to them):

<http://www.investorguide.com/cgi-bin/recommenddaily.cgi>

You can research companies mentioned in today's news by following these links:

Apple	http://www.investorguide.com/cgi-bin/r.cgi?name=AAPL
Comp. Sciences	http://www.investorguide.com/cgi-bin/r.cgi?name=CSC
Compaq	http://www.investorguide.com/cgi-bin/r.cgi?name=CPO
Enron	http://www.investorguide.com/cgi-bin/r.cgi?name=ENRN
Ford	http://www.investorguide.com/cgi-bin/r.cgi?name=F
General Electric	http://www.investorguide.com/cgi-bin/r.cgi?name=GE
IBM	http://www.investorguide.com/cgi-bin/r.cgi?name=IBM
Microsoft	http://www.investorguide.com/cgi-bin/r.cgi?name=MSFT

You can research any publicly traded company by following this link:

<http://www.investorguide.com/research.html>

e a r n i n g s

Earning News:

Microsoft's profits are expected to exceed estimates when it reports quarterly results on Thursday, lifted by a better-than-expected PC market and cost-conscious companies that turned to its enterprise software as a cheaper option in a tough economy. However, the software giant's profits are expected to fall about 9 percent from a year

earlier. (source: CNET)
<http://www.investorguide.com/cgi-bin/daily.cgi?05628>

IBM's quarterly earnings fell 13 percent from the same period last year, although the technology sector bellwether company surpassed analysts' earnings expectations with help from cost cuts. (source: Marketwatch)
<http://www.investorguide.com/cgi-bin/daily.cgi?05629>

Thursday's major earnings reports:

Company Name (Ticker):	actual,	expected,	same q last year
Bank of NY (BK):	\$0.45,	\$0.46,	\$0.50
Boise Cascade (BCC):	\$0.03,	-\$0.05,	\$0.29
Briggs & Stratton (BGG):	\$0.35,	\$0.32,	\$0.92
Citigroup (C):	\$0.74,	\$0.73,	\$0.65
Echelon (ELON):	\$0.13,	\$0.13,	\$0.03
Ford Motor (F):	-\$0.48,	-\$0.50,	\$0.64
General Electric (GE):	\$0.39,	\$0.39,	\$0.36
IBM (IBM):	\$1.33,	\$1.32,	\$1.48
Legg Mason (LM):	\$0.60,	\$0.54,	\$0.61
Microsoft (MSFT):	\$0.41,	\$0.45,	\$0.47
Network Assoc (NETA):	\$0.23,	\$0.08,	-\$0.87
Nortel Networks (NT):	-\$0.16,	-\$0.17,	\$0.30
SABRE Grp (TSG):	\$0.03,	\$0.02,	\$0.25
Sage (SAGI):	-\$0.06,	-\$0.08,	-\$0.01
Sears, Roebuck (S):	\$2.02,	\$1.97,	\$1.91
SmartForce (SMTF):	\$0.04,	\$0.04,	-\$0.03
Transmeta (TMTA):	-\$0.18,	-\$0.18,	-\$0.20
Unisys Corp (UIS):	\$0.11,	\$0.11,	\$0.41
Willamette (WLL):	\$0.41,	\$0.41,	\$0.78

Friday's major expected earnings reports:

Company Name (Ticker):	expected,	same q last year
Sun Microsystems (SUNW):	-\$0.04,	\$0.16
Visteon (VC):	-\$0.09,	-\$0.05

For more earnings information, check out
<http://www.investorguide.com/earningscalendars.html>

w o r d o f t h e d a y

e-mini - A futures contract that can be traded electronically on the Chicago Mercantile Exchange and is based on the S&P 500 index. As opposed to normal S&P futures contracts, which have a point value of \$250, the emini contract has a point value of \$50. Short for Electronic Mini S&P 500.

For more financial terms, please visit <http://www.investorwords.com>

o n t h i s d a t e

January 17, 1950: The Brink's robbery occurs when a small band of masked men committed what becomes known as the crime of the century.

n o t a b l e q u o t a b l e

"October. This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August and February." - Mark Twain

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Bair, Sheila

From: Davis, Michele
Sent: Monday, January 14, 2002 1:41 PM
To: Bair, Sheila
Subject: for Secretary's speech TOMORROW

What do you think of these few paragraphs?

[(b)(5)]

Bair, Sheila

From: Davis, Michele
Sent: Monday, January 14, 2002 7:16 PM
To: Bair, Sheila
Subject: RE: for Secretary's speech TOMORROW

thanks -- I'll make that change.

-----Original Message-----

From: Bair, Sheila
Sent: Monday January 14, 2002 4:35 PM
To: Davis, Michele
Subject: RE: for Secretary's speech TOMORROW

[(b)(5)]

-----Original Message-----

From: Davis, Michele
Sent: Monday, January 14, 2002 1:41 PM
To: Bair, Sheila
Subject: for Secretary's speech TOMORROW

What do you think of these few paragraphs?

[(b)(5)]

[(b)(5)]

O'Brien, Michael

From: Jones, Blake T. [BTJones@imus.leggmason.com]
Sent: Monday, December 03, 2001 9:28 AM
To: Jones, Blake T.
Subject: Client Approved AM notes

> <<...OLE_Obj...>>
>
>
>
> LEGG MASON
> MORNING MARKET UPDATE
> December 3, 2001
>
> Wall Street kicks off the month of December with the largest bankruptcy
> filing in U.S. history. As anticipated, Enron filed for Chapter 11
> protection after the dissolution of its merger deal with Dynegy. Shares
> of the world's largest energy trader have lost \$26 billion in value since
> mid-October. Historically, December has been the best-performing month
> for equity markets, rising 73% of the time and rising 1.5% on average.
> Investors will also get a look at the health of the U.S. manufacturing
> sector, with the National Association of Purchasing Managers Index due to
> be released shortly after the market opens. Analysts expect the index to
> rise to 42.0 in November, up from 39.8 in October. S&P futures are 6
> points below fair value, while NASDAQ futures are 16 points below fair
> value, indicating a lower opening for U.S. On Friday, U.S. markets
> finished mixed; the Dow gained 22 points to close at 9,851, while the
> NASDAQ lost 2 points to close at 1930. Overseas, Asian markets posted
> sharp losses; Japan's Nikkei fell more than 3.0%, while Hong Kong's Hang
> Seng lost 1.0%. European markets are lower in early trading. The dollar
> is stronger versus the yen and the euro. Treasury markets are higher; the
> 10-year bond is up 3 ticks and the 30-year is up 11 ticks.
>
> Economic Statistics For 12/3
> Personal Income for October 8:30am (0.1% est)
> Personal Spending for October 8:30am (2.3% est)
> Construction Spending for October 10:00am (-0.5% est)
> NAPM for November 10:00am (42.0 est)
> Domestic Vehicle Sales for November 3:00pm (14.9m est)
>
> Earnings Reports For 12/3
> None of significance
> (First Call Estimates)
>
> Year-To-Date Statistics:
> Dow Jones- Down 8.67% YTD
> NASDAQ- Down 21.86% YTD
> S&P 500- Down 13.7% YTD
> Russell 2000- Down 4.7% YTD
> Wilshire 5000- Down 13.5% YTD
> MSCI EAFE Index- Down 23.1% YTD
> Amex Morgan Stanley REIT Index- Up 10.0% YTD
> Dow Jones Utilities - Down 31.8% YTD
> Dow Jones Transportation - Down 14.8% YTD
>
> * S&P 500 Factoids: 37.8% of the stocks in the S&P 500 are up YTD.
> * Basic Materials- Up 2.97% YTD
> * Capital Goods- Down 15.45% YTD
> * Communication Services- Down 15.09% YTD
> * Consumer Cyclical- Up 6.12% YTD
> * Consumer Staples- Down 10.18% YTD
> * Energy- Down 16.57% YTD
> * Financials- Down 12.31% YTD

- > * Health Care/Pharmaceuticals- Down 10.27% YTD
- > * Techs- Down 23.01% YTD
- > * Transports- Down 2.53% YTD
- > * Utilities- Down 34.03% YTD

>
>
>
> Additional information is available upon request

>
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Blake T. Jones
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O'Brien, Michael

From: Obrien, Kevin [kevin@pequotcap.com]
Sent: Thursday, November 29, 2001 3:06 PM
To: Andy LeFevour (E-mail); Dennis Joyce (E-mail); Jim Landi (E-mail); Jim Rizzo (E-mail); John Verni (E-mail); Luke Pickett (E-mail); Marc Sulam (E-mail); Michael O'Brien (E-mail); Pat McGannon (E-mail); Tim O'Brien (E-mail)
Subject: FW: SHAREHOLDER PERFORMANCE & SPORTS TEAMS STADIUMAC MORGAN (E-mail)

As the topic is professional sports, I asked our research staff to put this together for you boyz.

-----Original Message-----

From: Mehl, Jared
Sent: Thursday, November 29, 2001 3:00 PM
To: PV Team
Subject: SHAREHOLDER PERFORMANCE & SPORTS TEAMS STADIUMAC MORGAN (E-mail)

With yesterday's Chapter 11 filing by Enron, yet another victim was added to fabled "Sports Stadium Naming Rights Jinx". Over the past 10 years or so, professional sports franchises have been selling the names of their stadiums to the highest corporate bidder. This trend has garnered much debate within the business community - are companies paying for prime marketing real estate, or are they agitating traditional sports fans?

The following list makes a strong case for the latter argument. Here is a sampling of 15 corporations that have bought professional stadium naming rights, and their stock price performance since the deal was announced:

Venue	Sport	Team	Year of Deal	Cost of Deal	Stock Symbol	Price at Deal	Current Price	Loss Since Deal
PSINet Stadium	NFL	Ravens	1999	\$106M	PSIX	\$51	\$0.01	-100%
Trans World Dome	NFL	Rams	1995	\$26M	TWAIE.O	\$12	\$0.04	-100%
Pro Player Stadium	MLB	Marlins	1996	\$20M	FTLAQ.OB	\$35	\$0.28	-99%
Enron Field	MLB	Astros	2000	\$100M	ENE	\$36	\$0.60	-98%
CMGI Field	NFL	Patriots	2000	\$114M	CMGI	\$45	\$2	-96%
Savvis Center	NHL	Blues	2000	\$70M	SVVS	\$9	\$0.75	-92%
3Com Park	NFL	49ers	1995	\$4M	COMS	\$40	\$4	-90%
Conseco Fieldhouse	NBA	Pacers	1999	\$40M	CNC	\$30	\$4	-87%
Corcl Centre	NHL	Senators	1996	\$26M	COR.TO	\$17	\$3	-82%
America West Arena	NBA	Suns	1989	\$26M	AWA	\$10	\$2	-80%
American Airlines Arena	NBA	Heat	1999	\$42M	AMR	\$72	\$20	-72%
Air Canada Centre	NHL	Maple Leafs	1999	\$40M	ACNAF	\$7	\$2	-71%
Compaq Center	NBA	Rockets	1997	\$6M	CPQ	\$30	\$9	-70%
Adelphia Coliseum	NFL	Titans	1999	\$30M	ADLAC	\$70	\$23	-67%
United Center	NBA	Bulls	1994	\$25M	UAL	\$42	\$16	-62%

This past January, Invesco bought the naming rights to Denver's hallowed Mile High Stadium. Invesco's parent, Amvescap (AVZ), is down 40% since the deal was announced.

Hunt, Betty Ann

From: ConsumersFirst@cfdebt.com
Sent: Friday, December 21, 2001 12:44 AM
To: betty.ann.hunt@do.treas.gov
Subject: Step 4: Establishing The Payoff Priorities

Weekly Press Release from ConsumersFirst

Thursday December 20, 2001

Current Subscribers: 348,501 strong

Contents:

1. A Note From The Vice President
 2. You can now apply online!
 3. Christmas Bliss
 4. Christmas Giving
 5. Fall of a Giant
-

1. A Note From The Vice President

For those of you following along, we are in the middle of a six part series on "How to Develop a Personal Debt Free Plan". This series includes six steps you can do on your own to get on your way to a debt free lifestyle. The six steps are:

- Step 1: Identifying Ongoing Monthly Payments
- Step 2: Identifying Debt
- Step 3: Identifying Income
- Step 4: Establishing The Payoff Priorities
- Step 5: Establishing The Power Payment
- Step 6: Establishing Your Victory Date

We have spent the last three steps organizing our bills, our debts and our income. The remaining three steps put this information into action to begin to become debt free. If you have missed these, I have included the link below where you can access the previous articles.

Step 4: Establishing The Payoff Priorities

The purpose of this step is to devise a plan on how to attack each debt. There is a benefit to paying off certain debts before others. Paying off debts in the wrong priority could cost you several thousand dollars in unnecessary interest payments.

There are two schools of thought on how to prioritize your debt payoffs. The first states that you should arrange your bills by interest rate. You should then pay the highest interest rate off first. The second school of thought states that you should arrange your bills by the total balance owed and pay off the lowest balance first. I am going to introduce you to a third school of thought, which uses a different metric to assign the priority payoff.

If you will recall, we created a sheet in Step 2 with a list of your debt information on it. Please refer back to that sheet (click here if you need to view it again

<http://www.cfdebt.com/ctd.htm>). You want to divide the Total Balance of the debt by the Minimum Monthly Payment. Write the number you get in the Division Answer column. For instance, if you have a Visa Card with a \$1000 balance and a Minimum Monthly payment \$25, you would divide the \$1000 by \$25 to get a "40". You would write "40" in the Division Answer column. Do this exercise for each debt.

Once you have a "Division Answer" for each debt, you want to rank them from the lowest "Division Answer" to the highest. To do this, find the lowest "Division Answer"; mark a "1" in the Priority Payoff column. Find the next lowest "Division Answer"; mark a "2" in the Priority Payoff column. Continue this for each debt that you have. Your sheet should look similar to the following:

Debt Name	Current Balance	Min. Monthly Payment	Division Answer	Priority Payoff
1) Visa	\$1000	\$25	40	2
2) MC	\$10,000	\$380	26	1
3) Mortgage	\$150,000	\$998	150	4
4) Auto	\$8,000	\$150	53	3

You now have your Priority Payoff. You will attack the 1st Priority payoff first. Once that is paid off, you will attack the second and so on.

Please note, the "Division Answer" you get is NOT the amount of time it will take to pay off that debt. It is merely a tool to help prioritize your payoff priorities.

That completes Step 4. Next Thursday, we are going to cover Step 5, Establishing The Power Payment. In this step, we will cover some very important strategies you should employ to save the absolute most money in interest payments and get completely out of debt the soonest possible.

Until then, have an excellent holiday and a debt free week.

Sincerely,
James Agnew
Executive Vice President
ConsumersFirst

P.S. The links to the previous articles are:
Step 1: <http://newsletter.cfdebt.com/default.asp?Article=step1>
Step 2: <http://newsletter.cfdebt.com/default.asp?Article=step2>
Step 3: <http://newsletter.cfdebt.com/default.asp?Article=step3>

P.S.S. We have included a couple of extra articles, some pertain to the holidays and spending.

2. You can now apply online!

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<http://www.cfmortgage.com/forms/longmortgage.htm>

3. Christmas Bliss

'Tis the season to be jolly, a time of giving, a time of love, a time of family, friends, and wonderful memories. But, 'tis also a time of profit, long lines, annoyed shoppers, no parking, and large credit card bills. So, this cheery article is dedicated to the art of saving time and money during this Christmas season so that you may enjoy it without having your pocketbook create any unwanted holiday stress.

<http://newsletter.cfdebt.com/default.asp?Article=art66>

4. Christmas Giving

'Tis the season to be jolly and all through the house not a creature is stirring especially not the mouse. People are out and about and Christmas cheer is in the air, but unfortunately Santa Claus won't be stopping everywhere. Our economy is sliding downward and the Fed is cutting rates, so people who are in need are suffering gift-less, Christmas days. But you, dear friend, are in a lucky spot, for you can give, and help, and give away that which others have not. Read on to see how you can help.

<http://newsletter.cfdebt.com/default.asp?Article=art67>

5. Fall of a Giant

Have you ever noticed that life leads you like a wild roller coaster ride? There are steep up hill challenges and long fast down hill joy rides. Businesses go through similar ups and downs. And, the bigger the up, the greater the potential down can be. Our lives can be compared to businesses in many ways, the most important being financial comparisons. Recently, Enron, the energy giant fell from one of its tremendous ups. The fall has been great and can be attributed to poor financial decision-making. Read on to see how patterning your financial life after the strategies of successful businesses can keep you from suffering personal financial falls.

<http://newsletter.cfdebt.com>

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can contact april@cfdebt.com

From: Hart, Susan
Sent: Tuesday, June 12, 2001 4:54 PM
To: Ellis, Dina; DeMarco, Edward

Moran Urges Support For Opt-Out Privacy Plan, Commission

by [Bara Vaida <mailto:bvaida@nationaljournal.com>](mailto:bvaida@nationaljournal.com)

The privacy position of the new chairmen of the Senate Commerce and Judiciary committees poses a concern to the high-tech community, Rep. **James Moran**, D-Va., co-chairman of the [New Democrat Coalition <http://www.ndol.org/ndol_ka.cfm?kaid=103>](http://www.ndol.org/ndol_ka.cfm?kaid=103), told high-tech lobbyists Tuesday.

"As elated as I am at the change in the leadership of the Senate, the chairs of the Judiciary and Commerce committees have sponsored opt-in bills ... that will mean a difficult situation on the [Senate] playing field," Moran told the lobbyists who had gathered to hear a preview of the New Democrat Coalition's "e-genda 2001," scheduled for release Wednesday afternoon.

The opt-in approach to privacy would put the burden on online businesses to obtain consent from consumers before using their personal information for marketing purposes or selling it to third parties. Moran instead urged the lobbyists -- from Microsoft, Cisco Systems, AT&T, Hewlett-Packard, VeriSign, Enron and other high-tech companies -- to consider supporting the opt-out approach that would put the burden on consumers.

Sens. **John McCain**, R-Ariz. and **John Kerry**, D-Mass., introduced the leading opt-out privacy bill, S. 2928 <<http://rs9.loc.gov/cgi-bin/bdquery/z?d106:SN02928:@@I&summ2=m&>>, in the 106th Congress. Moran

also urged the lobbyists to support a bill, H.R. 583 <<http://rs9.loc.gov/cgi-bin/bdquery/z?d107:HR00583:@@I&summ2=m&>>, that he co-sponsored. It would create a 17-member commission to study existing privacy laws, conduct field hearings and make legislative recommendations to Congress within 18 months.

Moran said the House Government Reform Committee could consider his bill soon -- before its leading Republican co-sponsor, **Asa Hutchinson** of Arkansas, leaves the House to head the Drug Enforcement Administration for President **Bush**.

Sources close to the Senate Commerce Committee have said new Chairman **Ernest (Fritz) Hollings**, D-S.C., plans to hold several hearings on privacy policy in July. The hearings likely will focus on various aspects of the opt-in privacy bill, S. 2606, that Hollings sponsored in the 106th Congress, but Hollings does not plan to reintroduce his bill until after the hearings, industry sources said.

On other high-tech related issues, Californian **Calvin Dooley**, co-chairman of the House New Democrat Coalition, told the lobbyists that new legislation to renew presidential trade-negotiating expected to be introduced in the House this week is "dead on arrival" with Democrats if it does not include language related to labor and environmental standards.

Dooley has been trying to craft a compromise bill that would include enforcement of labor and environmental provisions. Many Republicans want to leave those issues out of trade deals.

New Democrats, however, are optimistic about House passage of legislation to renew normal trade relations with China. Although Congress voted last year to approve permanent normal trade relations with China, the country has yet to join the World Trade Organization, hence forcing another annual vote on the issue.

On other issues, the New Democrats are developing a comprehensive energy policy because they said the West Coast's energy problems are threatening the ability for future high-tech growth in the region.

Hart, Susan

From: Michael Sondow [msondow@icliu.org]
Sent: Tuesday, January 15, 2002 4:58 PM
To: Hague list
Subject: [Hague-jur-commercial-law] Enron & self-regulation

"Attacking the company and its greedy executives may be easy, but it is a sideshow. Enron's demise is largely due to the complicity of Washington's leading political, monetary and financial authorities in subverting proper regulation of our liberal market democracy in a wide range of areas: a persistent refusal to regulate properly the derivatives market, a reluctance to fund the Securities and Exchange Commission adequately so as to increase investor protections against and executive accountability for securities' fraud, and political cowardice in refusing to tackle the accounting profession's blatant conflicts of interests which, in recent years, have prevented genuinely independent audits. Enron raises broader questions about the wisdom of industry self-regulation, the current integrity of public company financial reporting, and the overall competence (and judgement) of Washington's leading policy makers." (Marshall Auerback, investment analyst & portfolio manager)

Hague-jur-commercial-law mailing list
Hague-jur-commercial-law@lists.essential.org
<http://lists.essential.org/mailman/listinfo/hague-jur-commercial-law>

[(b)(5)]

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Draft Speech

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Conclusion

[(b)(5)]

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[(b)(5)]

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[[b)(5)]

Retirement Security Speech

Outline

[(b)(5)]

[(b)(5)]

McCall, Neal

From: DeMarco, Edward
Sent: Thursday, January 17, 2002 10:17 AM
To: Cummings, Leslie; Green, Matthew; Hughes, Gerry; Jacques, Kevin; McCall, Neal; Pedri, Melissa; Ugoletti, Mario; Zackal, Heather
Subject: FW: Document Search

Please read the e-mail below and proceed as directed. If your search turns up nothing, please send me an e-mail saying so. Because several of us regularly get news clips of one sort or another, I expect at least some of you will have something. Note the distinction in Michael's instructions as to how to handle news clips versus how to handle news clips with notes attached that reference the E word. Also note, personal e-mails are included in the request. Please be sure to check both your in-box and your out-box. Aside from e-mails, any paper records you may have also need to be gathered and submitted.

Please do this ASAP.

Thanks,

Ed

-----Original Message-----

From: O'Brien, Michael
Sent: Thursday, January 17, 2002 9:54 AM
To: DeMarco, Edward; Tishuk, Brian
Cc: Cave, Pat
Subject: Document Search

Ed and Brian,

You both received Jared's e-mail regarding a document search for Enron. To be efficient, could you both (and Pat) direct your staffs to do an e-mail search for the word "Enron"? If any documents come up we are to print them and save them to disk for delivery to General Counsel.

If you receive the Congress Daily from Elizabeth Knack or Norman Carletons news clips - and they mention Enron - then just save those to disk, do not print them. If you happened to forward any of those e-mails to someone with text, then we should print those as well.

Each employee should place his/her e-mails in their own folder and submit them to you. The same disk can be passed around each of your shops to make things easier. I know this seems onerous, but Jared has told us that GC is demanding this thorough approach to this matter. Please have EVERY employee do this search, as I had more personal e-mails mentioning Enron than I thought.

After your respective packages are together, bring them to me and I will have Sheila deliver them to Peter or GC - in compliance with the request.

Any questions, let me know.

Thanks -

Michael

McCall, Neal

From: Young, JT
Sent: Wednesday, January 16, 2002 9:45 AM
To: Sweetnam, Bill Jr; Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Bradshaw, Tara; Bair, Sheila; McCall, Neal; DeMarco, Edward
Subject: RE: Senate Hearing on Enron-Related Pension Issues

i have also heard kennedy is doing something. i have also heard that finance is notat this time

-----Original Message-----

From: Sweetnam, Bill Jr
Sent: Tuesday, January 15, 2002 8:20 PM
To: Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Young, JT; Bradshaw, Tara; Bair, Sheila; McCall, Neal; DeMarco, Edward
Subject: Senate Hearing on Enron-Related Pension Issues

I have heard, second hand, that Sen. Kennedy will schedule a hearing on February 7 to discuss the pension issues surrounding Enron. He will have a government panel and will ask for testimony from DOL and Office of Tax Policy. He will also have a victims panel and a panel of academic experts.

*William F. Sweetnam, Jr.
Benefits Tax Counsel
Office of Tax Policy
Treasury Department
1500 Pennsylvania Avenue NW
Washington DC 20220*

*Phone: 202-622-0170
Fax: 202-622-0646*

McCall, Neal

From: Sweetnam, Bill Jr
Sent: Tuesday, January 15, 2002 8:20 PM
To: Weinberger, Mark; Reeder, W Thomas; Olson, Pam; Walker, Deborah; Young, JT; Bradshaw, Tara; Bair, Sheila; McCall, Neal; DeMarco, Edward
Subject: Senate Hearing on Enron-Related Pension Issues

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*William F. Sweetnam, Jr.
Benefits Tax Counsel
Office of Tax Policy
Treasury Department
1500 Pennsylvania Avenue NW
Washington DC 20220*

*Phone: 202-622-0170
Fax: 202-622-0646*

McCall, Neal

From: Bair, Sheila
Sent: Monday, January 14, 2002 4:36 PM
To: DeMarco, Edward; McCall, Neal
Subject: FW: for Secretary's speech TOMORROW

This may help in terms of the TPs you are doing.

Sheila

-----Original Message-----

From: Bair, Sheila
Sent: Monday, January 14, 2002 4:35 PM
To: Davis, Michele
Subject: RE: for Secretary's speech TOMORROW

I'm sorry I didn't get back to you. I've been in meetings all afternoon. In any event, you obviously didn't need me. This is great.

I would slightly rework the second para as follows:

[(b)(5)]

-----Original Message-----

From: Davis, Michele
Sent: Monday, January 14, 2002 1:41 PM
To: Bair, Sheila
Subject: for Secretary's speech TOMORROW

What do you think of these few paragraphs?

[(b)(5)]

McCall, Neal

From: Bair, Sheila
Sent: Friday, January 11, 2002 5:17 PM
To: DeMarco, Edward; McCall, Neal
Subject: FW: Enron Paper and Other Issues

-----Original Message-----

From: Sweetnam, Bill Jr
Sent: Thursday, January 10, 2002 6:56 PM
To: Bair, Sheila
Cc: Reeder, W Thomas
Subject: Enron Paper and Other Issues

Attached is a paper on issues arising from employer stock in tax qualified plans. We gave a copy of this to Mark Weinberger this evening.

I also talked with Paul Zarawski, Deputy Asst. Secretary for the PWBA (Ann Comb's deputy) about the SAVERS summit. He told me that there were 4 slots for Treasury and he had not heard from Treasury on who was filling those slots. We should determine who will fill those slots. I'd like to be one of them and you should be one of the others. I'm not sure how to fill the others. Paul has asked me to tell him how those people will be.

I'm sure that we'll be talking soon about Enron and other things.



enron issues.doc

*William F. Sweetnam, Jr.
Benefits Tax Counsel
Office of Tax Policy
Treasury Department
1500 Pennsylvania Avenue NW
Washington DC 20220*

*Phone: 202-622-0170
Fax: 202-622-0646*

McCall, Neal

From: Bair, Sheila
Sent: Wednesday, December 26, 2001 8:39 AM
To: DeMarco, Edward; McCall, Neal
Subject: FW: WSJ: Enron Workers Face Losses On Pensions, Not Just 401(k)s

[(b)(5)]

-----Original Message-----

From: Carleton, Norman
Sent: Wednesday, December 19, 2001 11:42 AM
To: Cetina, Jill; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, HeidiLynne; Whaley, Jean; Wiedman, Mark
Subject: WSJ: Enron Workers Face Losses On Pensions, Not Just 401(k)s

December 19, 2001

Enron Workers Face Losses On Pensions, Not Just 401(k)s

By ELLEN E. SCHULTZ

Staff Reporter of THE WALL STREET JOURNAL

Many Enron Corp. employees will suffer even greater losses to their retirement income than was immediately apparent in the wake of the energy-trading company's sudden downfall.

It is well known that many Enron employees will take big hits in their 401(k) retirement-savings plans because much of their investments were in company stock. What has been largely overlooked is that the pensions of many employees also will be reduced as a result of complex, interrelated changes involving pension and retirement-savings plans.

The decline wasn't caused by investments in the pension plan, which by law cannot invest more than 10% of its assets in the company stock. Rather, it stems from ways that companies such as Enron have increasingly coordinated their pensions, 401(k)s and employee stock ownership plans (ESOPs) to reduce costs for the company and shift investment decisions to employees. Enron had no comment.

Lawmakers, reacting to the decimation of the savings of many employees in Enron's 401(k) have begun calling for legislation that would hold savings plans to the same standards as pensions. Employees suffered steep losses in their 401(k) plans because more than 60% of the assets were in Enron's stock at one point, and the stock has dropped to about 50 cents a share from a peak of \$90 last year.

But Enron's situation reveals that employees' retirement benefits are exposed to company stock in more than their 401(k) plans.

Employees share some of the responsibility for this overexposure. That's because to some extent employees could have limited their retirement-related holdings of Enron, if they had taken the right steps at the right time, though many didn't because the stock was long a highflier.

One of these is Kenneth Parrish, an electrician at Portland General Electric, an Enron subsidiary, who essentially has lost additional benefits related to his pension from Jan. 1, 1999. That was when the pension plan for unionized employees, including Mr. Parrish, was changed. The pension benefit they already had earned was frozen; instead of continuing to add to the pension, the company gave a cash contribution of 5% of employees' pay to their 401(k) plan, where they could put it into a variety of investments, including Enron stock.

Unfortunately, Mr. Parrish and many others elected to put the pension-related contribution into Enron stock, along with his own 401(k) savings. "It seemed like such a good investment," says Mr. Parrish, who is 43 years old. Moreover, the company's matching contribution to his 401(k) was in Enron stock that couldn't be sold till the employee turned 50. As a result, the value of his savings plan, including the pension amounts, fell from about \$200,000 to a couple of thousand dollars.

Mr. Parrish, a single father of two daughters, who are 16 and 17, now isn't sure what he will do. "I got doubly slammed," he says. "Not only did I lose all my retirement savings, I lost the pension savings, too." He is selling his house and planning to buy a trailer. "This ruined me," he says.

Meanwhile, salaried workers at Enron had a different kind of pension arrangement that exposed

them to fluctuations in **Enron** stock. The company coordinated their pension plan and their employee stock ownership plan, so that the value of their ESOP accounts permanently erased benefits in their pensions.

That is because **Enron** had a "floor-offset" arrangement, which has been used by many companies, including Hewlett-Packard Co. and Airborne Inc. These arrangements are intended to provide participants with the "better of" the two plans, the savings plan (either an ESOP or a profit-sharing plan) and the pension.

In a simple floor-offset arrangement, if an employee leaves the company and his ESOP account is worth, say, \$60,000, the company figures out how much this would be worth if it were converted to an annual pension in retirement. In this case, the ESOP's equivalent value might be \$6,000 a year in retirement. If the employee has already earned a pension worth \$50,000 a year in retirement, the employee wouldn't get \$56,000 a year -- the combination of the two -- but just \$50,000. (The \$6,000 annual ESOP value is subtracted from the pension, so the person ends up with an annual pension of \$44,000, plus the \$6,000 a year from his ESOP account of \$60,000.)

If the ESOP performed really well, and was worth, say, \$70,000 a year if converted to a pension, the employee would simply keep the ESOP, and not get the pension. If the ESOP didn't perform well, the pension would serve as the "floor" benefit. In other words, even if the ESOP fell to zero, the employee would still have his full pension of \$50,000 a year.

But it didn't work this way at **Enron**, even though the ESOP accounts have become virtually worthless because of the decline in Enron's stock. In an unusual arrangement, **Enron** calculated the ESOP "offsets" based on the price of the stock from 1996 to 2000, when it was trading between \$37.75 and \$43.44. It then used the locked-in value of the ESOP accounts to permanently offset the value of pensions that employees had earned between January 1987 and January 1995.

In other words, **Enron** has reduced the amount of the pension by subtracting the former -- and far higher -- value of the ESOP, even though the ESOP today has virtually no value and thus can't make up for the difference.

Employees might have been all right if **Enron** stock had continued to rise, because gains in the accounts could eventually have made up for the permanent offset. (The increases would have depended completely on stock appreciation, because the company stopped contributing to the ESOP in 1995.)

"It was as if someone assumed the stock would never drop," says Stephen Bruce, a pension lawyer in Washington, D.C. "It was a bad deal if the stock dropped," he says, because this precluded employees from ever making up for the permanent offset.

Employees will still receive their pensions -- albeit at the reduced values. How much employees lost depends on the size of the pension they had earned, and the value of their ESOP accounts from 1996 to 2000.

Employees did have some opportunity to protect themselves from the subsequent exposure to **Enron** stock in their ESOP. One time each year from 1996 to 2000, employees could transfer one-fifth of the value of their ESOP accounts into a 401(k) or an Individual Retirement Account and diversify out of company stock.

Separately, Sens. Barbara Boxer (D., Calif.) and Jon Corzine (D., N.J.) said Tuesday they will propose limits on the amount of company stock employees can hold as part of their 401(k) retirement plans.

The proposed legislation would limit employee 401(k) investments in company stock to 20%, and it would limit to 90 days the period of time an employer can require its workers to hold a matching stock contribution before divesting themselves of it.

-- *Bryan Lee contributed to this article.*

McCall, Neal

From: DeMarco, Edward
Sent: Monday, December 03, 2001 12:40 PM
To: Ugoletti, Mario; Hughes, Gerry; McCall, Neal; Pedri, Melissa; McInerney, Roberta; Ellett, Martha
Subject: FW: WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

FYI

-----Original Message-----

From: Carleton, Norman
Sent: Monday, December 03, 2001 12:31 PM
To: DeMarco, Edward; Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Cetina, Jill; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamorena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidlynnne; Sharer, James; Whaley, Jean; Wiedman, Mark
Subject: WSJ: Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

December 3, 2001

Enron Failure Likely to Burden Insurers And Further Increase Soaring Premiums

By **CHRISTOPHER OSTER**

Staff Reporter of THE WALL STREET JOURNAL

Enron Corp.'s collapse is expected to cost insurance companies more than \$3.5 billion and most likely will further increase skyrocketing insurance rates.

About \$2 billion of the losses is expected to be shouldered by property-casualty underwriters, who are expected to pay \$40 billion to \$70 billion in claims from the Sept. 11 terrorist strikes. Those claims already have touched off a run-up in premium rates. The losses would make next year's price increases among the biggest in recent history for insurers, if not the biggest, said Alice Schroeder, a property-casualty insurance analyst at Morgan Stanley. Such losses work to siphon off capital from the insurance market, reducing price competition.

The damage to individual property-casualty insurers is "virtually impossible" to assess at this point, but Ms. Schroeder said a "material impact" on the sector is likely. The losses are expected to result from claims against directors-and-officers liability policies, surety bonds and financial-guarantee coverage. Directors-and-officers liability policies protect a company from lawsuits stemming from the actions of its executives and surety bonds are bonds that insure the completion of a transaction or a project.

Life insurers, meanwhile, are expected to report that the values of their investment portfolios have dropped by more than \$1.5 billion, related to holdings of Enron debt, which has plunged in value in recent weeks along with the company's stock price. Investors' confidence in the company has sunk amid earnings restatements and revelations about related-party transactions.

Nontraditional financial-guarantee insurance and surety bonds could prove the source of some of the biggest losses, analysts said. Enron obtained coverage for such purposes as enhancing the value of Enron's guarantee of certain debt of Enron-related projects as well as the company's guarantees on the execution of certain derivative contracts. Analysts said the payments on the policies would be

triggered immediately upon a default event -- for example, a missed payment or bankruptcy filing by Enron. "We understand that some contracts may have already been triggered," Ms. Schroeder said.

On Friday, Chubb Corp., Warren, N.J., said it was reviewing its surety bonds related to Enron and estimated its maximum exposure at \$143 million. The property-casualty underwriter said it is unable to estimate the actual amount, if any, that it may be required to pay and that thus far it hadn't received any claims under the surety bonds.

Ms. Schroeder estimated that a maximum of \$300 million in directors-and-officers liability coverage likely is involved, divided among several insurance companies. Already, Enron faces multiple shareholder-driven lawsuits because of the steep drop in the company's stock price.

Jason Zucker, a life-insurance analyst at Banc of America Securities, said the Enron exposures would "pressure bond portfolios in this recessionary environment."

Among those with big holdings is John Hancock Financial Services Inc., according to insurance analyst Colin Devine of Salomon Smith Barney, who expects the company to incur a loss of \$120 million this quarter on the bonds. A John Hancock spokeswoman declined to comment on the estimate.

Mr. Devine said Principal Financial Group Inc. and Lincoln National Corp. also have substantial Enron bond holdings. In a news release, Principal said the company is reviewing its approximately \$171 million "exposure to Enron" and expects to take a write-down this quarter of a size not yet estimated. Principal said it also is reviewing an additional exposure of \$50 million from investments in Enron-related entities. A spokeswoman for Lincoln National said the company had \$25 million of Enron Corp. debt and \$70 million from its subsidiaries. "We may take a charge of some of the exposure related to the parent, but we won't know until we get closer to the end of the quarter."

Write to Christopher Oster at chris.oster@wsj.com <<mailto:chris.oster@wsj.com>>

DeMarco, Edward

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 10:46 AM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidi Lynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: ABI Website (12/17): Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

House Judiciary Chairman James Sensenbrenner (R-Wis.) is standing firm in his desire to move so-called netting language as part of a comprehensive bankruptcy reform bill, a spokesman said, CongressDaily reported. On Thursday, Sensenbrenner met with House Financial Services Chairman Michael Oxley (R-Ohio) and Federal Reserve Chairman Alan Greenspan to discuss the possibility of passing netting legislation this year separate from the beleaguered bankruptcy bill. Federal financial regulators and Financial Services Committee lawmakers have renewed their calls for that action, in light of the recent collapse of Enron. The netting provisions are designed to enable quick resolution to complex financial contracts in the event a party in the deal went bankrupt. However, the netting provisions are one of the few consensus areas in the underlying bankruptcy bill, which is currently in conference, and proponents are not apt to separate them out. "There was agreement between everyone that the netting provisions [are] very important," a Sensenbrenner aide said. "He's trying to get the bankruptcy bill moving, and that's where we are right now."

Hughes, Gerry

From: Carleton, Norman
Sent: Wednesday, December 19, 2001 3:43 PM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Converation with Frank Hampton and ABI Website: House Leaders Continue to Push Netting Provisions

According to Frank Hampton of TBMA, Dick Arney is also pushing the netting legislation. However, Sensenbrenner hopes to acheive a compromise on the larger bankruptcy legislation by February and is opposed to passing the netting legislation separately. In the Senate, Grassley is also opposed to a separate netting bill and is reportedly avoiding a meeting with Greenspan to discuss this.

Norman Carleton

ABI Website news:

December 19, 2001

House Leaders Continue to Push Netting Provisions

House leaders are trying to nudge forward legislation that seeks to prevent systemic financial crises by allowing creditors to "net out" their derivatives losses with major counter parties that have filed for bankruptcy. The American Banker reported. It is still unclear, however, whether even they will be successful in overcoming the political obstacles that have stalled it for more than a year - especially considering that Congress is expected to adjourn for the year as early as this week. Majority Whip Tom DeLay (R-Texas) "believes that it's important to get the netting provisions done, either within the context of bankruptcy reform or elsewhere," a spokesman said.

Such highly technical bills rarely attract the attention of top House or Senate leaders, but the recent collapse of Enron Inc. has given the netting legislation newfound relevance. Federal Reserve Board Chairman Alan Greenspan and Treasury Secretary Paul O'Neill say markets are at risk until a law is enacted that allows contracts to be quickly and easily netted out without the approval of slow-moving bankruptcy courts. Holding it up, however, is House Judiciary Committee Chairman James Sensenbrenner (R-Wis.), who heads the House-Senate bankruptcy legislation conference committee. The netting legislation is a part of the bankruptcy reform legislation. Sensenbrenner and some Senate Judiciary Committee members, including bill sponsor Charles Grassley (R-Iowa), oppose passing the netting authority separately because they still hope that the relatively uncontroversial provisions will propel the bankruptcy package.

Though industry sources said they have received commitments from House leaders that netting will be enacted by year-end or soon thereafter, they are not expected to force a vote without the support of Sensenbrenner. Even after a meeting last week with Greenspan, Sensenbrenner maintained that he was "going to try to keep it in the bankruptcy package," his spokesman said.

Hughes, Gerry

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 10:46 AM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: ABI Website (12/17): Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

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Hughes, Gerry

From: Carleton, Norman
Sent: Friday, December 14, 2001 10:15 AM
To: Bair, Sheila; Berardi, Steve; Bitsberger, Timothy; Eichner, Matthew; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Lori Sanatamarena (E-mail); Nickoloff, Peter; Novey, Michael; Pietrangeli, Fred; Roseboro, Brian; Schultheiss, Heidi Lynne; Whaley, Jean; Wiedman, Mark; Bieger, Peter; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Salladin, Anne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: Enron -- Dec. 11 ABI Website

Enron Bankruptcy Update

Enron Japan, Affiliates Seek Bankruptcy Protection

Enron Japan Corp., a wholly-owned subsidiary of failed U.S. energy giant Enron Corp. announced that it and its three Japanese affiliates filed for bankruptcy yesterday, Dow Jones reported. The move follows Enron's Dec. 2 chapter 11 bankruptcy filing in New York. "Enron Japan Corp., Enron Japan Marketing Corp., Enron Japan Funding Corp. and E Power Corp. filed for bankruptcy...in accordance with the Japanese bankruptcy law," Enron Japan said.

Enron Court Hearing Pushed Back to Dec. 20

An Enron Corp. hearing has been rescheduled for Dec. 20 from Dec. 14, Dow Jones reported. The hearing, the second since the energy-trading company filed for chapter 11 bankruptcy protection on Dec. 2, will pertain to Enron's request to continue paying utility companies for electric bills. **Judge Arthur Gonzalez**, who is presiding over Enron's case will also hear an interim request at this time to retain Blackstone Group as financial adviser in Enron's restructuring.

600 Enron Employees Got Bonuses

Nearly 600 Enron Corp. employees deemed critical to running its prized energy trading business received more than \$100 million in bonuses last month as the company faced a merger and then bankruptcy, according to the Associated Press. About half of those bonuses, given to 75 traders in early November when Enron was planning to merge with smaller rival Dynegy Inc., may have to be repaid because the merger collapsed, said **Todd Zywicki**, a law professor at **George Mason University**.

Enron spokesman Mark Palmer said the \$50 million given to traders before the merger crumbled "was done in discussions with Dynegy to protect and preserve the value of the trading organization through what we thought was going to be a fairly long merger process." Dynegy spokeswoman Debbie Fiorito said that Dynegy didn't approve or endorse those bonuses. Enron distributed an additional \$55 million to 500 employees two days before filing for bankruptcy as an incentive for them to remain with the company while Enron works to emerge from chapter 11.

Hughes, Gerry

From: Carleton, Norman
Sent: Saturday, September 08, 2001 1:07 PM
To: Bair, Sheila; DeMarco, Edward; Eichner, Matthew; Elliott, Martha; Fisher, Peter; Gabilondo, Jose; Gross, Jared; Hammer, Viva; Hughes, Gerry; Nickoloff, Peter; Novey, Michael; Roseboro, Brian; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary
Subject: Retail Swaps Study Group Meeting -- September 6

On Thursday, September 6, the Retail Swaps Study group met at Treasury to discuss how to complete the remaining work.

[(b)(5)]

[(b)(5)]

Bitsberger, Timothy

From: Wiedman, Mark
Sent: Friday, December 21, 2001 1:28 PM
To: Bitsberger, Timothy
Subject: RE: Enron Talking Points

am doing this right now

-----Original Message-----

From: Bitsberger, Timothy
Sent: Friday, December 21, 2001 11:31 AM
To: Wiedman, Mark
Subject: RE: Enron Talking Points

can you please review and make comments to me first

-----Original Message-----

From: Carleton, Norman
Sent: Friday, December 21, 2001 9:47 AM
To: Bitsberger, Timothy; Wiedman, Mark
Cc: Schultheiss, Heidilynne; Nikoloff, Peter
Subject: Enron Talking Points

<< File: Enron talking points.doc >>

Attached are draft Enron talking points for Peter Fisher.

Bitsberger, Timothy

From: Cetina, Jill

Sent: Friday, December 07, 2001 4:45 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager;
Paul Reid; PMalmgren; Wayne

Subject: Market Weekly Report, Dec 3-7

[(b)(5)]

01/16/2002

0120000001413

[(b)(5)]

01/16/2002

01200000001414

[(b)(5)]

01/16/2002

01200000001415

Bitsberger, Timothy

From: Byrne, Kathleen
Sent: Wednesday, November 28, 2001 5:03 PM
To: _DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin
Subject: Closing Global Financial Markets - November 28, 2001

[(b)(5)]

Bitsberger, Timothy

From: Byme, Kathleen
Sent: Thursday, November 29, 2001 7:59 AM
To: _DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin
Subject: Market Morning Report, Nov 29th

[(b)(5)]

Bitsberger, Timothy

From: Byrne, Kathleen
Sent: Wednesday, November 28, 2001 1:08 PM
To: _DL_Market Group; Andrew D. Sacher (E-mail); David Griffiths; E.A. Wayne; Eric H. Otto (E-mail); J.P. Reid; Jay Hoffman; Meg Lundsager; Philippa Malmgren; T.J. Shevlin
Subject: Market Noon Report, Nov 28th

[(b)(5)]

(KByrne, 2-2054).

[(b)(5)]



Bitsberger, Timothy

From: Cetina, Jill

Sent: Wednesday, November 21, 2001 12:22 PM

To: _DL_Market Group; Andrew Sacher; ClayLowery; Eric Otto; Griffiths; Hoffman; MegLundsager; Paul Reid; PMalmgren; Wayne

Subject: Market Noon Report -- Volumes thin as Thanksgiving looms

[(b)(5)]

01/16/2002

01200000001420

[(b)(5)]

01/16/2002

01200000001421

Fisher, Peter

From: David Gilmore [fxa@fxa.com]
Sent: Monday, January 14, 2002 8:06 AM
To: fxa@fxa.com
Subject: FW: NYTimes.com Article: O'Neill's List

Interesting piece from NY Times Sunday Magazine section on US Tsy Sec O'Neill. Written before the Enron revelations, but hardly a threat to O'Neill or his colleagues (Undersec Fisher) contacted by Enron officials and Citigroup's Rubin seeking help for the firm with banks and credit rating firms. The evidence so far shows that Enron officials were not successful in enlisting the help of senior Treasury officials including O'Neill. Article appears below.

David Gilmore
FXA

O'Neill's List

January 13, 2002

By MICHAEL LEWIS

By the time I first went to see Paul O'Neill this past fall, a lot of people in Washington had written him off. He'd been secretary of the treasury for less than a year, and in that time he had received painfully bad press. The harshest protests against him came in the conservative media. The National Review had called for his resignation. The Wall Street Journal had run a pair of front-page articles saying that he was a boob whose mere presence undermined confidence in the financial markets. The New York Post had published a report that Vice President Cheney had met with possible successors, specifically Donald Marron, chairman of UBS America.

O'Neill himself, on CNBC, when told of the New York Post report, said, 'Hallelujah.' The Treasury Department spokeswoman, Michele Davis, said, 'He meant it as a joke,' though she added that she has long since given up hope that people will take a nuanced view of anything her boss says. His tendency to say things that treasury secretaries never say had turned him into a figure of fun.

Dick Cheney poked his head out of his cave to tell me that the reports in The New York Post were 'total garbage' and that O'Neill was welcome to keep his job as long as he wanted. President Bush's chief of staff, Andrew Card, told me that 'the president is really pleased with the job Paul is doing.' O'Neill's chief of staff, Tim Adams, told me, with a knowing smile: 'The White House has never complained about O'Neill. Not once. And I can guarantee you that O'Neill won't be the first to go. He won't be the second or the third either.' The White House even let it be known that the president was sufficiently irritated by the rumor in The New York Post of O'Neill's being on the way out that he'd had the rumor tracked down to its supposed source -- a public-relations person hired by . . . Donald Marron.

None of this has had the slightest effect on O'Neill's predicament. Because the people who determine O'Neill's fate are unable to express the slightest dissatisfaction without communicating total despair, the people who interpret what they say ignore everything but the bad news and assume that any support expressed for the man is a case of What else are they going to say? A treasury secretary -- or any other senior cabinet member -- will always officially be doing a great job right up until the moment he is fired. There's a signaling problem between the White House and the press, and in the Bush White House it is worse than in most, because the Bush people don't speak to the press in anything but the official tone of voice. They've shut down the sneaky little off-the-record chats through which the truth finds its way into print.

And so the White House's communications strategy has had the reverse of the intended effect. I've never had so many important people express such confidence in another human being as senior Bush people expressed to me about Paul O'Neill, but for all I know he'll be gone by the time you read this.

When he left his job as chairman of Alcoa, the world's biggest aluminum manufacturer, and became treasury secretary, O'Neill moved from a world in which he exerted near total control over his environment -- and on which he was able to impose his own sense of reality -- to a world in which he was virtually hostage to other people's perceptions of him. And he knew it. Yet despite knowing it, he bulled ahead anyway with his own idea about how things should be done. He may not be the first corporate big shot who has refused to acknowledge the difference between his old job in business and his new job in government. But he is the only one I can think of whose refusal is perfectly intentional. You can laugh at him, but if you do, you'll miss the whole point of him.

THE O'NEILL RESUME

O'Neill was offered the job in a hurry in December 2000. His name, pushed by Dick Cheney, was a surprise, as he had done nothing to help Bush be elected -- hadn't even given him money. But Bush was unhappy with the list of Wall Street big shots he was given. The red-map/blue-map distinction is more of a cultural phenomenon than a financial one; there are red-map rich people and blue-map rich people. Wall Street people are blue-map Americans. O'Neill is a creature of red-map America, about as far as you could get from Wall Street and still be in the land of the rich, which Bush liked. It also didn't hurt that O'Neill was a friend of Alan Greenspan's.

O'Neill proves that there is more than one species of Main Street chamber of commerce Republican. He began his career, oddly enough, as an employee of the United States government. He was studying computer systems at Fresno State University in the mid-1950's when, as a lark, he followed a friend into a California post office and applied for a government internship. Three hundred thousand other people applied for an internship, 3,000 were invited to take a standardized test, 300 were granted interviews and 30 were given jobs. O'Neill was one of the 30. Had he not wandered into the post office, O'Neill says, he would have wound up in the construction business back in Alaska, where

he had gone to high school and met his wife.

He began at the bottom rung of the Veterans Administration in 1961. For the next 20 years -- except for a year off to acquire a master's of public administration at Indiana University -- he climbed the ranks of the civil service, until, in the Ford administration, he became deputy director of the Office of Management and Budget (where he met Cheney, Greenspan and Donald Rumsfeld). You can waste a lot of time looking for foreshadowings of his current problems back then. "It was one of those jobs where you were always on a hot seat," says Bo Cutter, who now works as a venture capitalist but who, more than 25 years ago, as Jimmy Carter's deputy director of O.M.B., was the Democrat who succeeded O'Neill. "You were always having to make tough decisions, and to deal with huge egos, to make sure that politics didn't lead to bad decisions. I could see that O'Neill hadn't been just good at it. He'd been fantastic."

When Carter took office, O'Neill, at the age of 41 and for the first time in his life, entered the private sector. His subsequent success caused a lot of people to forget he had ever had a career in the public sector. He had gone from career civil servant to C.E.O. of a midsize company, International Paper, inside of a decade. (He had been elevated to that job from another one inside the company by a board that included his old friend Greenspan.) He was then brought into a giant company, Alcoa, and became the first person to run it who hadn't worked there all his life. When I asked senior Treasury officials what struck them most about their new boss, several mentioned this out-of-left-field quality to his rise. "This isn't a guy who went to Harvard or Yale and had life handed to him on a silver platter," said David Aufhauser, the Treasury's general counsel. "This is a guy who went to Fresno State and began as a career civil servant."

O'NEILL'S LIST OF REASONS NOT TO TAKE THE JOB

O'Neill had just turned 65 and was resigning as chairman of Alcoa when he heard from Cheney. Cheney recalls that when he offered the Treasury job to O'Neill, O'Neill told him, flatly, no. He had other plans. Of course, O'Neill must have known that Cheney wouldn't leave it at that, and of course he didn't. Cheney asked O'Neill to come to Washington from his home in Pittsburgh to meet President Bush.

O'Neill prides himself on thinking analytically about big, complex problems. He has spent all of his working life in meetings with other guys in suits, and in these meetings he is inevitably the one who has the most data at his fingertips and who has thought the most about the problem under discussion. Or, if he isn't, he has everyone else believing that he is. As his youngest daughter, Julie Kloo, says, "My father is the sort of person who can, like, quote numbers from the 1977 federal budget."

Now the problem to solve was his own future, and so, characteristically, he set about analyzing his aversion to being Bush's treasury secretary. He wrote down all the reasons he did not want to be and should not be. When he was finished, the list came to three single-spaced pages. Then he flew to Washington to eat a hotel breakfast with Cheney and Bush.

The breakfast wasn't a great deal different in spirit from the job interviews Bush had with most of the top shelf in his cabinet. Ashcroft was his own peculiar story, but Rumsfeld, Colin Powell and Cheney, like O'Neill, didn't need the job. Lord, how they didn't need the job! Each of them had somewhere between \$50 million and \$300 million and status to burn. All of them could plausibly approach their government as if it needed them more than they needed it.

When he heard about O'Neill's list, Cheney had to be pleased: if you don't want a job, you don't bother making a three-page list of the reasons you won't take that job. Besides, the vice president had put himself through exactly the same exercise. 'Paul came loaded for bear with all the reasons he didn't want the job,' Cheney says. 'I'd spent five years as the C.E.O. of a major company, so I knew where he was coming from. I had my own list, too.' Of course he did! The first requirement for a top job in the Bush administration was a long list of the reasons you didn't want it. (The only ambition Bush trusted was the kind he couldn't see.)

Actually, when you boiled these lists down to their essential ingredients, they weren't very long at all. They all had the same few general objections. 'Cheney had the same list I had,' O'Neill says, 'except his had three heart attacks on it.'

O'Neill's list served another purpose -- in addition to giving Cheney and Bush a number of specific objections to overcome. It allowed him to believe he was taking the job on his own terms. O'Neill's list formed the basis of a social experiment. Implicitly, it asked an interesting question: what happens when a supremely successful businessman tries -- as a matter of both pride and principle -- to descend, rather than claw his way up, into politics?

REASON NO. 1: 'WASHINGTON HAS CHANGED FOR THE WORSE SINCE I LEFT IT'

For many years, one of O'Neill's pet peeves has been the coarsening of public life caused, in his view, by a combination of bad journalistic incentives and what he calls 'that awful sense in both parties of 'We don't care what's right or wrong, all we care about is getting more of our kind elected.' ' As a corporate big shot, he peppered his speeches with off-the-cuff outrage on this theme. For instance, here he is, in May 1999, addressing a group of his fellow business leaders:

'I saw something over the weekend that suggested to me the depths of the problem . . . about the vice president's wife disclosing that because her son was nearly killed in an automobile accident she was treated for depression. And the reason -- at least the reason given by The New York Times -- for this disclosure is that it was important for her to get it out before it was disclosed . . . in the midst of a political campaign. And it made me think to myself -- we've gotten so accustomed to what's going on, we're not even shocked by the notion that someone not running for office, but someone related to someone running for office, has to pre-empt in order not to become a liability in a political campaign. I, myself, find it just remarkable that we seem to have been so sandpapered by our current way of

conducting political business that we just don't scream in outrage at what's going on around us.'

From the moment O'Neill took office, he set a different tone, or tried to. Maybe the biggest break he made with local conventions was in his attitude toward his own thoughts. He found it useful to air them in a fairly straightforward manner for public consideration -- and never mind what a treasury secretary is and is not meant to say. The list of things O'Neill has said that have undermined the confidence of the financial markets, or created the impression with reporters that he is undermining market confidence, which may amount to the same thing, is now so long that it cannot be fully appreciated in a single paragraph.

The smaller category of O'Neillian indiscretion arises from his tendency to express certainty about inherently uncertain situations. Examples of this include his prediction not long after he took office that the Treasury wouldn't need to raise the debt ceiling before 2008 (it asked Congress to raise it Dec. 12), his prediction that the Bush administration, unlike the Clinton administration, wouldn't be bailing out third world countries that failed to repay their debts (four months into the job, he agreed to send \$10 billion to Argentina) and his prediction after Sept. 11 that the stock market would hit new highs within 18 months. Even the people on Wall Street who get paid to predict where the stock market will be in 18 months don't know where the stock market will be in 18 months. When the treasury secretary pretends to know, he earns their disdain.

But by far the larger category of O'Neill's indiscretions are the many things he has said that are true, and that most people know to be true, but that treasury secretaries are not supposed to say. Included here are (a) his observation that despite decades of treasury secretaries suggesting otherwise, the United States government does not pursue a 'strong dollar policy' and that in any case the Treasury has no ability to affect the level of the dollar; (b) that the most recent House Republican economic-stimulus package is 'show business'; and (c) that the real trouble in Argentina is that 'they don't have any export industry to speak of. . . . And they like it that way.' It's hard for sane people to see any problem with any of this. Some, for example, will point to the convulsion in the market for Argentina's bonds that followed that last remark. So what? It's now clear that the bonds would have convulsed anyway.

But that isn't the point. To the financial-establishment mind, O'Neill's approach to Treasury Department big-shot-dom is a travesty. It violates the central tenet of Washington financial life: never use the English language to convey meaning. The idea is that the economy benefits when important financial policy makers preserve their mystique and that they do this only when they avoid saying what's on their minds. The assumption underpinning this behavior is that the financial markets need to feel as if there is someone somewhere who knows something that they don't and who can, in a pinch, fix things. Greenspan has made a living by saying nothing in the most complicated possible ways and letting other people infer his genius. O'Neill's immediate predecessors, Robert Rubin and Lawrence Summers, took a slightly more direct approach but still stopped well short of saying anything worth discussing. And

in any case, Rubin, who created the model Summers followed, was genuinely so diffident that his opinions were never likely to get him into trouble.

For better or worse, O'Neill instinctively takes the opposite view: that people are more likely to prosper if you develop positive opinions on subjects and tell them what you think in plain English. "I thought there would be a bigger market here than there is for clarity of expression," O'Neill says. He remains incredulous about the outrage over some of his comments. Take his remark about the strong dollar. It was simple fact: the value of the dollar is determined in the long run not by some Treasury policy but by America's growth rate relative to that of other nations. "But nobody wrote that," he says. "Not one person. All they wrote was 'controversy!'"

The first time I went to visit O'Neill, I felt professionally obliged to try to get him to say something he shouldn't. When a man, with a single slip of his tongue, can turn you into the envy of investigative reporters, you have to go into any discussion with him armed with banana peels. But this business of getting him to make a spectacle of himself wasn't easy; these horrible gaffes aren't provoked -- they pop out of the treasury secretary unbidden, and either you are there to immortalize them or you aren't.

Which brings me to the time I caught him at his Bloomberg, the desktop financial-news machine.

O'Neill has a phobia of closed office doors and keeps his own wide open, in case anyone wants to walk in. Having learned from his secretary that he had returned from lunch -- a little doorbell had gone off, alerting the secretary that he had slipped in through a back door -- I quietly poked my head inside his open door. There he stood with his back to me, about 20 yards away, jabbing at the keyboard on his Bloomberg. (The Bloomberg arrived with O'Neill. Rubin never had one.)

I walked up behind the treasury secretary, and he gave a start, then let out a noise that fell somewhere between a chuckle and a giggle. He knew well enough that he shouldn't let me catch him at whatever he was doing, but he decided to go ahead and let me catch him anyway. When he smiles, which he often does, there is a trace of the imp about him.

"I think I just made news," he said. He kept staring at the Bloomberg screen. He left a lunchtime meeting with Republican senators just 20 minutes before. "I came out of the meeting with Grassley," he said now, referring to Senator Charles Grassley of Iowa, "and we were immediately surrounded by all these microphones." Into these, he said something about the stimulus package debate he was sure would cause trouble -- I never could find out what it was -- and the memory of it still lit his face with a grin. Then he walked out the door of the Senate and into his private car, which whisked him back to his office, where, just a few minutes later, he expected that he would already be able to read news of his indiscretion. When you are treasury secretary, you don't have to wait long for your feedback.

On his Bloomberg, O'Neill brought up the page with the news

of the moment and scanned the headlines for his name. It wasn't there. In a gesture that was clearly already second nature to him, he pulled up a search page and, with a single index finger, tapped in P-A-U-L H O' N-E-I-L-L. Up popped the many headlines from the past few days with his name in them, but none from that day. He skipped around cyberspace in the spirit of a boy who had just hurled a stone into a pond and was trying to count the ripples. It wasn't just a matter of principle with him to shock people with his iconoclasm. It gave him pleasure.

REASON NO. 2: 'I'VE CHANGED SINCE I LEFT WASHINGTON'

O'Neill didn't put it that way to Cheney, of course. What he said was, that as the C.E.O. of a company with 145,000 employees, he had grown used to being the final word on any subject. People who have known O'Neill for a long time say that to understand his behavior as treasury secretary you have to understand that he wasn't just any old C.E.O. When he became C.E.O. of Alcoa in 1988, O'Neill knew nothing about aluminum, and Alcoa was in trouble. Just about everyone believed that it would soon be impossible to make stuff for a profit in America and that commodities like aluminum and steel would be supplied by poor countries with cheap labor. Alcoa's previous C.E.O. had tried, with ill effects, to wriggle out of the closing trap by buying other kinds of businesses and getting Alcoa out of aluminum. O'Neill took the opposite tack: he shed all the extraneous businesses and made nothing but aluminum. In the next 12 years, he doubled Alcoa's global market share and more than doubled its number of workers. After several years of depressed earnings in the early 90's, O'Neill took Alcoa from a profit of \$4.8 million in 1993 to a profit of \$1.5 billion in 2000. Along the way, he transformed Alcoa's manufacturing process and grafted his character and his beliefs onto the lives of its workers.

He also created, pretty much by an act of will, a new corporate culture. How he did this is actually interesting, in view of how he has gone about his job at the Treasury. He began by making a big pain in the rear of himself. On his first day, he told Alcoa's executives that they weren't going to talk people into buying more aluminum and that they weren't going to be able to raise prices, so the only way to improve the company's fortunes was to lower its costs. And the only way to do that was with the cooperation of Alcoa's workers. And the only way to get that was to show them that you actually cared about them. And the only way to do that was actually to care about them. And the way to do that was to establish, as the first priority of Alcoa, the elimination of all job-related injuries. Any executive who didn't make worker safety his personal fetish -- a higher priority than profits -- would be fired.

On his second day, O'Neill told the same executives that he was eliminating the longstanding practice of paying their membership dues at a Pittsburgh-area country club that excluded women and blacks. (The club soon went looking to scare up a few blacks.)

Well before it became fashionable -- that is, before the Internet boom -- O'Neill replaced the old corporate hierarchy with a flatter management structure. It took him several years, and he was forced to fire a few otherwise useful people who refused to believe he was serious about

worker safety, but he eventually established Alcoa as the world's safest place to work. (To give you an idea of what he achieved, Treasury Department employees, most of whom don't do much but sit at desks, missed work because of injury 20 times as often as Alcoa employees, most of whom work with molten lava and man-eating machinery.) He proved to the satisfaction of the people who worked for him that their old ideas of what was possible were based on artificial limits. What Alcoa achieved with worker safety became a metaphor that could be applied to attacking any goal, including the goal of lowering costs. And having persuaded the workers that he was on their side, they paid him back with greater efficiency.

Pretty much everything O'Neill did at Alcoa reflected his belief that most hierarchical distinctions were nonsense. (The great exception was the big money he and other top executives earned.) He created a profit-sharing plan that was the same for hourly workers and managers. He got rid of the company's headquarters -- in which senior executives worked on top floors with lovely views of everything but ordinary workers -- and moved everyone into a building that he more or less designed to maximize face-to-face encounters between employees of every level. As a corporate boss, O'Neill took a wholly original view of an ancient business -- metal making -- imposed on it his idea of how it should work and changed people's lives.

That's the short version of a more complicated story. But it's enough to help explain why when Dick Cheney called him there wasn't a trace of the post-office-to-O.M.B. civil servant left in him. He was 100 percent Captain of Industry. He had proved that if you had a taste for extreme measures and a strong will you could bring about big changes. Alcoa had imbued him with a new idea of the possible. And at the same time, Alcoa had grounded him in the real, the tangible, the measurable. That day in his office, when he had given up looking for whatever controversial thing he had said, he clicked back to the default page on his Bloomberg screens. Up popped the prices on the London Metals Exchange: aluminum, copper, tin. These prices are the first thing O'Neill checks every morning. I said that it surprised me that the guy who oversees the financial markets wasn't more interested in financial prices. "This is the real down-to-the-ground stuff," he said. "Not advertising and marketing and Hula-Hoops." Or, he might have added, stocks and bonds. "Commodity prices tend to be a leading indicator," he said. "And they're moving up."

In places where perception is conflated with reality, cause is often confused with effect. There is a tendency on Wall Street to see finance primarily as cause rather than effect -- a view that inflates the importance of people who work on Wall Street. O'Neill sees finance as effect rather than cause, and the people who work in it as cogs in a bigger machine. Even now, when you talk to people who work on Wall Street about O'Neill, they can't quite get past what he said about them in an interview he gave to The Wall Street Journal last January. In their paper, he described Wall Street professionals as "people who sit in front of a flickering green screen" and went on to say that those traders "are not the sort of people you would want to help you think about complex questions." When The Journal asked him if he had ever worked in front of a flickering green screen, he said he hadn't, but "I probably could learn in

about a couple weeks.'

It was a marvelous red-map moment: At Alcoa, O'Neill liked to say that he didn't focus on the company's stock price or even the bottom line but on the factors that led to the bottom line. Indeed, one reason O'Neill is disinclined to worry about the effect of his words on financial markets is that he doesn't think words affect financial markets -- not in any fundamental way. And even if they did, the financial markets are really beside the point. The point is the real down-to-the-ground stuff.

To that end, O'Neill has tried to create a new and better view for himself of the U.S. economy by gathering more data about down-to-the-ground stuff. For instance, Treasury staffers are now busy trying to elicit from the big automobile companies real-time information about the effects of auto sales on auto-parts suppliers. Other Treasury staffers are trying to persuade Visa and Amex to give them real-time data on credit card purchases.

But knowing what is going on is not the same thing as doing something about it. The odd thing about being treasury secretary is that while people may pay attention to what you say, you can't actually do very much. 'When you're treasury secretary,' says Bo Cutter, who, in addition to serving in Jimmy Carter's O.M.B., worked under Rubin in Clinton's White House, 'you get to talk about the world economy, but you can't actually do anything about the world economy. By definition, you get invited to the meetings, but you don't by definition get to control them.' The sort of power even the most exalted treasury secretary has is only the power to persuade. He has, at best, the power to manipulate public perception of big events and to infect the mind of the president with his ideas.

This is an uncomfortable position for a person who has grown used to holding the levers that control every detail in his environment. O'Neill has responded on the one hand by trying to sell his view of the world to the White House and on the other by yanking on what levers he has.

One afternoon, O'Neill took me on a little tour around the Treasury. It was the day after Argentinians had first rioted in the streets, responding indirectly to the I.M.F.'s sudden tightfistedness. 'I hate seeing how this gets translated into physical violence on the street,' O'Neill said. In refusing to supply further funds to Argentina, the I.M.F. seemed to be following O'Neill's lead on how to deal with the crisis. When the Argentinian economy minister turned up in Washington last month to beg for help, O'Neill's Treasury officials avoided meeting him. The White House, too, seemed to be taking O'Neill's lead, agreeing with him that you couldn't create confidence in Argentina by pouring more money into it -- that before it received any additional financial aid, the country needed to change the way it approached the real down-to-the-ground stuff. 'I think what we've been doing over the last 40 or 50 years in the World Bank and the I.M.F. has to some extent gone astray,' O'Neill said. He knows a thing or two about turning a failing enterprise into a thriving one, and he sees no evidence that the I.M.F. has a similar understanding about a failing country. 'We still don't really understand in a straight-line way how to create economic development,' he says.

We walked out of his office and into the dark corridor, floored with black-and-white marble tiles and lined with portraits of 70 former treasury secretaries. (Rubin's picture hangs just outside O'Neill's door.) We left the third floor -- where all the most important people sit -- and marched down the hall. We passed a cleaning lady who had dropped her keys and spray cans. O'Neill stopped to help her pick them up. If she knew who he was, or found it remarkable in any way that this trim, taut figure in his well-pressed shirt had stopped to help, she didn't show it. Government workers, unlike, say, Alcoa workers, haven't any incentive to know who is boss. It takes an act of will to promote them and an act of Congress to fire them.

The Treasury's halls are impossibly long, and as we walk them we have plenty of time to talk.

'I really like building things that are the consequence of ideas,' O'Neill says.

His notion of building something that is the consequence of good ideas is Alcoa's Pittsburgh headquarters. The Alcoa building has the added attraction of being a consequence of his ideas.

I tell him that when I visited the Alcoa building in Pittsburgh, I'd learned that pretty much everyone liked it except the lawyers -- an ominous sign for a man now working in a city run by lawyers. The lawyers, I was told, couldn't stand the idea of working out in the open, where they could be seen.

'The lawyers hated it,' he says. 'With them, it's a professional gene. I'd say: Tell me, why do you need secrecy? I'm out in the open, and you're working for me.'

So far as O'Neill is concerned, the Treasury building represents pretty much everything that can be wrong with a building. Or, rather, the ideas that led to its design are, from the point of view of a modern American C.E.O. who is trying to get things done, bad ideas. The reverence of the past interferes with technical progress; the thick walls disrupt communication; the huge offices with massive wooden doors dissuade anyone outside them from imagining what should go on inside them and hide those on the inside from critical scrutiny. 'The idea of people working together is really defeated by walls,' O'Neill says, 'and even more so by hierarchy.'

By law and architectural design, our government is resistant to change. Its walls are some of the thickest in the free world. But here O'Neill, for once, got lucky. He arrived in the middle of the first big renovation in a century. One-quarter of the building was already under repair. So, O'Neill says, as we curve up the semispiral staircase, 'when they took all the walls down, I told them they couldn't put them back up. They said I couldn't do that. Their argument was that history was present. In the walls. They were historical walls.' He's smiling now. 'So I said, Which are the historical walls? And I let them keep a couple of those.'

The Treasury halls are dark, the stairways even darker. In places, you have to squint to see who is passing in the other direction. Then O'Neill throws open a door on a

different epoch. Before us, in the middle of a 19th-century pile of stones, which everyone pretty much assumed could never be changed, is a cube farm. Light pours in from tall windows. It is clean and neat and open and straightforward and hopeful. It is, in fact, a replica of an Alcoa cube farm.

'Look at all that light,' he says. 'Isn't it wonderful?'

REASON NO. 3: 'TAKING THIS JOB IS GOING TO COST ME \$250 MILLION'

In 2000, his last year as chairman of Alcoa, O'Neill made \$25 million. When he left the company, he had almost 4 million stock options and 2.37 million shares, worth another \$80 million. The O'Neill fortune was different from the fortunes accumulated by the other pooh-bahs in the Bush administration. Powell made his tens of millions mainly speaking about leadership to businesspeople who wanted to rub shoulders with him. Rumsfeld and Cheney made their tens of millions as stewards of, and arrangers for, businesses they had no great effect upon. And Bush of course himself made his millions through connections.

O'Neill was truly different. If you asked a seriously competent American C.E.O. -- that is, one you have never heard of, because he doesn't hire people to get his name in the papers -- whom in the Bush administration he admires as a businessperson, the only name he would come up with would be O'Neill's. Only O'Neill made his money by transforming a business and making it more productive.

Taking the Treasury job meant walking away from the bigger part of his Alcoa-based fortune. He could sell the stock, but he assumed, at least at first, that he would have to give up his stock options. Interestingly, he calculated the value of these options at \$250 million. Well-established pricing models value these options at roughly \$25 million. O'Neill got to his number using financially naive assumptions about how high Alcoa stock was likely to go in the next 10 years. Whatever. It was a lot of money. 'It wasn't my money ultimately,' he says. 'It was my children's. So I talked to them before I went to this lunch' -- with Bush and Cheney -- 'and I told them that it's not my money, I have more money than I'll ever use, it's your money. And they said, If this is the price of your doing it, fine. They didn't give a damn.'

His daughter Julie recalls less being consulted by her father than her father calling her and her siblings together to inform them of his decision -- which is maybe a tiny sign that when O'Neill makes important decisions he is less interested in a flat management structure than he would like to think.

In any case, the kids honestly didn't care about the millions, and O'Neill liked that they didn't care. Then things got complicated: Treasury lawyers told O'Neill that he could exempt himself from decisions that might affect Alcoa's stock and keep his Alcoa stock options. He decided to try it. He couldn't imagine anyone accusing him of ethical lapses because no one ever had, with reason. For the first three months on the job, he woke up every morning to find another jab in the newspapers about his potential conflicts of interest, as both a huge Alcoa shareholder and

a man making decisions that could affect Alcoa's share price, and another joke at his expense on the Democratic National Committee Web site. 'They set up a Web site, and they were having a ball,' he says. 'And I realized I should have walked away from all of it and not listened to the lawyers.' On March 25, he walked away from a good part of his fortune.

The whole mess still eats at him, however, partly because it is much less fun not to have those millions than to have them, but also because of the implications of the debate about his morals. 'If your standards are so low that you would let your personal finances affect your decision, then you have no business being here in the first place,' he says. 'It should be grounds for nonconfirmation.' But the moment he chucked his list and took the Treasury job, O'Neill became an artificial construct based only loosely on the man he was before he took the job. He was finding out that in public life as currently lived it doesn't matter what's 'real.' All that matters is perceptions.

There's an analogy to this experience in O'Neill's attitude toward the financial markets. Just as he refuses to accept that there is such a thing as 'an appearance of a conflict of interest' (either you are conflicted or you aren't), he refuses to accept that the perceptions he creates with his words matter all that much.

In this he couldn't be more different from his old friend Greenspan, the other government official who can move financial markets with a subordinate clause. One morning, I was sitting in one of the deep, dark leather chairs in O'Neill's office, beneath a portrait of Alexander Hamilton, having spent two hours or so watching him confer with several Treasury staff members who were trying to find him better economic data. As the staff members made to leave, O'Neill began to talk to me about one of the high points of each week, when he ate breakfast with Greenspan and argued about economic data.

'Why don't you come along this Friday to breakfast?' he said.

The thought of it clearly amused him. The two men share not only a lot of history, having worked together in and out of government, but also a hobby: no other human being on the planet can match their interest in General

Motors order books or the latest inventory numbers. Their breakfast has become a ritual.

'That'd be great,' I said.

'I'd better call Alan just to make sure it's all right, but I can't see why he'd object,' he said.

O'Neill went off to call Greenspan, and as he did, I was able to think of about 10 reasons he would object. For one thing, Greenspan has always been the sort of guy who likes reporters to know that he is talking about complicated economic stuff with some treasury secretary over breakfast but never permits them to judge for themselves the interest of the conversation. A few hours later, I was back in O'Neill's office when Greenspan returned the call. I sat in the deep leather chair and listened to one end of a

conversation.

'I have a journalist here,' O'Neill began, and went on to explain who I was and what I wanted. There followed an ominously long pause.

'Oh, I didn't know that.'

'Uh-huh.'

'O.K.'

O'Neill hung up and walked over with the closest thing to no expression on his face. 'Alan says he'll come, but he won't say anything,' he said. I tried my best to look surprised.

'Probably better if you didn't come.'

It was hard not to like him for trying. It wasn't that he thought he was letting me in on some secret. In his mind, there was no reason for secrets.

REASON NO. 4: 'MY POLITICS AREN'T NECESSARILY YOUR POLITICS'

It was with this point that O'Neill, so far as I can piece together and he can remember, filled most of the lines on his three-page list. In the late 1980's, he advocated a 50-cents-a-gallon gasoline tax. He thought global warming was a real problem. He thinks that the whole Social Security system should be scrapped and replaced with accounts owned by individuals and invested in stock market indices and bond funds. On and on, this list of specific policy points went. Some were clearly not Republican policies. He doesn't think in terms of Republican policies or Democratic ones. When you build your political views from the ground up, basing them on your own set of closely observed facts, you wind up in your own private place, well outside the boxes built by political parties. The greatest part of O'Neill's list can be summarized in a sentence: I disagree with you because I know more than you do about the down-to-the-ground stuff. He didn't put it that way to Bush, of course. Instead, he said, 'I've taken unpopular positions.'

The last time I saw O'Neill was just before Christmas. I had finally gotten around to reading everything he had ever said publicly. I told him that if I didn't know anything about him but what he was on record as having said I wouldn't be sure if he was a Democrat or a Republican.

He laughed and said, 'You're going to get me into trouble, aren't you?'

'But it's true that the only way anyone would even guess you might be Republican is to know you were a rich businessman.'

'Now there's a stereotype!'

I said that while it's possible (just) to be a maverick in the Senate, it's another thing to be a maverick in the cabinet. Inside an administration, you aren't really allowed to stake out an independent political identity.

O'Neill has a physical tic, a tendency to turn his head to his left in profile in the middle of a conversation, when he wants a moment to himself to actually think. He did this now. Then he said, 'That's not who I am.' He is a registered Republican, he said. 'But if you asked me what I am, it would be a long time before I got around to political identification.' He paused again, then said, 'When George Shultz hired me at O.M.B., he never asked if I was a Republican.' Pause. 'Come to think of it, no one at O.M.B. ever asked me what I was.'

'Did Bush and Cheney ask?' Given the complete absence of O'Neill money from the Bush campaign, they might at least have probed him on this.

'No.'

REASON NO. 5: 'I TOLD MY WIFE I'D FINALLY PLAY SHUFFLEBOARD, TAKE CRUISES AND IN GENERAL BEHAVE LIKE AN ORDINARY RETIRED PERSON'

Everywhere O'Neill has worked, he has been known as the guy who puts in the longest hours. For a Kennedy School interviewer in the early 1990's, he recalled how at O.M.B. he had worked every day except Christmas, a minimum of 12-hour days. O'Neill's daughter Julie told me, 'My mother was saying how they were going to do this and do that when my father left Alcoa, but we all knew that it wasn't going to happen.'

Last January, O'Neill moved from his nice home in Pittsburgh into a room in the Hotel Washington, across the street from the Treasury building, where he lived for the next 10 months. He might as well have slept in a cube. Where he lived didn't much matter because mostly all he did was work.

He actually had a fairly long list of reasons for wanting to be treasury secretary to offset the list of reasons for not wanting the job. At the top was a chance to push ideas about public policy -- and especially about radically changing Social Security. Just below that was the chance to change the biggest organization on the planet -- the federal government.

He has concerned himself with the most quotidian details of Treasury operations. Two months into the job, he visited the Philadelphia Mint and wound up on the factory floor making changes in the production line. He requested the Treasury worker-safety records and made a priority of eliminating job-related injuries. (Already he has cut the lost days in half.) He found that Americans made 77.5 million phone calls last year to the Internal Revenue Service -- which is part of the Treasury Department -- to ask for explanations of the tax code and that 3,654 government workers do nothing but answer these calls. He has set as a goal to create such clear explanations of the rules -- or even better, to simplify the tax code -- that the calls cease.

When I asked him once how he judges himself, he said: 'It's not, Did we get some bill passed or did someone like what I said or wrote? What really matters to me is lasting institutional change.' Then he turned his head to the left and thought a minute. 'Metal has shape. If you form metals into a shape they'll tend to return to that shape.'

Institutions are like that. I'd like to turn this into a place where people get fulfillment out of what they do with their life -- and it'll really be hard for subsequent people to take it away. Because it becomes a right.'

It's a blessing, but also a curse, that our government resists people who want to change its shape. Much of what O'Neill has done as a boss has been aimed at eliminating indignities from the work lives of ordinary people. Small wonder that he has so little patience for indignity himself. But there is an aspect to being treasury secretary that is inherently undignified -- especially to a former C.E.O. who never had to worry one bit what people who didn't know him thought of him. It's the democratic part of his current job that requires saying what you don't really mean or believe, or at the very least remaining silent about what you actually think, all to make a shallow impression on a lot of people who don't know you. O'Neill has mostly ignored this part of the job. He has refused to sell himself to the financial markets. It should not come as a huge surprise that the financial markets haven't bought him.

No one can say with authority whether O'Neill will be staying or asked to go. O'Neill himself may not know. On some level, the White House political people must realize that if they fire their treasury secretary they will implicitly be taking the blame for the stalled economy. But if he is still around as you read this, maybe it is because, in hiring O'Neill, Bush and Cheney knowingly signed on for an unusually interesting ride. If they did, now they've got it.

Michael Lewis, a contributing writer for the magazine, is the author of 'The New New Thing' and, most recently, 'Next.'

<http://www.nytimes.com/2002/01/13/magazine/13ONEILL.html?ex=1011866964&ei=1&en=1dc8dd218cc3cb4f>

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Fisher, Peter

From: Scott Harshbarger [sharshbarger@commoncause.org]
Sent: Monday, January 14, 2002 9:30 PM
To: Peter Fisher (E-mail)
Subject: FW: enron

peter -- i know making news this way, no matter how right you feel you were, is no fun! and eventhough you're not the big story regardless.

let me know if i can 'listen' in any way. i do also have a suggestion if you'd like to hear it.

i wrote the attached before i saw your name in the paper.

-----Original Message-----

From: Scott Harshbarger
Sent: Friday, January 11, 2002 8:21 AM
To: Seth Amgott; Ben Bycel; Mike Surrusco
Cc: Celia Viggo Wexler; Jeff Cronin; Meredith McGehee; Andy Draheim; Ed Davis; Lauren Coletta; Laura Williams
Subject: enron

seth and ben -- i forward arianna's column, on top of all of yesterday's fast-breaking news and commentary on the administration's hasty and dramatic retreat from, and severing of all contact with, enron, and a few of the comments i made to josh meyer of the LATimes, as background for our discussion of our timetable and focus on this "biggest story of 2002 for bush" (chuck lewis of center for public integrity on CNN wolf blitzer 1/10/02).

i copied so many folks, because, in addition to what i know you've done and are doing, i really hope to encourage discussion here and to get input from our various networks about their take and suggested actions for us.

as you know, i'd been discussing this emerging meltdown of enron as part of my discussion of white collar crime/corruption with my class, eliciting a wide range of views as to the nature of the problem, the remedies and the role of the "government lawyer" in investigating the entity, its activities and its major failure. the introduction of the DOJ task force as part of a comprehensive inquiry (and its embrace by the president, AND the secretaries of commerce and treasury, plus the AG) is a seminal event in my experience; there's been nothing like it since the S & L scandal broke wide open,

and the effort to "distance" themselves by anyone and everyone who ever knew ken lay or received his/enron's largesse as professionals, enforcers, legislators and elected officials tells you more about the state of the evidence, the extent of the spread of the enron tentacles, the depth and breadth of the "influence" and "access" before 911, but especially since 911 and the bankruptcy, than any of the other facts/stories ever could or will! (see the efforts of evans and o'neill to explain what they did not do for ken lay when he called in september and october; but no one asked the far more obvious and devastating question: why in the world did they even take his calls personally? and you know the answer: that is just how connected he, a private citizen, was!)

but this is not just republicans, or national; see the texas story, the texas AG, the USA'S who are recusing; and remember the california CC REPORT last spring regarding enron et al and money out there to the democratic governor and every legislator but one; not to mention the far more pervasive patterns of involvement by the accounting firms, boards of directors, lawyers, CFO'S, investment companies, analysts, the SEC, etc...NONE of whom appear to have fulfilled their independent fiduciary/self regulatory roles/responsibilities... because of the money, the profits, the good times, the bandwagon, the de-regulatory philosophy, etc.

and, would anyone have cared, in the end, if it were not for the

fact that there are real victims?? -- the fact that there are around and in our minds employees who lost their life savings because they had their money (generally thru no fault of their own) in 401k accounts with enron is critical, since thi time the "losers" were not just those who "play" the system, win some, lose some, etc. the "haves" would have covered each other; the trouble here is that the "haves" include major government players AND major private sector players who have responsibility for avoiding these kinds of economic disasters, or limiting them, by being sure people know the facts, the truth, the info AND that there is a level playing field -- remember that generally the big losers in the market here should have been the competitors who did not get the money people invested in enron, did not have the access and influence enron did, and did not get the "breaks" they got, and suffered a competitve disadvantage when the ponzi scheme got the dough and no one told others it was such a scheme.

i noted to the LA times the following: first, that the fact that the AG recused himself reflected how serious this scandal was (and it is a scandal, even if there's no criminal conduct or its just a pattern of omission) and will signal to DOJ that this is to be taken very seriously; and, FOR ALL THE HIGH LEVEL RECUSALS, DOJ has career professionals all around who can/will do this well, i believe, or at least we should so assume for now; no reason to believe this will be cover-up, nor is a special counsel needed. (bring on la bella!! or top-flight white-collar prosecutors from USA offices or even state AGS), ALTHOUGH IT DOES RAISE QUESTIONS About ASHCROFT REMAINING UN-RECUSED FROM microsoft!

second, the criminal law enforcement effort is at the end of the line, and should NOT be allowed or used to divert attention right now from a comprehensive inquiry into the systemic failures that occurred and/or what really happened here. if we're not careful, we'll miss asking the far more important questions about the role and responsibility of the private sector self-regulators, the "independent" professions, the corporate officers and what others knew, and what role the money and influence really played... in the public AND the private sectors.

AND was enron really an aberration/exception OR really just a more visible, successful, dramatic example of business as usual in DC, state capitols, AND wall STREET!?? AND THE ROLE OF THE LAW HERE MAY BE IMPORTANT BUT IS INEVITABLY LIMITED, especially if there is little systematic enforcement. law and law enforcement can't do it alone if there is an "integrity/ethical" breakdown, or if, in fact, there is a CULTURE that really sees nothing wrong here at all; just a bad business break?

surely this is also at least equally a question of personal, corporate, business and professional integrity, ethics and standards as much as one of illegal or criminal conduct and we surely must try to see if that is really the case, so we can assess then how pervasive, or absent, the belief in, responsibility for, and committment to, the public interest, the greater good, the "country" really is; AND it may explain why we are really failing to see "true patriotism" in this time of national crisis -- do most american leaders actually believe that advancing their special interest(s) is either in the national interest, or is required of them, even if it is not in the national interest?? and what kinds of leadership and professional modelling are we providing to the next generation, now in our business and law grad schools, let alone those who graduated and entered enron, for example, in the "good times"?

it may well help us understand and explain why we need civic engagement/education/ethics and national service/democracy skill building as a central part not only of our mission but also for our true "homeland security". AND not just for young people!!

-----Original Message-----

From: Arianna Huffington [mailto:arianna@ariannaonline.com]

Sent: Thursday, January 10, 2002 11:56 AM

To: undisclosed-recipients

Subject: Arianna's Latest Column

Compassionate Conservatives vs. Enron Conservatives

By Arianna Huffington

So now we know why the White House has spent the better part of a year fending off congressional efforts to find out who Vice President Cheney met with for input on his Energy Task Force. Turns out the VP and his staff had at least six meetings with representatives from Enron -- including one with Chairman Kenneth Lay -- the last of which occurred just six days before the company revealed that it had vastly overstated its earnings, signaling the beginning of the end for the energy giant.

Since the Enron collapse, President Bush has been acting like Ken Lay was just some good ol' boy who also happened to hail from Texas. This new information proves otherwise: that Lay and his company's sizable political contributions had bought what Rep. Henry Waxman has termed "extensive access" to the epicenter of American political power. It's Teapot Dome, the Sequel.

During his run for the White House, Bush fought long and hard to convince us that he was a new breed of conservative -- a Compassionate Conservative. But recent events make clear that he is actually the standard bearer of a far more coldhearted breed. Call them the Enron Conservatives.

Enron Conservatives are people who use political money and connections as levers to free themselves of all accountability to laws, regulations and responsibility -- even to their own employees. Simply put, they are people who consistently, shamelessly and aggressively put their self-interest above the public interest. And when the lives of others are destroyed in the process, they just look the other way and hope that the law does, too.

It probably is too much to expect the Federal Trade Commission to hop on the Enron investigation bandwagon and look into whether Bush violated truth-in-labeling laws during his campaign, when his pledges of compassionate conservatism were stump speech favorites. But it should. Because we've heard precious little of them since Bush took the oath of office.

"While many of our citizens prosper," the freshly anointed president said in his inaugural address a year ago, "others doubt the promise, even the justice, of our own country." And those nagging doubts are only aggravated by the behavior of Enron executives who continue to prosper even as thousands watch their jobs -- and their life savings -- disappear.

Candidate Bush was so eager to paint himself as a Compassionate Conservative he even dared to impugn the moral supremacy of the free market -- blasphemy in the eyes of his party's doctrinaire right wing.

"The invisible hand works many miracles," said Bush during the summer of 1999, evoking Adam Smith's famous paean to market forces, "but it cannot touch the human heart." This simple truth lies at the core of the need for fair and rational government regulation of industry. All too often, after all, the human heart is filled not with goodness, but with greed, selfishness and a desire for profit-at-any-cost.

Too bad Bush left this noble idea behind on the campaign trail. Since taking office, the hallmark of his administration has been an unwavering belief in the free market's invisible hand.

In the last year, the president and his anti-regulatory appointees have (take a breath): abandoned a campaign promise to regulate carbon dioxide; repealed workplace ergonomic rules designed to improve worker safety; proposed reversing regulations protecting 60 million acres of national forest from logging and road building; and canceled a looming deadline for automakers to develop prototype high-mileage cars. And that's just a partial list.

Not even the rapacious excesses of the Enron debacle have quelled the drive

for deregulation -- or the ardor of Enron Conservatives who champion the cause. Pat Wood, Ken Lay's handpicked choice to head the Federal Energy Regulatory Commission, actually insists that the collapse of Enron "doesn't seem to be tied too much to deregulated energy markets." You know that something is rotten in Washington when the top energy industry regulator is so unabashedly anti-regulation.

Rep. Joe Barton, chairman of the House Subcommittee on Energy and Air Quality, is another Enron Conservative who sees the energy giant's collapse as an aberration, not a smoking gun. Indeed, he dismisses Enron's demise as "an in-house problem" and continues slaving away on a deregulation bill that would make Ken Lay proud.

Then there's Lawrence Lindsey, the president's top economic adviser, and a former advisor to Enron, who went so far as to claim that the Enron disaster "is a tribute to American capitalism." And 9-11 was a tribute to Islamic ingenuity.

Not that long ago, Bush was vowing to battle domestic suffering with "armies of compassion." Instead, he and his cadre of Enron Conservatives are adding to the carnage.

To subscribe or unsubscribe, or if you have any questions or comments,
please contact me at arianna@ariannaonline.com

Fisher, Peter

From: Devlin, Christine
Sent: Thursday, January 17, 2002 9:15 AM
To: Aufhauser, David; Clarida, Richard; Fisher, Peter; Flanagan, Rosemary; Hubbard, Glenn; Huffman, Lucy; Kroszner, Randall; Malmgren, Pippa; Murphy, Edward; Myers, Barbara; Nickoloff, Peter; Roseboro, Brian; Smetters, Kent; Warshawsky, Mark; Wiedman, Mark; Worth, John
Subject: FW: [Fwd: AICPA response to Enron Bankruptcy]

FYI - from Mark Warshawsky

-----Original Message-----

From: Warshawsky, Mark
Sent: Thursday, January 17, 2002 9:12 AM
To: Devlin, Christine
Subject: FW: [Fwd: AICPA response to Enron Bankruptcy]

FYI.

-----Original Message-----

From: Fred Mittelstaedt [mailto:H.F.Mittelstaedt.1@nd.edu]
Sent: Thursday, January 17, 2002 8:28 AM
To: Mark.Warshawsky@do.treas.gov
Subject: [Fwd: AICPA response to Enron Bankruptcy]

I thought that you might like to see this. Fred

AICPA_Management wrote:

> January 16, 2002
>
>
> To Members of the AICPA:
>
> As you are aware, the bankruptcy of Enron has put unprecedented focus on the accounting profession and its
> self-regulatory system. The AICPA, in recognition of its public interest responsibilities, and at the insistence of the
> SEC, is developing a new regulatory model that represents a significant and substantive change from current
> self-regulatory processes. This model would affect all firms doing SEC audits.
>
> The accounting profession has a successful, 100-year tradition of self-regulation, which has contributed to the most
> respected financial reporting system in the world. This is a tradition to which we have been and are deeply committed.
> To maintain this commitment to excellence and support public confidence in America's security markets, we have always
> responded to valid criticisms and addressed market changes and environmental issues that demanded our scrutiny.
>
> With this commitment in mind, we are diligently working to improve the profession's peer review and disciplinary process
> as it relates to auditors of SEC registrants. Our objectives are to include public participation and increase
> transparency, effectiveness, and timeliness.
>
> While the current self-regulatory model provides for significant public oversight over the SECPS peer review process,
> there is no public oversight over discipline. Under the new model being explored, there

would be significant public
> participation in the peer review and disciplinary systems for members and firms auditing
SEC registrants.
>
> The new disciplinary and peer review system for members and firms auditing SEC
registrants would be managed by a Board,
> a majority of whom would be public members.
>
> The new peer review system would enhance the reviews for the largest firms, requiring a
more rigorous and continuous
> form of monitoring the quality of the audit process. The reviews would be administered
by the staff of the new Board.
>
> On Thursday, January 17, 2002, SEC Chairman Harvey Pitt will hold a press conference
regarding these matters. As a
> result, we expect stories to run in all national and trade media. The developments over
the next few weeks and months
> will no doubt be rapid. We will keep you updated through [Http://www.AICPA.org](http://www.AICPA.org) as
solutions are solidified.
>
> The AICPA has been and will remain actively engaged in developing a new model for those
conducting SEC audits and in
> demonstrating leadership and responsibility to the public interest.
>
>
> James G. Castellano, CPA
> Chair of the AICPA Board of Directors
>
>
> Barry C. Melancon, CPA
> AICPA President and CEO
>
>
>

--
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Fisher, Peter

From: Scott Harshbarger [sharshbarger@commoncause.org]

Sent: Tuesday, January 01, 2002 11:04 AM

Subject: FW: MetroWest Daily News Editorial of January 30

happy new year, my friends. i look forward to seeing and hearing from you early and often in 2002.

-----Original Message-----

From: Common Cause Massachusetts [mailto:ccma@commoncause.org]

Sent: Monday, December 31, 2001 1:18 PM

To: Seth Amgott; Jeff Cronin; Scott Harshbarger

Subject: MetroWest Daily News Editorial of January 30

See the extensive references to "Soft Landing."

Editorial: Rejoin the fight for campaign finance reform
Sunday, December 30, 2001

Campaign finance reform was one of the victims of Sept. 11. As a show of unity in the face of a national threat, reformers in Congress put their push on hold.

It was an unselfish gesture for those who had worked long and hard to change the rules of the game in Washington.

The targets of their efforts, the selfish interests who use campaign contributions to leverage favorable treatment, had no such compunctions. While rescuers searched for survivors, lobbyists for the airlines, the insurance companies, tourism and defense industries leaned on Congress for handouts.

The debate over an economic stimulus package sparked an even less restrained free-for-all. Corporations pushed for tax breaks, unions for more unemployment compensation, farmers for more federal subsidies. All have greased their policy arguments with lavish contributions to both Republicans and Democrats.

The campaign finance system played a role in other Washington stories this year. Microsoft, which had spent \$16 million between 1997 and 2000 on lobbying and campaign contributions, saw its investment pay off with a friendlier Justice Department and a less painful antitrust settlement. High-flying Enron, which came to the capital as the biggest single contributor to the Bush presidential campaign, was in on the secret meetings that set the administration's energy policy. Enron's campaign cash in California paid off with a deregulation plan that generated millions of dollars of profit when prices soared - and a bail-out after the system crashed that left consumers paying the bills.

But the year's biggest story had a campaign finance angle as well. With better airport security, Sept. 11 might have been just another day. But according to a new report from Common Cause, airlines have for years resisted tougher security measures in an effort to save money.

Before Sept. 11, airlines industry lobbyists weakened legislation that would have required background checks of all airport screeners. After Sept. 11, airlines lobbyists slid a \$15 billion bailout bill through Congress, including \$5 billion in taxpayer dollars to compensate for the post-Sept. 11 shutdown that cost airlines, by one informed estimate, only a third that much.

Within days of the

bailout, the airlines laid off 70,000 workers and canceled hundreds of flights, further fattening their bottom lines.

Then the lobbyists pushed through an airport security bill that puts most of the expense on passengers, not airlines, and does not

include one reform the airlines have long resisted: extending from international to domestic flights a requirement

1/17/02

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that checked

baggage be matched to a specific passenger.

That kind of clout comes in large part from the \$16 million in political contributions the airlines have made to candidates of both parties. As Common Cause president, and former Massachusetts attorney general, Scott Harshbarger said, "the airlines' ability to

fly the political money system like a 747 has meant unfriendly and unsafe skies for the rest of us."

You can add the corrupting influence of big money on Washington decision-making to the list of things that haven't changed since

Sept. 11. The year's best hope for reform, the McCain-Feingold bill, passed the Senate but remains stalled in the House, with two

more signatures needed to discharge it for a vote on the floor. It's time backers of campaign finance reform resumed the fight.

Ken White

Executive Director

Common Cause Massachusetts

59 Temple Place, Suite 600

Boston, MA 02111

617-426-9600

<http://www.commoncause.org/states/massachusetts>

1/17/02

0120000001507

Fisher, Peter

From: Hart, Anna
Sent: Tuesday, January 08, 2002 3:04 PM
To: Fisher, Peter
Subject: Dubois Letter

Mr. Peter Fisher
Under Secretary for Domestic Finance
Department of Treasury
1500 Pennsylvania Avenue
Washington, D.C. 20220

Jacques E. Dubois
Chairman of the Board, Chief
Executive Officer & President

Swiss Re America Holding Corporation
969 High Ridge Road
Stamford, Connecticut
USA 06905

Telephone (203) 321-3001
Fax (203) 321-3232
Email Jacques_Dubois@swissre.com

January 7, 2002

Dear Peter,

In our conversation last Thursday, you asked if I might give some thought to themes for your remarks at the ACLI Executive Round Table next week. Following your thinking that the asset side of the balance sheet would be of interest to the audience, I have sketched out the following ideas, in no apparent order:

1. How do life insurers generate sufficient investment return on their existing non-variable product portfolios? With interest rates as low as they are, this becomes difficult from the standpoint of portfolio reinvestment. Investing in common stocks, lower quality bonds, real estate, whole loans and derivatives to boost returns each carry their own risks. The industry should have learned from the recent past that aggressive investing can be disastrous.
2. By and large, life insurers use an Asset/Liability matching strategy attempting to match cash flow requirements on liabilities with cash flow from assets. This presupposes that liability cash flow assumptions are not made inoperative by exogenous effects that dramatically alter cash flow requirements. A severe spike in interest rates that persists leading to disintermediation is but one example.

3. Variable products carry their own risks that are more related to consumer disappointment and under funding for personal needs should investment results drop. For those depending on such investment returns (retirees, for instance), poor performance can be devastating, possibly creating governmental involvement / solutions.
4. People are living longer. Consequently private sector funding for post retirement is critical. Social Security is not enough and retirement age is too young. People must work longer. Global aging will be a substantial Private Sector / Public Sector issue worldwide.
5. Economic downturns increase bond portfolio credits losses. Will these be of greater magnitude this time around, leading to substantial capital shrinkage? Are more Enrons out there? A long bull market can create irrational exuberance in borrowing, just as in equities.
6. I think that the audience would be fascinated by any comments you might make regarding Long Term Capital Management. As you know, gossip and tid bits go over well.
7. Absence of the Thirty year Treasury, serving as a benchmark and as an investment.

I hope these thoughts help. I would be happy to discuss / clarify anything written above. Obviously, you may conclude that some of these are non-issues or are mitigated for various reasons.

Lastly, we are delighted, as we discussed, to host a small dinner for you on Tuesday evening, January 15. We are in the process of organizing it and have invited about a dozen company representatives, some of whom will be able to attend. At this point, we are planning for 7:00 p.m. in a restaurant that will be selected in the next day or so. I shall call you then with the final logistics.

Sincerely,

Jacques E. Dubois

P.S. I trust you were able to get a copy of the ACLI Fact Book. If not, let me know and I will forward you one from here.

JED:jd

Fisher, Peter

From: Davis, Michele
Sent: Thursday, January 10, 2002 4:10 PM
To: Bair, Sheila; Fisher, Peter; Holahan, Betsy; Nichols, Robert; Gross, Jared
Subject: Text of PResident's announcement today

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[</news/releases/2002/01/print/20020110-1.html>](#)

For Immediate Release Office of the Press Secretary January 10, 2002 **President Calls for Review of**

Pension Regulations and Corporate Disclosure Rules REMARKS BY THE PRESIDENT IN MEETING WITH HIS ECONOMIC TEAM REMARKS BY THE PRESIDENT IN MEETING WITH HIS ECONOMIC TEAM The Oval Office 9:42 A.M. EST THE PRESIDENT: Thank you all for coming. I met with my economic security team last week to talk about ways to create jobs. We're meeting again with the components of the team to talk about one part of economic security, and that's pension security. One of the things we're deeply concerned about is that there have been a wave of bankruptcies that have caused many workers to lose their pensions, and that's deeply troubling to me. And so I've asked the Secretary of Treasury, Secretary of Labor and Secretary of Commerce to convene a working group to analyze pensions, rules and regulations, to look into the effects of the current law on hard-working Americans, and to come up with recommendations how to reform the system to make sure that people are not exposed to losing their life savings as a result of a bankruptcy, for example. As well, Secretary of Treasury, along with the SEC, the Fed, and the CFTC, are going to convene a working group to analyze corporate disclosure rules and regulations. In light of the most recent bankruptcy, Enron, there needs to be a full review of disclosure rules, to make sure that the American stockholder, or any stockholder, is protected. And so, I think this is an important part of, obviously, other investigations that are ongoing. The Justice Department announced and informed us late yesterday that they're in the process of investigating aspects of the Enron bankruptcy. The administration is deeply concerned about its effects on the economy. We're also deeply concerned about its effects on the lives of our citizenry. I'll be glad to answer a few questions.

Fisher, Peter

From: Wiedman, Mark

Sent: Friday, January 11, 2002 6:15 PM

To: Roseboro, Brian; Gross, Jared; Fisher, Peter

Subject: Sec O'Neill's comments on Presidential directive on corporate disclosure review
From a television interview Thursday night, I think ...

On what President George W. Bush has asked him to do today:

''The president tasked me to one, head a committee that includes Don Evans and (Labor Secretary) Elaine Chao to look at the Enron case and other bankruptcy cases to pay special attention to the question of whether we need to amend the rules that govern pension plans and 401k plans to provide a greater deal of assurance to individuals who have a stake in pension plans and 401k plans,'' he told CNN. ''That is driven by the president's concern about the individual employees. The president said to me we need to see if there is something we need to do so that we learn from this. If there is a weakness in our rules let's fix the rules.''

''And the second committee the president asked me to convene is one that's a standing committee, the president's economic committee. That includes myself and Alan Greenspan, the head of (the Commodities Futures Trading Commission) and Harvey Pitt of the SEC. The charge the president's given us is to look at the Enron case and other cases and see if we need to adjust the disclosure rules so that shareholders and employees have all the information they need to make intelligent decisions. This is not about Enron, this is about making sure the rules that govern the way our economic system works are worthy of the conditions that we're dealing with these days to assure that individuals are not hurt because of a weakness in our rules.''

1/17/02

0120000001532

Gross, Jared

From: Wiedman, Mark
Sent: Friday, January 11, 2002 6:15 PM
To: Roseboro, Brian; Gross, Jared; Fisher, Peter
Subject: Sec O'Neill's comments on Presidential directive on corporate disclosure review
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1/16/02

0120000001537

Gross, Jared

From: Davis, Michele
Sent: Thursday, January 10, 2002 4:10 PM
To: Bair, Sheila; Fisher, Peter; Holahan, Betsy; Nichols, Robert; Gross, Jared
Subject: Text of PResident's announcement today

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For Immediate Release Office of the Press Secretary January 10, 2002 **President Calls for Review of Pension Regulations and Corporate Disclosure Rules** REMARKS BY THE PRESIDENT IN MEETING WITH HIS ECONOMIC TEAM REMARKS BY THE PRESIDENT IN MEETING WITH HIS ECONOMIC TEAM The Oval Office 9:42 A.M. EST THE PRESIDENT: Thank you all for coming. I met with my economic security team last week to talk about ways to create jobs. We're meeting again with the components of the team to talk about one part of economic security, and that's pension security. One of the things we're deeply concerned about is that there have been a wave of bankruptcies that have caused many workers to lose their pensions, and that's deeply troubling to me. And so I've asked the Secretary of Treasury, Secretary of Labor and Secretary of Commerce to convene a working group to analyze pensions, rules and regulations, to look into the effects of the current law on hard-working Americans, and to come up with recommendations how to reform the system to make sure that people are not exposed to losing their life savings as a result of a bankruptcy, for example. As well, Secretary of Treasury, along with the SEC, the Fed, and the CFTC, are going to convene a working group to analyze corporate disclosure rules and regulations. In light of the most recent bankruptcy, Enron, there needs to be a full review of disclosure rules, to make sure that the American stockholder, or any stockholder, is protected. And so, I think this is an important part of, obviously, other investigations that are ongoing. The Justice Department announced and informed us late yesterday that they're in the process of investigating aspects of the Enron bankruptcy. The administration is deeply concerned about its effects on the economy. We're also deeply concerned about its effects on the lives of our citizenry. I'll be glad to answer a few questions.

Gross, Jared

From: Radke, Mark [RADKEM@SEC.GOV]
Sent: Monday, January 07, 2002 1:38 PM
To: 'Jared.Gross@do.treas.gov'
Subject: RE: Request from Under Secretary Peter Fisher

I will get it to you shortly.

-----Original Message-----

From: Jared.Gross@do.treas.gov [mailto:Jared.Gross@do.treas.gov]
Sent: Monday, January 07, 2002 11:08 AM
To: radkem@sec.gov
Subject: Request from Under Secretary Peter Fisher

Hello. I'm Peter Fisher's Senior Advisor here at Treasury.

He asked me to request a copy of the SEC accounting guidance vis-a-vis Enron when it becomes available. This was mentioned in a WSJ article this morning (pg. A16).

If you are able to forward something electronically, that would be ideal. Alternatively, if you could put me in touch with the appropriate people I can follow up.

Thank you very much.

Jared Gross 622-2212

ENRON, WASHINGTON
1775 EYE STREET, NW
Suite 800
Washington, DC 20006
202-466-9145
202-828-3372 (fax)

FAX COVER SHEET

DATE: 3/14/01 4:47 PM
NAME: _____ fax number: _____
TO:

Attention: Nancy (Scheduler)
The Honorable Paul H. O'Neill
Secretary of Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220
202-622-1100
202-622-0073 (fax)

FROM: Linda Robertson, Vice President, Federal Government Affairs
Lora Sullivan **PHONE:** 202-466-9142
FAX: 202-828-3372

Number of pages: 1

Re: Request for a meeting with the Secretary on April 5 in the afternoon

Dear Nancy:

Jeff Skilling, President and CEO for Enron would like to schedule a meeting with the Secretary to discuss West Coast energy crisis issues. We would like to schedule a short meeting sometime after Noon on Thursday, April 5, 2001. If this is possible, please call me at the number listed below.

Thank you for your assistance in this regard.

Lora Sullivan
Federal Government Affairs Representative
202-466-9142

Ellis, Dina

From: Carleton, Norman
Sent: Tuesday, December 18, 2001 10:46 AM
To: Wiedman, Mark; Bair, Sheila; Bieger, Peter; Bitsberger, Timothy; DeMarco, Edward; Dorsey, Karen; Ellett, Martha; Ellis, Dina; Gabilondo, Jose; Gross, Jared; Huffman, Lucy; Hughes, Gerry; McGivern, Tom; McInerney, Roberta; Nickoloff, Peter; Roseboro, Brian; Salladin, Anne; Schultheiss, Heidilynne; Smith, Amy; Sutton, Gary; Tishuk, Brian
Subject: ABI Website (12/17): Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

Sensenbrenner Still Wants Netting Language to Be Part of Bankruptcy Bill

House Judiciary Chairman James Sensenbrenner (R-Wis.) is standing firm in his desire to move so-called netting language as part of a comprehensive bankruptcy reform bill, a spokesman said, CongressDaily reported. On Thursday, Sensenbrenner met with House Financial Services Chairman Michael Oxley (R-Ohio) and Federal Reserve Chairman Alan Greenspan to discuss the possibility of passing netting legislation this year separate from the beleaguered bankruptcy bill. Federal financial regulators and Financial Services Committee lawmakers have renewed their calls for that action, in light of the recent collapse of Enron. The netting provisions are designed to enable quick resolution to complex financial contracts in the event a party in the deal went bankrupt. However, the netting provisions are one of the few consensus areas in the underlying bankruptcy bill, which is currently in conference, and proponents are not apt to separate them out. "There was agreement between everyone that the netting provisions [are] very important," a Sensenbrenner aide said. "He's trying to get the bankruptcy bill moving, and that's where we are right now."