

ENRON, WASHINGTON MEMORANDUM

To: Ken Lay
Steve Kean
Terry Thorn
Bob Baldwin
John Enerson
Karim Garcia
Cynthia Sandherr
Mark Schroeder
Peter Styles
Dennis Ulak

FROM: E. Joseph Hillings

DATE: September 19, 1997

RE: **Fast Track Testing 9/17/97 before the Senate Finance Committee**

Secretary of the Treasury Rubin and USTR Ambassador Barshefsky cited energy equipment and services opportunities to be of value in trade negotiations. These cites are marked for your attention in the attached testimony.

This has been proposed in the USG's APEC list of desired results when the heads-of-state from APEC nations meet this November in Canada.

I thought this material would be helpful to you in making the case for fast track and liberalized opportunities for energy equipment and services.

A large amount of the credit for moving this item into the trade negotiation arena belongs to Don Eiss of USTR who needs to hear from those of us who see value in the strategy for US industry.

Encl.





Committee On Finance

William V. Roth, Jr., Chairman

FROM: JOE HILLINGS
ENRON CORP.
WASHINGTON, D.C.

NEWS RELEASE

FOR IMMEDIATE RELEASE
September 17, 1997

www.senate.gov/~finance

Press Release #105-173
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ROTH OPENING STATEMENT AT FAST TRACK HEARING

WASHINGTON -- The Senate Finance Committee met today to consider the President's fast track proposal, the Caribbean Basin Initiative and the Administration's trade initiative for Sub-Saharan Africa. The following is the opening statement of Chairman William V. Roth, Jr. (R-DE):

"Our hearing today focuses on one of the most important topics we will face during this Congress. Today, more than ever, our economic future is linked to trade. A growing percentage of our gross domestic product depends on international trade and access to overseas markets.

"We will, foremost, hear of the President's proposal for renewal of his trade negotiating authority and the related Congressional implementing procedures. We will also hear from the Administration on two other proposals -- one to create parity between the treatment of imports from the Caribbean Basin and our NAFTA trading partners, and another on the Administration's initiative for Sub-Saharan Africa.

"Before we turn to the President's representatives, however, I would like to offer a few comments on the purposes behind the so-called fast track process.

"Since Cordell Hull -- Secretary of State under Franklin Roosevelt and a former member of this committee -- first outlined his vision of a trade agreements program in the early 1930s, cooperation between the Congress and the Executive on trade has been the foundation for our economic progress.

"The Constitution lodges the power to regulate foreign commerce with the Congress. At the same time, it is the President who the Constitution empowers to be our representative in foreign affairs. As a consequence, we need to work together to make progress on trade.

"In Hull's time, tariffs represented the principal barrier our exports faced

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United States Senate
WASHINGTON, DC 20510-0903

Prepared Statement of

Senator Bob Graham

**Senate Finance Committee Hearing
September 17, 1997**

Mr. Chairman:

Thank you for holding this hearing today, and particularly for including CBI Parity on the Committee's agenda. I am very pleased that we have finally received the Administration's Fast Track proposal and I look forward to hearing from our distinguished panelists.

The issue we are debating today goes well beyond whether or not to give the President trade negotiating authority. It is about how the American people view our country's role in the world. Are we to continue in our position of leadership, or will we retreat and take a new role as a bystander? The world is moving ahead quickly, with or without us. It is for us to decide if we will take our rightful position of leadership, or if we will stand aside while others rush in and take our place.

Mr. Chairman, I believe that the world will be a better place if traditional U.S. values of freedom, fairness, and openness are in the lead as we move into the next century. This can only happen if we are an active participant in making the rules and setting the agenda. If we choose to stand on the sidelines, we will leave it to others to make rules that reflect their values and their interests, not ours.

But this is not just a theoretical debate. Enforcement of trade agreements has been a contentious issue. If we are to move forward, the enforcement issue must be addressed. Failure to enforce trade agreements converts international trade from the rule of law to a dominance of suspicion and a lack of respect between trading partners. Agreements that are not enforced, or cannot be enforced, are not worthy of the participation of the United States.

A second issue that we must address is that of unintended consequences. That is what the Caribbean Basin Trade Enhancement Act is intended to address. Previous trade agreements, namely NAFTA, seriously hurt the economies of our Caribbean neighbors. These are countries with which we have uniquely close and harmonious relations. Many of these countries are being devastated by businesses and jobs moving to Mexico. Passing CBI legislation will remedy this unintended consequence of the NAFTA, and help U.S. companies to expand into the Caribbean markets at the same time. It is in our economic and our national security interests.

Thank you Mr. Chairman.

**UNITED STATES SENATE
COMMITTEE ON FINANCE**

Hearing on legislation providing Fast Track Trade Authority and on
other Administration trade proposals.

**Wednesday, September 17, 1997; 10:00 a.m.
Room SD-215 Dirksen Senate Office Building**

WITNESS LIST

- I. A panel consisting of:

The Honorable Robert E. Rubin, Secretary of the Treasury,
Washington, D.C.

Ambassador Charlene Barshefsky, United States Trade
Representative, Washington, D.C.

- II. **Ambassador Jeffrey M. Lang**, Deputy U.S. Trade
Representative, Washington, D.C.

EMBARGOED UNTIL 10 A.M. EDT
Text as Prepared for Delivery
September 17, 1997

TREASURY SECRETARY ROBERT E. RUBIN
SENATE FINANCE COMMITTEE

Mr. Chairman, I appreciate the opportunity to appear today with Ambassador Barshefsky to say a few words about the importance of renewing the President's traditional trade negotiating authority.

Since taking office, President Clinton has pursued a coordinated economic strategy to foster growth and raise standards of living with three key parts: deficit reduction, investing in people, and opening international markets. His strategy is working. The U.S. economy enjoys the best conditions in the industrialized world. Unemployment has been below 6 percent for over 2 years and below 5 percent for 5 months, the economy has generated 13 million new jobs, and inflation has remained low. Real wages are rising, including for low-income workers.

But we must not let these current conditions, favorable though they may be, mask the challenges we still face in improving our economy. There is still much work to do to make sure we sustain this economic momentum into the future and that everyone enjoys the fruits of our economy. That is why we must maintain our fiscal discipline and work to equip Americans with the tools they need to prosper in today's economy, through stronger education and training, and assistance when dislocation occurs. And we must also build on our trade record of opening markets abroad to continue to create better jobs and raise standards of living.

Having trade negotiating authority is important because trade is so important to our economy. Millions of Americans owe their jobs directly or indirectly to trade. All Americans benefit as consumers from the greater choice and lower prices which increased trade brings. Promoting open markets and trade also play a key role in fostering global prosperity, which benefits the United States by increasing international stability, and creating new markets to sell

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our products. Mr. Chairman, the economic well-being of the United States is integrally linked to the rest of the world and U.S. leadership on global trade is necessary in promoting global growth.

With fast track authority, we can negotiate further trade agreements to open foreign markets to U.S. goods and services. Without it, no nation will enter into a serious negotiation with the United States, because of concern that the treaty will be revamped during the Congressional process, and our economic interests will suffer. Consultations with Congress, both before and during trade negotiations, are a key provision of our proposed legislation. This will ensure that Congressional views are fully integrated into the formulation of negotiating goals and strategies.

Already, countries around the world are moving ahead to expand trade with each other. There is no question this is going to continue. The only question is whether we will be part of the process of integration, or on the outside looking in. To cite one example, look at the Mercosur nations, who have created a preferential trade arrangement. U.S. exports to these countries in four of our most competitive industries -- road vehicles, metal goods, cosmetics, and electrical equipment -- fell by more than 10 percent in 1996, while our exports in these goods to the rest of the world grew by almost 6 percent. We must make sure that U.S. companies have a level playing field as these markets of the future open their doors to trade.

The next steps for our trade agenda are to move forward in agreements in some of our most competitive sectors, and reduce barriers to trade in services and agriculture, which are key U.S. exports, as well as complete a free trade agreement with Chile, a step towards elimination of trade barriers in Latin America. Latin America and Asia are the two most dynamic economic regions in the world and are areas of increasing importance as export markets for U.S. goods. We must reduce trade barriers in these regions and strengthen economic ties so that we may continue to create jobs and foster prosperity in this country. Meanwhile, as we turn, our competitors move ahead on trade arguments in both regions.

Fast track is about more than one trade agreement or set of trade agreements, however. It is about U.S. leadership in the growing global economy and is an integral part of the strategy that has put our economy on the right track.

Mr. Chairman, trade policy has been a bipartisan effort for the past fifty years and it should continue to be a bipartisan effort. We must continue to work together to devise an acceptable negotiating authority so that we can continue to open markets, expand trade, and raise living standards both at home and abroad.

**Testimony of
U.S. Trade Representative Charlene Barshefsky
Renewal of Fast Track Authority
Senate Finance Committee
September 17, 1997**

Mr. Chairman and Members of the Committee, I want to thank you for the opportunity to appear before you today to address an issue that is vital to the future of American farmers, businesses, and workers, as well as our position as a leader in the global economy: that is, approval of the Administration's proposal to renew fast track and the President's tariff proclamation authority under the "Export Expansion and Reciprocal Trade Agreements Act of 1997." Mr. Chairman, if enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American workers and companies.

What is at stake in your consideration of this proposal is nothing less than whether the United States will continue to be at the forefront of nations seeking the reduction of trade barriers and the expansion of more open, equitable and reciprocal trading practices throughout the world. As the President said last week, the question before you is whether we are going to lead the way or follow. This is not the time to shrink from the future, but to seize the opportunities it holds.

The President is right. Today, this country is at the pinnacle of its influence. Our economy is the strongest in the world. In the last four and one half years, the United States has once again become the world's number one exporter, the world's largest manufacturer of automobiles, the world's premier agricultural exporter, and the world's leading producer of semiconductors. From the farms of the Midwest to the high-tech firms of California and Massachusetts, businesses are growing, unemployment is declining and inflation is under control. America leads the world in a very competitive global marketplace. Our economy is the envy of our trading partners.

Today, international trade is an increasingly vital component of our economic strength at home and leadership abroad. Exports are more important in our economy than ever. Since 1993, more than a third of our economic growth has come directly from exports, and the number of export-related jobs has increased by 1.7 million. A total of some 11.5 million U.S. jobs depend on exports, and these jobs pay an average of 15% more than non-trade-related jobs. Since 1985, U.S. exports have roughly tripled from about \$300 billion to an expected \$900 billion this year.

But, we cannot rest on our past accomplishments. We must find new markets for our goods and services in order to help our economy to maintain strong growth. To frame our economic challenge clearly: the United States represents four percent of the world's population, yet our share of global income is 20%. How are we going to maintain our enviable position? We must sell to the more than 96% of the consumers that live outside our borders, which requires that we further open foreign markets to our goods and services. We need fast track if our economy is to stay on the fast track.

The Importance of Fast Track

Fast track is critical to increase access to foreign markets and shift trade conditions in our favor. Fast track sends a strong signal to our trading partners. It tells them that when the President negotiates a trade agreement, he has the confidence of the Congress behind him. It also indicates that the United States is serious about reaching agreements that will reduce market barriers and trade distortions.

This proposal reactivates a partnership between the President and the Congress that dates back over six decades. Recognizing that the high protective U.S. tariff walls it established in 1930 had only served to deepen the Depression, Congress four years later enacted the first reciprocal trade agreements act. In that act, Congress gave the President authority to negotiate mutual tariff reductions with our trading partners. Congress renewed that authority repeatedly over the years, and successive Presidents used the authority to dramatically reduce tariff barriers around the world.

"Fast track" was first put in place under the Ford Administration in 1974. Under fast track the Congress and the President work together, ensuring that the United States can effectively negotiate away foreign tariff barriers as well as non-tariff barriers -- such as quotas, protectionist product standards, and subsidies -- which foreign governments have increasingly substituted for tariffs to exclude U.S. products. It worked well for 20 years, a period over which every President had fast track authority with bipartisan support. Fast track lapsed along with most of the President's tariff reduction authority three years ago.

With this legislation, we are seeking to reactivate the process by which certain trade agreements can come back to the Congress for an up or down vote without amendment. We are not seeking Congress' approval of a particular trade agreement. Congress retains the last word.

Dangers of Inaction

There are serious and immediate consequences if we do not renew fast track. Increasingly over the past few years, major trade agreements have been negotiated without our participation. Our competitors are determined, sophisticated, strategic and focused. In every region of the world, but particularly Latin America and Asia, the two fastest growing regions of the world, governments are pursuing strategic trade policies and, in some cases, preferential trade arrangements. They are forming relationships around us, rather than with us, and they are creating new exclusive trade alliances to the detriment of U.S. interests. I can assure you that our trading partners are not waiting for us to pass a bill.

A significant number of bilateral and regional trade agreements are already operating here in the Western Hemisphere. The United States is party to only one. In fact, most U.S. trading partners in the hemisphere have been actively forging closer ties with neighboring countries. In Latin America and Asia alone, over 20 such agreements have been negotiated since 1992 -- all without us.

Argentina, Brazil, Paraguay, and Uruguay have formed a common market, MERCOSUR, which has a GDP of approximately \$1 trillion and ambitions to expand to all of South America. MERCOSUR is the largest economy in Latin America and encompasses a population of 200 million. It has struck agreements with Chile and Bolivia, and is discussing agreements with a number of Andean countries (Colombia, Venezuela), as well as countries within the Caribbean Basin. There are recent reports that Canada is also in discussions with MERCOSUR. And, the EU and MERCOSUR already have plans to conclude a reciprocal trade agreement by 1999.

Furthermore, the nations of the Andean Community have started meeting with member nations of CARICOM and the Central American Common Market to discuss negotiation of free trade agreements.

And, Chile, with one of South America's leading economies, has signed trade agreements with Bolivia, Colombia, Ecuador, Mexico, Venezuela, Canada and the MERCOSUR states. Indeed, Chile has preferential trading relationships with every major trading country in our hemisphere but one -- the United States.

In South Asia, the seven members of the South Asian Association for Regional Cooperation (SARC) -- India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka, and the Maldives -- have set 2001 as the target for the creation of a free trade area. SARC now represents only about 1 percent of world trade, but it encompasses roughly 20 percent of the world's population. This will increasingly be an important market for U.S. goods and services.

Access to markets in such developing nations is especially important to America's economic future, particularly those in Asia and Latin America which are projected to grow at rates as much as three times the U.S. growth rate. As noted, more than 96 percent of the world's consumers reside outside the United States. Of the more than 30 million people who join the world's middle class annually, an estimated three quarters are found in emerging markets and other low and middle-income countries. Latin America alone, if current trends continue, will exceed both Japan and Western Europe combined as an export market for U.S. goods by the year 2010. Already, Latin America is our fastest growing export market, even though the tariff barriers within the region average three to four times the average U.S. tariff. Similarly, the Asian Pacific Rim has been our second fastest growing export market in recent years, but its market access barriers are also generally higher than U.S. barriers. The elimination of these inequities is in America's fundamental interest, as we have the most competitive economy in the world.

Our lack of fast track procedures also disadvantages us in comparison with our industrialized competitors. As mentioned, Canada recently signed a new trade agreement with Chile, giving Canadian exporters substantial advantages over their U.S. counterparts. Perhaps even more disturbing, the EU, already the world's largest trading bloc, is poised for major expansion in the next few years. The EU has secured for its exporters significant advantages in the transition economies of Central and Eastern Europe. As noted, the EU also has begun a process aimed at reaching a free trade agreement with MERCOSUR and one with Mexico. It has also concluded a framework

agreement with Chile which is expected to lead to a free trade agreement by 1999 based on recent reports.

China has targeted Mexico, Argentina, Brazil, Chile and Venezuela as "strategic priorities" in Latin America. China wants to enhance commercial ties and ensure that key Latin countries are receptive to its broader global agenda as a rising power, both in the WTO and other fora. The Chinese leadership has undertaken an unprecedented number of trips to Latin America in the last two years, and Latin America is China's second fastest growing export market.

Japan has undertaken high level efforts throughout Asia and Latin America to enhance commercial ties through investment and financial initiatives. The Prime Minister of Japan recently visited Latin America seeking closer commercial ties and a greater Japanese commercial presence in all respects.

The consequences of agreements being reached without us are not just theoretical; they are quite real. Many U.S. firms are suffering from the competitive disadvantage caused by preferential agreements that do not include us. Our companies are losing export opportunities. Our past efforts to level the playing field will prove futile over the long-term if we begin to cede this ground to our competitors. Examples abound:

- U.S. fabric producer, Quaker Fabric, recently lost a \$1.8 million a year sale in Chile to a Mexican competitor because of an 11% tariff preference favoring Mexican producers.
- U.S. apple producers are at risk in their Latin American markets due to Chile's preferential tariff free, or near tariff-free, access to MERCOSUR, Venezuela, Colombia, and other South American markets as a result of the FTAs it has been negotiating (six since 1991). U.S. producers have to absorb the non-preferential tariff cost to enter these growing markets.
- U.S. corn producers are facing competition in Chile from Argentinean producers who enjoy a 3.3% tariff preference, which will grow to 11% over time.
- Chilean fresh fruit pays a 2 percent duty when entering Venezuela (due to the Chile-Venezuela FTA), whereas U.S. producers pay a 15 percent tariff. The U.S. Embassy estimates that U.S. market share would grow from its current 39 percent to 67 percent if U.S. producers had equivalent access to the Venezuelan market.

MERCOSUR comprises the largest market in Latin America (200 million people and a GDP of approximately \$1 trillion). In the context of negotiating this customs union, Argentina, Paraguay and Uruguay raised their tariff on imported computer products to accommodate Brazil's interests. The net result was that the common external tariff is significantly higher (from zero to 14 percent *ad valorem* in the case of Argentina, the second largest economy in South America) than the original tariff on these items in Argentina and others.

The United States can only redress these growing trade setbacks by concluding similar bilateral and

regional agreements, as well as negotiating new multilateral agreements that level the trade playing field. But no such agreements are likely as long as our trading partners believe that any agreement the President negotiates will also have to be separately negotiated with the Congress.

Fast track, however, is about more than economics. It is about American leadership. As the President said last week, fast track "is about whether other countries will continue to look to the United States to lead to a future of peace and freedom and prosperity; about whether the world will be growing together instead of coming apart; about whether our economic ties will lead to cultural ties and ties of partnership, or whether we will be viewed as somehow withdrawn from the world, not interested in leading it, and therefore, not nearly as influential as we might otherwise be for the causes in which we so deeply believe."

Sidelining ourselves at this critical juncture will have repercussions that will be far more than economic. Economic prosperity contributes to economic security, which in turn supports democracy and stability. We are at the pinnacle of our influence and we should use that influence to shape international economic rules and transmit our fundamental values.

The Uses of Fast Track

The absence of fast track does not only mean that we cannot match our competitors when they enter into preferential trade arrangements. It also prevents us from achieving our own goals. There are three major areas of pressing concern which require fast track now.

First, fast track would allow us to complete the built-in agenda of the World Trade Organization: that is, conclusion of the major trade negotiations that were deferred at the end of the Uruguay Round and participation in negotiations mandated by the Uruguay Round agreements in areas ranging from rules of origin to services. This year, we resume negotiations to expand and improve the government procurement agreement. Next year, we begin again the negotiations on intellectual property rights, followed by agriculture negotiations in 1999, and then services negotiations. We seek enhanced access to global markets in these areas, and the stakes are very high. The world's government procurement market will be a trillion-dollar market over the next decade and bringing more countries into the agreement will be critical. Agriculture and services represent another almost \$2 trillion market, with agriculture representing \$600 billion globally; and services \$1.2 trillion. We must have fast track authority to enter these various talks or countries will not put meaningful offers on the table.

Second, fast track would enable us to pursue market-opening initiatives in sectors where the United States either leads the world or is a powerful competitor, and where there is extraordinary potential for growth. A good example of what can be achieved in this area is the recently concluded Information Technology Agreement (ITA), the United States and 43 other nations agreed to the reduction and eventual elimination of tariffs on information technology and electronic products, including semiconductors, computers, telecommunications equipment, faxes, phones, and integrated circuits. This is an extraordinarily favorable agreement for the United

States, since we are a major exporter of these products and our applicable tariffs were already quite low. Because other countries generally maintained substantially higher duties, this agreement provides what amounts to a \$5 billion tax cut for the U.S., money that can be used for research and market development, creating new business opportunities and jobs for Americans.

In fact, the agreement has proven so successful that we already have a consensus among our trading partners to pursue an "ITA-II" -- in which we are seeking to expand the scope of products covered by the agreement, address non-tariff barriers in addition to tariff barriers, and increase access to the Information Superhighway.

We also are considering other sectors in which the United States is very competitive, but in which global barriers tend to be high. In particular, we are focusing on trade in chemicals, energy equipment and services, environmental technology and services, medical equipment and services, and wood and paper products. Within APEC, the United States and its Pacific Rim trading partners are working together to identify a number of areas that may be the subject of accelerated market opening discussions. Renewal of fast track would show APEC that the United States intends to fully take part in the negotiations and conclude key agreements.

Third, fast track is essential if we are to negotiate more comprehensive market access agreements with individual countries, as well as on a regional basis. This Administration, consistent with its predecessors, has identified Chile as a promising candidate for a comprehensive trade agreement. Chile appears in all respects to be prepared to enter into agreements with us that achieve our economic objectives, as well as our goals with respect to labor and the environment. Chile also symbolizes our commitment to proceed towards the conclusion of the Free Trade Agreement of the Americas (FTAA) by 2005.

Prior to the pursuit of other specific free-trade arrangements, the Administration would clearly define our negotiating objectives and consult closely with Congress.

The Fast Track Legislation

Fast Track is about forging an American consensus on trade and negotiating with our trading partners from a position of strength and unity. As many members of this Committee know, the Administration spent significant time consulting with members in both Houses and of both parties to try to develop a proposal that would reflect the views of the American people. The consultations were invaluable in shaping this proposal, and I thank the members of this Committee and their staffs for their significant contribution.

Let me now turn to the specifics of the President's proposal.

The proposal first sets out "overall" and "principal" trade negotiating objectives for the President. The "overall" objectives call on U.S. negotiators (1) to obtain more open, equitable, and reciprocal market access; (2) to obtain the reduction or elimination of barriers and other trade-distorting

policies and practices that are directly related to trade and reduce market opportunities for U.S. exports or distort U.S. trade; (3) to further strengthen the system of international trading disciplines and procedures; (4) to foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy; and (5) to address those aspects of foreign government policies and practices regarding labor, the environment, and other matters which are directly related to trade and decrease market opportunities for United States exports or distort United States trade.

The "principal" objectives specify that U.S. negotiators should seek (1) to reduce or eliminate trade barriers, and foreign government policies and practices directly related to trade that decrease market access for U.S. exports or that distort U.S. trade; (2) to reduce foreign government barriers that discriminate against or impose unreasonable regulatory barriers on U.S. service providers; (3) to reduce unreasonable barriers to U.S. foreign investment; (4) to obtain adequate and effective protection for U.S. intellectual property rights and increased access to foreign markets for U.S. businesses that rely on intellectual property; (5) to make the proceedings of international trade bodies more open to public view; (6) to secure fairer and more open conditions of trade for U.S. agricultural products; and (7) to promote through multilateral institutions worker rights and sustainable development.

These objectives and guidance reflect the President's three primary concerns underlying the proposal. The President has made clear that his first consideration in proposing this legislation is the expansion of American trade opportunities abroad and the tearing down of barriers impeding U.S. access to foreign markets. However, the President also has made clear that we have an obligation to promote the rights of workers and the environment. Our commitment to worker rights and the environment reflects long-standing, fundamental values of the United States. The proposal's objectives properly balance the need to open markets with the attention these vital issues deserve.

The proposal next provides that the President may enter into certain agreements regarding tariffs and implement them by proclamation. For example, the proposal would re-establish the President's traditional proclamation authority, under which he can reduce U.S. duties up to 50 percent and eliminate duties of 5 percent *ad valorem* or less. This authority dates back to 1934. The proposal adds a new provision that would allow the President to harmonize or eliminate tariffs in connection with reciprocal tariff agreements in particular sectors, as we did in the ITA, as well as to carry out reciprocal tariff elimination agreements consistent with WTO rules.

In order for an agreement to qualify for fast-track treatment under the bill, the President must comply with extensive notice and consultation requirements. These provisions enable the Congress to set priorities, provide advice, and exercise oversight at all stages of the negotiations. They ensure that Congressional views will be reflected both in any final agreement and in the manner in which an agreement is carried out.

The bill expands upon the notice and consultation requirements included in earlier trade acts. For example, the President must provide notice to Congress before initiating negotiations, and he must

consult with Congress prior to concluding an agreement. Members of Congress and their staff are to be named as cleared advisers with respect to on-going negotiations. These Congressional advisers will be apprised of all critical phases of the negotiations, and they will have direct input into our strategy and offers. When negotiations near completion, the President must notify Congress of his intention to enter into an agreement and, once the agreement is signed, the President must describe to Congress how he intends to implement the agreement. Finally, the President and the Congress are to receive advice on any proposed agreement from the International Trade Commission.

To strengthen these provisions, we have added further consultation requirements. The bill mandates that, prior to entering into negotiations, the President must describe his specific negotiating objectives. The President is required to consult with Congress both before and after negotiations begin. In addition, the President is required to inform Congress of any other agreements he intends to conclude with the country or countries in question in addition to the trade agreement itself. The President must also state whether the fast track agreement will require additional implementing legislation that can be enacted only outside the fast track process.

Moreover, Congress must be satisfied that the President has met his consultation obligations. Under the proposal, if Congress finds that the President has not done so, an expedited procedure is available for Congress to withdraw fast track procedures.

The proposal also builds on existing provisions to ensure that the public is informed of trade negotiations and that a mechanism is available for ensuring that the public can make its views known to U.S. negotiators. In addition, the proposal calls for the President and Congress to receive advice from officially-designated advisory committees covering the full range of sectors and policy matters, including manufactured goods, agricultural products, services, intergovernmental matters, investment, intellectual property, labor, and environmental matters. These provisions demonstrate the Administration's hope that Americans will not only understand our trade agenda, but take an active part in formulating it.

Under well-established practice, the President collaborates with the Congress in drafting fast track implementing legislation. Such legislation is subject to informal public hearings and "mark-ups" by all Congressional committees of jurisdiction before its introduction. Under the President's proposal, provisions may be included in such legislation only if they are necessary or appropriate to implement an agreement and are related to trade. This language was designed to provide the President and Congress with sufficient flexibility to modify domestic law to achieve our trade objectives while ensuring that implementing bills will retain their focus on trade issues.

The President's proposal seeks this authority until his term is completed, with the possibility for an extension until 2005, subject to disapproval by Congress. This provides Congress and the next President the opportunity to ensure that the consensus that we hope can be achieved with this fast track proposal endures during the first term of the next President.

Conclusion

Mr. Chairman, if enacted, the President's proposal would renew more than 60 years of cooperation between the Congress and the Executive Branch in the negotiation and implementation of market-opening trade agreements for the benefit of American workers and companies. We have had a bipartisan consensus on the importance of expanding trade for the American economy and creating a trading system as a part of America's leadership for peace and freedom. It is now clearly more important than ever that we build a new consensus on the framework for the global economy of the 21st century. I am committed to working with the Congress to make sure that this legislation receives the full, bipartisan support it deserves and the American people expect.

As the President Clinton said last week: "Walking away from this opportunity will not create a single job. No one suggests we should throw up greater barriers in our own marketplace. Walking away from this opportunity will only leave inequalities in place -- inequalities that do not work to the advantage of either American businesses or American workers." The world is on a very fast track to the 21st century. America must lead in shaping our future.

Testimony of
the Deputy United States Trade Representative
Ambassador Jeffrey Lang
on
Enhanced Trade with the Caribbean Basin and Sub-Saharan Africa

17 September 1997

Mr. Chairman. I am pleased to be with you here today to discuss the Administration's initiatives to enhance our trade relationships with the Caribbean Basin and Sub-Saharan Africa. It is appropriate that my comments follow those of Ambassador Barshefsky and Secretary Rubin, who spoke of the importance of renewing the traditional trading authority and continuing U.S. leadership in the international trading system. I would like to speak about some of our other priorities where our leadership is crucial.

This year, the President announced two initiatives to enhance trade with the Caribbean Basin and Sub-Saharan Africa. The Africa initiative seeks to support the economic and political reforms that are already resulting in increased economic growth in Africa. The initiative recognizes that increased trade and investment can make a greater contribution to this growth. The Caribbean Basin initiative seeks to ensure that the increased trade and growth resulting from earlier initiatives continues to grow as the region moves toward a more mature trading relationship with the United States and strives to make the changes needed to participate in the Free Trade Area of the Americas.

These two regions hold the promise of opportunities for US firms and workers. The U.S. must take steps to increase trade, development, and investment in these regions of the world. A forward-looking trade policy with the Caribbean and Sub-Saharan Africa is in our national interest: it encourages U.S. business investment and expansion in those regions; it promotes economic growth, which enables both Caribbean and African nations to deal better with issues such as hunger, population growth and civil strife through regional efforts; and it allows the U.S. to continue to foster greater integration of global markets.

I will address each proposal separately.

Caribbean Basin Trade Enhancement

In response to the concerns of the Caribbean Basin countries that their exports to the United States would be placed at a competitive disadvantage vis-a-vis Mexico's exports as a consequence of the NAFTA, there have been several bi-partisan efforts during the past four years to pass legislation that would grant enhanced trade preferences to countries that currently benefit from the 1984 Caribbean Basin Economic Recovery Act (CBERA). Since the 1994 entry into force of the NAFTA, there have been significant changes in the region. The Administration's

proposed CBI trade enhancement legislation offers enhanced CBI trade preferences in the context of the important changes that have taken place in the Caribbean Basin since NAFTA implementation.

On June 17, 1997 the Administration transmitted the United States Caribbean Basin Trade Enhancement Act (CBTEA) to the Congress and it was introduced in the Senate by Senators Graham, Moseley-Braun, Mack, DeWine, and McCain. The purpose of the CBTEA proposal is to give Caribbean Basin countries enhanced market access and serve as a bridge toward the Free Trade Area of the Americas. This bill is part of an integrated Administration-wide strategy to advance economic progress and promote regional cooperation throughout the Caribbean. It signals our intention to expand trade with Caribbean countries on terms consistent with the objectives of the Free Trade Area of the Americas (FTAA) and their own obligations in the World Trade Organization (WTO).

The legislation fulfills the President's commitment, made during his recent trip to Costa Rica and Barbados, to forward legislation to the Congress that would provide enhanced trade preferences to countries in the region. The bill would cover all the products that are presently not eligible for preferences under the CBI program, including textiles and apparel. The CBTEA would extend to eligible Caribbean Basin Initiative (CBI) beneficiary countries certain trade preferences essentially equivalent to those Mexico receives under the North American Free Trade Agreement (NAFTA).

The Administration originally had expected the CBTEA proposal to move through the legislative process as free standing bill. However, when CBI enhancement was included in the Ways and Means reconciliation bill, we forwarded a proposal that the Administration supported in preference to the text in the reconciliation bill. Wishing to maximize the possibility of passage of CBI enhancement and to ensure funding for the measure, the Administration worked hard to reach compromise language that would enable CBI trade enhancement to remain in the budget reconciliation package. We were disappointed that a compromise could not be included in the Tax bill, but we stand ready to work with you again on a compromise.

In designing this legislation, the Administration considered the evolving economic and trade situation in the Caribbean Basin region. The increased openness of most Caribbean economies over the past decade, improved macroeconomic stability, and the growth of foreign direct investment have set CBI countries on a path toward improved economic growth. We also considered the perception among CBI countries that the implementation of the NAFTA is reducing their relative opportunities for expanding trade to the United States.

Indicative of the changes underway in the region is the fact that all but one of the CBI beneficiaries belong to the World Trade Organization, and that as members they have undertaken a commitment to adhere to the rules of that organization. In addition to meeting their WTO commitments, these countries will need to make structural reforms in order to take advantage of the benefits to be derived from a hemisphere-wide free trade zone.

The CBTEA will allow countries in the Caribbean Basin to enjoy enhanced trade preferences while encouraging them to meet their WTO commitments and helping them to prepare for participation in the Free Trade Area of the Americas. These new trade preferences would cover all of the products not included in the existing CBI legislation (i.e., textiles/ apparel, petroleum, footwear, certain categories of flat goods and gloves, leather apparel, canned tuna and a category of watches). Trade preferences for CBI beneficiaries would be phased in, with 50 percent of the benefits available immediately upon implementation of the legislation.

Textile/Apparel Provisions

Of course, the heart of any CBI trade enhancement bill is textiles and apparel. The bill would -- when fully implemented over the phase-in period -- provide beneficiary nations the same duty treatment and quota-free treatment as Mexico receives for all products meeting the NAFTA rules of origin (essentially a "yarn-forward" requirement). Basically, textiles that on a yarn-forward basis were made from CBI inputs would be eligible for the same tariff treatment as Mexican products. In addition, products assembled from U.S. cut and formed fabrics made from U.S. yarn, as well as handicrafts, also could enter duty-free.

The bill also contains specific provisions for apparel products made in the Caribbean Basin from non-U.S./non-CBI fabric. Under our bill, interested U.S. citizens could petition the President to provide such products preferential tariff treatment where the fabrics or yarn from which the articles were made are not commercially available from U.S. producers. The tariff preference level (TPL), if granted under the petition process, would be limited in quantity to 10 percent of a country's previous year's shipment of "Section 807" apparel assembled in the Caribbean using U.S. parts made from extra-regional (non-U.S./non-CBI) fabric. This petition process differs from NAFTA, in which we negotiated TPLs up-front with Mexico. We suggest this different approach in the Trade Enhancement Act because this is not the result of a negotiated agreement, but is a preference.

The bill would also contain safeguard provisions on both originating and non-originating products. Imports of non-originating products could be limited under the same conditions, both criteria and remedies, as in the NAFTA; also as under the NAFTA, imports of originating products could be subject to a tariff snap-back safeguard. The draft bill also expands the quota safeguard provision so that all textile and apparel products receiving benefits under the bill can be subject to quota safeguards. While NAFTA applies quota safeguards only to non-originating products, safeguards in this bill are more comprehensive, again because the bill is not a negotiated agreement.

If the President finds that goods from third countries are being transshipped through CBI countries and are receiving duty preferences that they should not, the USTR may reduce the amount of any quota -- including eliminating a country's access to the U.S. market for this product -- with the CBI countries involved in transshipment.

The common goal of the Administration and many in the textile and apparel industry groups has been to expand CBI trade preferences to the textile and apparel sector, which has until now largely been excluded from duty preferences. This bill responds to the concerns of the CBI countries that feel that they may be disadvantaged by Mexico having NAFTA benefits for apparel shipments to the U.S., and also to respond to the concerns of U.S. industry that their own investments and partnership production operations in the Caribbean have continued viability and success.

The key to the success of the existing CBI program is that the trade provides benefits to both the U.S. and to the Caribbean countries. The majority of our apparel imports from the Caribbean countries contains substantial U.S. content. The International Trade Commission estimates that over 80 percent of our apparel imports from the Caribbean are under these "production sharing" arrangements. This means that our producers and our workers make the fabric and the other inputs (linings, sewing thread, notions) that go into the CBI's apparel, our companies employ people in cutting and distribution in the U.S., and so on. However, the bill allows us to address situations of serious damage or threat from these imports if necessary.

The real benefit to the program is that we have seen apparel production come back to our hemisphere from Asian sources, including China. Last year, imports of apparel from the CBI grew 12 percent while imports from China were flat and imports from Hong Kong, Korea and Taiwan declined 8 percent.

Over the 10 year life of the quota preference program for the CBI, imports of apparel from the CBI have grown at an average annual rate of 20 percent, while imports from China grew by 4 percent on average and imports from Hong Kong, Korea and Taiwan declined by 3 percent. The CBI countries taken together are our largest foreign supplier of apparel products.

We fully expect the textile provisions of our proposed legislation to further expand such trade in a manner that will benefit the United States as well as the CBI beneficiary countries.

Given the potential benefits for these countries, the changing economic and trade environment in the region and the need for such a bill to include strong incentives for sound trade policy measures in the Caribbean, we have designed a program that would, through a phase-in process, give countries the incentive to continue to make progress on trade policy. We have also given a great deal of thought to ensuring increased market access for U.S. businesses as we grant increased preferences to CBI countries. This bill does not create a one-way street of open-ended trade preferences with no benefit to U.S. interests. Nor does it place unreasonable or unfair burdens on the countries of the Caribbean. It is a balanced trade package that promotes economic development in this region that is so important to the United States.

Initial Designation

To achieve our goals, prior to initial designation as a beneficiary, a country would have to

demonstrate a commitment to undertake its WTO obligations on or ahead of schedule and to actively participate in FTAA negotiations. We would expect all countries in the region to meet these initial criteria and be eligible for a 50 percent tariff reduction (between the MFN tariff and Mexico's prevailing rate under the NAFTA). Countries could receive up to 100 percent of the tariff reduction -- i.e., parity with Mexico's tariff rate under the NAFTA -- depending upon a three-year review of the country's compliance with the eligibility criteria.

These criteria were carefully constructed to ensure they were consistent with U.S. trade policy, that they encourage fair treatment of U.S. exports and investment, and that they would expand economic development to encourage citizens in beneficiary countries to direct their energies toward opportunities available in a growing formal economy. We are certain that increased economic growth among CBI countries will provide growing markets for U.S. products and enhance the ability of our neighbors to ensure justice and security within their own borders.

To that end the CBTEA would require that, before granting additional benefits, the President consider the extent to which countries have met the following conditions.

International Trade Rules. The extent to which a country follows accepted rules of international trade will be considered in determining a country's eligibility for increased benefits. We would like to encourage all beneficiary countries to meet their WTO commitments on or ahead of schedule. We think it important to establish a "floor" of compliance with WTO rules, which will enable us to move toward the Free Trade Area of the Americas from within a WTO consistent framework.

Intellectual Property Rights. With respect to intellectual property rights, a CBI nation's compliance with the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights and with the provisions of Chapter 17 (Intellectual Property) of the NAFTA would be eligibility criteria for the full benefits. The bill also includes provisions regarding the parallel importation of "gray market" goods and border enforcement against infringing imports. These provisions would benefit creative and inventive activity in the region as well as U.S. holders of intellectual property rights.

Investment. With regard to investment, the bill includes an eligibility criterion based on a CBI nation's compliance with the substantive provisions of NAFTA Chapter 11 (Investment). These conditions would ensure non-discriminatory treatment of U.S. investments and international standards of treatment, including third party arbitration for investor-state disputes. Such policies, of course, would increase the attractiveness of CBI countries to the foreign direct investment that is essential to increasing productivity and promoting the economic diversification of these countries.

Market Access. The bill offers the opportunity for expanded market access for U.S. goods because beneficiary countries would be expected to provide equitable and reasonable market access in product areas for which the CBI countries are receiving new benefits.

Worker Rights. Provision of internationally recognized worker rights is a CBTEA eligibility criterion. That is, a country's new -- as well as current -- benefits would depend upon the provision of internationally-recognized worker rights, including the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of coerced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work, and occupational health and safety. We do not think it is appropriate to reward countries that are indifferent to the working conditions of their labor force. This provision is drawn from the GSP program.

Environment. To ensure that beneficiaries of the CBTEA pursue their new trade opportunities in an environmentally responsible way, each interested country will be reviewed on the extent to which it has adopted laws and regulations to protect the environment (including natural resource protection laws), as well as the extent to which it is effectively enforcing those laws and regulations. This provision is modeled on language in the NAFTA.

Narcotics Cooperation. We want to use every available tool to try to stamp out the scourge of narcotics production and trafficking. Therefore, the President will assess whether the beneficiary country has met the narcotics cooperation certification criteria set forth in section 490 of the Foreign Assistance Act of 1961 for eligibility for United States assistance.

Corrupt Business Practices. Corrupt business practices can be a more impenetrable barrier to trade than any tariff. This legislation will encourage CBI nations to ratify the newly-concluded Inter-American Convention Against Corruption. The President will take into account whether, having ratified this agreement, countries are taking necessary measures to implement the agreement.

Exchange of Tax Information. This bill will encourage countries in the region to join Barbados, Bermuda, Costa Rica, Dominica, the Dominican Republic, Grenada, Guyana, Honduras, Jamaica, Saint Lucia, and Trinidad and Tobago in entering an agreement with the United States for the exchange of tax information.

Government Procurement. Eligibility criteria for full benefits include a CBI country's support for the multilateral and regional objectives of the United States with respect to government procurement, including the negotiation of government procurement provisions of an FTAA and the work program in the WTO as agreed at the Singapore Ministerial Conference; and the extent to which the country applies transparent and competitive procedures in government procurement equivalent to those in the WTO Agreement on Government Procurement.

Customs Valuation. The bill includes an eligibility criterion based on the provisions of the WTO Agreement on Implementation of Article VII of the GATT 94, which addresses rules for customs valuation. U.S. exports are put at a disadvantage in the market when arbitrary customs valuations result in higher tariffs, making our exports less competitive in the market. Adherence to the WTO Agreement is of great importance to our exporters, and all WTO members in the

CBI region are required to implement those obligations by the year 2000.

Comparable Access. Also, the President would take into account the extent to which those CBI nations that have entered an FTA with any other countries (other than the CARICOM and the Central American Common Market) are prepared to grant the United States comparable access for commercially important products. This provision is intended to give the United States additional leverage to insist that a beneficiary country not discriminate in favor of our NAFTA partners even as we grant that country NAFTA-equivalent market access.

Duration

This new trade enhancement program would not be open-ended. Since it is designed as a bridge to the FTAA, it would terminate in 2005. At that time FTAA negotiations will have been completed and all beneficiary countries should begin to reap the benefits of the Free Trade Area of the Americas.

Phase-In of Benefits

In order to determine the extent to which countries have met the criteria for increased benefits at the end of three-years, the President would review the operation of the CBTEA program, including each country's compliance with the eligibility criteria -- the criteria currently existing in the CBI statute, as well as the new criteria. We would, of course, request public comment and undertake extensive consultations with the Congress on the operation of the program at the time of the review.

Maturing Relationship

In conclusion, this bill reflects the maturing relationship between the United States and the countries in the Caribbean Basin. Trade between the region and the United States has grown impressively since the beginning of the Caribbean Basin Economic Recovery Act in 1984. All but one CBI beneficiary belong to the World Trade Organization and all those that belong have agreed to implement all of the obligations needed for membership. All of the countries in the region are involved in the FTAA process. For those reasons, the Administration has constructed a proposal that asks beneficiary countries to continue on their trajectory toward more open markets and trade policies consistent with their WTO commitments and their participation in the FTAA.

We look forward to working with the Congress on legislation to implement this approach. Now I would like to turn to the President's strategy for economic growth and opportunity in Africa.

Africa: Growth and Opportunity

We welcome this occasion to discuss opportunities to expand U.S. trade and investment with

Africa and the Administration's program for seizing these opportunities. I want to commend the Congress for its leadership in focusing on the need to develop a new trade approach to Africa. The Clinton Administration enthusiastically endorses the basic approach of the African Growth and Opportunity Act (S. 778). We look forward to continuing our work with the Congress to develop, refine, and enact legislation that will help build a new trade relationship between the United States and African countries.

We believe that this is an opportune time for us jointly to address the issue of our economic and trade relations with Africa. Over the last year and a half, both the Administration and the U.S. International Trade Commission have submitted two reports on this question. Our most recent report sought to lay a foundation for our future work in this area. The Administration has also worked to develop new policies in this area, after consultation with African officials. The President is very interested in this subject and has directed us to determine what steps we can take to establish more substantial trade relations with Africa.

We recognize the achievements of many countries in Sub-Saharan Africa in pursuing economic and political reforms and wish to offer special support to those countries committed to pursuing accelerated reforms. Today, I want to discuss the Clinton Administration's new economic approach to Africa. We have worked intensely within the Administration to develop a program that we hope will help African countries lock in and accelerate the increase in growth that they are starting to achieve. I would like to acknowledge the contributions of a number of agencies, including the Treasury, State, Commerce, Labor and Agriculture Departments, USAID, OPIC, Export-Import Bank and the Trade and Development Agency. We have worked on this project as a team under the coordination of the National Security Council and the National Economic Council to produce this comprehensive program. I will focus on the trade and investment policy aspects of the program because that is my area of expertise and trade and investment is, I understand, the subject of this hearing.

Economic Reform in Sub-Saharan Africa

The Administration's program is entitled "Partnership for Promoting Economic Growth and Opportunity in Africa." This partnership begins with the simple but powerful idea that American interests are best served if we view African countries as partners in trade and investment.

We begin with the idea that building strong trade partnerships with Africa's rapidly growing and reforming economies is in our interest. It is also the key to generating growth and opportunity in the rest of the continent. The 48 countries in Sub-Saharan Africa are quite diverse. Some countries in the region are already showing that the continent can be a region of dynamic economic growth, and that there is no reason why they cannot achieve Asian levels of growth if they make the right policy choices. Only if we build on Africa's progress can we change the minds of those in the private and public sectors who doubt the continent's potential.

Our plan highlights Africa's success stories. In the last few years, more than 30 countries have

instituted economic reform programs. They have adopted the most critical reforms -- liberalizing exchange rates and prices, privatizing state-owned enterprises, instituting tighter disciplines over government expenditures, ending costly subsidies, and reducing barriers to trade and investment. Many countries have also undertaken political reforms.

Reform efforts have helped boost economic growth in Africa from 1.4 percent in the 1991-94 period to 4 percent in 1995 and 4.6 percent in 1996. The United States seeks to encourage these reforms and the growth that stems from them. The benefits for the United States are clear. In an increasingly competitive global economy, the United States cannot afford to neglect a largely untapped market of some 600-million-plus people, and the world cannot afford to see a vast region marginalized. The lowering of tariffs and other trade barriers will help African nations to grow. They will also help Americans by opening these markets to our goods and services. Increased growth will also contribute to social and political stability on the continent and to an enhanced capacity to address the problems with which we are all too familiar.

Trade and Investment

We must continue to address obstacles to trade and investment. In the last 40 years, Africa's share of global trade has fallen from 3.1 percent to 1.2 percent. A recent World Bank study has concluded that the most significant part of Africa's marginalization in world trade can be attributed to African trade barriers that are far more restrictive than those in high-growth developing countries and incorporate a substantial anti-export bias. For example, import tariffs in sub-Saharan Africa average 26.8 percent, whereas they only average 8.7 in the fastest-growing exporters in the developing world. African countries also impose some form of nontariff barrier restrictions on over one-third of all of their imports, a ratio that is almost nine times higher than the corresponding average for fast-growing exporters. Such trade protectionism erodes the competitive position of Africa's exports and, according to this study, costs the region an average of \$11 billion per year in annual trade losses -- about the same as total aid to Africa from all sources in 1991.

The core premise of our plan is that those nations willing and able to pursue the most aggressive growth-oriented economic policies -- principally by opening their economies to the world marketplace -- are the ones most likely to be the engines of growth on the continent. The plan provides incentives for all African countries to join this advance group of African reformers.

Many African countries have been able to make substantial achievements in restarting economic growth by taking bold steps to open, liberalize, and privatize their economies. The most dramatic progress has come when countries have focused on three areas: trade and investment liberalization, investing in human resources, and improving policy management. Our program seeks to emphasize support for countries that are making strong efforts in these areas.

In the area of trade and investment, we attach particular importance to the extent to which countries have made substantial progress toward reducing tariff levels, binding their tariffs in the

WTO and assuming meaningful binding obligations in areas of trade such as services, and in eliminating nontariff barriers to trade. We also think it is very important that any country in Sub-Saharan Africa that is not already a member of the WTO should be actively pursuing membership in the WTO and be prepared to take on meaningful obligations. We are pleased that several African countries made commitments in the recently concluded WTO telecom services negotiations. We hope that these countries will also make commitments in the WTO financial services negotiations which are now underway in Geneva.

We also believe economic growth may be enhanced by other factors in the trade and investment area such as the provision of national treatment for foreign investment, a readiness to begin negotiations with the United States on a Bilateral Investment Treaty, privatization of sectors of the economy that are most likely to attract foreign investment, compliance with programs with and obligations to the International Monetary Fund (IMF) and other international financial institutions and the introduction of current account convertibility.

The Administration's Initiative

Mr. Chairman, I would like to discuss briefly the specific elements of the Administration's program for Partnership for Economic Growth and Opportunity in Africa. Through this Partnership the United States would seek to work in particular with those countries making strong efforts at growth-oriented policies in areas such as those I have just discussed.

We recognize that not all African countries are ready or able to take the steps necessary to spur high levels of economic growth. Therefore, we propose to work with the relevant international institutions to make available the following opportunities to Sub-Saharan African countries, according to their desired level of participation. Under the overall partnership countries can participate at one of three different levels.

Level One Benefits

To support efforts to achieve sustainable economic growth throughout Sub-Saharan Africa, at the first level of participation the Administration will make broadly available the following opportunities and assistance. Level One will include notably:

Enhanced market access. African nations will continue to receive preferential market access under the existing Generalized System of Preference (GSP) program, which now provides less-developed countries duty-free access for products in some 4,000 tariff lines and will provide least-developed countries enhanced access on products in up to an additional 1800 tariff lines.

Investment support. The Overseas Private Investment Corporation (OPIC) is working with the private sector sponsors of a proposed \$150 million fund for equity investment in a variety of economic sectors. Two-thirds of the fund would consist of OPIC guaranteed debt. OPIC is also working to develop one or more separate funds that would focus on economic infrastructure

projects. These potential funds would have aggregate capital of up to \$500 million. We have also secured agreement that the African Development Fund will develop a capacity for financing infrastructure projects, in particular those that will improve linkages among markets, both within countries and regionally. We are pleased that HR 1432 calls for such funds.

Support for regional economic integration. Under the U.S. Agency for International Development's (USAID) Initiative for Southern Africa, support will be provided for private and public sector cooperative activities in areas of regional concern, including investment policy harmonization, regional business ties, financial sector development, privatization and facilitating cooperation between private sector and regional governments, labor statistics, and occupational health and safety.

Support for U.S.-African business relations. USAID will provide support to help catalyze U.S.-African business ties.

Export-Import Bank. The Export-Import Bank of the United States will encourage use of its programs through designation of a senior advisor on Africa to its board and a campaign for outreach, particularly with the private sector. In fact, Ex-Im Bank has already hired an Advisor for this purpose.

Assistant U.S. Trade Representative for Africa. To ensure that trade issues with Africa receive proper attention, Ambassador Barshefsky is creating an Assistant U.S. Trade Representative for Africa.

In addition, the Administration will work with the IMF, World Bank Group and the African Development Bank Group on the development and implementation of several initiatives to support private sector investment, trade development and capacity building.

Level Two Benefits

To support those countries pursuing aggressive growth-oriented policies, the Administration would offer, at the discretion of the President, the following additional opportunities, which we have characterized as Level Two participation:

Additional market access through expansion of the GSP program. We are very pleased that the "Africa Growth and Opportunity Act" would provide authority for the President, after receiving advice from the U.S. International Trade Commission, to include in the GSP program for these countries a number of products that are presently excluded. This is the one major area of our proposed program for which we need legislative authorization before moving forward. While we question the appropriateness of making eligible for GSP certain products mentioned in the bill, we wholeheartedly welcome this approach and want to work with the Committee on it.

Textiles. The Administration recognizes the importance of the textile and apparel industry to

developing countries. While we cannot support the textile proposals in S.778, we are ready to work with Congress to develop a program that will be consistent with our overall commitments under the WTO, while at the same time taking into account the interests of U.S. industry and Africa.

Debt reduction. To help ensure that the growth-oriented countries now burdened by excessive debt are in a position to invest in human resources, the Administration would support an approach that leads to the extinction of concessional bilateral debt for the heavily indebted poor countries (HIPC), and we would urge the World Bank and IMF boards to provide deep relief under the HIPC debt initiative.

Creation of an U.S.-Africa Economic Forum. The Administration will establish a Cabinet- and Minister-level forum to meet once per year in order to raise the level and caliber of the dialogue between the United States and Africa's strongest reformers,

Bilateral technical assistance to promote reforms. USAID will finance short-term technical assistance to African governments to liberalize trade and promote exports, comply with WTO obligations and assume additional ones, and make financial and fiscal reforms. The U.S. Department of Agriculture will provide technical assistance to promote agri-business linkages.

Support for agricultural market liberalization. As part of the new multi-year Africa Food Security Initiative, USAID will help address such critical agricultural policy issues as market liberalization, agricultural export development, and agribusiness investment in processing and transport of agricultural commodities.

Trade Promotion. The Trade Development Agency (TDA) will increase the number of reverse missions to growth-oriented countries.

Programming commodity assistance. To help countries experiencing budget shortfalls in the course of their growth-through reform programs, and to encourage more effective spending on human resource development and agricultural policy reform, the Administration will take steps to focus PL-480 Title I assistance more on growth-oriented countries in Africa and will explore the possibilities to increase funding for Title III assistance from within PL-480.

Support for economic policy reform. In FY-98 USAID will provide support for growth-oriented programs with both technical assistance and program support funds.

Financing and debt relief: The Administration has looked carefully at the need for well-targeted, appropriate financial assistance and debt relief. The need for financing --both budget and balance-of-payments support -- debt relief would be acute for countries pursuing aggressive trade liberalization and trying to maintain, or even increase, useful investments in health, education and infrastructure development. We want to ensure that liberalizing countries have enough breathing space to carry though with a comprehensive program of trade liberalization and

tax reforms. Accordingly, we proposed the debt relief initiative cited above and we also intend to seek enhanced financial support through the International Financial Institutions. Their specific contributions would include, for example:

- Enhanced financing under the Enhanced Structural Adjustment Financing (ESAF) and the International Development Agency (IDA) policy-based loans to support countries where bold structural reforms, such as trade sector liberalization, result in greater financing requirements;
- Financing for improvements to infrastructure related to trade and business development, such as improvements to ports, railways, roads, and storage facilities.

Level Three Benefits

Finally, the Administration's program will hopefully lay the groundwork for a third level of economic involvement: the creation of free trade areas. We share the view expressed in S. 778 that negotiations on removal of trade barriers and on eventual free trade agreements can be a catalyst for increased trade. We think that it is important that we send a signal to our private sector that we are serious when we say that Africa has the potential to become a more significant U.S. trading partner. Therefore, we believe we should affirm that we are open to pursuing free trade agreement negotiations with our trading partners in Africa, who are ready to take on those obligations, just as we have affirmed with our partners in South and Central America and in Asia. The proposal in the "Growth and Opportunity Act" that we report on plans for such agreements with African countries would provide such an opportunity.

We invite all Sub-Saharan countries to pursue a course toward freer trade and open markets by participating in this comprehensive program. This graduated approach takes into account their diversity, commitment, and potential.

Further Integrating Africa into the Global Trading System

To magnify the economic impact of our proposal, the Administration obtained agreement from our partners at the summit of industrialized nations in Denver in June to take bilateral and multilateral actions that work toward the same ends as those described above. Collaboration among Summit partners on matters affecting Africa has already yielded major results, with the unveiling last year of a program of multilateral debt reduction for Heavily Indebted Poor Countries --the HIPC Initiative --which will benefit a number of poor African countries that are pursuing strong reform policies but are burdened with particularly heavy debt loads.

As I noted earlier, Mr. Chairman, we believe the legislation before your Committee and the program I have just described are quite complementary. We hope that we can work together to develop legislation and a program that allows our trade relations with Africa to enhance broad economic reform and accelerated growth on the continent.

Mr. Chairman, on enhanced trade with the Caribbean and with Africa, we look forward to working with you and the other Members of the Committee. Please accept my thanks for this opportunity to speak with you.



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VIA FAX
202-622-0081

Mr. Lawrence H. Summers
Deputy Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20120

Dear Secretary Summers:

Mr. Terry Thorn, Enron's Senior Vice President International and Environmental Officer has asked I contact your office and request an opportunity to meet with you on October 7, 1997 in the afternoon, or October 8, 1997 in the morning.

He feels it is important to advise you of recent developments in the **Bolivian-Brazil Pipeline project**.

Please call me at 202-466-9145 and let me know if Terry and I can meet with you.

Sincerely,

cc: Terry Thorn

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1998-SE-007965

ENRON, WASHINGTON
TRANSMITTAL SHEET

TO: Enron European Distribution List
FROM: Joe Hillings
DATE: July1, 1998
RE: Electricity
cc:

Please see enclosed information from CNBC "Street Signs" -- Interview with Jeff Skilling.

Encl.

Joe Hillings

00100000000095

FROM: JOE HILLINGS
ENRON CORP.
WASHINGTON, D.C.

CNBC- STREET SIGNS
ENRON PRESIDENT AND COO JEFF SKILLING
JUNE 26, 1998

Ron: On the corner of "Wall & Main," power failures across the country. As Mother Nature turns up the heat, several industrial companies have been forced to close their doors because of power shortages and this may just be the beginning. Following years of industry warnings, power suppliers are falling short of energy demands and utilities in the Midwest and now New England are telling customers to cool it on their summer power needs. So what is a power company to do in the face of anticipated heat waves this summer? Joining us now from Enron headquarters is Jeff Skilling, the president and COO at Enron, one of the country's major power suppliers. Mr. Skilling, good to see you, thank you for being with us today.

Skilling: Glad to be here.

Ron: I was in Chicago just a day or so ago, when it was 95 degrees. The heat index was at 105 and the local utility and municipality were both asking consumers to cut down on their air conditioning. Something that seemed like not an unreasonable demand, given what they are facing, but one that was likely to go unheeded. What is happening right now?

Skilling: I think you got it right when you were giving the lead-in a little bit earlier. We have had very hot temperatures in the Midwest. We have a number of big generation facilities that are down right now. And we are coming off of 8 years of high economic growth. All that means that supply is stretched right now.

Ron: Now explain what that means. I mean, people may have a tough time understanding the notion that you are running out of power when there are power plants all over the country. Electricity is not something that just goes away over time. There is more of it somewhere. How come the capacity constraints are bothering the industry right now.

Skilling: You are limited to the capacity of the generation facilities that are in place. There are some regional opportunities and we, and everybody else in the industry, is working very hard right now to get electrons from where there are some left into those markets that really need them. But the grid is not real exact effective, it is hard to move electrons around and we are all trying the best we can to keep the power flowing.

Ron: Where do you find more power?

Skilling: There are parts of the country right now where the temperatures are not real high and where there is surplus generating capacity. The trick, or the challenge, is using our existing transmission grid to get that power from those areas into areas that need it.

Ron: Now you know, were these promises by authorities, you know regulators and others, who suggested that as the utility business became deregulated, it would be far more efficient. Mergers and acquisitions and all kinds of different arrangements and combination would lead to a free flow around the country. We are not there yet, right?

Skilling: Not yet. We are working on it. I would make the argument in the absence of all of these market reforms and deregulation of the wholesale power markets, we would have a lot worse problem than we have right now. The fundamental issue is we have a lot of demand and we have some supply constraints right now and everybody is using these new market mechanisms to try to get electrons into those areas but in a new market. It just takes time to build the capability to do that.

Ron: Is it, in fact, required that power companies in the United States are just going to have to, at some point, engage in a heavy dose of capital spending and expand capacity rather radically here?

Skilling: That's one solution. And I'm sure there will be more of that in the future. The other thing that I think would be very helpful is, if we could open the retail markets to competition so that customers could get a price signal. Right now, all you can really do with the consumer is ask them to shut down or involuntarily curtail them. If on the other

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hand, they were able to see some of the prices in the marketplace, there are a number of consumers that are right now seeing the very high prices of power in the Midwest, would voluntarily and on good economic justification, reduce consumption or shut down. Right now, we just don't have that ability because the markets are not open to price signals, not open to actual competition.

Ron: All right. Let's talk about how the consumer gets hit by all this. Obviously, reduced availability of power means you have to cut back on air conditioning and other things as the summer remains hot. What about prices though. Are people going to kind of open their eyes a little wider when they see their bill in this environment?

Skilling: Anytime you have this shortfall of supply that you're starting to bring on very expensive facilities to meet the demand, so I would expect that, yes, prices will be a little bit higher as we move through the summer.

Ron: Can you quantify that in any way, shape, or form?

Skilling: It's hard to say right now. It will depend a lot on how this plays out over the next couple of months.

Ron: I know are you not in the business of weather forecasting but there has been so much discussion of El Nino and the coming La Nina, that people are trying to figure out whether this indeed will be a very hot, very humid, very difficult summer around the country. What is the intelligence that you folks are getting on that?

Skilling: We've looked at the weather patterns and I'm not a weather forecaster so I'm going a little out on a limb here. But the pattern so far this year, with the extremely warm winter, suggests that we are in an El Nino cycle. And what is typical is, after a warm winter like we had last year, you tend to have a very hot summer, particularly July and August.

Ron: Any advice for consumers on how to conserve power and use it most effectively while they are waiting for electrons from somewhere else?

Skilling: That's up to everybody to decide for themselves, but fundamentally, what we would like to see or what I think the industry would like to see is, more open competition and more price signals getting through to consumers so that they can make that choice rationally. They can look at what the price is and decide if they want to use electricity or not.

Ron: Under the best of all circumstances, how long will this process take?

Skilling: The deregulation process?

Ron: Yeah.

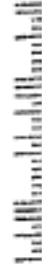
Skilling: The wholesale markets are pretty much open. And that is a federal jurisdiction, so the federal government has pretty much opened the wholesale markets. When you move to the retail side, that is actual consumption by consumers, that is regulated by the states. And each individual state is on its own timetable. California is open right now. A number of states in the Northeast are in the process of opening up. But we are probably looking at another 3 to 4 years to make that process complete.

Ron: Mr. Skilling, a pleasure. Thank you for joining us today.



1775 Eye Street, N. W., Suite 800
Washington, D. C. 20006

Mr. Larry Summers
Department of State
1500 Pennsylvania Ave., NW
Room 3328
Washington, DC 20520



1999-SE-004434

**ENRON, WASHINGTON
TRANSMITTAL SHEET**

1775 Eye Street, NW
Suite 800
Washington, DC 20006
202-466-9145
202-827-3372 (fax)
jhillin@enron.com

TO: The Honorable Robert E. Rubin
FROM: Joe Hillings
DATE: 5/3/99
RE: **Enron International Statement on:
US-Japan Enhanced Initiative on Deregulation
And Competition Policy**

I thought the attached statement from Enron International on US-Japan Enhanced Initiative on Deregulation and Competition Policy would be of interest.

Best regards.

Encl.

0010000000109

FROM: JOE HILLINGS
ENRON CORP.
WASHINGTON, D.C.

Enron International Statement on

US-Japan Enhanced Initiative on Deregulation and Competition Policy

Enron saluted today the government of Japan and the office of the United States trade representative for their progress in their dialogue to deregulate and open the Japanese energy sector to constructive competition. These reforms being discussed should reduce electricity prices, which are among the world's highest, and provide a fundamental boost to Japan's economic recovery. "We regularly see demonstrations of how free and open markets provide lower cost and more innovative services to consumers," said Joseph W. Sutton, chairman and CEO of Enron International. "We applaud this initiative by the governments of Japan and the United States. Clear, transparent, non-discriminatory rules and regulations in the power sector will increase competition to the benefit of all consumers."

Enron is one of the world's leading integrated electricity and natural gas companies. The company, which owns approximately \$30 billion in energy related assets, produces electricity and natural gas, develops, constructs and operates energy and water facilities worldwide and delivers physical commodities and risk management and financial services to customers around the world. Enron's Internet address is www.enron.com, and the stock is traded under the ticker symbol, "ENE."

1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006



The Honorable Robert E. Rubin
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220



Kenneth L. Lay
*Chairman and
Chief Executive Officer*

Enron Corp.
*P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fax (713) 853-6313
klay@enron.com*

May 14, 1999

The Honorable Robert E. Rubin
Department of the Treasury
15th & Pennsylvania Ave., NW
Washington DC, 20220

Dear Bob:

Although not surprised, I am sorry to see you step down as Treasury Secretary. By any objective or subjective measurement, you have done an outstanding job not only for your country but for the world. Your steady hand will be missed.

At the same time, in Larry Summers you do have an excellent replacement. I have no doubt that Larry will continue the strong and effective economic policies that have been implemented during your tenure.

One additional point. If you are considering joining any corporate boards, I would like very much to talk to you. Given the way Enron has evolved, not only do we badly need a person with your experience and insights (gained both at Goldman Sachs and at the U.S. Treasury) but also I think you would find serving on our board intellectually and otherwise interesting. I have placed a call to you in the hope that I might mention this to you personally.

My very best in whatever you do next. You certainly deserve a somewhat less hectic schedule and would hope that you will take advantage of that at least for some time.

Sincerely,

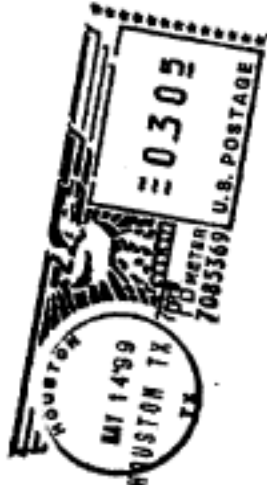
A handwritten signature in dark ink, appearing to read "Ken", written in a cursive style.

Rubin 51499.doc

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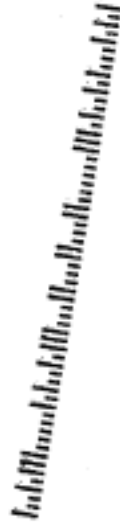


1600 Smith Street, Houston, TX 77002-3748
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The Honorable Robert E. Rubin
Department of the Treasury
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AUTO 20220





Kenneth L. Lay
Chairman and
Chief Executive Officer

Enron Corp.
P. O. Box 1188
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klay@enron.com

May 14, 1999

The Honorable Lawrence H. Summers
Secretary-Designate
U.S. Department of Treasury
15th & Pennsylvania Ave., NW
Washington DC, 20220

Dear Larry:

Congratulations on taking the reins at the Treasury. You have certainly had a lot of on the job training with Bob and I have absolutely no doubt that you will do an outstanding job, just as he has done.

These are fascinating times both for the U.S. economy and the global economy. Although you are filling some very large shoes, I cannot imagine anybody better prepared to do that than you are.

I hope our paths continue to cross and certainly stand ready to be available if there is anything at all I or Enron could do for you or the department.

Sincerely,

A handwritten signature in black ink that reads "Ken".

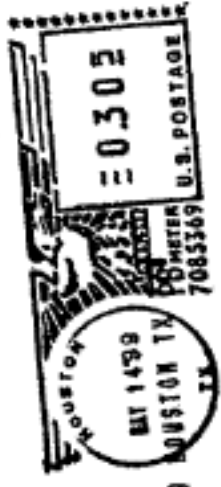
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7085369



The Honorable Lawrence H. Summers
Secretary-Designate
U.S. Department of Treasury
15th & Pennsylvania Ave., NW
Washington DC, 20220

AUTO 20220





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

May 25, 1999

Mr. Kenneth L. Lay
Chairman and Chief Executive Officer
Enron
P.O. Box 1188
Houston, Texas 77251

Dear Ken:

Thanks very much for your kind letter of congratulations. I am grateful for your best wishes and deeply honored by the President's choice. As I said in the Rose Garden, Secretary Rubin's act is a tough one to follow and there are certainly plenty of challenges ahead. I am looking forward to the opportunity and to continuing on the course that has been set.

I hope our paths will cross again soon.

Sincerely,

A handwritten signature in black ink, appearing to be "L. Summers", written over a horizontal line.

Lawrence H. Summers

*B - I'll keep my eye on
your deregulation and energy
market infrastructure issues.*

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



Kenneth L. Lay
Chairman and
Chief Executive Officer

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fax (713) 853-5313
klay@enron.com

July 16, 1999

The Honorable Charlene Barshefsky
US Trade Representative
Office of United States Trade Representative
600 17th Street, NW
Room 209
Washington, DC 20508

Dear Charlene:

We are actively involved with 28 other companies and associations in promoting energy services as a significant trade service deserving to be included in the GATTs 2000 negotiations. I am attaching the list of members.

The Energy Services Coalition was recently established on May 26, 1999. At that time we forwarded our letter to you announcing its organization, recognizing the key role that the office of the USTR has played and continues to play in promoting energy services liberalization in APEC, and the desire of the growing group in the United States for the United States government to include energy services on the WTO negotiations agenda.

I have agreed to deliver a speech at the WTO Ministerial Business Forum in Seattle on December 2, 1999, and will address the broad horizon that energy services covers. Energy services also includes energy equipment as a significant part of our energy services market.

The United States energy industry because of our continuing liberalization of market opportunities has helped create new enterprises which stimulate investment, improve overall competitiveness and bring to all consumers beneficial choices. This can be done globally with many WTO members using their entrepreneurial skills to developed and developing economies. Energy services offers unlimited opportunities for you and benefit to all WTO members.

To assist you in preparing for the Seattle Ministerial, and beyond that in negotiations of the GATS Round itself, we look forward as an industry grouping to providing you with definitions of the scope and breadth of energy services, its impact on the US economy, and barriers faced by US energy and energy service companies in foreign markets.

Sincerely,

A handwritten signature in black ink that reads "Ken".

Encl. (Matrix)

cc: The Honorable William Daley
The Honorable Bill Richardson
The Honorable Robert Rubin

Natural gas. Electricity. Endless possibilities.

bcc: Carol Browner
William A. Nitze

The Honorable Max Baucus
The Honorable Jeff Bingaman
The Honorable Phil Gramm
The Honorable Chuck Hagel
The Honorable Kay Bailey Hutchison
The Honorable Gordon Smith
The Honorable Frank Murkowski

The Honorable Bill Archer
The Honorable Joe Barton
The Honorable Tom Bliley
The Honorable John Dingell
The Honorable Kolbe

The Energy Services Coalition Members

AMENDED LIST
SIGNERS OF AMBASSADOR CHARLENE BARSHEFSKY LETTER 6/8/99

- (1) American Wind Energy Association
- (2) American Petroleum Institute
- (3) ARCO
- (4) Capitol Strategies
- (5) The Chevron Companies
- (6) Consolidated Natural Gas Company
- (7) Coalition of Service Industries (CSI)
- (8) Edison Electric Institute
- (9) EDS
- (10) El Paso Energy
- (11) Enron Corp.
- (12) General Electric
- (13) International Association of Drilling Contractors - IADC
- (14) Interstate Natural Gas Association of America -INGAA
- (15) International Gas Center
- (16) Independent Petroleum Association of America - IPAA
- (17) Mid-American Energy Holdings Company
- (18) National Foreign Trade Council - NFTC
- (19) New York Mercantile Exchange
- (20) US Pacific Economic Cooperation Council – US-PECC
- (21) Sarkeys Energy Center, University of Oklahoma
- (22) Siemens
- (23) United States Energy Association - USEA
- (24) US ASEAN Business Council
- (25) US Chamber of Commerce
- (26) United States Council for International Business (USCIB)
- (27) U.S. Oil & Gas Association
- (28) Westinghouse

INTRODUCTION TO ENERGY SECTOR SERVICES MATRIX

The globalization of the world economy and rapid advancements in information technology has raised significant questions regarding traditional theories of international trade. In the past, international trade consisted of imports and exports of goods such as agricultural products (grain, corn or other foodstuffs), natural resources (oil, coal or minerals), and manufactured goods (clothing, automobiles or electronics).

The globalization of the world economy has increased this type of trade. Many of these goods, such as oil, are considered to be sold in a world market, with prices depending on global conditions that affect the mechanics of supply and demand. The markets for many other goods (for example metals and oil by-products) are also traded in an international market.

Perhaps the greatest globalized market is the one for financial capital. With the recent developments in information technology, a financial trader can move millions, if not billions, of dollars from one market to another with just a few taps on a keypad. These capital markets are brutally competitive and place increasing demands on those that provide and use capital. Businesses that use financial capital are constantly looking for ways to be more efficient and to achieve higher returns for their capital providers – lest the providers go elsewhere. They are also looking for ways to reduce their cost of capital by reducing the risks inherent in their business through the use of service providers that are more capable than they at managing certain risks. The reasons for these actions are obvious; without financial capital, businesses and economies can not thrive.

In light of these developments in the international markets, you are asked to consider the following energy sector services matrix. The energy sector is perhaps the most capital-intensive sector in the world's economy. Oil refineries, power plants and gas pipelines are very expensive. Efficient capital formation demands that energy industry participants operate in the most economical manner. These demands often result in the use of specialists such as drilling companies or construction companies. They also often require that certain risks such as fuel supply, operational performance and transportation and delivery of energy products be managed by companies with sufficient expertise (and credit rating). Further, energy intensive industries are increasingly becoming aware of the impact of uncertainties in the cost of their capital cost structure due to the inability to effectively manage the cost of their electricity and natural gas and are utilizing commodity and price risk management strategies.

The energy sector services matrix describes several areas that can be viewed as distinct areas of trade within the energy industry. These areas do not involve the movement of goods from one country to another. Rather, they deal with the movement

of intellectual capital – ideas – from one place to another. Through this flow of ideas, business can be conducted more efficiently. This allows for low cost energy to delivered to consumers. Low cost energy allows businesses to remain competitive in the ever increasingly global market place. It also allows businesses to attract the low cost financial capital that is needed to maintain growing and robust economies.

ENERGY SECTOR SERVICES MATRIX

The following four broad categories of services descriptions should be read in conjunction with the table of CPC codes which follows:

A. Oil & Natural Gas Development Services

1. Exploration. Exploration includes collecting scientific data through gravity, magnetic, seismic and geologic methods to assess the earth's subsurface characteristics and estimate the presence of oil and gas reserves. Governments through production sharing contracts or royalty/tax regimes often offer areas of exploration. Other services also are provided, such as exploration and production information systems, software and computer modelling services to help petroleum companies find, produce and manage oil and gas reservoirs.
2. Drilling. Drilling is the process of creating a well to locate and recover oil and gas. Drilling is often referred to as the production phase. Drilling is accomplished by using many specialised industry-specific contractors with unique equipment and services. These contractors include drilling, mud, downhole tools, logging, cementing, testing, stimulation and completion.
3. Processing, Gathering & Refining. This is the process of isolating saleable crude oil and natural gas products from a mixed raw production stream. Crude oil is isolated from water and gas, hydrocarbon liquids and other inert gases. Gathering occurs by gathering oil from a group of wells to isolate saleable products and at a larger level where these saleable products are distributed by pipeline, barge, etc. to a market. Crude oil is processed at refining installations into a number of refined products, such as lubricants, fuels and gasoline. Other oil services under this heading include evaluation of producing formulations, production enhancement and well maintenance services. Natural gas is isolated from water, hydrocarbon liquids and other inert gases. Gathering occurs by gathering gas from a group of wells or from coal bed methane seams or land fills to isolate saleable products and at a larger level where these saleable products are distributed by pipeline to market. Natural gas also can be liquified for transportation by specially designed cargo ships to port facilities where it is regasified and injected into pipeline systems for transportation to markets.
4. Design & Engineering. Extensive specialised design, engineering, procurement and construction services are required in building production processing equipment, pipelines and gathering systems. In offshore situations there is also the matter of designing and construction platforms, processing equipment and gathering systems.
5. Production (Construction, Operation & Maintenance). This includes work over rigs and associated support services, which are similar to drilling listed above, except that these work over rigs are generally more specialised using different equipment. Operation and maintenance includes the support technical personnel, chemicals and service equipment to continuously process the oil and gas.
6. Storage. Crude oil is stored in large tanks at atmospheric pressure and temperatures. Natural gas can be stored in liquified form in specialised tanks or as compressed vapour in underground reservoirs.
7. Support Services. These include analysis of rock and other production field samples in order to access the commercial viability of a field. These tests and their results enhance competition and stimulation designs.
8. Waste Management & Disposal. This includes disposing of produced water, drill cuttings, drilling fluids and spent process fluids.

B. Natural Gas Sale, Transportation and Distribution Services.

1. Design & Engineering. Extensive specialised design, engineering, procurement and construction services are required in building natural gas production facilities, processing equipment, pipelines and gathering systems. In offshore situations there is also the matter of designing and construction platforms, processing equipment and gathering systems. These services also include the design and operation of information and communication equipment to facilitate communication between field and market participants (such as trading floors).
2. Transportation. Pipelines typically move natural gas from gathering and processing facilities, or from liquified natural gas regasification facilities, to local distribution entities and end-use markets. Additional services in this area include the repair and maintenance of pipelines and associated equipment, response to customers' needs, management training, installation, up grade and expansion of pipelines, meters, storage and compression equipment, and installation of service to additional customers.
3. Distribution. Natural gas service is provided to end-use customers by a local distribution entity, which transports the gas from the high pressure transportation pipeline to consumers through lower volume and pressure pipelines. Additional services in this area include the repair and maintenance of mains, response to customers' needs, management training, installation of additional mains, meters, storage, compression and end-use equipment, and installation of service to additional customers.
4. Storage. Natural gas can be stored in liquified form in specialised tanks or as compressed vapour in underground reservoirs. Storage services help coordinate gas supply and consumption patterns, thereby increasing the efficiency of the gas production, transportation, distribution and end-use system.
5. Demand-Side & Other Customer Services. These include programs to reduce or restructure a customer's consumption of natural gas in order to conserve natural gas, shape overall consumption patterns, and enhance the efficiency of the production and delivery system. These services include energy audits, replacement or up grades of existing customer equipment, and other efficiency and conservation services that help an end-use customer manage the efficient use of natural gas. These also include metering and billing services.
6. Trading, Marketing & Brokering. These services include the buying and selling of natural gas or natural gas services for resale or for sale to the ultimate customer, and the arrangement of transactions between buyers and sellers of natural gas. A gas trader or marketer will buy natural gas and take the risk that the gas can either be used or resold to another party. A trader also will aggregate supplies of gas and provide customers with natural gas supplies and services that are custom fit to the consumer's needs. Traders also arrange for the transportation of gas to consumers. Brokers do not purchase natural gas supplies or services, but arrange transactions between buyers and sellers and also may aggregate suppliers and sellers in order to take advantage of large volume transactions.
7. Commodity & Price Risk Management. These services include the providing of calls, puts, swaps, options and commodity price risk management tool: whose underlying values are attached to the price of natural gas. These services enhance the efficient operation of natural gas markets by providing price discovery and price risk management tools to those dealing in the underlying physical commodity. These services also can lead to substantial benefits in the deployment of capital in the industry and improve economic efficiency. Even though these services are utilised by businesses worldwide, they can involve activities that may be prohibited under certain jurisdiction anti-gaming laws, because they are not tied directly to a physical commodity.

C. Electricity Project Development, Generation, Transportation and Distribution Services.

1. Design & Engineering. This includes configuration of the power plant, transmission system, substations, and various other equipment. Also included is the use of technology such as gas-fired or steam turbines, fluidised beds, or wind, solar or other renewable energy technologies. Design and engineering services can be greatly affected by requirements to include in-country materials or in-country design mandates. Design and engineering services also include all customary development work, such as acquiring all necessary permits and approvals, and contracts for fuel, transportation and other supplies. It should also include elements such as detailed design, preparation of specifications and project management. Also services to refurbish and upgrade power stations to improve economic and environmental performance.
2. Generation (Construction, Operation & Maintenance). This includes actual construction of the facility, start-up services, training of personnel, safety and security of personnel, material fabrication and installation, equipment financing, and equipment and construction warranties. Operation and maintenance services include the actual operation and maintenance of the facility as well as financial and management services, environmental and safety safeguards, periodic equipment replacements and upgrades, and efficiency programs. Included in the operation category are fuel procurement services, acquisition of spare parts, and preventative and periodic maintenance. Generation of renewable energy is also included.
3. Transportation. Transportation (or transmission) in the electricity service sector involves the movement of electricity along high voltage transmission lines. Additional services in this area include control room services of the central network, scheduling of electricity transmission, provision of ancillary services (such as, load following, stability services, reactive power, and spinning reserves), and access to the transmission system. These services also include the operation and maintenance of the transmission lines and upgrading of these lines based on advancements in technology.
4. Distribution. Distribution involves transporting electricity from high voltage lines to low voltage lines, including associated transformer and substation facilities, for delivery to end-use customers. These are the lines that are customarily seen in residential areas to deliver electricity to consumers. Additional services in this area include the repair and maintenance of distribution lines and facilities, response to customers' needs, installation of additional lines, up grades of lines and facilities, and installation of service to additional customers.
5. Waste Management & Disposal. This involves the handling and disposal of the residue from the combustion phase of electricity generation (coal ash, solid particulates, etc.). Other aspects include pollution control services such as fuel gas stack scrubbers, particulate reduction, and water treatment and disposal.
6. Demand-Side & Other Customer Services. These include programs to reduce or restructure a customer's consumption of electricity in order to conserve electricity, shape overall consumption patterns, and enhance the efficiency of the production and delivery system. These services include energy audits, replacement or up grades of existing customer equipment, and other efficiency and conservation services that help an end-use customer manage the efficient use of electricity. These also include metering and billing services.
7. Trading, Marketing & Brokering. These services include the buying and selling of electricity and electricity services for resale or for delivery to the ultimate customer, and the arrangement of transactions among buyers and sellers of these services. An electricity trader or marketer will buy (take title to) the electricity and take the risk that the electricity can be used or sold to another party. An electricity trader will also aggregate supplies of electricity and provide customers with custom fit services to meet their individual needs. Traders also arrange for the transportation of electricity to end-use customers. Brokers do not buy (take title to) electricity services but arrange transactions for buyers and sellers. They also may aggregate supplies and purchasers in order to take advantages of economies of scale involved in large volume transactions.

In addition, electricity can be effectively "stored" by trading or swapping electricity for natural gas or other energy services during emergency, peak-load, or other high-cost hours. These services are highly specialised and case-specific and allow the various energy services to be substituted for each other in order to maximise efficiency and increase profitability. These services include the use of technologies for supplementing energy during peak hours or at the time other technologies are not available.

8. Commodity & Price Risk Management. These services include the providing of calls, puts, swaps, options and commodity price risk management tools whose underlying values are attached to the price of electricity. Development of these services enhances the efficient operation of electricity markets by enhancing price information available to market participants and improving their ability to manage risk associated with fluctuating prices for electricity commodities. These price discovery and price risk management tools also contribute substantial benefits by improving the economic efficiency of electricity commodity markets and by reducing the risk associated with the deployment of capital in the industry. Even though these services are utilised by businesses worldwide, they can involve activities that may be prohibited under certain jurisdiction anti-gaming laws, because they are not tied directly to a physical commodity.

D. Coal and Uranium Mining Services

1. Exploration. Exploration services apply both advanced technologies including remote sensing from satellites and aircraft and physical surveys and sampling to pinpoint exact locations of mineral discovery. Drilling services are utilised at promising sites. Core sample testing services via chemical analysis, x-ray, microanalysis, and neutron activation analysis among others validate the mineral discovery.

2. Regulatory Approvals and Environmental Permitting. Environmental engineering services are applied to thoroughly study the environmental characteristics and impacts of the proposed mine in areas including air quality, archaeological and cultural, groundwater modelling, noise, socioeconomic, surface water, wetlands, and other impacts. Environmental permitting specialists assist in preparation of studies and documents to meet the various local, state and federal requirements. Public relations specialists communicate with the various public involved in the process. Environmental specialists prepare plans to protect the environment throughout the mining process, during reclamation of the site and into perpetuity.

3. Development. Mine planning specialists design detailed customised plans for surface or underground mining. The plan details the flow of activity, positioning of all support structures and processes and definition of equipment to be utilised. A variety of services are utilised as structures are built, equipment is procured, a workforce is hired, management staff is appointed, training programs are developed and the operation prepares for start-up. Development may be performed directly by mine owners/operators or through specialised consultants and subcontractors in part or in entirety.

4. Extraction. In surface mining, the extraction process begins by removing any overburden down to the mineral level. Hard overburden and ores are drilled and blasted into fragments. The fragmented material is then loaded into transport vehicles or conveyors to carry it to a dumping or processing area. Crushing of the material may occur during the transport cycle as well as during processing of the ore. Waste rock and tailings are carefully managed throughout the operation of mine. Mines generally operate 24 hours a day, 365 days a year, so planning for proper inspection, parts inventory management, maintenance, repair, lubrication and upgrading of equipment and haul roads to assure maximum productivity is critical. Activities may be undertaken by the mine staff or contracted.

If mineralisation is deep beneath the surface, shafts or passageways are drilled in order to remove the ore and waste and provide ventilation. Various approaches to mining underground essentially cut the mineral from the walls and convey it back to the surface for loading into rail cars or trucks for transfer to processing. Various engineering disciplines are required to maximise the reserve recovery at the lowest economical cost.

5. Processing. Many minerals require separation from the rock in which they are found. The mineral may then require concentration, usually by crushing or grinding the material. Flotation processes, heap leaching or in situ processes may be used, depending on the mineral and the ore body configuration. In the case of coal, washing and blending to grade may be required. Waste products resulting from processing need to be disposed of in an environmentally responsible manner. Coal quality needs to be assessed to ascertain combustion qualities and handling characteristics.
6. Production/Technology. To date, mature mining markets have increased their productivity and reduced their costs via mechanisation. Mechanisation has nearly reached its ceiling. Future enhancements will include the electronic/information systems which allow existing mechanical/hydraulic systems to communicate among themselves & optimise performance. Developing markets will be forced to compete on a cost basis in the future. Most likely, they will follow the trend of the mature markets (ie. Mechanisation). Producing more product with fewer people will create difficult political, social & economics decisions for these countries. Another important aspect is the provision of mine safety services.
7. Marketing. Coal mines establish contracts with utilities or sell coal on spot markets, while-prices fluctuate relative to the commodities market. There is a trend in the coal market toward commodity market behaviour due to deregulation/privatisation of the utility industry.
8. Transportation. Coal and Uranium are transported to processing facilities and ultimately to the export port and/or marketplace for those commodities. Railroads, ore boats, conveyor belt lines, trucking and port facilities are used extensively. In remote mines, transportation is provided to fly mine staff in and out of the property. Transportation of all equipment and resources to explore, develop, operate, service and reclaim a mine are also key considerations.
9. Reclamation. The modern mining industry is held accountable for protection of the environment. In most developed countries, reclamation is an integral and ongoing aspect of the mine plan of operation and independent laboratories administer tests to assure compliance. Consultants provide guidance. Environmental specialists work to meet all permitting requirements during mining operations and reclamation. Also environmental management issues including construction of tailings dams, monitoring of air, water and noise emissions, land rehabilitation, emissions from spoil heaps and methane drainage, capture and utilisation.
10. Recycling. Many mining companies have active recycling operations.
11. Engineering. Design of the equipment and infrastructure to explore, extract, process and transport minerals along with the design of mine plans which utilise this equipment optimally is an extremely challenge task. The history of mining in the world is that the easiest reserves are always mined first. Future mining will include more difficult mining conditions, lower quality minerals/ores and more stringent regulatory requirements. In part, this will be accomplished successfully movements in engineering design/approaches.

Table of Supplementary CPC codes:

ACTIVITY DESCRIPTION	Illustrative CPC Codes (where relevant)	Oil & Natural Gas Development	Natural Gas Sale, Transportation & Distribution	Electricity Development Generation & Distribution	Coal and Uranium Mining Services
Exploration	8675; 8676	X			X
Drilling	83; 887	X			
Processing & Gathering	72122; 884; 885	X			X
Refining	52263	X			
Design & Engineering	5134; 5135; 86725; 86739	X	X	X	X
Production (construction, operation & maintenance)	883; 52262	X		X	X
Transportation	71310; 887; 52241; 52243; 51340		X	X	X
Distribution	71310; 62113; 62271; 63297; 887; 51350; 52250		X	X	
Storage	7422	X	X		
Support Services	8676	X			X
Waste Management Recycling & Disposal	9402; 9404	X		X	X
Customer Services			X	X	
Regulatory Approvals & Environmental Permitting					X
Development	51150				X
Extraction	52261				X
Processing					X
Trading, Marketing & Brokering	62113; 62271; 69297; 81321		X	X	
Commodity & Price Risk Management	81339; 81321		X	X	

1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006



The Honorable Robert E. Rubin
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

Ed.Hoffmann@treasury.gov



E. Joseph Hillings
*Vice President and General Manager
Federal Government Affairs*

Enron Corp.
1775 Eye Street, NW, Suite 800
Washington, DC 20006-4607
(202) 466-9145
Fax (202) 428-3372
jhillin@enron.com

November 30, 1999

The Honorable Stu Eizenstat
Deputy Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20220

Dear Mr. Secretary:

Your speech before US Trade at lunch on Monday, November 29, 1999 was excellent, and I would like to have a copy to circulate to the members of the US WTO Energy Services Coalition.

Attached are materials which I thought would be of interest to you.

Sincerely,

A handwritten signature in black ink, appearing to read "Mac McLarty".

cc

Mac McLarty
Terry Thorn

Encl.



INTRODUCTORY PACKET

* * * * *

**IF YOU PLAN TO PARTICIPATE IN FUTURE ENERGY SERVICES
WORKING GROUP MEETINGS PLEASE FILL IN THE FORM BELOW. THIS
WILL EXPEDITE OUR CORRESPONDENCE TO YOU.**

YOUR NAME: _____

TITLE: _____

THE PRIMARY CONTACT FOR YOUR COMPANY WILL BE: (Please include title)

COMPANY: _____

ADDRESS: _____

City State Zip Country

PHONE: _____

FAX: _____

E-MAIL: _____

DOES YOUR COMPANY WANT TO SIGN ON TO THE AMBASSADOR CHARLENE
BARSHEFSKY LETTER?

Yes No

Please send this completed form to:

Lora Sullivan
Euron
1775 Eye Street, NW
Suite 800
Washington, DC 20006
202-466-9142
202-828-3372 (fax)

Or: Send us the information via e-mail to: e-mail: lsulliv@euron.com



Chairmen

E. Joseph Hillings
Enron

Donald A. DeLine
Hallberstein

Executive Members

Christina M. Bolton
Capital Strategies

Stephen D. Burns
*Pacific Economic Cooperation
Council*

Brian Petty
*International Association of
Drilling Contractors*

Timothy J. Richards
General Electric

ENERGY SERVICES: OPEN MARKETS BENEFIT ALL

- **Energy services comprise service activities related to the development, extraction, production, distribution, marketing, consumption and management of energy products, including coal, electricity, gas, nuclear, oil, and renewables.** As such, energy services cut across a variety of other services, including consulting, engineering, environmental, equipment-related, financial, information technology, and resource assessment.
- **A thriving energy services sector is critical to economic well-being.** Global energy demand is projected to grow by about 45 percent by 2015. Some 2 billion people – mostly in the developing world – do not have access to commercial energy. There is a high correlation between growth of prudent energy usage and increased economic growth, life expectancy, and standards of living. According to the World Bank, increased efficiencies of infrastructure provision – including energy – could generate hundreds of billion of dollars in annual savings to governments and energy users.
- **A growing energy services sector helps protect the environment.** Energy services today promote the efficient management and use of energy resources and the development of renewable energy sources. Extending commercial energy services to the poorest would help reduce "poverty pollution". Open, competitive markets in energy services can help ensure access to clean, efficient products and processes and encourage local producers to enhance their operations. And boosting efficiency of energy utilization lowers pollutant emissions.
- **Open markets promote a vibrant global energy services sector.** As with other goods and services, competition in the energy services sector offers purchasers access to the highest quality services on a cost-efficient basis. Energy services largely were omitted from the Uruguay Round, in part because the sector was in its infancy during that negotiation and because in many countries the energy sector was still under the control of state monopolies or monopoly franchises. *One of the key goals for a new round of WTO services negotiations must be to substantially increase global market access opportunities for energy services providers.*

For further information contact Joe Hillings, Chairman, Energy Services Coalition c/o Enron, 1775 Eye Street, NW, Suite 800, Washington, DC 20006; 202-466-9145; 202-828-3372 (fax); email: jhillin@enron.com

AMENDED 6/8/99 4:00 PM
VIA MESSENGER

Energy Services Coalition
c/o Enron Corp.
1775 Eye Street, NW
Suite 800
Washington, DC 20006

May 26, 1999

The Honorable Charlene Barshefsky
US Trade Representative
Office of United States Trade Representative
600 17th Street, NW
Room 209
Washington, DC 20508

Dear Ambassador Barshefsky:

A growing group of American energy companies, associations and national organizations has been meeting to discuss the importance to our nation of pursuing liberalized trade provisions for energy services in the World Trade Organization services negotiations, GATS 2000.

Your agency with the help of Don Phillips, Don Eiss, Joe Diamond, Carol Balassa, Barbara Norton, and Bill Greene have pursued energy liberalization in the APEC process which continues to address these opportunities to open energy markets in Asian economies. The recent statement by the Prime Minister of Japan advocating continued discussions to promote energy restructuring and deregulation of the energy industry in Japan was welcomed and should be helpful in achieving the US position as the APEC process continues. We desire that you aggressively continue these efforts.

Now that the 135 members of the World Trade Organization are planning their agendas for the upcoming Seattle Ministerial launching the GATS 2000 services negotiations, our group of energy companies, associations and organizations would recommend a strong United States position on liberalizing non-tariff barriers to energy services. As state-owned vertically integrated energy companies around the world become disaggregated and privatized and regulations liberalized, economic activities which we consider services will be developed and supplied by independent operators under competitive conditions. These should now be included in multilateral trade negotiations. We would strongly urge you to include the attached matrix definition of energy services which we consider to be accurate and complete. This matrix is the product of the APEC EVSL exercise, suggesting that a consensus of support for this definition of energy services may already exist among the 21 members of APEC. Some countries may seek to define energy services in more constrictive ways than we would, and exclude coverage under the GATS for some American energy services companies who are global leaders in this sector.

Therefore, we ask you to pursue this issue with continued diligence and offer our support and assistance as a functioning energy resource group.

Sincerely,

Encl.

0010000000145

Revised 10/22/99 5:00 PM
(3rd Amended filing 6/8/99 @ 5:00 PM)

AMENDED LIST
SIGNERS OF AMBASSADOR CHARLENE BARSHEFSKY LETTER 6/8/99
42 Members

ABB
Allied Signal
American Wind Energy Association
American Petroleum Institute
ARCO
Baker Hughes, Inc.
BP AMOCO Corporation
Business Council for Sustainable Energy
Capitol Strategies
The Chevron Companies
CMS Energy
Consolidated Natural Gas Company
Coalition of Service Industries (CSI)
Edison Electric Institute
EDS
Electric Power Supply Association
El Paso Energy
Enron Corp.
EZ Solutions, Inc.
General Electric
Halliburton Company
International Association of Drilling Contractors - IADC
Interstate Natural Gas Association of America -INGAA
International Gas Center
Independent Petroleum Association of America - IPAA
Kelley Drye & Warren
McDermott Inc.
Mid-American Energy Holdings Company
National Association of Energy Services Companies (NAESCO)
National Foreign Trade Council - NFTC
National Electrical Manufacturers Association (NEMA)
New York Mercantile Exchange
Rockwell Automation
Sarkeys Energy Center, University of Oklahoma
Siemens
United States Energy Association - USEA
US ASEAN Business Council
US Chamber of Commerce
United States Council for International Business (USCIB)
U.S. Oil & Gas Association
US Pacific Economic Cooperation Council - US-PECC
Westinghouse

(New members are in bold)

FILE

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

TO: JOE HILLINGS
ENRON CORP.
WASHINGTON, D.C.

DATE: 2/1/00

Mr. E. Joseph Hillings
Vice President & General Manager
Federal Government Affairs
Enron Corporation
1775 Eye Street, N.W., Suite 800
Washington, D.C. 20006

Dear Mr. Hillings:

Thank you for your recent letter of support from the Energy Services Coalition, which I have read with great interest.

I agree with your proposal that the APEC Energy Services matrix serves as the starting point for developing the United States position on liberalizing non-tariff barriers to energy services in Services 2000. While GATS rules already apply in principle to energy services, the Matrix's broad-based definition of your sector will help to focus negotiators on the new services provided by your members and some of the trade restrictions they encounter as global privatization occurs. In our negotiations, we shall be mindful of the importance to your members of retaining a broad-based definition of the sector.

I would like to take this occasion to congratulate you and your members for the hard work that has gone into completing the Matrix. Members of my staff, who have recently met with you and your colleagues, will be using it as a reference point in their preparatory work for the energy sector in the forthcoming Services 2000 negotiations.

Sincerely,



Charlene Barshefsky

FILE

0010000000147

INTRODUCTION
TO
ENERGY SECTOR SERVICES MATRIX

The globalization of the world economy and rapid advancements in information technology has raised significant questions regarding traditional theories of international trade. In the past, international trade consisted of imports and exports of goods such as agricultural products (grain, corn or other foodstuffs), natural resources (oil, coal or minerals), and manufactured goods (clothing, automobiles or electronics).

The globalization of the world economy has increased this type of trade. Many of these goods, such as oil, are considered to be sold in a world market, with prices depending on global conditions that affect the mechanics of supply and demand. The markets for many other goods (for example metals and oil by-products) are also traded in an international market.

Perhaps the greatest globalized market is the one for financial capital. With the recent developments in information technology, a financial trader can move millions, if not billions, of dollars from one market to another with just a few taps on a keypad. These capital markets are brutally competitive and place increasing demands on those that provide and use capital. Businesses that use financial capital are constantly looking for ways to be more efficient and to achieve higher returns for their capital providers – lest the providers go elsewhere. They are also looking for ways to reduce their cost of capital by reducing the risks inherent in their business through the use of service providers that are more capable than they at managing certain risks. The reasons for these actions are obvious; without financial capital, businesses and economies can not thrive.

In light of these developments in the international markets, you are asked to consider the following energy sector services matrix. The energy sector is perhaps the most capital-intensive sector in the world's economy. Oil refineries, power plants and gas pipelines are very expensive. Efficient capital formation demands that energy industry participants operate in the most economical manner. These demands often result in the use of specialists such as drilling companies or construction companies. They also often require that certain risks such as fuel supply, operational performance and transportation and delivery of energy products be managed by companies with sufficient expertise (and credit rating). Further, energy intensive industries are increasingly becoming aware of the impact of uncertainties in the cost of their capital cost structure due to the inability to effectively manage the cost of their electricity and natural gas and are utilizing commodity and price risk management strategies.

The energy sector services matrix describes several areas that can be viewed as distinct areas of trade within the energy industry. These areas do not involve the movement of goods from one country to another. Rather, they deal with the movement

of intellectual capital – ideas – from one place to another. Through this flow of ideas, business can be conducted more efficiently. This allows for low cost energy to delivered to consumers. Low cost energy allows businesses to remain competitive in the ever increasingly global market place. It also allows businesses to attract the low cost financial capital that is needed to maintain growing and robust economics.

ENERGY SECTOR SERVICES MATRIX

The following four broad categories of services descriptions should be read in conjunction with the table of CPC codes which follows:

A. Oil & Natural Gas Development Services

1. Exploration. Exploration includes collecting scientific data through gravity, magnetic, seismic and geologic methods to assess the earth's subsurface characteristics and estimate the presence of oil and gas reserves. Governments through production sharing contracts or royalty/tax regimes often offer areas of exploration. Other services also are provided, such as exploration and production information systems, software and computer modelling services to help petroleum companies find, produce and manage oil and gas reservoirs.

2. Drilling. Drilling is the process of creating a well to locate and recover oil and gas. Drilling is often referred to as the production phase. Drilling is accomplished by using many specialised industry-specific contractors with unique equipment and services. These contractors include drilling, mud, downhole tools, logging, cementing, testing, stimulation and completion.

3. Processing, Gathering & Refining. This is the process of isolating saleable crude oil and natural gas products from a mixed raw production stream. Crude oil is isolated from water and gas, hydrocarbon liquids and other inert gases. Gathering occurs by gathering oil from a group of wells to isolate saleable products and at a larger level where these saleable products are distributed by pipeline, barge, etc. to a market. Crude oil is processed at refining installations into a number of refined products, such as lubricants, fuels and gasoline. Other oil services under this heading include evaluation of producing formulations, production enhancement and well maintenance services.

Natural gas is isolated from water, hydrocarbon liquids and other inert gases. Gathering occurs by gathering gas from a group of wells or from coal bed methane seams or land fills to isolate saleable products and at a larger level where these saleable products are distributed by pipeline to market. Natural gas also can be liquified for transportation by specially designed cargo ships to port facilities where it is regasified and injected into pipeline systems for transportation to markets.

4. Design & Engineering. Extensive specialised design, engineering, procurement and construction services are required in building production processing equipment, pipelines and gathering systems. In offshore situations there is also the matter of designing and construction platforms, processing equipment and gathering systems.

5. Production (Construction, Operation & Maintenance). This includes work over rigs and associated support services, which are similar to drilling listed above, except that these work over rigs are generally more specialised using different equipment. Operation and maintenance includes the support technical personnel, chemicals and service equipment to continuously process the oil and gas.

6. Storage. Crude oil is stored in large tanks at atmospheric pressure and temperatures. Natural gas can be stored in liquified form in specialised tanks or as compressed vapour in underground reservoirs.

7. Support Services. These include analysis of rock and other production field samples in order to assess the commercial viability of a field. These tests and their results enhance competition and stimulation designs.

8. Waste Management & Disposal. This includes disposing of produced water, drill cuttings, drilling fluids and spent process fluids.

B. Natural Gas Sale, Transportation and Distribution Services.

1. Design & Engineering. Extensive specialised design, engineering, procurement and construction services are required in building natural gas production facilities, processing equipment, pipelines and gathering systems. In offshore situations there is also the matter of designing and construction platforms, processing equipment and gathering systems. These services also include the design and operation of information and communication equipment to facilitate communication between field and market participants (such as trading floors).
2. Transportation. Pipelines typically move natural gas from gathering and processing facilities, or from liquefied natural gas regasification facilities, to local distribution entities and end-use markets. Additional services in this area include the repair and maintenance of pipelines and associated equipment, response to customers' needs, management training, installation, up grade and expansion of pipelines, meters, storage and compression equipment, and installation of service to additional customers.
3. Distribution. Natural gas service is provided to end-use customers by a local distribution entity, which transports the gas from the high pressure transportation pipeline to consumers through lower volume and pressure pipelines. Additional services in this area include the repair and maintenance of mains, response to customers' needs, management training, installation of additional mains, meters, storage, compression and end-use equipment, and installation of service to additional customers.
4. Storage. Natural gas can be stored in liquefied form in specialised tanks or as compressed vapour in underground reservoirs. Storage services help coordinate gas supply and consumption patterns, thereby increasing the efficiency of the gas production, transportation, distribution and end-use system.
5. Demand-Side & Other Customer Services. These include programs to reduce or restructure a customer's consumption of natural gas in order to conserve natural gas, shape overall consumption patterns, and enhance the efficiency of the production and delivery system. These services include energy audits, replacement or up grades of existing customer equipment, and other efficiency and conservation services that help an end-use customer manage the efficient use of natural gas. These also include metering and billing services.
6. Trading, Marketing & Brokering. These services include the buying and selling of natural gas or natural gas services for resale or for sale to the ultimate customer, and the arrangement of transactions between buyers and sellers of natural gas. A gas trader or marketer will buy natural gas and take the risk that the gas can either be used or resold to another party. A trader also will aggregate supplies of gas and provide customers with natural gas supplies and services that are custom fit to the consumer's needs. Traders also arrange for the transportation of gas to consumers. Brokers do not purchase natural gas supplies or services, but arrange transactions between buyers and sellers and also may aggregate suppliers and sellers in order to take advantage of large volume transactions.
7. Commodity & Price Risk Management. These services include the providing of calls, puts, swaps, options and commodity price risk management tools whose underlying values are attached to the price of natural gas. These services enhance the efficient operation of natural gas markets by providing price discovery and price risk management tools to those dealing in the underlying physical commodity. These services also can lead to substantial benefits in the deployment of capital in the industry and improve economic efficiency. Even though these services are utilised by businesses worldwide, they can involve activities that may be prohibited under certain jurisdiction anti-gaming laws, because they are not tied directly to a physical commodity.

C. Electricity Project Development, Generation, Transportation and Distribution Services.

1. Design & Engineering. This includes configuration of the power plant, transmission system, substations, and various other equipment. Also included is the use of technology such as gas-fired or steam turbines, fluidised beds, or wind, solar or other renewable energy technologies. Design and engineering services can be greatly affected by requirements to include in-country materials or in-country design mandates. Design and engineering services also include all customary development work, such as acquiring all necessary permits and approvals, and contracts for fuel, transportation and other supplies. It should also include elements such as detailed design, preparation of specifications and project management. Also services to refurbish and upgrade power stations to improve economic and environmental performance.
2. Generation (Construction, Operation & Maintenance). This includes actual construction of the facility, start-up services, training of personnel, safety and security of personnel, material fabrication and installation, equipment financing, and equipment and construction warranties. Operation and maintenance services include the actual operation and maintenance of the facility as well as financial and management services, environmental and safety safeguards, periodic equipment replacements and upgrades, and efficiency programs. Included in the operation category are fuel procurement services, acquisition of spare parts, and preventative and periodic maintenance. Generation of renewable energy is also included.
3. Transportation. Transportation (or transmission) in the electricity service sector involves the movement of electricity along high voltage transmission lines. Additional services in this area include control room services of the central network, scheduling of electricity transmission, provision of ancillary services (such as, load following, stability services, reactive power, and spinning reserves), and access to the transmission system. These services also include the operation and maintenance of the transmission lines and upgrading of these lines based on advancements in technology.
4. Distribution. Distribution involves transporting electricity from high voltage lines to low voltage lines, including associated transformer and substation facilities, for delivery to end-use customers. These are the lines that are customarily seen in residential areas to deliver electricity to consumers. Additional services in this area include the repair and maintenance of distribution lines and facilities, response to customers' needs, installation of additional lines, up grades of lines and facilities, and installation of service to additional customers.
5. Waste Management & Disposal. This involves the handling and disposal of the residue from the combustion phase of electricity generation (coal ash, solid particulates, etc.). Other aspects include pollution control services such as fuel gas stack scrubbers, particulate reduction, and water treatment and disposal.
6. Demand-Side & Other Customer Services. These include programs to reduce or restructure a customer's consumption of electricity in order to conserve electricity, shape overall consumption patterns, and enhance the efficiency of the production and delivery system. These services include energy audits, replacement or up grades of existing customer equipment, and other efficiency and conservation services that help an end-use customer manage the efficient use of electricity. These also include metering and billing services.
7. Trading, Marketing & Brokering. These services include the buying and selling of electricity and electricity services for resale or for delivery to the ultimate customer, and the arrangement of transactions among buyers and sellers of these services. An electricity trader or marketer will buy (take title to) the electricity and take the risk that the electricity can be used or sold to another party. An electricity trader will also aggregate supplies of electricity and provide customers with custom fit services to meet their individual needs. Traders also arrange for the transportation of electricity to end-use customers. Brokers do not buy (take title to) electricity services but arrange transactions for buyers and sellers. They also may aggregate supplies and purchasers in order to take advantages of economies of scale involved in large volume transactions.

In addition, electricity can be effectively "stored" by trading or swapping electricity for natural gas or other energy services during emergency, peak-load, or other high-cost hours. These services are highly specialised and case-specific and allow the various energy services to be substituted for each other in order to maximise efficiency and increase profitability. These services include the use of technologies for supplementing energy during peak hours or at the time other technologies are not available.

8. **Commodity & Price Risk Management.** These services include the providing of calls, puts, swaps, options and commodity price risk management tools whose underlying values are attached to the price of electricity. Development of these services enhances the efficient operation of electricity markets by enhancing price information available to market participants and improving their ability to manage risk associated with fluctuating prices for electricity commodities. These price discovery and price risk management tools also contribute substantial benefits by improving the economic efficiency of electricity commodity markets and by reducing the risk associated with the deployment of capital in the industry. Even though these services are utilised by businesses worldwide, they can involve activities that may be prohibited under certain jurisdiction anti-gaming laws, because they are not tied directly to a physical commodity.

D. Coal and Uranium Mining Services

1. **Exploration.** Exploration services apply both advanced technologies including remote sensing from satellites and aircraft and physical surveys and sampling to pinpoint exact locations of mineral discovery. Drilling services are utilised at promising sites. Core sample testing services via chemical analysis, x-ray, microanalysis, and neutron activation analysis among others validate the mineral discovery.

2. **Regulatory Approvals and Environmental Permitting.** Environmental engineering services are applied to thoroughly study the environmental characteristics and impacts of the proposed mine in areas including air quality, archaeological and cultural, groundwater modelling, noise, socioeconomic, surface water, wetlands, and other impacts. Environmental permitting specialists assist in preparation of studies and documents to meet the various local, state and federal requirements. Public relations specialists communicate with the various public involved in the process. Environmental specialists prepare plans to protect the environment throughout the mining process, during reclamation of the site and into perpetuity.

3. **Development.** Mine planning specialists design detailed customised plans for surface or underground mining. The plan details the flow of activity, positioning of all support structures and processes and definition of equipment to be utilised. A variety of services are utilised as structures are built, equipment is procured, a workforce is hired, management staff is appointed, training programs are developed and the operation prepares for start-up. Development may be performed directly by mine owners/operators or through specialised consultants and subcontractors in part or in entirety.

4. **Extraction.** In surface mining, the extraction process begins by removing any overburden down to the mineral level. Hard overburden and ores are drilled and blasted into fragments. The fragmented material is then loaded into transport vehicles or conveyors to carry it to a dumping or processing area. Crushing of the material may occur during the transport cycle as well as during processing of the ore. Waste rock and tailings are carefully managed throughout the operation of mine. Mines generally operate 24 hours a day, 365 days a year, so planning for proper inspection, parts inventory management, maintenance, repair, lubrication and upgrading of equipment and haul roads to assure maximum productivity is critical. Activities may be undertaken by the mine staff or contracted.

If mineralisation is deep beneath the surface, shafts or passageways are drilled in order to remove the ore and waste and provide ventilation. Various approaches to mining underground essentially cut the mineral from the walls and convey it back to the surface for loading into rail cars or trucks for transfer to processing. Various engineering disciplines are required to maximise the reserve recovery at the lowest economical cost.

5. Processing. Many minerals require separation from the rock in which they are found. The mineral may then require concentration, usually by crushing or grinding the material. Flotation processes, heap leaching or in situ processes may be used, depending on the mineral and the ore body configuration. In the case of coal, washing and blending to grade may be required. Waste products resulting from processing need to be disposed of in an environmentally responsible manner. Coal quality needs to be assessed to ascertain combustion qualities and handling characteristics.
6. Production/Technology. To date, mature mining markets have increased their productivity and reduced their costs via mechanisation. Mechanisation has nearly reached its ceiling. Future enhancements will include the electronic/information systems which allow existing mechanical/hydraulic systems to communicate among themselves & optimise performance. Developing markets will be forced to compete on a cost basis in the future. Most likely, they will follow the trend of the mature markets (ie. Mechanisation). Producing more product with fewer people will create difficult political, social & economics decisions for these countries. Another important aspect is the provision of mine safety services.
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9. Reclamation. The modern mining industry is held accountable for protection of the environment. In most developed countries, reclamation is an integral and ongoing aspect of the mine plan of operation and independent laboratories administer tests to assure compliance. Consultants provide guidance. Environmental specialists work to meet all permitting requirements during mining operations and reclamation. Also environmental management issues including construction of tailings dams, monitoring of air, water and noise emissions, land rehabilitation, emissions from spoil heaps and methane drainage, capture and utilisation.
10. Recycling. Many mining companies have active recycling operations.
11. Engineering. Design of the equipment and infrastructure to explore, extract, process and transport minerals along with the design of mine plans which utilise this equipment optimally is an extremely challenge task. The history of mining in the world is that the easiest reserves are always mined first. Future mining will include more difficult mining conditions, lower quality minerals/ores and more stringent regulatory requirements. In part, this will be accomplished successfully movements in engineering design/approaches.

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Design & Engineering	5134; 5135; 86725; 86739	X	X	X	X
Production (construction, operation & maintenance)	883; 52262	X		X	X
Transportation	71310; 887; 52241; 52243; 51340		X	X	X
Distribution	71310; 62113; 62271; 63297; 887; 51350; 52250		X	X	
Storage	7422	X	X		
Support Services	8676	X			X
Waste Management Recycling & Disposal	9402; 9404	X		X	X
Customer Services			X	X	
Regulatory Approvals & Environmental Permitting					X
Development	51150				X
Extraction	52261				X
Processing					X
Trading, Marketing & Brokering	62113; 62271; 69297; 81321		X	X	
Commodity & Price Risk Management	81339; 81321		X	X	

**THIS MATRIX IS NOT A
NEGOTIATING DOCUMENT.
IT IS A DEFINITION OF CERTAIN
ENERGY SERVICES WHICH ARE
INCREASING AS TECHNOLOGY
AND OPPORTUNITIES GROW
GLOBALLY.**

INTERNATIONAL GAS CENTER

ENERGY SERVICES - JUNE 22, 1999

(The following is a brief outline)

The topic I have been given today is "WTO/APEC Update - Energy Services and Equipment liberalization"

I. A lot has been done concerning energy services in APEC. A matrix was devised that reflects the vertical activities of the industry. APEC ran into controversy, however, when it came time to adopt the matrix and decided to leave the issue to the upcoming Seattle Round of the WTO.

II. The EU has done significant work in the past 24 months that indicates they are ready to become involved in the WTO debate - I have read some of the material. One of the documents contains the statement that "The welfare and the economic growth of our economies are directly linked to a secure energy supply at reasonable prices." It goes on to list the EU's energy policy objectives to be the security of energy supply, competitiveness, and environmental protection. These are all points on which we can agree. Just as significantly, there are points on which we do not agree and these should be part of the future discussions before, during and after the WTO.

III. The effort by business here in the United States has not been as vigorous as maybe it should have been. Enron - Joe Hillings, Terry Thorn; PECC - Steve Burns; and CSI Bob Vastine have done exceptional work in this area but were not given much help by

petroleum energy services until recently. Within the past 6 months, a few of us have attempted to determine just what the interest level is in having petroleum energy services included as part of a separate "energy services" sector in WTO. Don Eiss worked hard to generate comments. These efforts have resulted in an increase in the interest level and this interest is beginning to have an impact.

IV. A letter signed by nearly thirty companies, dated 26 May 1999 was sent to Charlene Barshefsky, the United States Trade Representative, urging consideration of economic activities that are considered energy services in the upcoming WTO Round. On June 11, 1999, *Inside U. S. Trade* magazine ran an article commenting on recent efforts to have energy services included in the WTO. The article ran the complete Energy Services Coalition letter to Barshefsky. Most recently, we met with Josephine Ludolph, Director of the Office of Service Industries at the Department of Commerce. She explained the complications with vertical principles (The matrix from APEC) and horizontal principles which are inserted across all negotiated sectors.

V. The biggest problem continues to be definitions. For example, oil and oil derivatives as well as solid fuels are treated as goods within some WTO current writings while electricity and gas are not. As you know, under the current WTO system, created in 1995, there are two agreements GATT and GATS. Within the existing WTO framework, production of energy goods comes within the scope of the goods agreements or GATT, while transmission, distribution and related services come within the scope of the GATS.

VI. What our group - which now numbers 29 - is finding out is that United States operations differ from foreign operations in many ways. The primary reason is that much of the energy generated in the United States comes from private sources while most energy overseas is the property of the sovereign - that is changing. In the United States, one company may own the energy rights while another company provides all the services for the item. We believe services are from ground to gas tank. As you can see, definitions are at the heart of the question of what should be done.

VII. This gives rise to a number of questions three of the most prominent are:

- Would it be desirable from a trade liberalization point of view to classify energy services as one sector, or should different parts of it be classified under relevant sectors such as transportation and distribution?

- - Is the WTO separation between "goods trade rules" and "services trade rules" desirable? Would it be more efficient to apply a single coherent set of trade rules to liberalization in these sectors, considering the structure of the industry and the existing WTO rules?

- Should there be an "energy-related services" piece or should that be part of energy services?

In July or August of this year, the Department of Commerce will conduct a round table to begin the coordination between business and the government concerning the upcoming WTO Seattle Round.

Time for a Global Agreement on Energy Services

By Terence H. Thorn, Session Chair, Executive Vice President,
International Government Relations & Environmental Affairs
Enron Corporation
Houston, Texas

At GATS 2000 and Sectoral Liberalization: Energy
Session VII, Panel 6, Wednesday, June 2, 1999, 11:00 am to 12:25 pm

Services 2000: New Directions in Services Trade Liberalization
June 1-2, 1999
The University Club, Washington, DC

Hello. My name is Terry Thorn, and I represent Enron, the largest independent supplier of electricity and natural gas in the world.

The two key words are "independent" and "supplier." Both businesses were traditionally the domain of utilities, often owned by national governments. They operated vast fiefdoms and frequently served as sinkholes for government finance. Prices were fixed. Many governments believed in subsidizing the prices of both gas and electricity commodities.

Some governments, like Japan, subsidized prices for manufacturers. India subsidized prices for farmers. Few utilities made money. Technological change was something that happened in other industries. From a consumer's point of view, gas and electricity were bills that had to be paid. There was no concept of managing the cost of gas and electricity inputs. For policy makers, electricity and natural gas were among the inevitable burdens of nationhood, like defending your borders and declaring national holidays. In short, these industries were a dead weight in the global economy, technologically inert, fiscally intrusive, and economically static.

About fifteen years ago, electricity and gas took the first steps towards the revolutionary changes that have now swept both industries. The timing came not long after international trade negotiators began their first attempts to construct rules for trade in services. In the US, restructuring of the financial and telecommunications industries was well underway. London's financial "big bang" was on the horizon. In Latin America, the debt crisis was shaping a new embrace of the private sector. The commodity price slump of the mid-1980s forced Asians to introduce radical new policies favoring the inflow of foreign capital. Policy makers understood these developments, and put finance and telecommunications first as they hammered out the first great accord on services, the 1995 General Agreement on Trade in Services.

But they left energy out. In 1985, when negotiators were working towards the first services round, free market competition and energy services were two different things, with the partial exception of oil and gas exploration and production. Enron was two interstate pipeline companies worried about the future. That year, the Federal Energy Regulatory

Commission declared open access for interstate gas pipelines. Long-term, fixed price contracts suddenly went out the window. A whole new industry grew up around the new gas wholesale market. Enron was born. Enron and its competitors have turned the staid old gas business into a new entity with many of the characteristics of the financial services industry. Ten years ago, in a gas company software was something you used to prepare spreadsheets. Now Enron's risk management software and trading software are vital to the business. Starting in the early 1990s, the US electricity business began to follow the path set earlier by gas.

Riding both waves, Enron is now a \$31 billion company, in terms of sales. It has grown into the vast new markets opened by deregulation - in fact, there is little in our business now that even resembles the old world of utility suppliers. We are the world's largest "independent" supplier of gas and electricity because we do not actively seek monopoly positions, except in markets or economies whose infrastructure needs are so basic that it is the only way to finance large projects. Then, we are primarily a "supplier" rather than a producer or generator of gas and electricity, although we also have some of both production and generation. We buy, sell and trade both commodities. We are like an all-service investment brokerage, except that the currency in which we trade is energy.

The lines between energy services, and financial and telecommunications services, are blurring. At the same time, the energy business is creating an array of new products that enable energy users and suppliers to treat electricity and gas as hedgeable, risk-marking, highly liquid commodities. We are now at the point where the isolation of energy services from the global trading regime has become a major problem. Big economies are playing catch-up in gas and electricity deregulation, most recently Japan. It is fascinating to take part in the discussions of regional forums that attempt to track policy reforms in this sector, such as the Asia Pacific Economic Cooperation group, or APEC. The reforms are happening so fast that virtually any publication is out of date by the time it gets to press. The Asian financial crisis spurred a new round of energy sector reforms in South Korea, Thailand, and Indonesia. In some product lines, in some sectors, the US may be in the lead. But countries and regions are now vying to get ahead of the curve, to take advantage of the benefits of energy restructuring and the new energy services industry before their rivals. Energy reforms have proven to be a magnet for investment and wealth-creation. Nations want in.

The new GATS round should include energy services as a priority item. Energy services have been left out in the past. To the extent that the international trade policy community has grappled with the issues at all, it has stumbled over the question of how to draw the line between "product" and "service" in this industry. We in the US industry would like to see the broadest possible definition of energy services. For one thing, the more commoditized these markets become, the less it matters where the product originates. For another, GATS 1995 and the 1997 Telecommunications Agreement have set important precedents for national treatment of service suppliers, and competition policy, that will apply to energy services but not to energy products.

Negotiators will find many parallels between their work on financial services and telecommunications, and energy services, but there will be much that is unique to the energy sector, as well. In this context, we would like to recommend that policy makers and negotiators make use of ground breaking work on energy services done by regional

economic organizations, in particular APEC. APEC has engaged in two important processes: one to establish regulatory best practice principles for independent power producers and natural gas, and a second to define the industry. One of the ironies is that the question, "What are energy services?" is both serious and provocative. APEC has designed a "matrix" approach to the industry that encompasses both its traditional segments and the new, emerging businesses that are coming to dominate it.

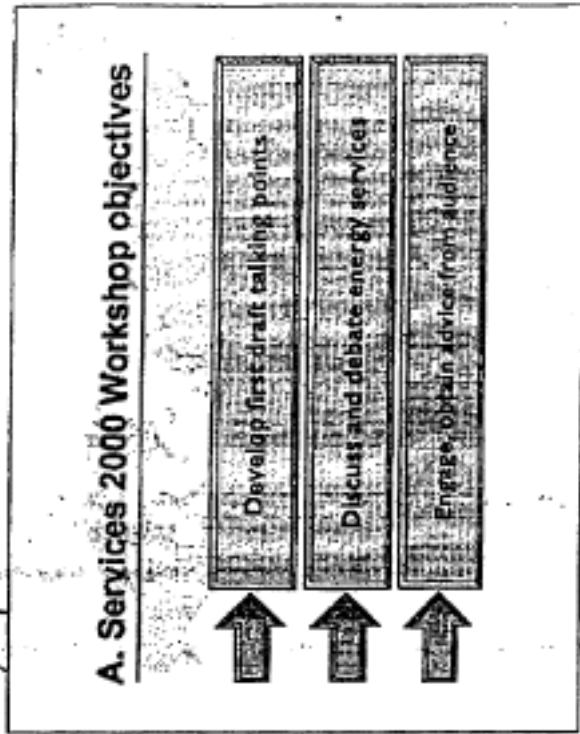
Let me close with a brief anecdote that may explain just how dynamic, even hectic and chaotic change has become in this industry. As I mentioned, Japan is preparing to deregulate its electricity and natural gas sectors, a project which its powerful utilities have fought every step of the way. Not long ago, one of our Japanese contacts sent us a question list. He wanted to know the variations that were possible between independent power producers and consumers in a deregulated market. Was it possible, he asked, for one power plant to supply one or many customers, several power plants to supply one customer, and so on, without burning down the grid? The Japanese image of a free-market power operation, you see, is chaos. I put this question to one of the traders in the California office of Enron Capital & Trade. He was mystified. "We do all those things," was his reply. The market, working in tandem with regulators, has found ways to organize safe, reliable, cost-effective supply of electricity without the benefit of central planning. The result has been cheaper and more plentiful electricity. We need to bring this message to the international trade community, through GATS 2000, and do it soon.

Thank you very much.

→ KENNIS U BRIEN energy services paper

Energy Services Agenda for 2000

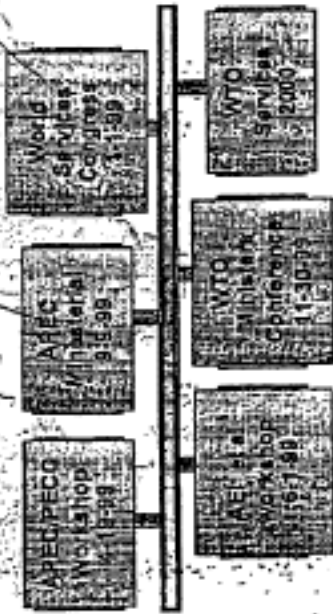
Steve
BUNKY



- ### Definitions
- GATT General Agreement on Trade and Tariffs
 - WTO World Trade Organization
 - ESCAP-WTO Services Sector Classification List (MTN.GSS/W/120)
 - UNCTAD United Nations Central Product Classification
 - WCO Harmonized System (Harmonized Commodity Description and Coding System)
 - ECT Energy Charter Treaty (Draft ECT classification of energy services never adopted)

- ### B. Background
- Energy services is new to the WTO services agenda
 - The energy industry is undergoing dynamic change in the way it does business and utilizes and provides services
 - U.S. based companies are leaders in services based technology, and market applications
 - Significant growth and globalization in this sector likely to be an understatement

B. The road to WTO Services 2000



C. The problem of energy services

- i) The global procurement and provision of energy services is a multi-billion business for U.S. companies who are leaders in the application of state of the art technology in the application and delivery of energy services. The users and providers range from global integrated companies involved in the trade in energy commodities to thousands of new players on the internet that deliver specific services to local areas.
- ii) The diversity and dynamism of the energy industries make the definition of the energy services sector very difficult now and the next decade. Global liberalization of energy markets—electricity, gas, petroleum products—and privatization of state owned energy companies combined with rising expectations of consumers are creating significant market opportunities for global energy services.

C. Key energy services issues

Key issues	Implications
1. Most energy services not covered in GATT/WTO	Develop energy services into critical WTO area
2. No consensus on role, structure of energy industries	Develop vision, structure of industry as customer, provider
3. Definition of energy services	Work towards future market structure and opportunities
4. Classification of energy services	Strategy coordination industry to national
5. Identify tariff, non-tariff barriers	Develop industry, sectoral approach
6. Identify market access by sector and country	Identify generic and country specific strategies
7. Reels regulatory reform and issues	Unbundling, create, expand

C.1.1 Most energy services not considered in GATT/WTO

Key issues	Implications
Goods and services treated as same	Separate goods (commodities) from services
WTO B2K will not deal with commodities	Develop interim strategy for B2K
Confused definitions in BSCL, UNCTAD, WTO-HB, ECJ (not adopted)	More unified classifications
Oil and of products, solid fuels are treated as goods (commodities) while electricity and gas are not	Develop commodities definition for oil based on future market structure
Should energy services be treated as one sector or classified under traditional sectors (transport, distribution etc)?	Requires wide-scale energy sector consensus
Should traditional sectors within energy services be modified to present/future market structures?	Same

1st round
2nd round
3rd round
4th round

C.1.2 GATT vs WTO

Key Issues	Implications

C.2.1 The global energy industries

- Energy trade and services is dynamic
- US based companies have been global leaders since World War I
- US companies are well positioned for future markets based on management and technology leadership
- Strong position, leadership in trade and services in oil and gas from the wellhead to retail marketing, the convergence of fuels to electric power, renewables, and to a lesser degree, fuel minerals

C.2.2 Oil and gas industries

- Significant deregulation and privatization trend in national markets which allow more effective participation in global deregulated markets.
- Market for oil & oil products global, transparent, efficient, without significant trade barriers. Traded as a commodity in global markets.
- Industry undergoing significant consolidation driven by market factors
- Petroleum products are mostly focused on transportation markets
- Fuel oil becoming less important for industry, electric power markets
- Natural gas becoming a stand alone business downstream focused on electric power markets outside the US. Increasing non associated gas production
- Some linkages at well head based on gas associated with oil production
- Industry restructuring has led to outsourcing more service needs and traditional oil service companies are assuming management of service, maintenance for traditional oil companies
- Generally, the margins at the wellhead and at the retail market are better than the sectors in between—transport, manufacturing, (refining), storage etc.
- Retail marketing an exciting global growth area for traditional oil industry

C.2.3 Global gas industry

- Gas markets are moving from a regulated national into a global, trans border industry linked with electric power developments. Gas is a relatively immature, neglected market undergoing significant structural change. Significant need for development of distribution systems.
- Gas is efficient that oil in that transport investment costs are capital intensive and end user markets are critical for development of transport.
- Pipeline gas is relatively well developed in North America and Europe. LNG comprises 80% of gas utilization in the Asia-Pacific which is highly electric power related.
- The global gas industry is aggressively seeking linkages (convergence) with the electric power industries as globalisation, liberalization unbundles traditional structures, generation, transmission, transportation, services.
- Some international gas companies (ENBRON) now define the company as a service industry rather than natural resource, utility.
- Gas is treated as a commodity and is treated in a risk management environment. New products related to weather, markets, non market factors have been created.

C.2.4 Global electricity industry

- Electricity markets are moving from a highly regulated regional market into national and limited trans border markets. The markets are relatively immature, inefficient and subject to significant growth
- Transmission loss limits distance from generation to end user and results in limited transborder export/import
- US based electricity companies have aggressively pursued ties with fuels (gas) providers in national markets and international investment opportunities in other countries.
- The international market has opened to gain access to newly liberalized markets and to provide services in the development of new electric power plants (EPP) in fuels.
- Increasingly electricity is traded as a commodity and is traded in a risk management environment. Weather risk management products related to weather, market, and non-fuels risks have been created.

C.2.5 Global fuels minerals industry

- Mineral fuels is a mature globalized market which moves products over long distances. South Africa, Colombia, Australia dominates the international markets. China, US, Russia, Kazakhstan have large domestic markets.
- Some Minerals Fuels companies have strong ties with integrated energy conglomerates with interests in oil and gas.
- Low technology requirements in mining, transporting, and utilizing coal in under boiler for steam generation, electricity. There are significant environmental considerations in all phases.
- Minerals fuels are treated as a commodity in risk management and increasingly mixed with other electricity fuels in supply management.

C.2.6 Global renewable energy industry

- Renewable energy and efficiency industries are very new, immature, and primarily limited to national markets.
- Development has been very dependent on government subsidies. A critical component is how future subsidies are tied with larger societal benefits including infrastructure, environmental offsetting benefits.
- US has a major technological lead in renewables.
- Large number of small providers of services in the US which are being cloned in other international, national markets.

C.2.7 Implications--global energy services industry

- The OIL AND GAS INDUSTRY has strong synergy with the energy services industry and is a major customer for oil and gas services. The industry needs good access to providers of energy services based on quality and cost efficiency in order to develop and maintain competitive energy economics for investment and operations. US energy services companies have a competitive edge based on technology, management, structure, and customer focus.
- The emerging GLOBAL GAS INDUSTRY is both a customer and provider of energy services. US companies have a strong lead in technology, financial management, structure, customer focus, and innovative approaches to developing integrated energy solutions. Convergence with electricity a critical trend.
- The GLOBAL ELECTRICITY INDUSTRY is an emerging industry and is both a customer and large provider of energy services. The synergy with fuels a critical component.
- The GLOBAL MINERALS FUELS INDUSTRY is a major developer and customer for services and equipment. US companies have a smaller role in providing equipment and services in this area than in the past.

C.2.7 Implications—global energy services industry (continued)

• The GLOBAL RENEWABLE ENERGY INDUSTRY is an emerging business in which US based companies have a major lead in intellectual property and technology. There is a significant opportunity for expansion of this sector in the future.

The entire energy sector has major future opportunities for risk management services and consumer services related to all sectors in the energy industries and services. Both areas need special attention in future WTO services negotiation.

C.3.1 Definition of energy related services

- Energy related services includes all financial, consulting, engineering, environmental, resource assessment, equipment related, service activities involved with the exploration, production, transportation, transmission, manufacturing, storage, marketing and consumption of energy products
- US based energy companies provide, and/or procure energy services in international markets.
- It is in the interests of both to procure and/or provide cost efficient and quality energy services in an open market business environment.

C.3.1 Definition of energy services

- Energy services includes transportation, transmission, storage, marketing and consumption of energy products



C.3.2 Oil and gas development services

- Exploration, production
- Drilling
- Processing, gathering, refining
- Design and engineering
- Construction, operations, maintenance
- Storage, terminaling
- Resource assessment, testing
- environmental, waste management, and disposal services
- Information technology

C.3.3 Oil, gas, fuel minerals, and electricity marketing and consumption

- Retail marketing
- Demand side management and energy efficiency
- Trading, marketing broker services
- Commodity and risk management
- Regulatory
- Consumer, end user services
- Information technology, telecommunications
- Training and education

C.3.4 Natural gas transport, and distribution

- Design and engineering
- Transportation
- Distribution
- Storage
- Regulatory
- Information technology
- Environment
- Training and education

C.3.5 Electricity development, generation, transmission, and distribution

- Design and engineering
- Generation
- Construction and maintenance
- Management and operations
- Distribution
- Regulatory
- Information technology
- Environment, waste management, and disposal
- Training and education

C.3.6 Energy minerals mining services

- Exploration
- Development
- Production, extraction
- Processing
- Transportation
- Environment
- Reclamation, recycling
- Environment

D. Classification of energy services

- GATT Classifications here and alternative structure

E. Tariff and non tariff barriers

- Requires individual company interviews as well as shelf research

F. Market access by sector and country

- Requires detail company, economy, sector reviews

G. Regulatory reform and energy services

- Extensive shelf reviews exist. Requires editing, updating.
- This section will contain regional updates including APEC, ASEAN, EEC

I. Evaluation of Alternatives

Key Issues	Solution #1	Solution #2

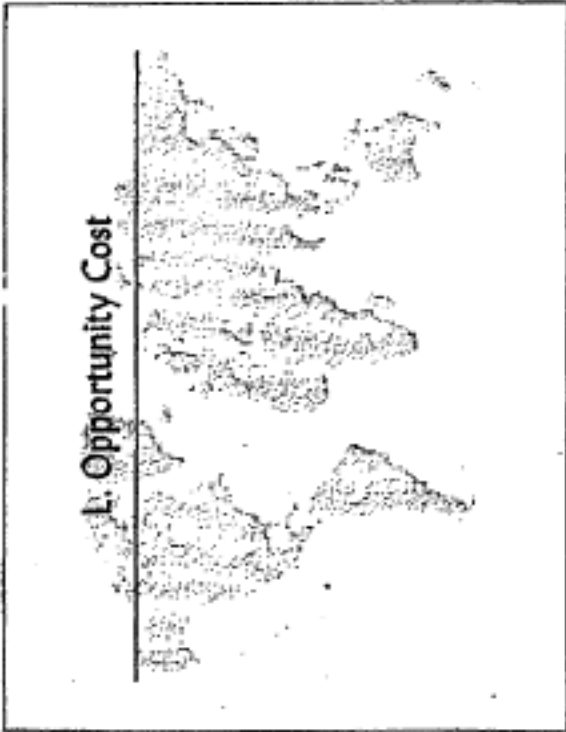
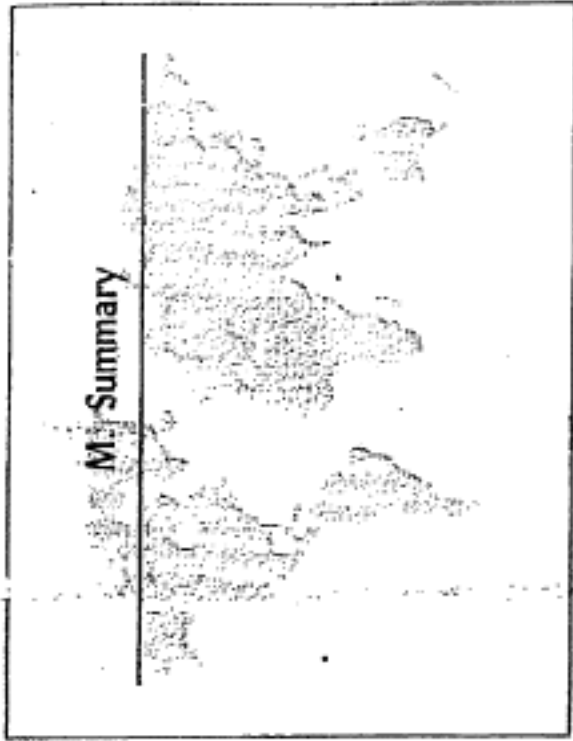
K. Cost Benefit Analysis



H. Alternative approaches

Adopt interim strategy for S2K

J. Recommended Strategy



The Global Reach of Energy Services



E. Joseph Hillings
Vice President
Federal Government Affairs
Enron Corp

Robert L. Bradley Jr.
Director
Public Policy Analysis
Enron Corp

Edith B. Terry
Manager
Global Affairs
Enron Corp

U.S. Department of Commerce Energy Services Roundtable

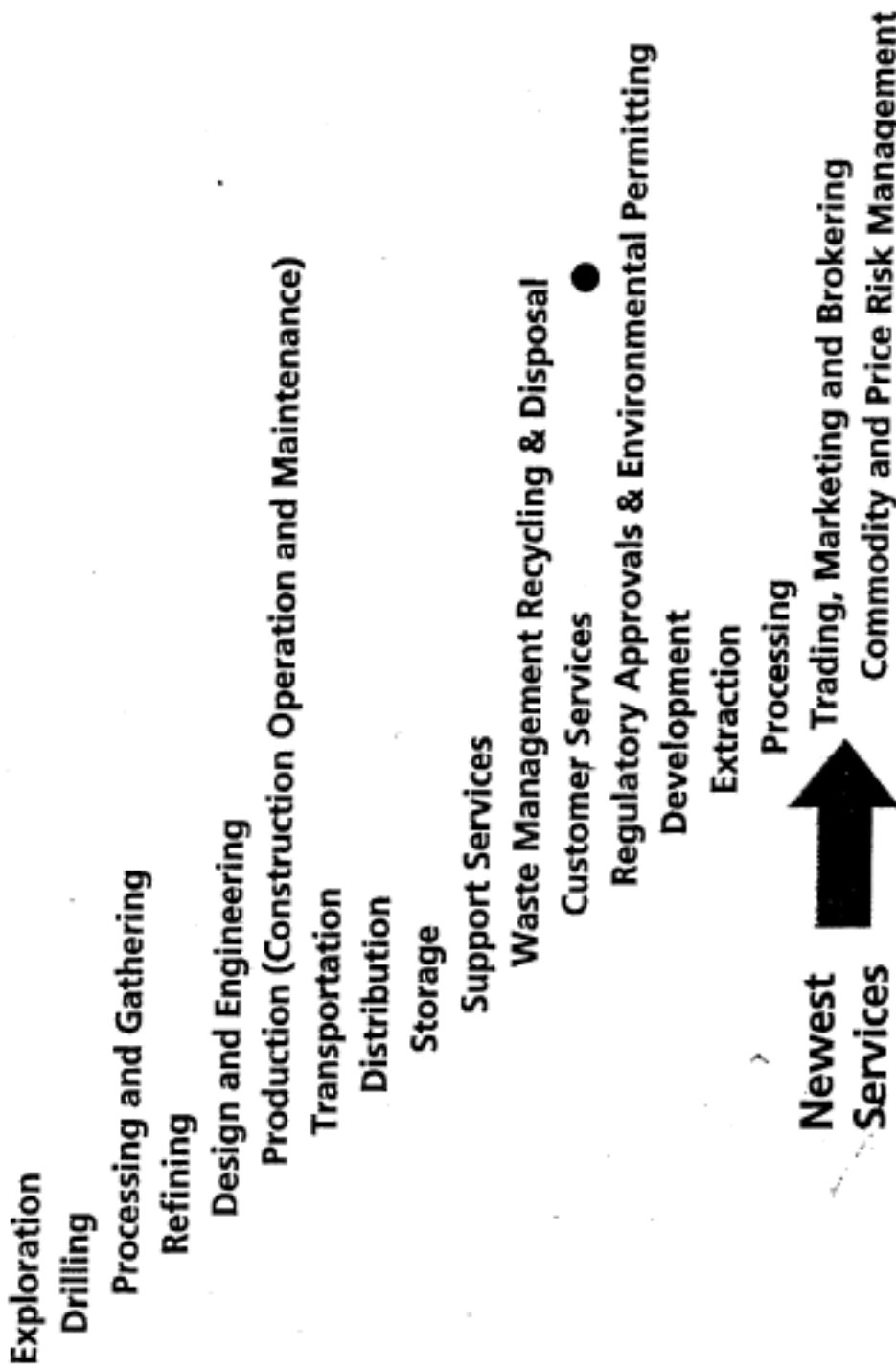
Washington, D.C.
August 19, 1999

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Introduction

- ◇ Describe the range of energy services that have global applications today
- ◇ Appreciate the growing importance of energy in the global economy
- ◇ Describe the traditional energy industry and the new energy services industry – and the enormous opportunities that lie ahead for both ●
- ◇ Review the trade barriers and country practices that inhibit the free flow of capital and technology in world energy markets

Matrix of Global Energy Services

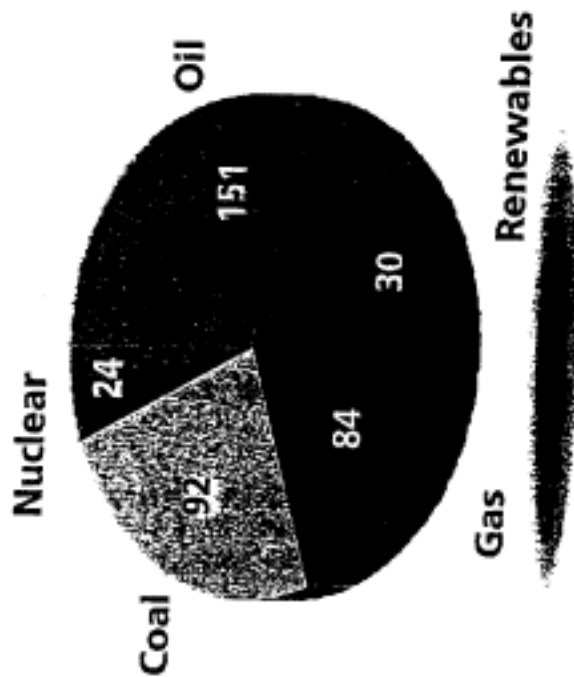


Energy: The Master Resource

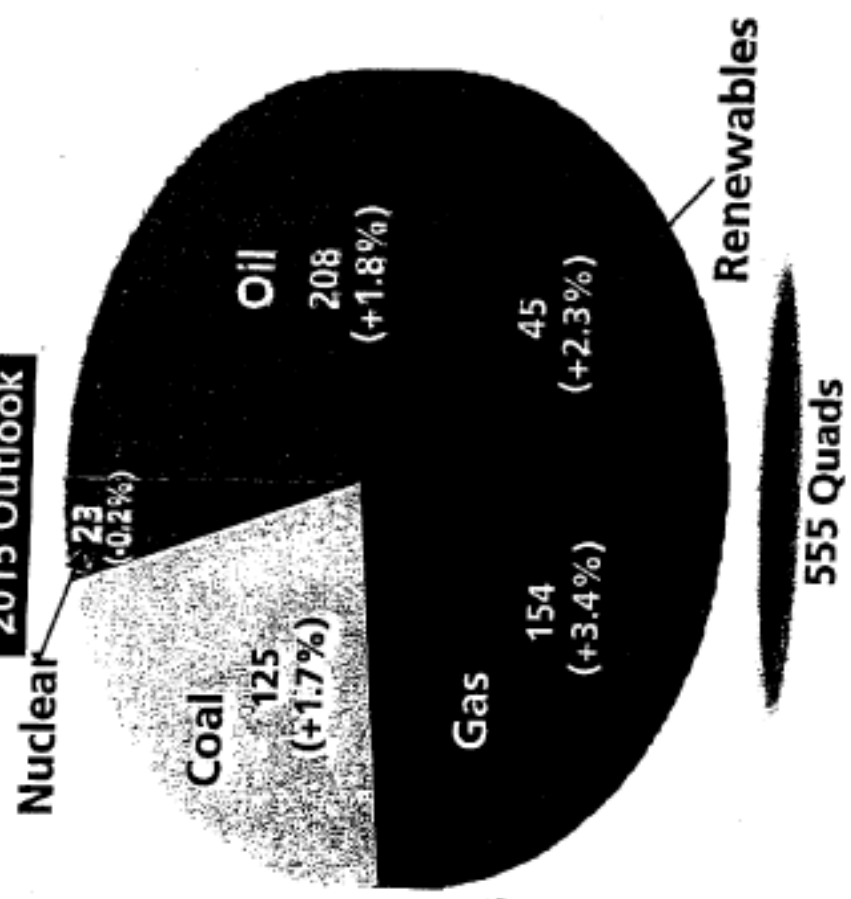
- ◇ Close correlation between per-capita energy usage and GDP, life expectancy, literacy, and freedom
- ◇ Electrification necessary to eliminate "poverty pollution" for between one and two billion people in emerging markets ●
- ◇ The Internet economy and new miscellaneous uses of electricity will require a much larger and more reliable electricity grid than is currently in place in even mature markets

DOE Forecast of World Energy Demand (Quad Btu's--Annual Growth Rate)

1997 Actual



2015 Outlook



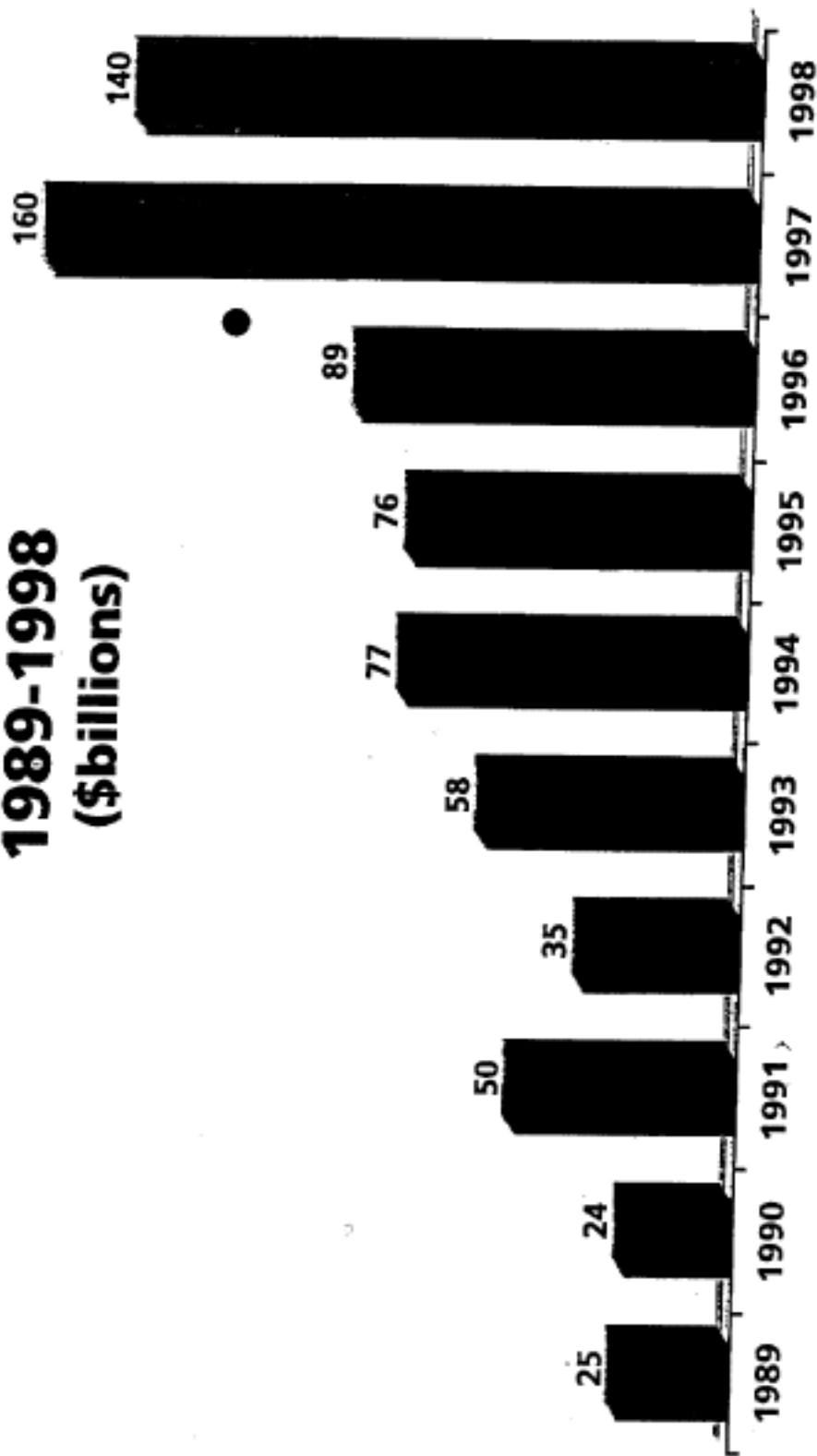
Source: Energy Information Administration
© 1999 EIA-80001054

Global Energy Megatrends



- Privatization
- Open-Access/Network Markets
- Mass Customization
- Energy Outsourcing

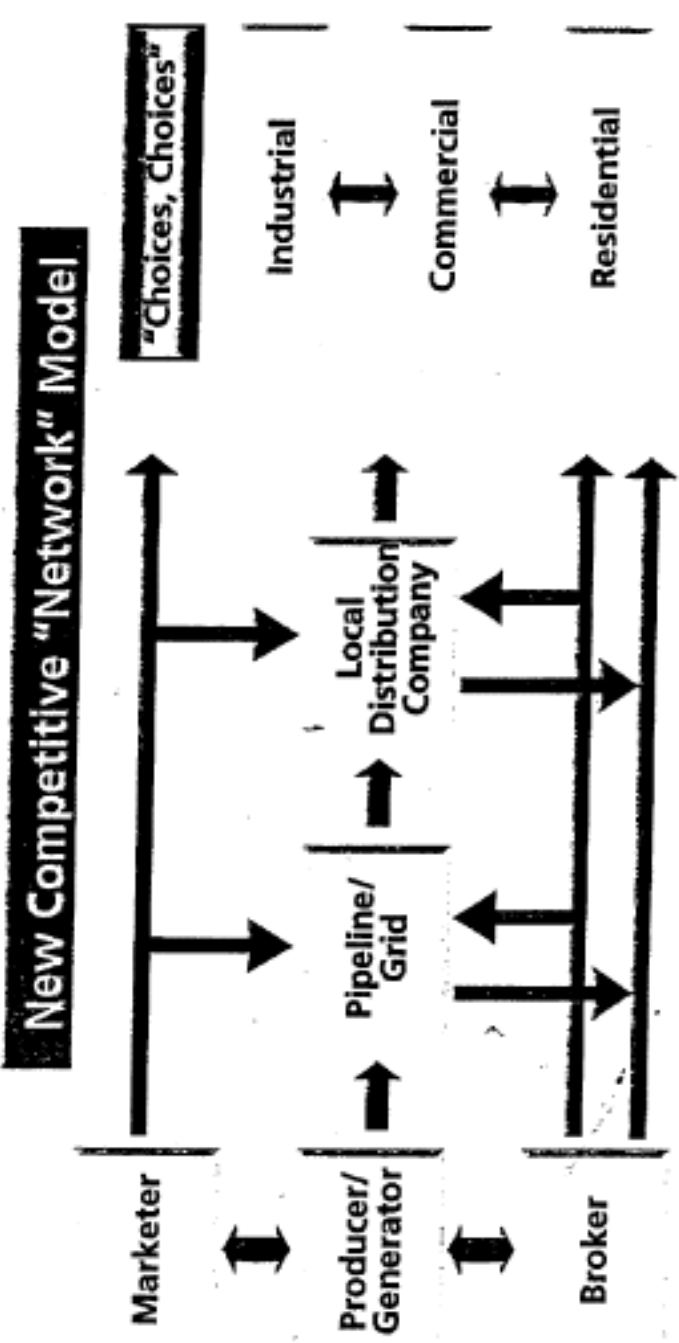
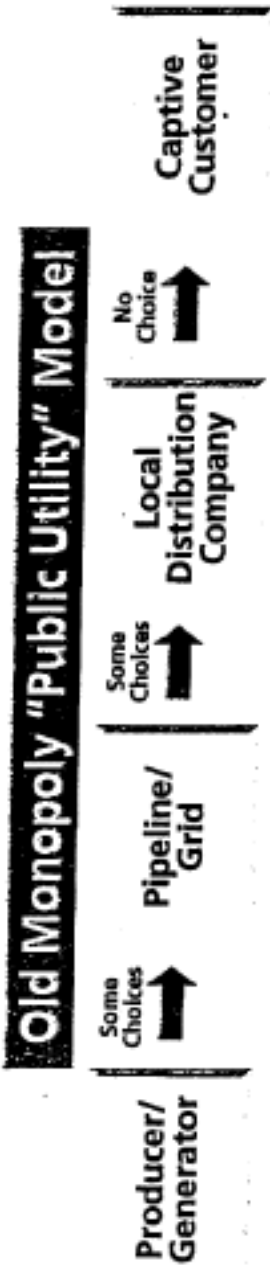
Global Privatization Proceeds 1989-1998 (\$billions)



Total worldwide privatization since 1986 will exceed
one trillion dollars this year

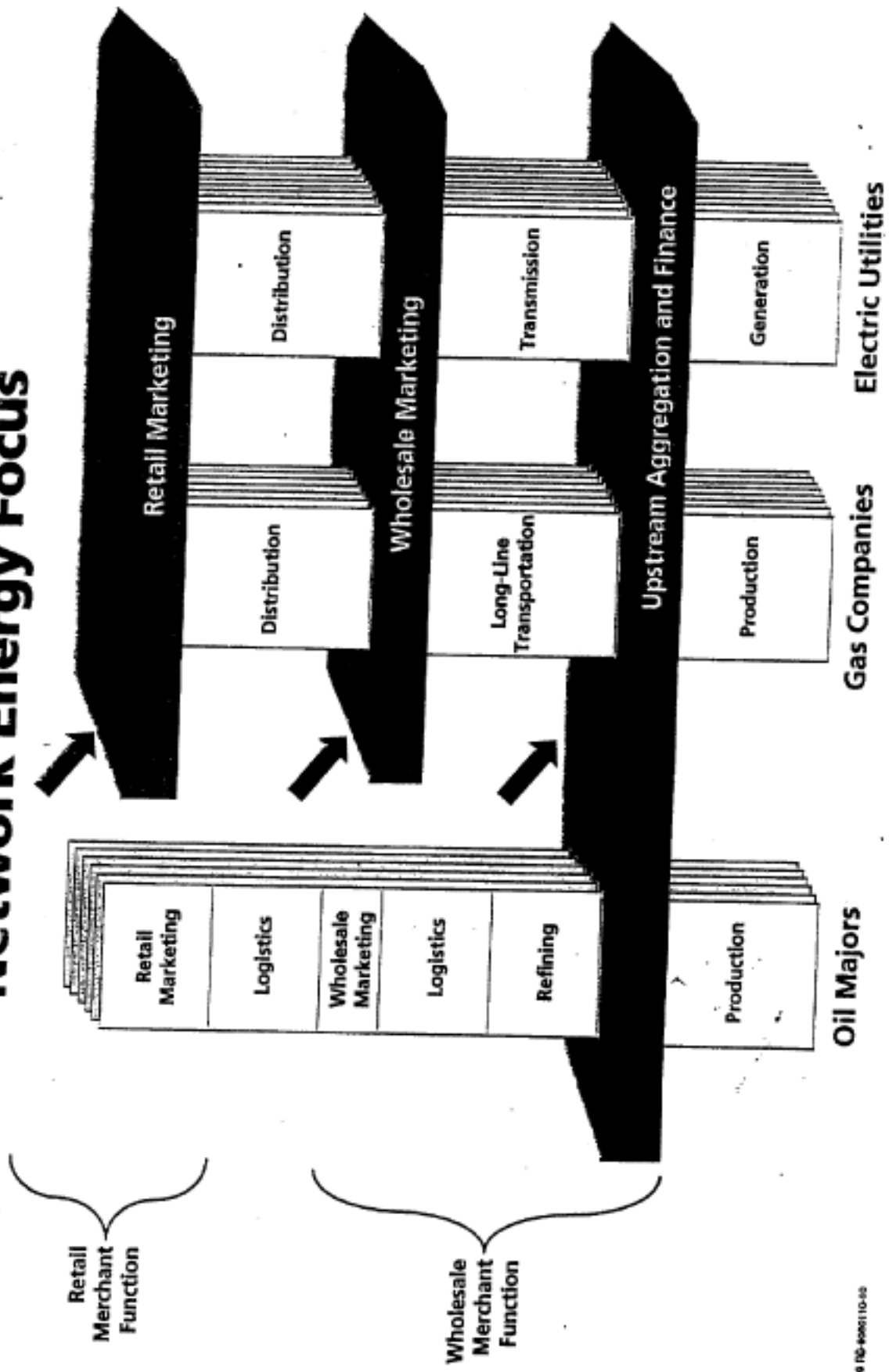
Source: Privatization International
© 1999 PIS-0001107

Natural Gas and Electricity Transformation



© 1999 IBE-90001154

Network Energy Focus



Retail Merchant Function

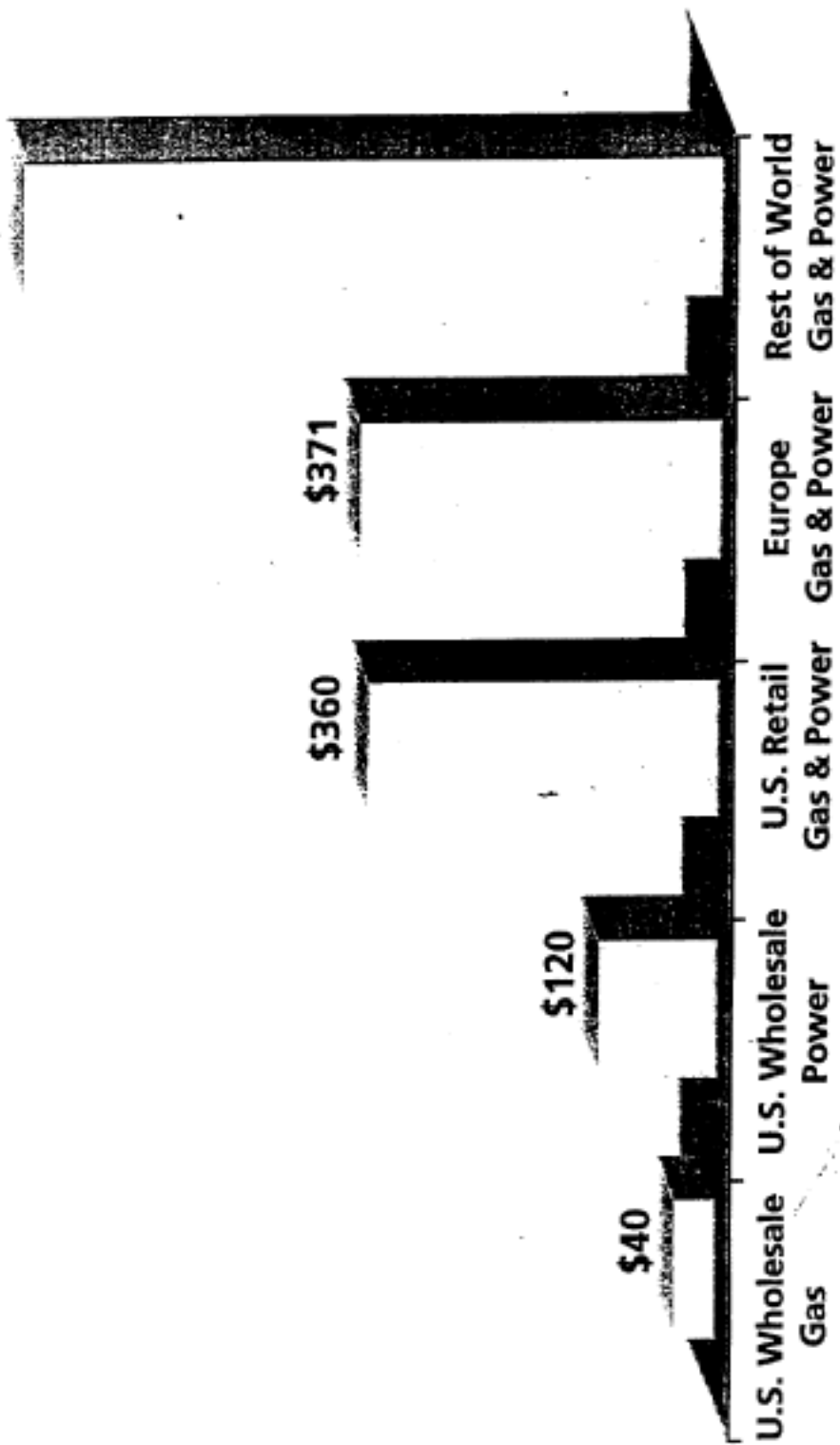
Wholesale Merchant Function

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New Markets for Competitive Energy

(Annual Revenue in Billions)

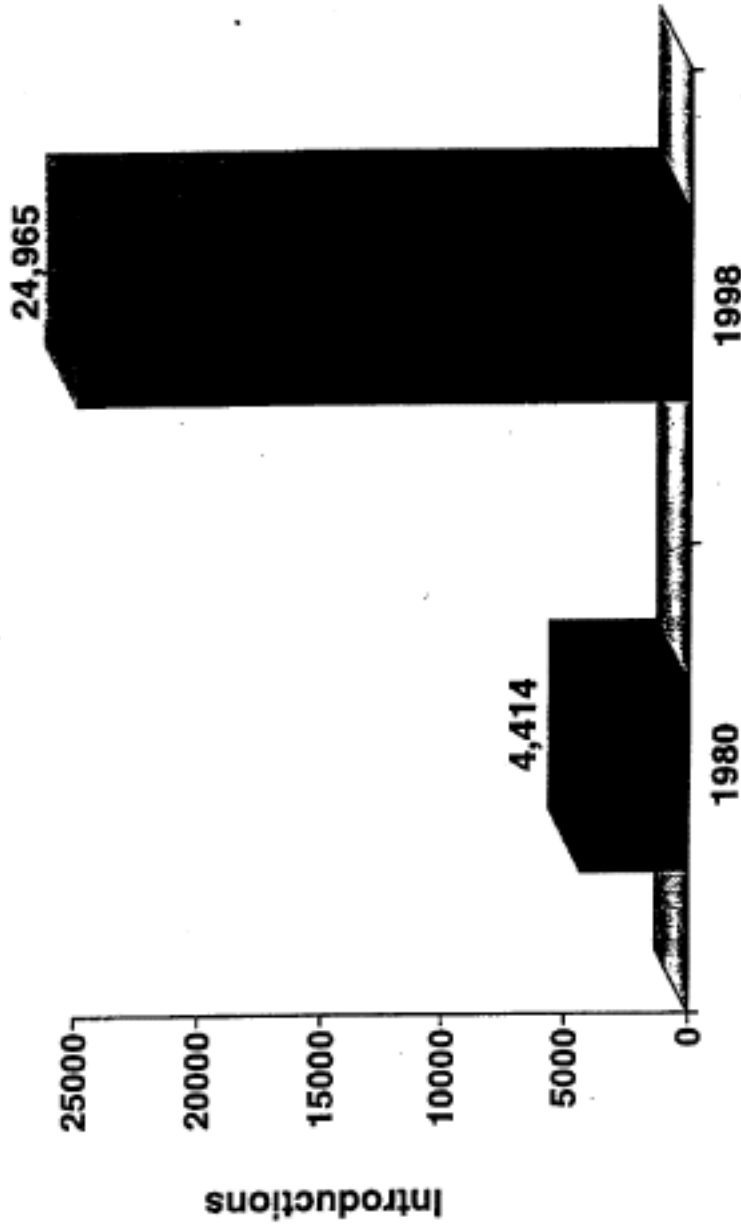
\$720



\$1.6 Trillion Annual Market Size

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Mass Customization -- New Product Introduction

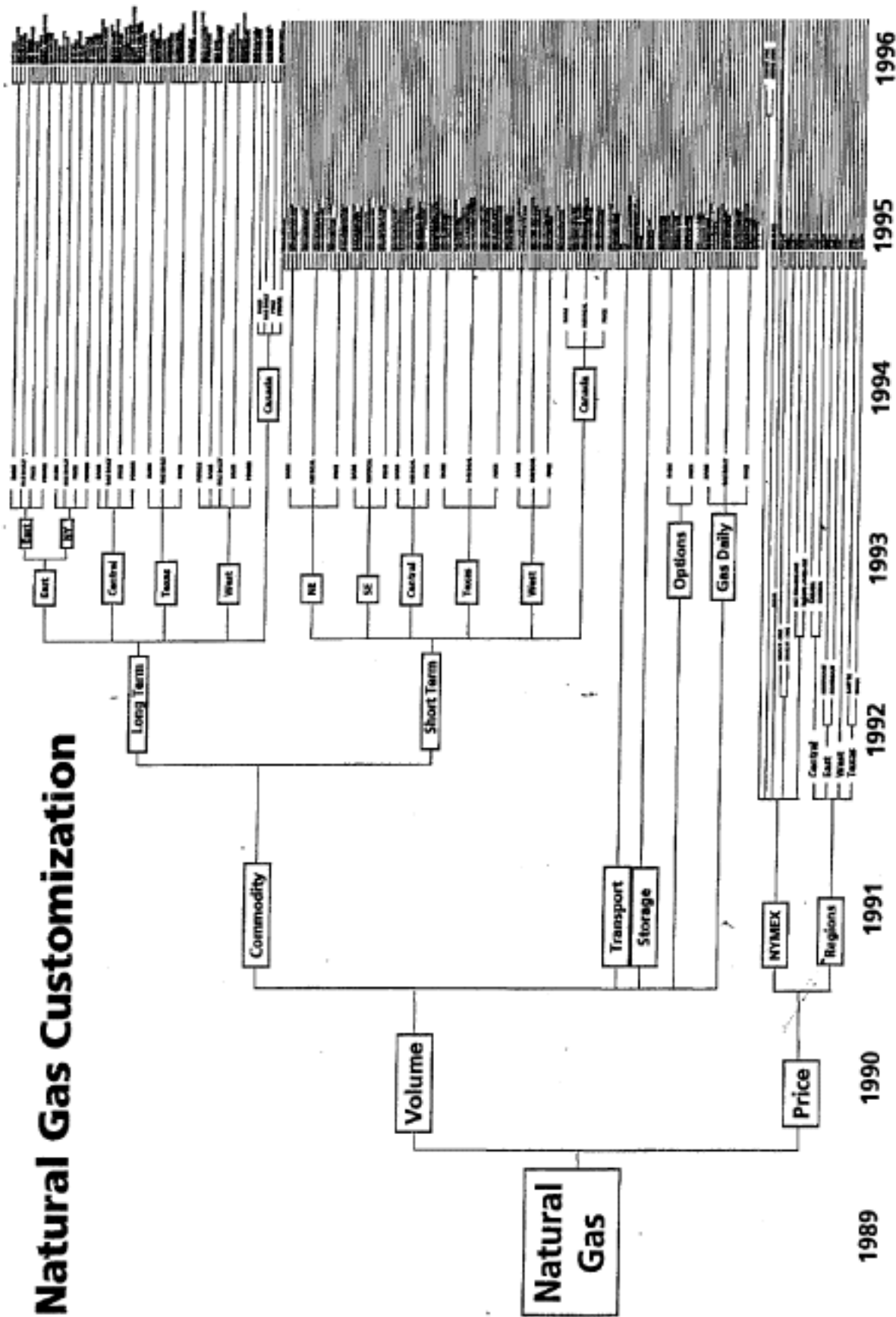


"Computers will enable goods that today are mass produced to be both mass produced and custom-made for particular customers."

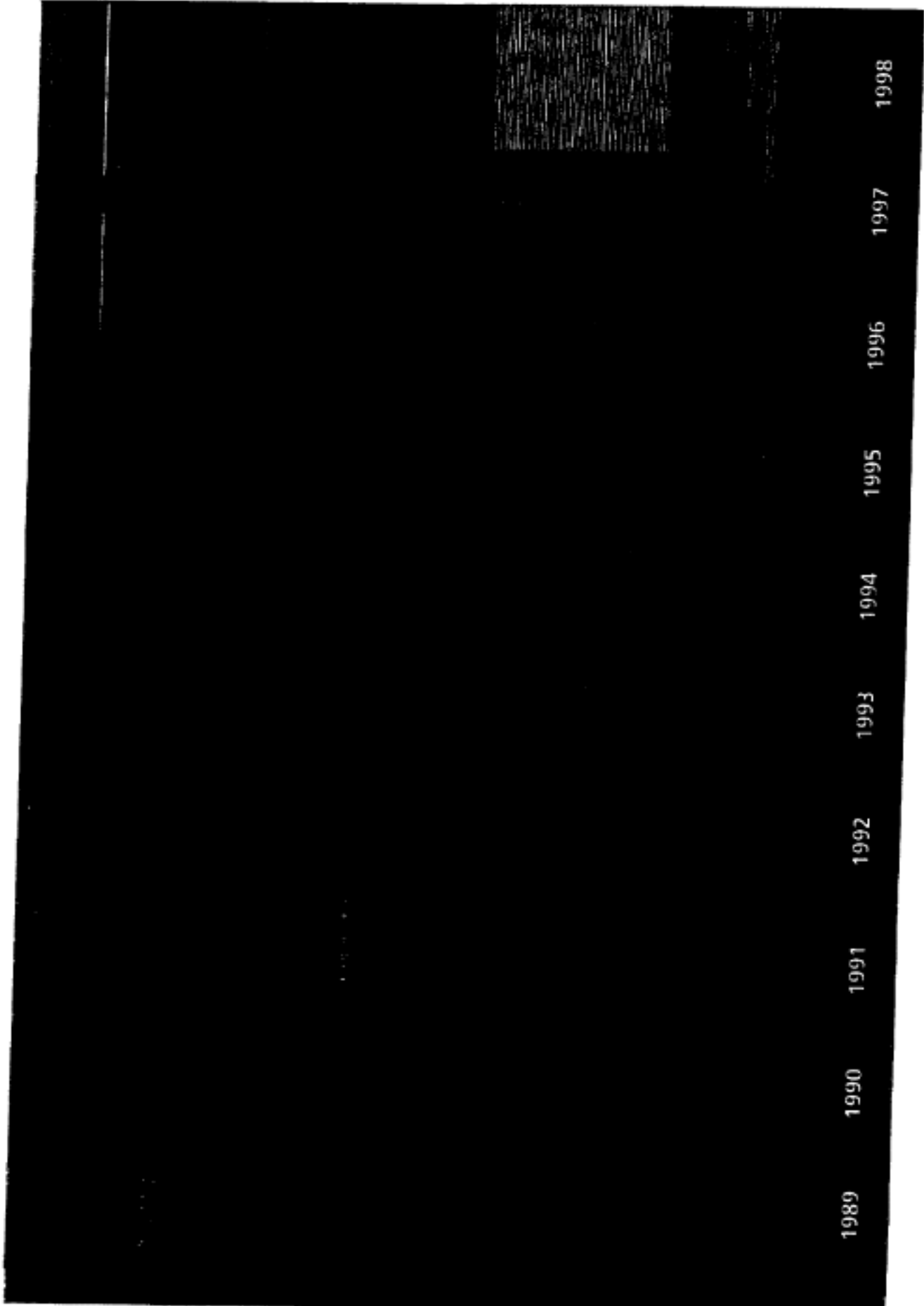
- Bill Gates, Founder and CEO, Microsoft (1995)

Source: Federal Reserve Bank of Dallas
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Natural Gas Customization



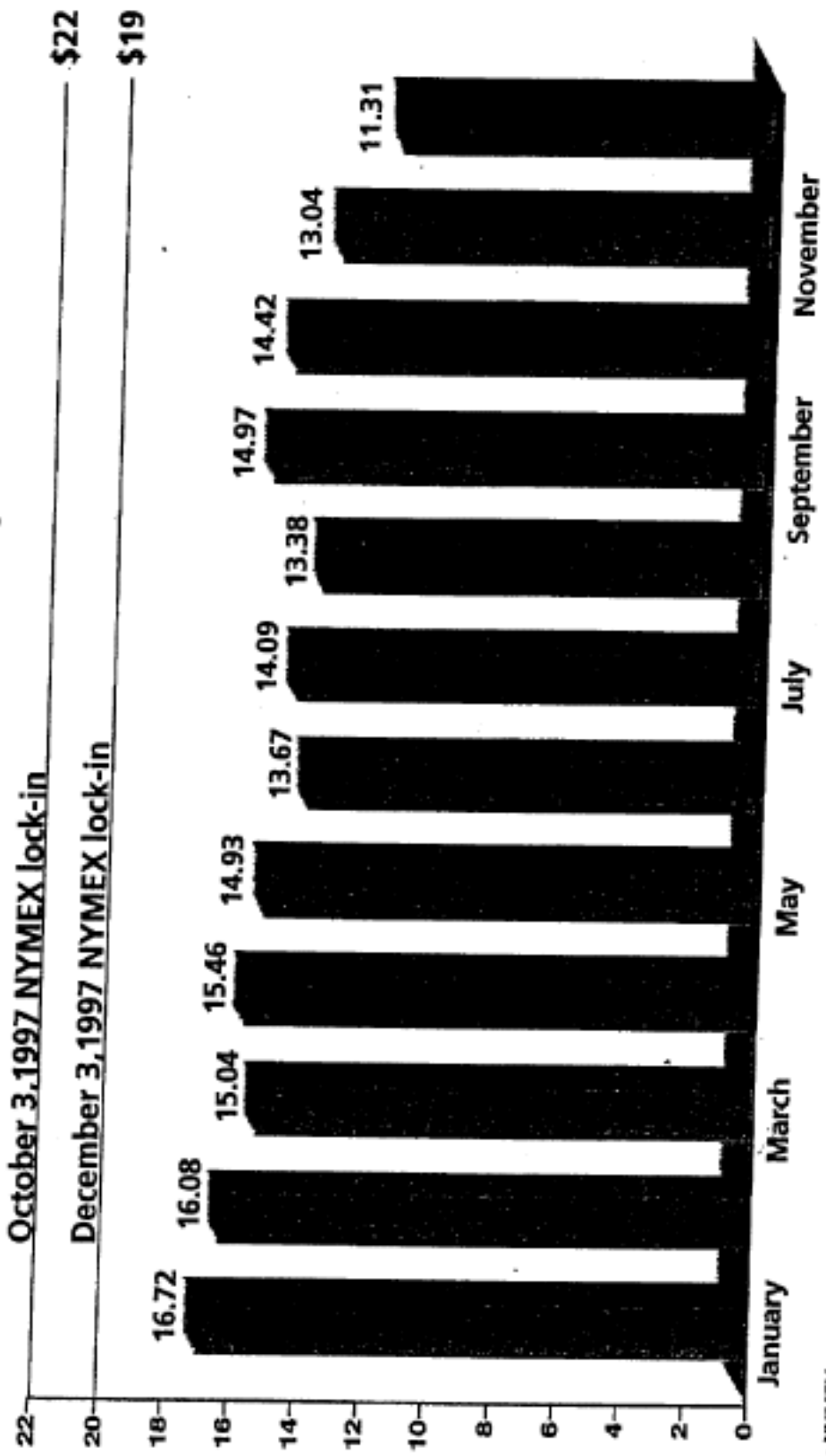
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1989 1990 1991 1992 1993 1994 1995 1996 1997 1998

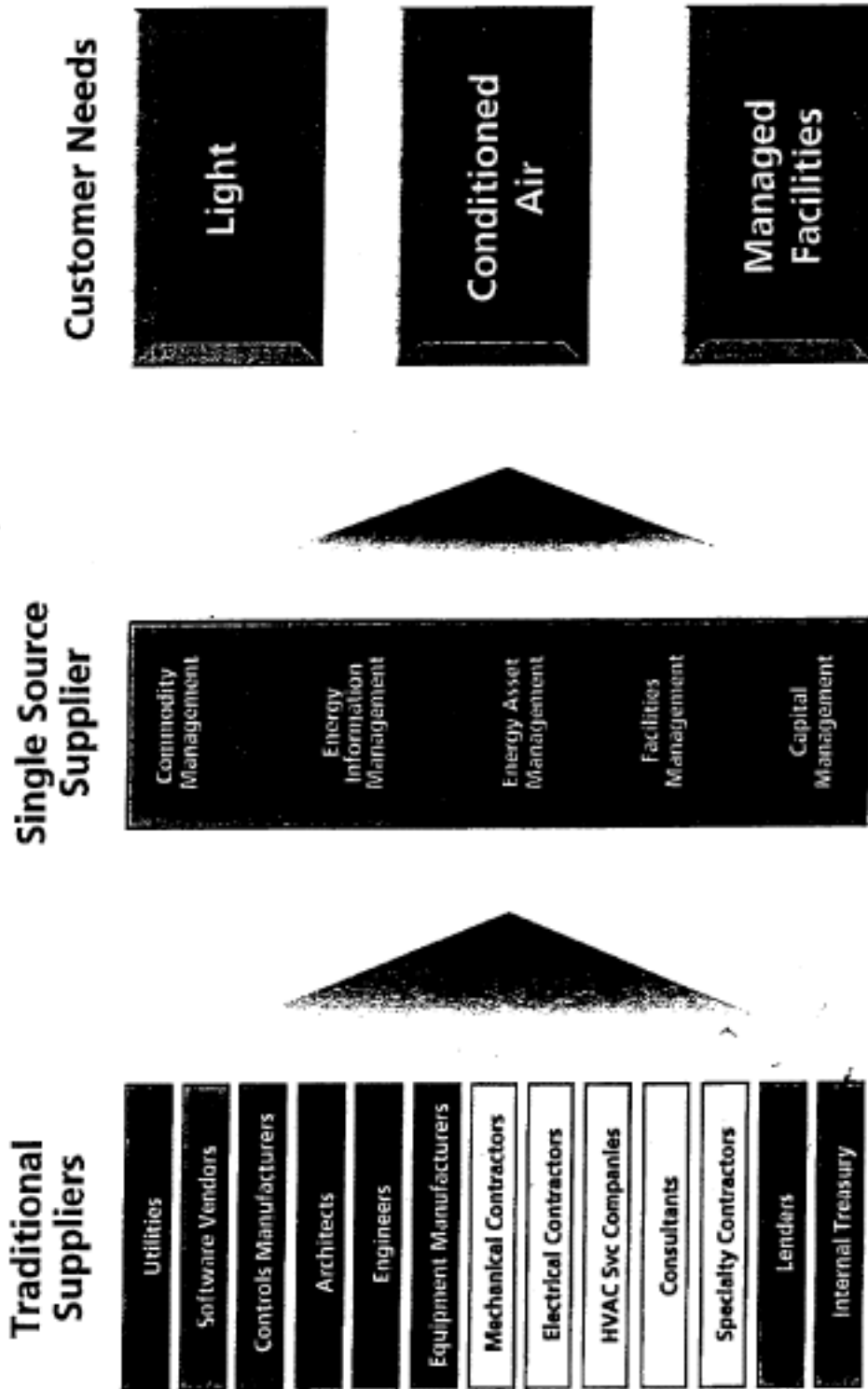
Self-Help Opportunity: Averting the 1998 Oil Price Collapse

(\$ per barrel — WTI)



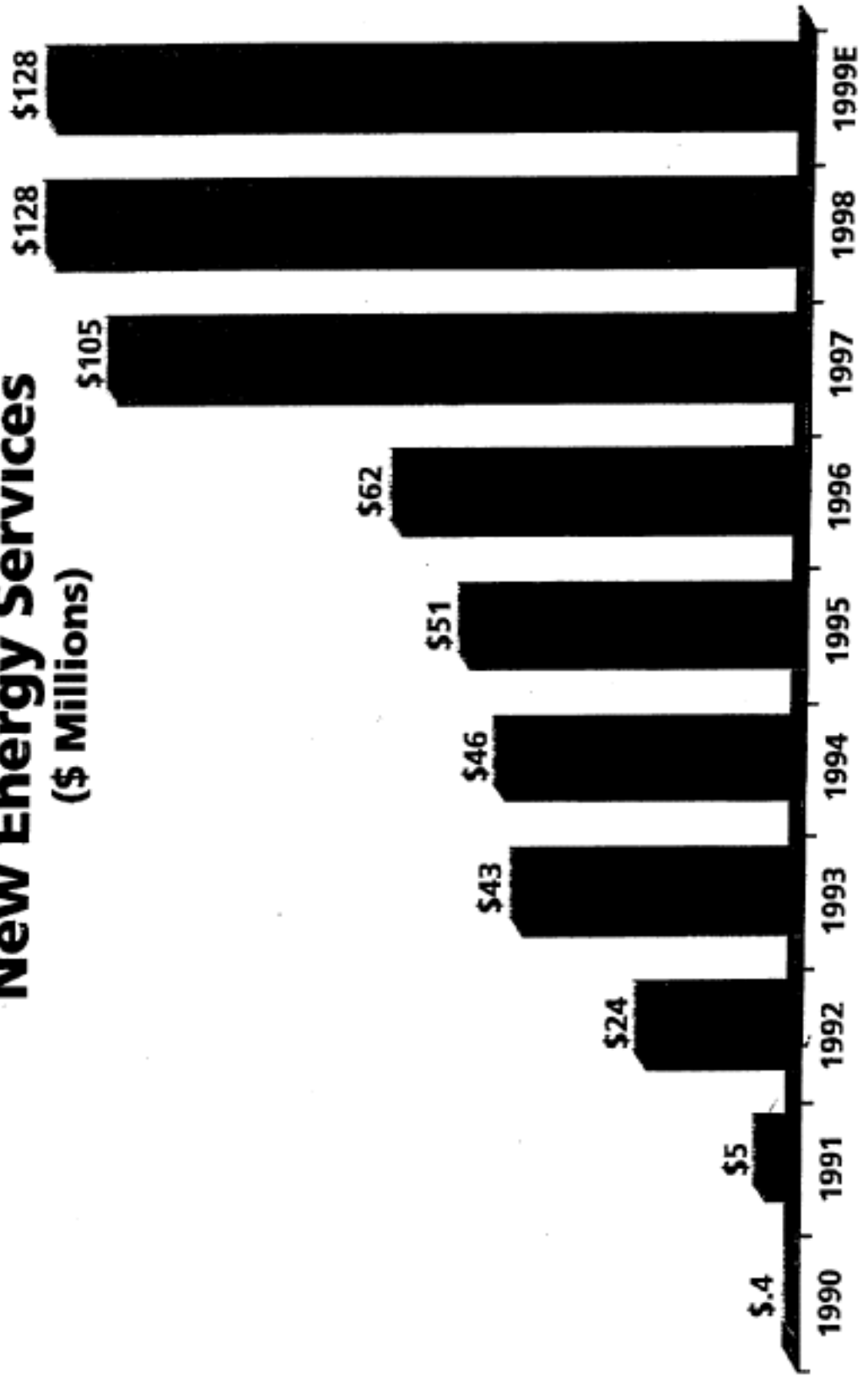
Source: NYMEX
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Energy Outsourcing



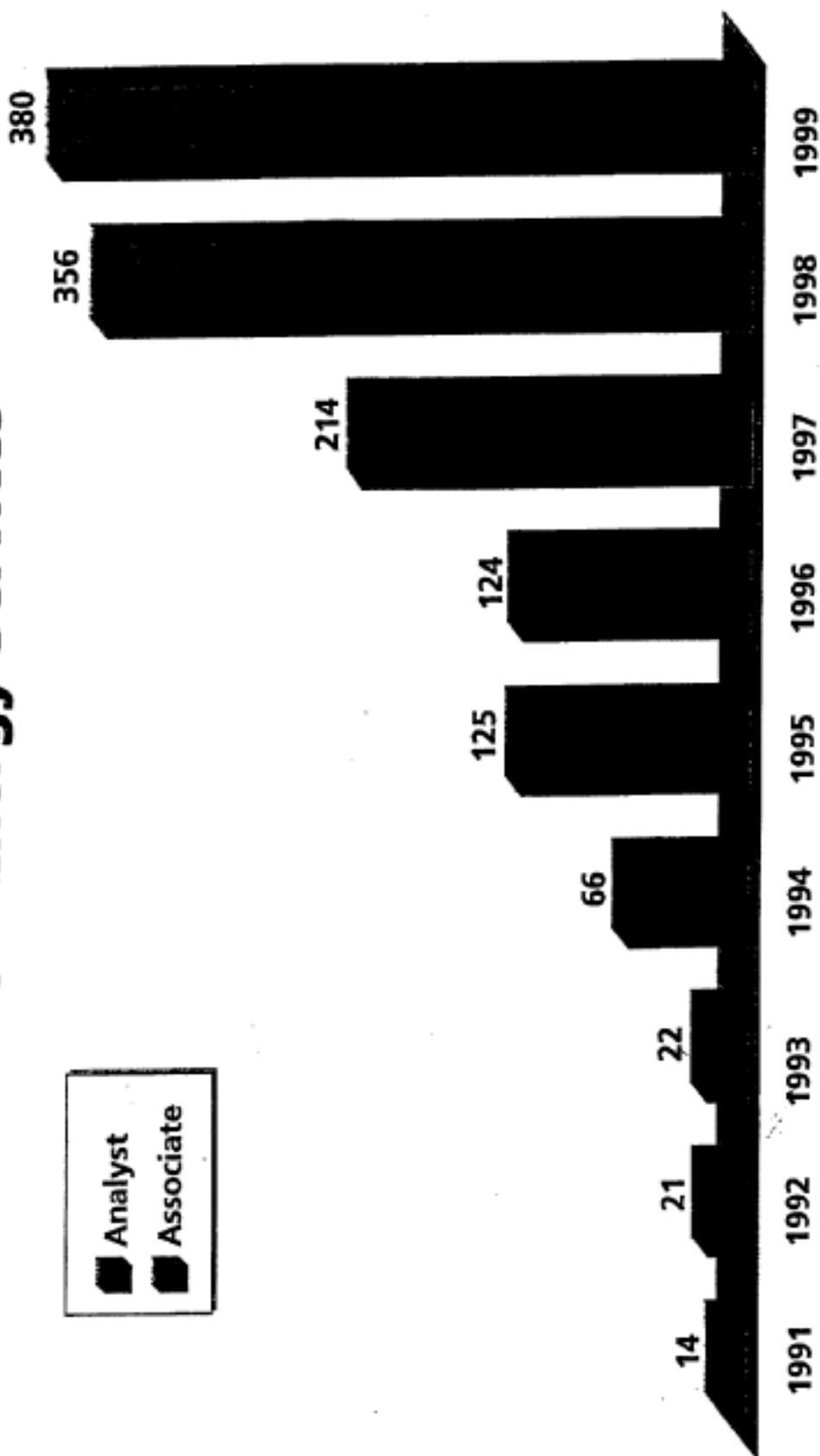
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Enron IT Expenditures: New Energy Services (\$ Millions)



© 1999 ENR-000010-17

Enron Training Hires: New Energy Services



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Impediments to Energy Services

- ◇ **Closed markets to private investment**
- ◇ **Privatized markets with regulatory risk**
- ◇ **Intra-company transfer restrictions**
- ◇ **Layered taxation on company transactions**
- ◇ **Cross-subsidized energy pricing**

Conclusions

- ◇ The global energy market is going through the most fundamental transformation since the oil majors came of age around a century ago
- ◇ The new energy market is information-driven, transparent, competitive, and global—government policies must be competitive to keep up
- ◇ The U.S. Department of Commerce can promote the international flow of energy technology and capital through elevating energy services in the GATTS 2000 negotiations



1775 Eye Street, N.W., Suite 800, Washington, D.C. 20006

First Class

Address Correction Requested

To:

The Honorable Stu Eizenstat
Deputy Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20220

409-5886 (10/97)

0010000000191



E. Joseph Hillings
*Vice President and General Manager
Federal Government Affairs*

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*1775 Eye Street, NW, Suite 800
Washington, DC 20006-4607
(202) 466-9145
Fax (202) 828-3372
jhillings@enron.com*

TRANSMITTAL SHEET

TO: The Honorable Lawrence Summers
Secretary of Treasury
US Department of Treasury

FROM: Joe Hillings

DATED: December 8, 1999

RE: **Ken Lay's Speech – WTO Seattle Ministerial**

Enron Chairman Ken Lay recently addressed the Business Forum at the WTO Meeting in Seattle on energy services and the new economy.

I thought you would find the attached presentation to be of interest.

Sincerely,

A handwritten signature in black ink, appearing to be "J Hillings", written in a cursive style.

Encl.



E. Joseph Hillings
*Vice President and General Manager
Federal Government Affairs*

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Washington, DC 20006-4607
(202) 466-9145
Fax (202) 828-3372
jhilling@enron.com*

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A handwritten signature in black ink, appearing to read "J Hillings". The signature is fluid and cursive.

Encl.

Natural gas. Electricity. Endless possibilities.™

0010000000196



Services & Energy in the New Economy

Dr. Kenneth L. Lay
Chairman & CEO, Enron

on behalf of the
Coalition of Service Industries
Energy Services Coalition

3rd Ministerial Conference
World Trade Organization

Seattle, Washington
December 2, 1999





Economic Change

Old Economy

- Supply-driven
- Mass production
- Monopoly franchises
- Technology slows speed to market
- Value in assets
- Geographical

New Economy

- Demand-driven
- Mass customization
- Competition
- Technology increases speed to market
- Value in people
- Global



New Economy Evolution

Phase 1

Market
Liberalization

Falling
Information
Costs

Increased
Demand for
Services

Fluid
Venture
Capital

Phase 2

First-Mover
Businesses

Network
Economies

Mass
Customization

Final Phase

**Open
Efficient
Markets**



Globalization of the World Economy 1970 - 1995

Billion 1996 \$ U.S.

	<u>1970</u>	<u>1980</u>	<u>1990</u>	<u>1995</u>
World Exports	298	1921	3379	5080
World GNP	15,700	22,900	30,700	34,600
Percent	1.9%	8.4%	11.0%	14.7%

The world economy is becoming increasingly linked

Source: U.S. CIA

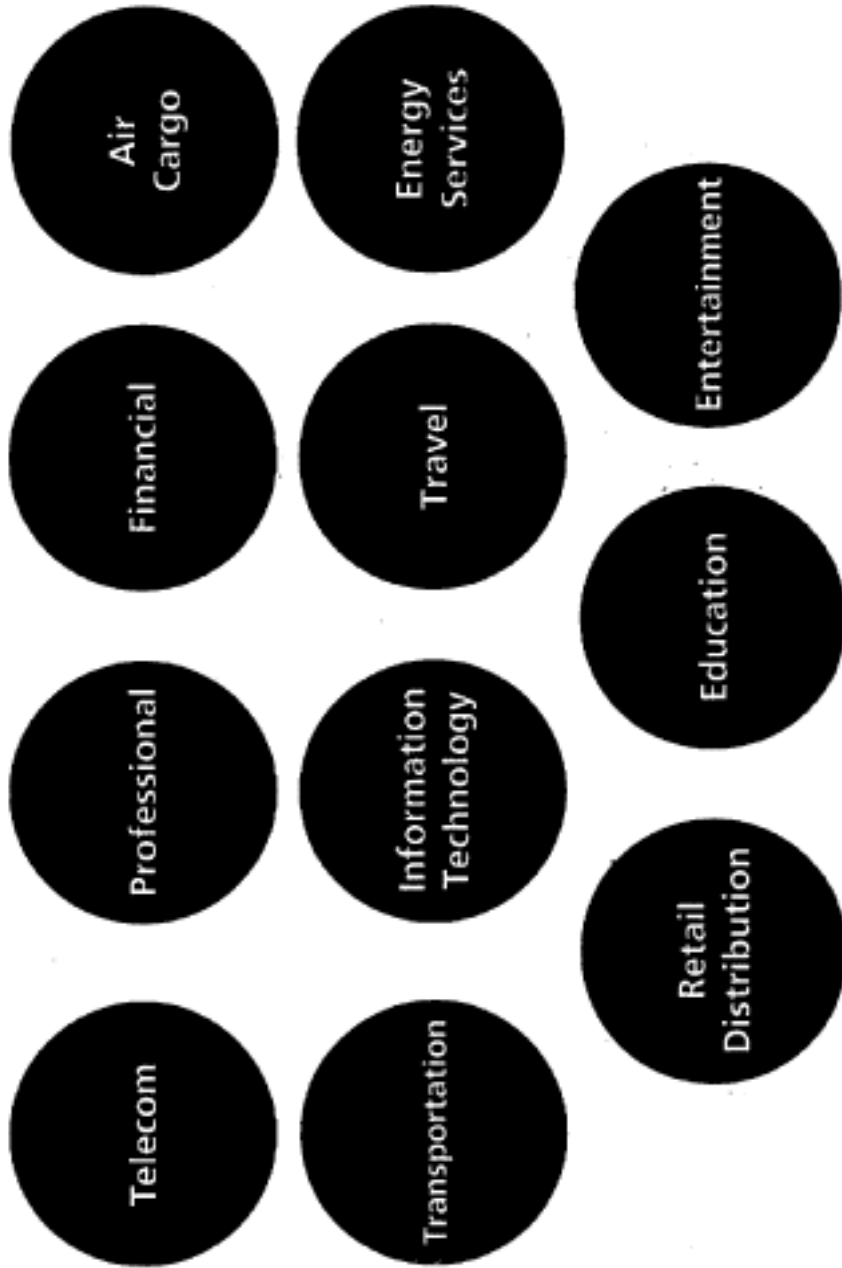


The Global Reach of Services





Coalition of Service Industries





Services Industry Accomplishments in WTO/GATS Process

Financial Services Agreement (1997)

Basic Telecommunications Agreement (1997)

Maintain existing levels of market openness

**Significant opportunities remain
for Services 2000 negotiations**



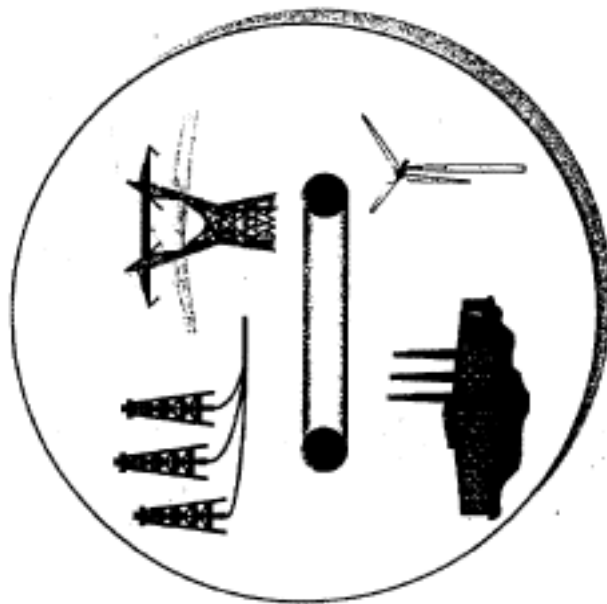
Definition of Energy Services

"Energy services are those services that comprise or are related to the exploration, development, extraction, production, generation, transportation, transmission, distribution, marketing, consumption management and efficiency of energy, energy products and fuels."

- Energy Services Coalition



Two Categories of Energy Services



Physical Infrastructure

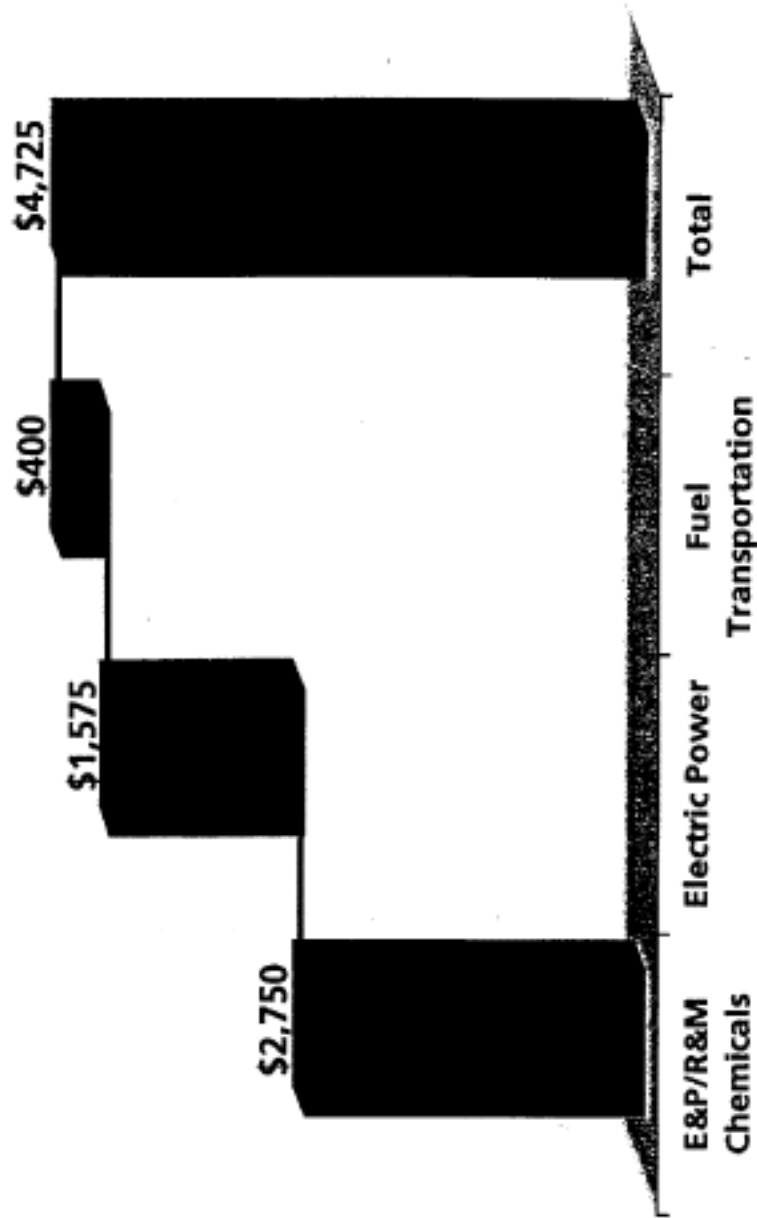


Value-Added Services



Global Energy Market Infrastructure Needs to 2010

(U.S. \$ Billions)




Source: J.S. Herolds, McGraw-Hill, OGI, Gas & Pipeline Journal, Hydrocarbon Processing, Enron



New Energy Services



- **Futures Trading**
 - **Competitive Access**
 - **Product Customization**
 - **Internet Access**
 - **Outsourcing**
 - **Environmental**
- 



Energy Futures Markets: U.S. and Europe

14809818

NYMEX

Oil and Products

Heating Oil
Unleaded Gasoline
Light Sweet Crude

CBOT MGE

Nordpool

IPE

Brent Crude Futures
Gas Oil Futures
Brent Crude Options
Gas Oil Options

Coal

Central Appalachian

Natural Gas

Henry Hub
Permian Basin
Alberta, Canada

Gas Futures

Electricity

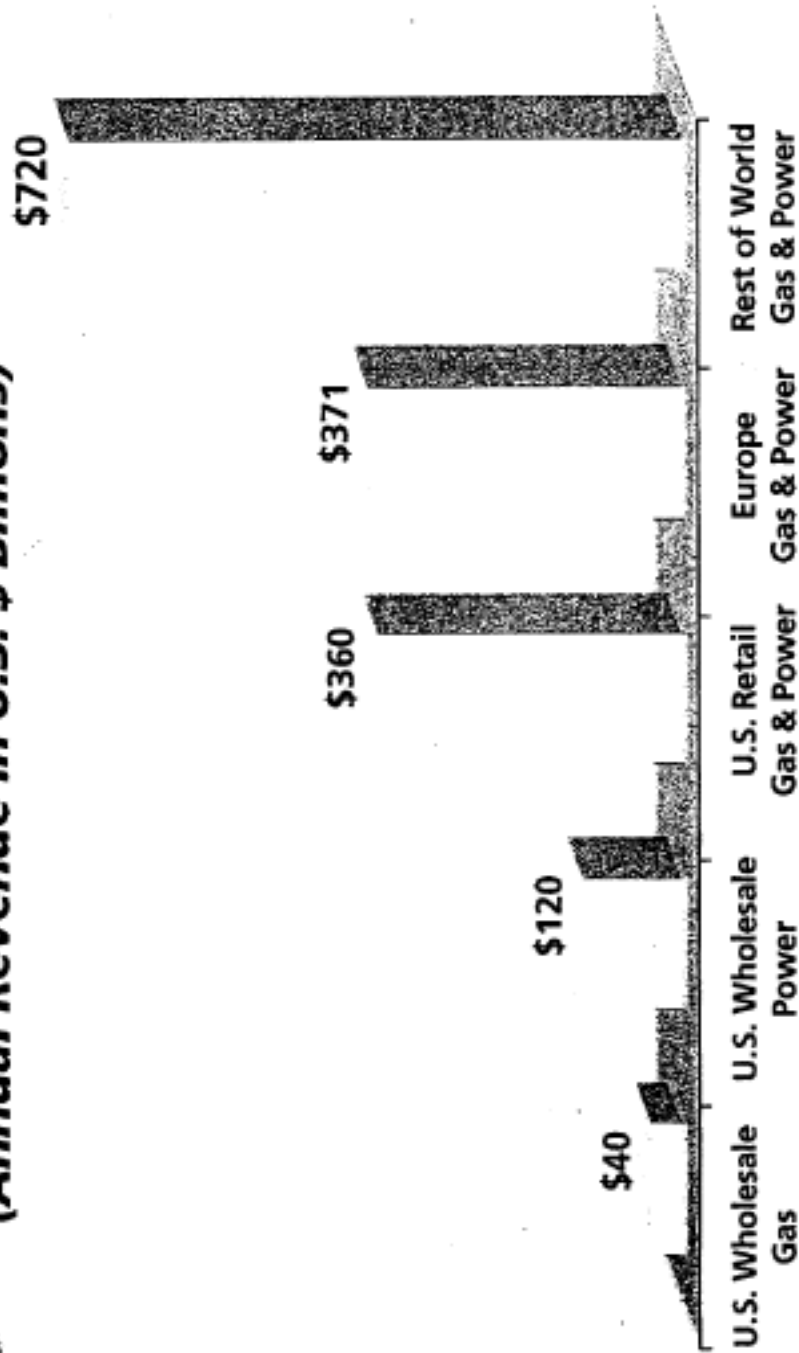
CA/OR Border
Palo Verde/AZ
Cinergy
Entergy
PA/NJ/MD (PJM)

Electricity Spot
Electricity Futures
Electricity Options



Potential Markets for Direct-Access Energy

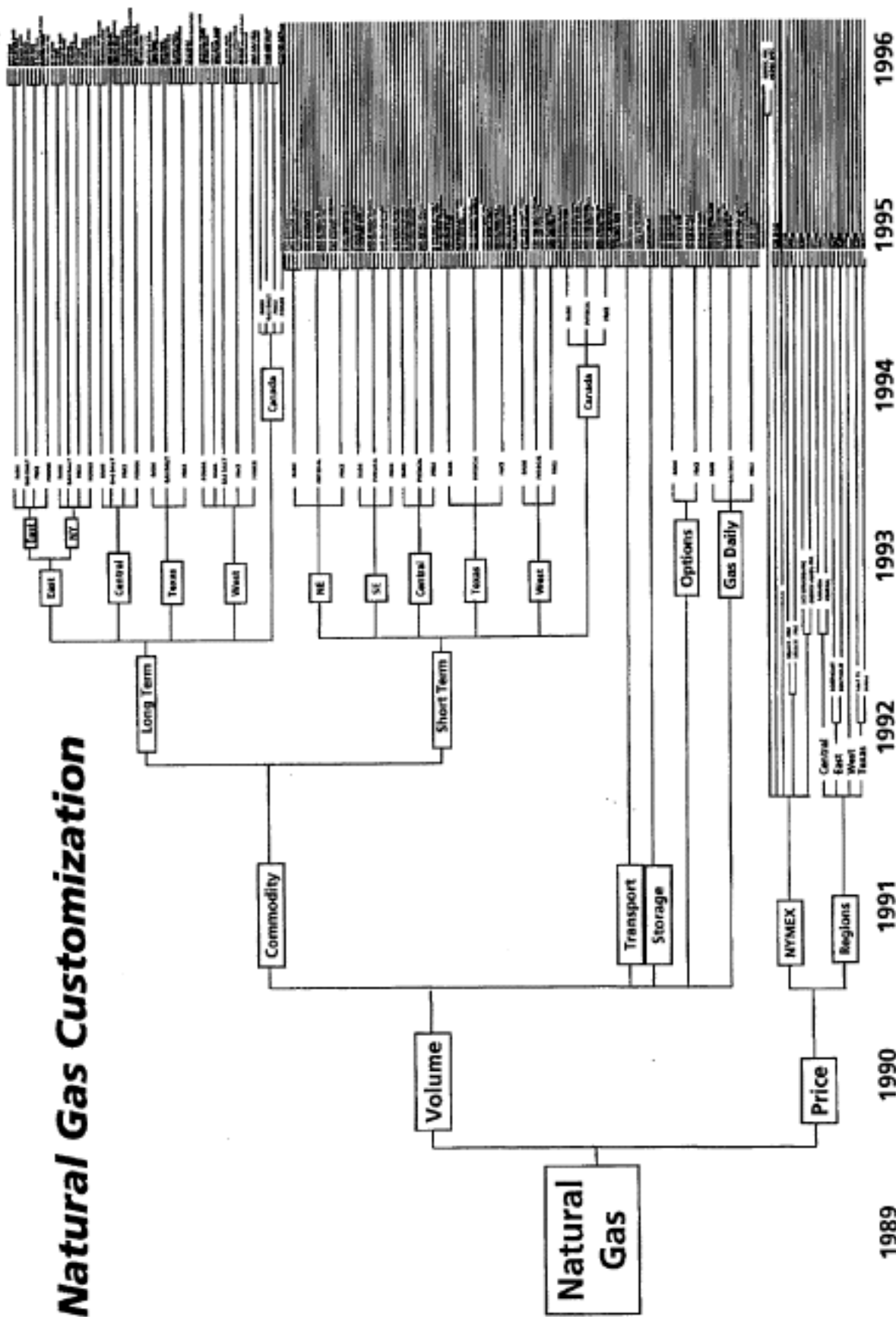
(Annual Revenue in U.S. \$ Billions)



\$1.6 Trillion Annual Market Size

Source: Enron

Natural Gas Customization



SEARCH FOR
online

FOR THE BEST OF THE BEST



TRADER & CREATOR OF **Kiattul**
(From 7.0 November 1988)

US Gas
Asian Cruise

Dutch Power
US Pulp

US Power

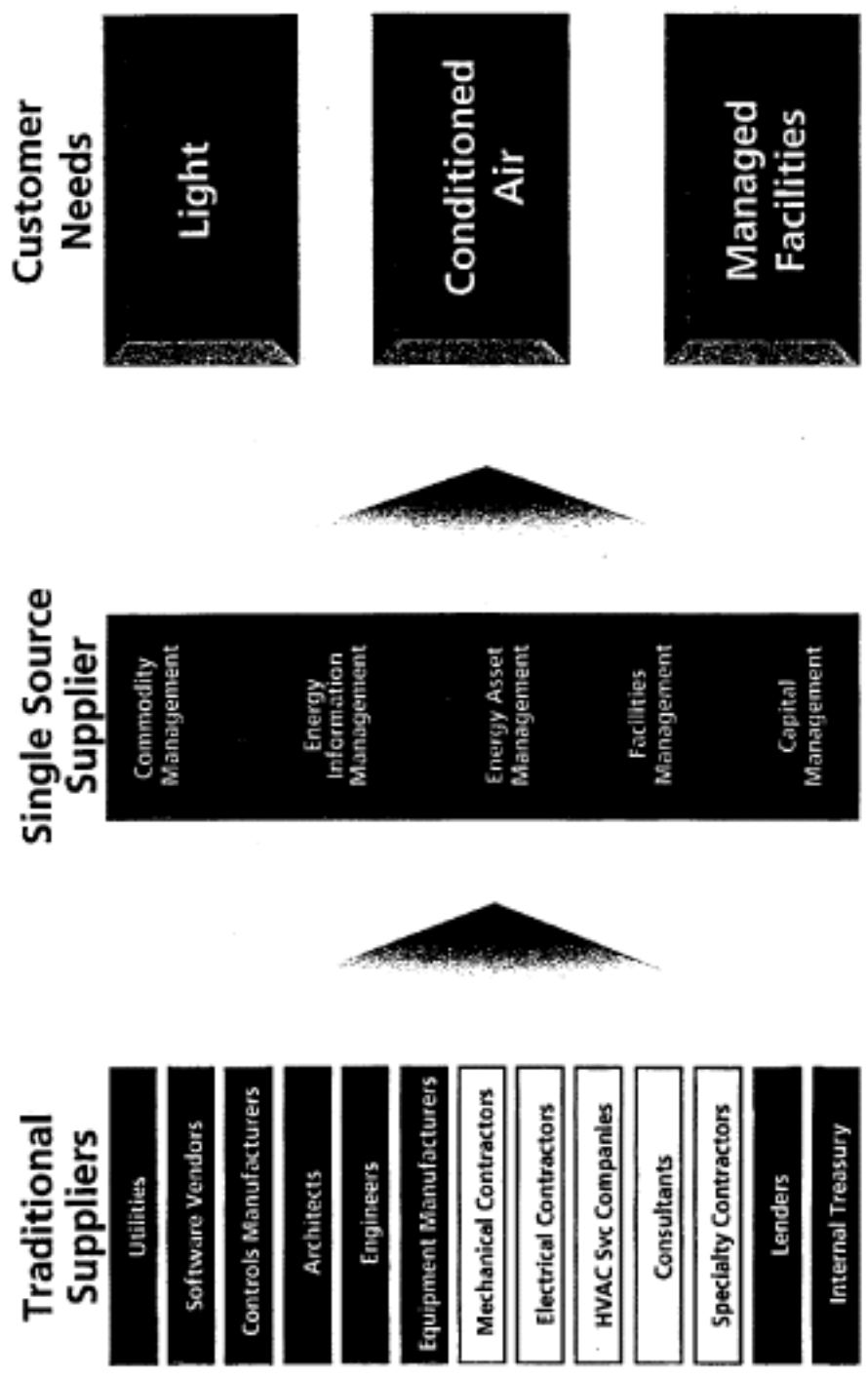


Global Internet Quote Screen

▼ FILTERS		[GET/RESH/PRODUCT] ORDER				
UK Gas PHY Fwd	WD-Tues p/TH	50000	1.90	2.00	3000	
UK Gas PHY Fwd	WE NBP p/TH	25000	9.00	9.10	25000	
UK Gas PHY Fwd	WD-NBP p/TH	50000	9.75	9.85	50000	
UK Gas PHY Swap	DEC99 NBP p/TH 70/50	10000	49.53	50.53	10000	
UK Gas PHY Fwd	JAN00 NBP p/TH	25000	14.33	14.48	25000	
UK Gas FIN Swap	Q1 00 JPE p/TH	25000	12.8525	13.0775	25000	
UK Power FIN Swap	EFA 03APR00-03JUL00 PPP BASE GBP/MWh	20	19.00	19.80	20	
UK Gas PHY Fwd	APR-SEP00 NBP p/TH	25000	10.32	10.33	25000	
UK Power-FIN Swap	EFA 03JUL00-03OCT00 PPP BASE GBP/MWh	20	16.85	18.25	20	
UK Gas FIN Swap	Q2 01 JPE p/TH	25000	11.25	11.26	25000	
UK Gas PHY Fwd	APR-SEP03 NBP p/TH	25000	10.53	10.55	25000	
UK Gas PHY Fwd	Q3 01 NBP p/TH	29000	9.6825	10.7075	36000	
UK Power-FIN Swap	EFA Back PPP BASE GBP/MWh	20	34.85	35.15	20	
UK Gas PHY Fwd	Q4 00 NBP p/TH	25000	14.32	14.37	38000	
UK Gas PHY Fwd	Q3 00 NBP p/TH	92000	11.04	12.065	25000	
UK Gas PHY Fwd	Q1 01 NBP p/TH	29000	12.5625	13.5075	35000	
UK Power-FIN Swap	EFA EFA Dec99 PPP WD-945 GBP/MWh	20	48.95	49.25	20	
UK Gas PHY Fwd	Q2 00 NBP p/TH					
UK Power-FIN Swap	EFA EFA Nov99 PPP BASE GBP/MWh	20	26.85	27.15	20	
UK Power-FIN Swap	EFA DA PPP BASE GBP/MWh	20	36.40	36.90	20	
▼ COMPOSITES						
1999-10-28 S	UK Gas PHY Fwd	Q2 00 NBP p/TH	11.42		25000	
1999-10-28 S	UK Gas PHY Fwd	WD NBP p/TH	9.8		20000	
1999-10-28 S	UK Gas PHY Fwd	WE NBP p/TH	9.05		20000	
▼ RESULTS						
Lloyd's Price/Quote/Ref						

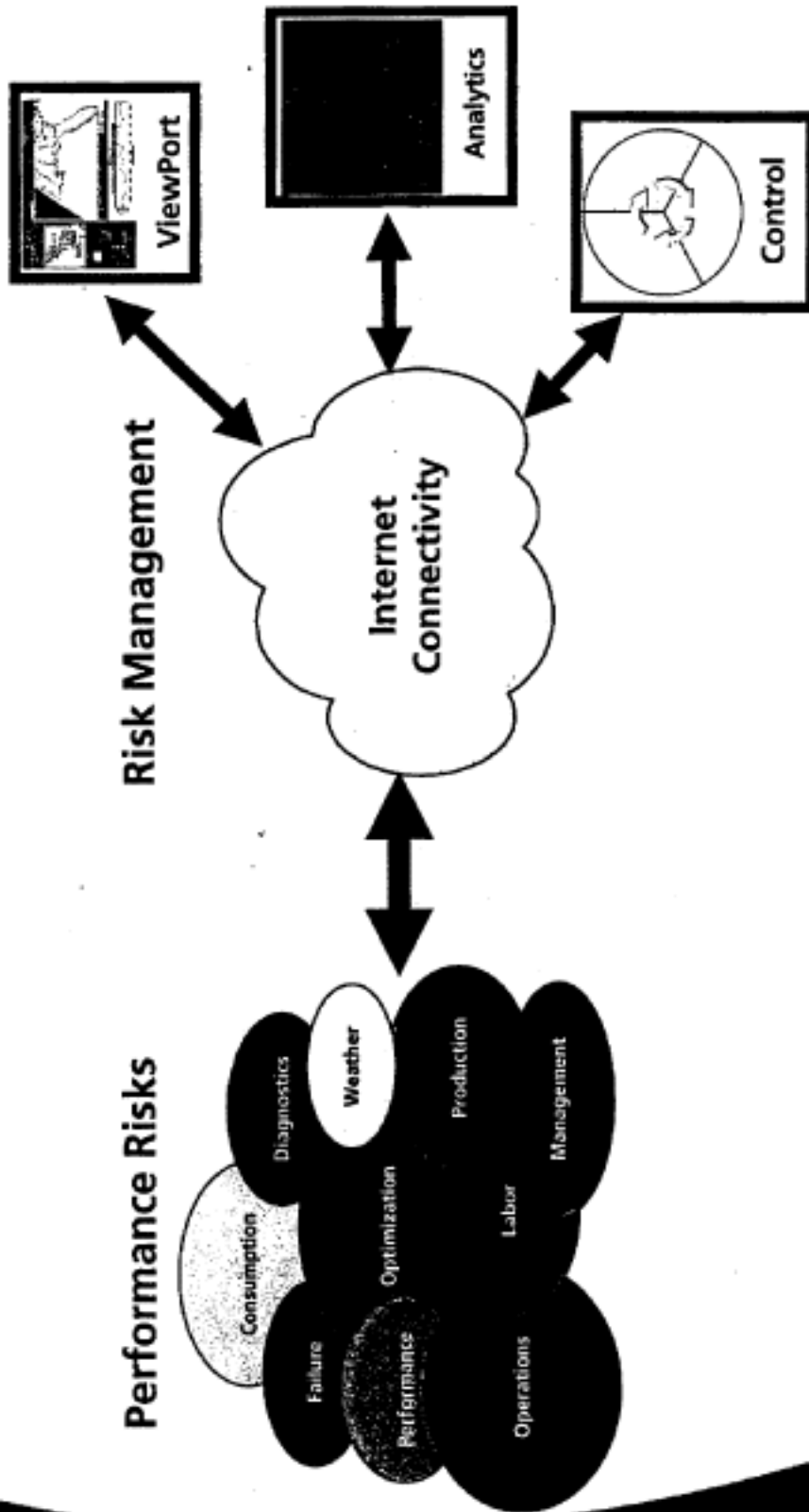


Total Outsourcing for Energy Efficiency



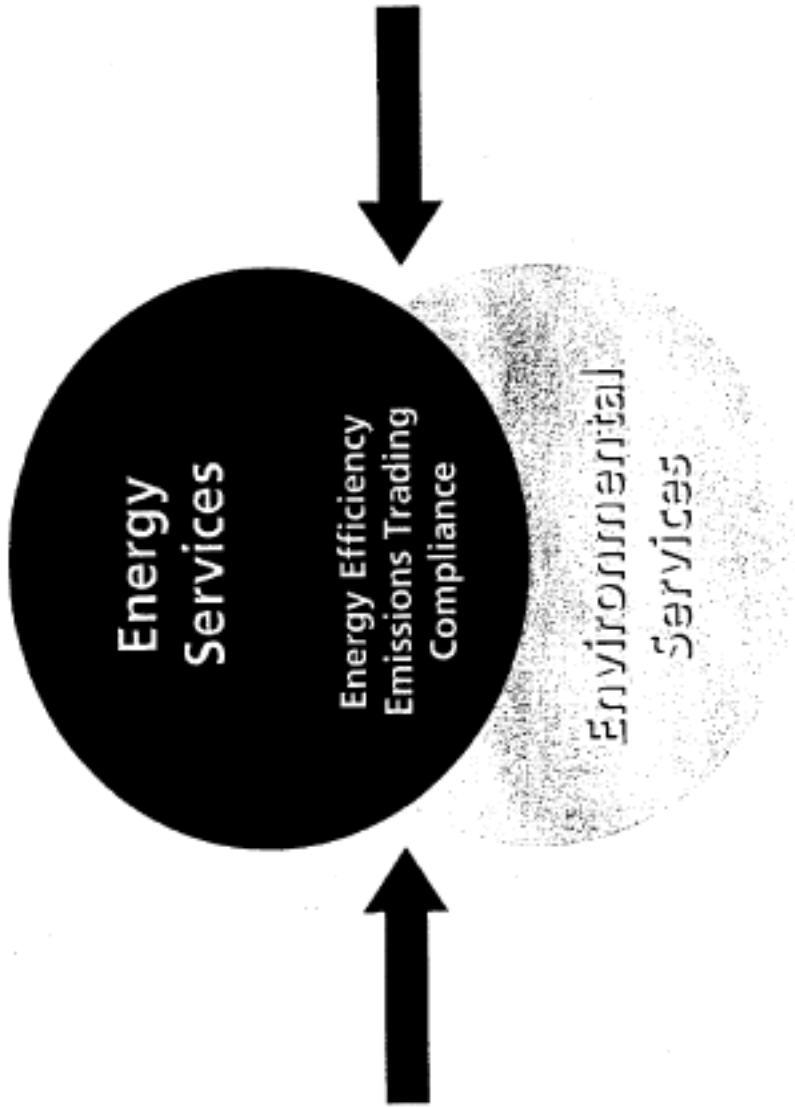


Information-Age Energy Management





Energy-Environmental Nexus





Benefits to Services from WTO Status in GATS Negotiation

**Promote open trade and nondiscriminatory
treatment of foreign investment**

**Encourage "best practices" with privatization
and regulation to achieve transparency, equity
and efficiency**

**Facilitate the globalization of the latest
technologies for economic and environmental
benefits**



Conclusions

Services is the largest and fastest growing segment of the global New Economy

The services market is information-driven, transparent, competitive, and global – government policies must adapt to these realities

Energy services is integral to the New Economy

WTO status is as imperative for energy services as for financial services, telecommunications, and other pillars of the service economy



1775 Eye Street, N.W., Suite 800, Washington, DC 20006

First Class

Address Correction Requested

To:

The Honorable Lawrence H. Summers
Secretary of the Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220



0010000000218



1775 Eye Street, N.W., Suite 880, Washington, DC 20006

First Class

Address Correction Requested

To:

The Honorable Stu Eizenstat
Deputy Secretary of the Treasury
Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3326
Washington, DC 20220



ENRON, WASHINGTON
1775 EYE STREET, NW
Suite 800
Washington, DC 20006
202-466-9145
202-828-3372 (fax)

FAX COVER SHEET

DATE: 1/18/01 11:52 AM
NAME: _____ **fax number:** _____
TO:

The Honorable Lawrence H. Summers
Secretary of Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220
202-622-1100
202-622-0073 (fax)

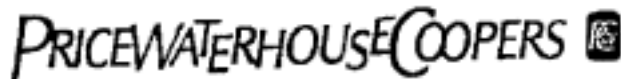
FROM: Linda Robertson, Vice President, Federal Government Affairs
Joe Hillings
Lora Sullivan
PHONE: 202-466-9142
FAX: 202-828-3372

Number of pages: 3

Please see attached press release regarding Bill Archer's decision to join PricewaterhouseCoopers.

Regards.

Linda Robertson



PricewaterhouseCoopers LLP
1301 Avenue of the Americas
New York, NY 10019
Telephone 212-259-1000

Contact: Marc Eiger
(212) 259-3760
marc.eiger@us.pwcglobal.com

For Immediate Release
January 17, 2001, 7:00 a.m.

**Bill Archer,
Former Chairman of House Ways & Means Committee,
Joins PricewaterhouseCoopers**

WASHINGTON, DC, January 17, 2001—Bill Archer, former chairman of the House Ways & Means Committee and Texas Congressman for the past thirty years, has joined PricewaterhouseCoopers as a senior policy advisor. Archer will provide advice to the firm's clients on Federal policy matters and will also focus on trade and international tax issues. He will work with the firm's international offices and global clients on a wide variety of issues facing multinational corporations.

Archer will be based in Washington, DC in the firm's Washington National Tax Services (WNTS) practice. Due to his extensive visibility and contacts in the Houston area, where he has represented the Seventh Congressional District since 1971, Archer will help the PricewaterhouseCoopers office there build stronger relationships with local companies.

"Bill Archer's experience and distinguished record of accomplishments in Congress and as Chairman of the House Ways and Means Committee will add a new dimension to the services we provide our clients and will also help our firm better deal with Federal policy issues," said Samuel A. DiPiazza, Jr., U.S. chairman and senior partner of PricewaterhouseCoopers LLP. "This is a new position within our firm, which we created to take advantage of Bill's special qualifications and vast experience in the tax arena."

Archer's distinguished government experience includes:

- Member, United States Congress, 1971-2001;
- Chairman, House Committee on Ways & Means, 1995-2001;
- Joint Committee on Taxation, 1988-2001, Chairman (1995, 1997, 1999);
- Texas House of Representatives, 1966-1970.

Page 2

Among the numerous awards he has received:

- National Federation of Independent Business, 2000 Lifetime Achievement Award;
- Small Business Council of America, Congressional Award;
- National Federation of Independent Business, Guardian of Small Business Award;
- National Associated Business, Watchdog of the Treasury Award;
- Citizens Against Government Waste, Taxpayers' Hero Award;
- U.S. Chamber of Commerce, Spirit of Enterprise Award;
- Tax Foundation, Distinguished Public Service Award;
- Small Business Council of America, Congressional Award;
- National Venture Capital Association, William A. Steiger Award.

Archer is a graduate of the University of Texas at Austin, where he received BBA and LLB Degrees with Honors. This year, the University created the Bill Archer Center, a new campus and fellowship program in Washington, DC.

PricewaterhouseCoopers (www.pwcglobal.com) is the world's largest professional services organisation. Drawing on the knowledge and skills of 150,000 people in 150 countries, we help our clients solve complex business problems and measurably enhance their ability to build value, manage risk and improve performance.

Washington National Tax Services of PricewaterhouseCoopers provides professional tax advice and counsel to most companies in the Fortune 100, a large number of Fortune 500 companies, and financial services companies. The practice has approximately 500 partners and staff.

PricewaterhouseCoopers refers to the US firm of PricewaterhouseCoopers LLP and other members of the worldwide PricewaterhouseCoopers organisation.

#

Note to Editors: The name PricewaterhouseCoopers is one word, with upper case P, uppercase C, and all other letters in lower case.



Kenneth L. Lay
Chairman and
Chief Executive Officer

January 22, 2001

The Honorable Paul O'Neill
Secretary
US Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
(713) 853-6773
Fax (713) 853-5313
klay@enron.com

Dear Paul:

In my capacity as Vice Chairman of the Business Council, I am writing to invite you to address the morning session of our winter meeting at the Park Hyatt Hotel in Washington, DC on February 22, 2001. If you are able to join us, which we very much hope you are, we will work with your staff to determine the most convenient time for you to speak. We envisage about a 20-minute speech with 10 to 15 minutes with our members.

The Council, formed in 1933, is a voluntary association of America's top 100 or so business leaders dedicated to service in the national interest. As a gathering of current and former Chief Executive Officers from virtually every major industry, the Council is entirely an educational and deliberative forum. The Council does not take positions as an organization; instead, it provides a forum for exchange between the leaders of the US business and government communities in an effort to achieve greater understanding and consensus on the important issues facing our country.

Our winter meeting is held in Washington, DC in order to facilitate broad participation by our nation's top political leaders including the President, Cabinet officers and Congressional majority and minority leaders. We would be delighted to have your participation at this winter's event.

Please feel free to call me directly, or have someone on your staff contact Philip Cassidy (Business Council) at 202-298-7650 or Linda Robertson (Enron) at 202-466-9159.

Sincerely,

A handwritten signature in cursive script that reads "Ken".

Natural gas. Electricity. Endless possibilities.™



1775 Eye Street, NW, Suite 800
Washington, DC 20006

The Honorable Paul O'Neill
Secretary
US Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220



Jeffrey K. Skilling
President & Chief Executive Officer

Enron Corp.
1400 Smith Street
Houston, TX 77002
713-853-6894

P.O. Box 1188
Houston, TX 77251-1188
Fax 713-646-8381
jeff.skilling@enron.com

April 9, 2001

The Honorable Paul H. O'Neill
Secretary of Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

Dear Secretary O'Neill:

I appreciated the opportunity to visit and to talk to you about the West Coast energy markets. As this debate continues to unfold, we stand ready to be a resource to you whether it is policy analysis, economic research or historical industry information.

I look forward to seeing you soon.

Best personal regards.

Sincerely,

A handwritten signature in black ink, appearing to be "Jeff Skilling", written over a faint, illegible background.

Endless possibilities.™



1400 Smith Street, Houston, TX 77002-7367
P.O. Box 1188, Houston, TX 77251-1188

FIRST CLASS
PERSONAL



The Honorable Paul H. O'Neill
Secretary of Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

EAJMP 20220

2001-SE-003680



Jeffrey K. Skilling
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Best personal regards.

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A handwritten signature in black ink, appearing to be "J. Skilling", written over a faint, illegible typed name.

Endless possibilities.™

0010000000382



1400 Smith Street, Houston, TX 77002-7361
P.O. Box 1188, Houston, TX 77251-1188

POST CLASS



The Honorable Paul H. O'Neill
Secretary of Treasury
U.S. Department of Treasury
1500 Pennsylvania Avenue, NW
Room 3330
Washington, DC 20220

FUMP 20220

2001-SE-009940

DEPUTY SECRETARY DAM DAYBOOK FOR THURSDAY, APRIL 5, 2001

1. [OUTSIDE SCOPE]
2. [(b)(6)]
3. JEFF SKILLING (ENRON)

0010000000385

Kenneth W. Dam
Briefing Book
Thursday, April 5, 2001

April 05, 2001

Thursday

April 2001

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
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29	30					

May 2001

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7 ^{am}	
8 ⁰⁰	
9 ⁰⁰	↔ [OUTSIDE SCOPE]
10 ⁰⁰	10:15am-10:45am [OUTSIDE SCOPE]
11 ⁰⁰	
12 ^{pm}	11:45am-12:00pm [(b)(6)]
1 ⁰⁰	[(b)(6)]
2 ⁰⁰	
3 ⁰⁰	[(b)(6)]
4 ⁰⁰	[OUTSIDE SCOPE]
5 ⁰⁰	Secretary O'Neill w/Jeff Skilling, Pres/CEO, Enron re: Energy Crisis, Steel [OUTSIDE SCOPE]
6 ⁰⁰	
7 ⁰⁰	
8 ⁰⁰	

Dam, Ken

1

04/04/2001

6:53 PM

0010000000387

Jeffrey K. Skilling
President and CEO, Enron Corp.

Jeffrey K. Skilling is president and chief executive officer of Enron and sits on its board of directors. Jeff joined Enron in 1990 to further develop the company's nonregulated merchant business within Enron North America (ENA), formerly Enron Capital & Trade Resources. Under Jeff's leadership, Enron pioneered the use of risk management products and long-term contracting structures in the natural gas industry and has since applied similar concepts to the electricity industry. Today, Enron is the largest independent buyer and seller of natural gas and electricity in North America and is extending its capabilities to Internet broadband services.

Prior to joining Enron, Jeff was a senior partner at McKinsey & Company, where he oversaw the firm's worldwide energy and North American chemical consulting practices. Jeff also served as a corporate planning officer with First City National Bank of Houston and as an associate with MJH Nightingale and Company, Ltd., an investment banking firm in London, England. Jeff received a bachelor's degree from Southern Methodist University, and an MBA degree from Harvard Business School.

In addition to his responsibilities at Enron, Jeff sits on the boards of directors for the Greater Houston Community Foundation, the Houston Technology Center, and the Houston Branch - Federal Reserve Bank of Dallas. He is also a member of the Advisory Board for the North American Electric Reliability Council. In 1997, Jeff was recognized by the New York Mercantile Exchange (NYMEX) as the first recipient of its Director's Award for Global Vision in Energy.

Enron is one of the world's leading electricity, natural gas and communications companies. The company, with revenues of \$101 billion in 2000, markets electricity and natural gas, delivers physical commodities and financial and risk management services to customers around the world, and has developed an intelligent network platform to facilitate online business. *Fortune* magazine has named Enron "America's Most Innovative Company" for six consecutive years. Enron's Internet address is www.enron.com. The stock is traded under the ticker symbol "ENE."

03/21/01

0010000000388

BUSINESSWEEK

FEBRUARY 22, 2004 • A PUBLICATION OF THE MCGRAW-HILL COMPANIES

Morgan Stanley

Life after John Mack

Microsoft

A brighter legal outlook

Education

Can Rod Paige fix the schools?

Personal Tech

Hand-helds that do it all

California's energy crisis has put deregulation under fire. But **ENRON'S JEFFREY SKILLING** remains a true believer

POWER BROKER



POWER PLAY

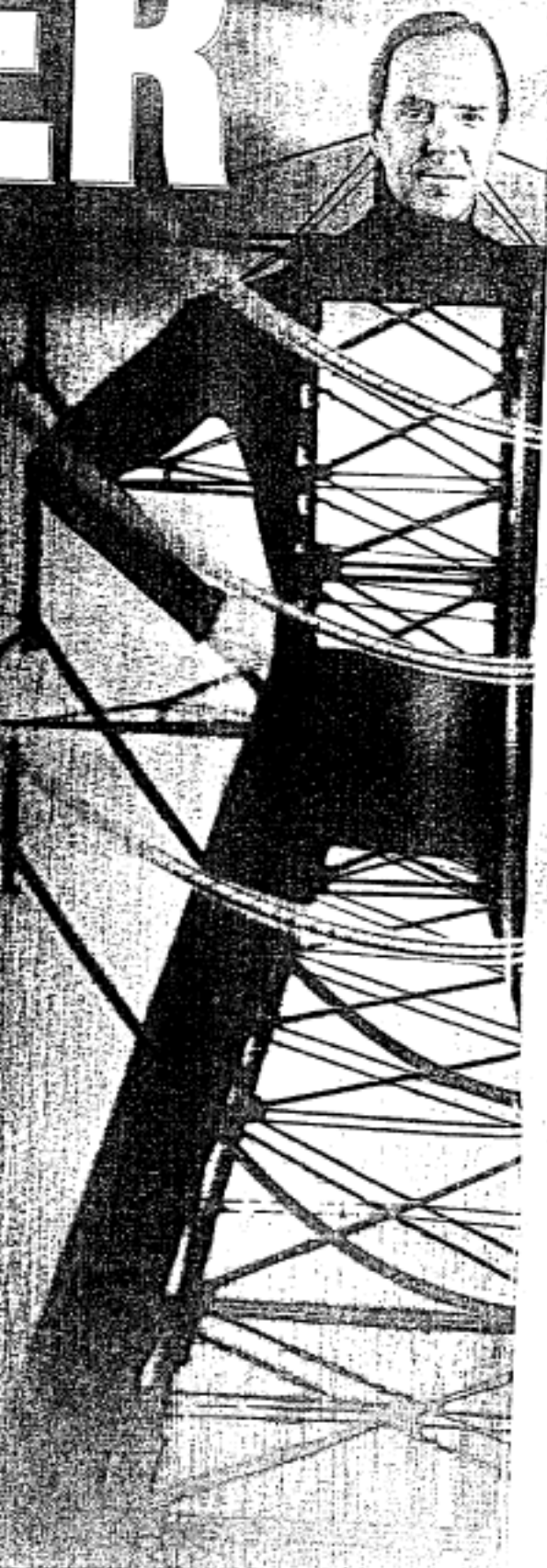
On this cold January day in Houston, Enron President Jeffrey K. Skilling could easily play the pirate that California consumer groups are casting him as these days. After two weeks of sailing with his three children in the Virgin Islands, Skilling's face is slightly sun-

burned, and he sports a rakish post-vacation beard. But the CEO-elect isn't buying the buccaneer image that some have slapped on his company. He clearly thinks Californians should be thanking Enron, not castigating it, for its role in trying to push open the state's power markets. "We're on the side of angels," he says. "We're taking on the entrenched monopolies. In every business we've been in, we're the good guys."

Also, the nation's largest energy merchant is clamoring and suing to get rid of California's great dereg-

Enron, the nation's largest energy merchant, won't let California stand in its way

PRESIDENT SKILLING (LEFT) IS ABOUT TO TAKE OVER FROM CEO FAY.



BY DANIEL ROYAL FOR ENR. CONCEPT BY GUY WELLS. PHOTO BY GUY WELLS FOR ENR.



A ROLLING REACKOUT: HALL'S BUSINESS AT SACRAMENTO CRAFTS SHOP

Enron hotly DENIES accusations of market manipulation from consumers. Meanwhile,

lation experiment. Soaring power prices have pushed the state's utilities to the brink of bankruptcy and forced Third World-style blackouts across the world's sixth-largest economy. Enron and other electricity marketers and generators are being investigated by the state attorney general and sued by consumers amid accusations of profiteering and market manipulation. "Every trading company in the country has been feasting on California, and Enron is the shrewdest of them all. They are like sharks in a feeding frenzy," says Michael Shames, executive director of the Utility Consumers' Action Network in San Diego. Enron, an early critic of California's deregulation plan, hotly denies those charges.

FRICIONLESS? The glaring spotlight on California's botched attempt at deregulation casts Enron in the uncomfortable role of defending its radical business model. Though often grouped

with utilities, Enron produces little power itself and owns relatively little in the way

of hard assets. Instead it has pioneered the financialization of energy, making the company more akin to Goldman Sachs than Consolidated Edison. Its impressive profits stream is squeezed out of a torrent of often low-margin trades, in which it buys and sells a dazzling variety of contracts. The more buyers and sellers, the better for Enron, which is now twice the size of its nearest competitor.

Enron executives paint this as nothing less than a holy war on inefficiency. When the power giants are busted up, scrappy Enron believes it can thrive by delivering just the products and services particular customers want most. And they're thinking way beyond just energy. Skilling, a former McKinsey & Co. director (page 80), is now applying the model to a slew of new markets, including data storage, steel, even advertising space. He believes the company can thrive as a market maker. "Whether it's Enron or not is almost irrelevant," says Skilling. "It's going to happen."

For now, though, California's crisis has abruptly slammed the brakes on efforts to deregulate U.S. retail electricity sales, which are under way in nearly 25 other states. More-

over, that mess may prove to be the death knell for industry hopes that retail deregulation would spread far beyond the 20% of U.S. businesses and homeowners who now can name their own electricity supplier. "Deregulation has lost a lot of momentum," says Kemm C. Farney, vice-president for electric power at consulting firm WEFA Inc. "It's hard to argue that this has resulted in lower bills." Even in overseas markets, where Enron is counting on huge future gains, supporters are watching nervously. Big utilities, particularly in the south of Europe, "want to use California to slow down liberalization," says Jan van Aken, secretary general of the European Federation of Energy Traders.

It's not hard to see why. Sure, the old regulated system was expensive, but at least we knew the lights would turn on when we flipped the switch. However, Skilling and others argue that the battle in California has obscured the reasons for pushing deregulation in the first place. The old utilities, he says, "were incredibly expensive and provided horrible service to their customers." Under the regulated model where utilities could simply pass on costs to customers, they lacked incentives to utilize capacity more efficiently or to offer innovative services. In California, for instance, business leaders pushed for deregulation because they were paying 50% more for power than their counterparts in other parts of the country. At the same time, the utilities themselves were operating high-cost plants with little access to capital to fix their problems, says Farney. The upside of deregulation? "We have a tremendous amount of new construction. It's a direct result of the industry having new access to capital markets," he says.

One of the biggest problems now is that the nation is in a muddled state between regulation and deregulation. For instance, freezing retail prices for consumers and businesses in California while deregulating the wholesale market where utilities shop left the power companies unable to cover their skyrocketing energy costs and pushed them near the brink of financial collapse. Paul W. MacAvoy, a professor at the Yale

Cover Story

THE ENRON WAY

Enron makes money by trading commodities and other contracts. Here's how it works:

ENERGY DEALS

1 Enron has a contract to provide an aluminum smelter with electricity at a fixed price for three years. Enron buys aluminum from the smelter.

2 Prices move down for aluminum and up for electricity. Enron pays the smelter to shut down temporarily, buying cheaper aluminum in the market to meet the smelter's commitments.

3 Enron then sells the electricity elsewhere at a higher market price.

RISK MANAGEMENT

1 A small clothing cataloger asks Enron to create a derivative to protect against hot weather that might hurt sales of winter clothes.

2 For every degree above normal over some period, Enron must pay the retailer a certain amount; for every degree below, the retailer pays Enron.

3 Enron lays off its risk through a deal with a soft drink maker who benefits from hot weather.

fourth quarter, Enron's core wholesale trading and services business reported income of \$777 million before interest and taxes, nearly triple that of a year earlier. Enron's total net income excluding nonrecurring items shot up 32% for all of last year, to \$1.27 billion, on sales of \$100.8 billion, up 150%. Physical volumes of gas and electricity delivered jumped 59%, boosted in part by EnronOnline, the company's year-old Web-based trading operation.

POWERFUL ALLIES. Under a new Republican Administration and a President with strong ties to Lay (page 78), Washington isn't likely to derail deregulation. If anything, Enron will be using the crisis to push for more favorable federal rules for moving electricity from state to state, which could boost its flexibility and trading options. Certainly, Curt L. Hébert, the new chairman of the Federal Energy Regulatory Commission (FERC), is a free-market advocate friendly to Enron's views. "I don't think California is going to be any lesson that stops America from wanting choice. It's going to be a lesson that allows America to learn what not to do," he says.

Still, Skilling and Lay will have to spend precious time and energy on a deregulation battle that Enron seemed well on its way to winning. Already, Oregon, Arkansas, and Nevada are considering a slowdown in their deregulation plans, while northeastern states have put in place wholesale price caps. Some Western governors want Congress to force regional price caps on the wholesale electricity market. And Representative Peter A. DeFazio (D-Ore.) is ready to introduce an "energy re-regulation" bill that

an INVESTIGATION of electricity marketers is under way

col of Management, compares that to the binder that regulates made in the 1970s with the savings and loan industry. ... SALES were restricted to investing in long-term assets, like mortgages, while paying volatile market rates on shorter-term deposits. "There's a widespread opinion in the academic world that regulation is bad, but partial and phased-in deregulation is much worse," says MacAvoy.

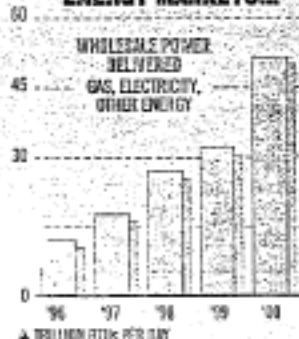
Skilling argues that Enron's exposure to fallout from California is minimal. Its biggest business is in the wholesale market, serving utilities and big industrial customers who under federal law already have the right to choose their electricity suppliers. And wholesale markets in Europe and Japan are rapidly opening their doors. That explains why most observers believe that Enron will emerge with its earnings engine intact. "We do not expect the California situation to have any significant impact on Enron's financial outlook," says Skilling, who is set to take over the CEO title from Enron Chairman and CEO Kenneth L. Lay on Feb. 12. In the

would overturn the 1992 U.S. Energy Policy Act. "Electricity is not a commodity fit for the competitive marketplace. Private investors don't have public safety in mind," says Doug Heller, consumer advocate with the Foundation for Taxpayer & Consumer Rights in Santa Monica, Calif., which is pushing for a referendum to have California take over much of the power system.

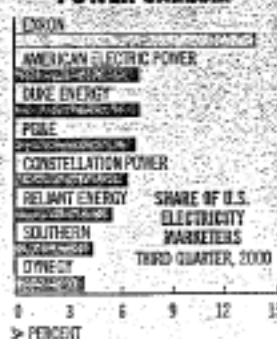
If that kind of radical sentiment spreads beyond the California border, Enron could find its growth prospects, even in the \$220 billion wholesale market, sharply curtailed. And it would surely be bad news for Enron's latest effort to crack the retail market: a separately owned company formed last May with then-America Online Inc. and IBM called the New Power Co. Enron tried four years ago to enter the residential market in California but quickly backed out when it found the state's new rules wouldn't let it turn a profit.

The hyperconfident Skilling is unrepentant about his company's long role as a deregulation crusader. Enron benefits

ENRON TAPS VOLATILE ENERGY MARKETS...



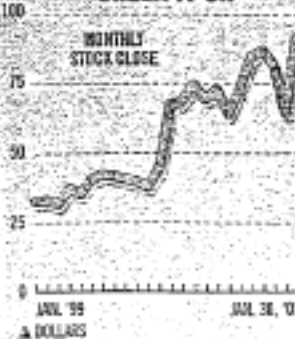
...TO DOMINATE POWER SALES...



...AND GENERATE HUGE PROFITS...



...WHILE INVESTORS CHEER IT ON



Data: Enron Corp., Power Markets Week, Merrill Lynch & Co., Bloomberg Financial Markets

from volatility, not high prices, he says. In California, where Enron doesn't own power plants, the company insists it is dealing in thin margins. "Depending how markets are swinging around day to day, we're either making a little money or losing

a little money on that," says Lay, although he

won't break out specific figures for California. If anything, says analyst Donato J. Eassey of Merrill Lynch & Co., operating margins are getting thinner—in the entire wholesale business they were 2.4% last year, vs. 3.7% in '99 and 3.6% in '98. That's O.K., says Eassey: "I'll take that margin pressure with a 72% earnings growth rate on that [wholesale] business."

In its gleaming Houston office tower, Enron has seven floors of some 1,500 traders making markets in gas, electricity, metals, bandwidth, and other products. Enron, for example, posts prices for an array of energy contracts. With the click of a mouse, utilities caught short on supply can make a deal. Likewise, generators with excess capacity can find prices Enron is willing to pay. Enron pockets a spread on the deal. The traders are supported by a back-office team that schedules pipeline and transmission capacity to actually deliver gas and electricity, checks credit, and handles billing. Each desk of two or three traders used to handle about 100 transactions a day when doing their business by phone. Now a desk handles 800 to 900, mostly on EnronOnline.

Enron's success has not gone unnoticed, but it has a few advantages that competitors would be hard pressed to match. First is its expertise; it pioneered the model. It has dozens of PhDs in mathematics, physics, and other disciplines, and even hired a former shuttle astronaut to schedule satellite time. Enron also has built a huge network of buyers and sellers with a wide range of commodities to trade. With its deep pockets Enron has plenty of capital to keep its markets liquid.

A big part of the value Enron provides is helping companies manage risk, especially the risk of big price swings or delivery snafus. One example: In 1999, Peoples Gas, Light & Coke Co. of Chicago, a local distribution company, signed a five-year gas procurement deal with Enron. Enron took over Peoples' scheduling of gas pipelines and storage, assets that Enron then could use to meet commitments for a broad array of other customers. In the meantime, it procures gas daily as Peoples needs it, provides working capital, handles accounts receivable and payable, manages storage, and finances the gas in storage. "This is our distinctive competence—bringing the whole thing to the table," says Skilling. "No one's our equal in that." And Enron has pioneered contracts to manage other kinds of risk too, including weather.

Enron's deregulation roots reach back to the early '70s, when Lay, an economist by training, began promoting opening gas markets as an Under Secretary of the Interior in the Nixon Administration. In 1986, Lay took over Enron, the product of a merger between two pipeline companies. He warned federal regulators that pipelines like his were in danger of sinking under rules that crippled their ability to compete with low-priced oil. The FERC finally changed the rules starting in 1985, freeing utilities to shop for gas and the pipelines to

IS THERE ANYTHING THEY CAN'T TRADE?

Enron still makes most of its money trading energy. Its earnings from sales to utilities and other wholesale customers should grow at a 35% to 40% annual pace for at least several years, it says. However, the company is also branching out into entirely new markets:

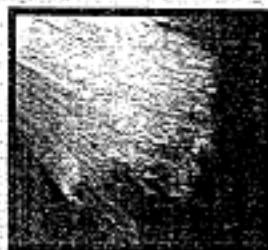
UTILITIES/ENERGY

Enron signed new contracts worth \$16 billion last year to manage energy needs for big business customers.

BROADBAND

It projects a \$450 billion worldwide market for communications bandwidth trading and services by 2005.

It has begun distributing video-on-demand and other content over its own high-speed fiber network to customers like Blockbuster.



PAPER/PULP AND LUMBER

Enron launched a specialized Web site, Click paper.com, tailored to the \$330 billion wood-products market, and bought newsprint maker Garden State Paper Co. for \$72 million last October to ensure access to supplies.

MEDIA

The plan is to create a market for trading advertising time and space in TV, radio, and print. That includes offering advertisers, TV networks, and publishers ways to hedge risks, such as long-term, fixed-priced contracts.

STEEL

The company's first target is a \$22 billion segment of the commodity steel business. Enron plans to lease a network of regional distribution centers to ensure reliable deliveries.



search for customers. Enron embraced the changes with gusto, rapidly becoming the largest buyer and seller of gas in North America. It then pushed just as aggressively to open wholesale and retail electricity markets, to the chagrin of the nation's entrenched utilities. In Ohio, it offered consumers coupons for free electricity to build political support for deregulation. In California, it fielded an army of regulatory attorneys to battle the state's utilities over the rules of engagement.

SERIOUS FLAWS. The seeds of California's energy debacle were planted long before deregulation set in, though. Thanks to environmental concerns, poor planning, and uncertainty about the rules of deregulation, California's power supply in recent years has been growing far slower than demand, which was driven by an expanding population and its increasing use of energy-sucking technology. The badly flawed 1996 deregulation scheme—some terms of which Enron and others fought from the start—only exacerbated the problems. It included a pricing system that prevented utilities from locking in long-term supplies at fixed prices and from passing on higher fuel costs to customers. Without rising prices, consumers had no incentive to reduce demand and utilities couldn't pay their soaring wholesale power bills. That

Cover Story



TOP: DAVID H. PHOTOFEST; BOTTOM: LAWRENCE MARRACORINO; RIGHT: SCOTT FASSBERG; MIDDLE: MARK BARK

scared away some power suppliers and created the financial crisis from which the state is still trying to dig out.

By now there is nearly universal agreement that the biggest flaw in California's deregulation plan was the decision to force utilities to buy all of their power needs one day in advance from a newly formed entity

called the California Power Exchange. The theory was that the exchange would provide the most transparent prices, since every buyer and seller had to operate through it. Whatever power didn't get bought through the exchange would be purchased on a last-minute basis the following day by another entity called the Independent System Operator (ISO).

But many observers believe this two-step setup encour-

phased out. Enron applauds that move. And even some of the hardest-hit power users in California haven't given up on deregulation. California Steel Industries Inc., a Fontana (Calif.)-based steel producer, lost power 14 times in January, costing it millions of dollars. Yet Lourenco Goncalves, its president and CEO, is not advocating a return to regulation: "Deregulation is a good idea," he says. "We just need to treat this like a business and fix what went wrong."

The energy crisis comes just as Enron is vigorously pushing its promise of efficiency and lower prices into a slew of new commodities. "Look at pulp and paper. Look at all those salesmen who play golf all day.

ENRON'S HOUSTON TRADING FLOOR: THIN MARGINS AND GROWING VOLUMES

For a commodity, for crying out loud. You don't need to play golf to sell a commodity," blurts Skilling in his typically blunt style. In these new arenas, Enron won't face the kind of regulatory obstacles it must eliminate in energy. But it's no wonder that many players will resist what they see as an arrogant and menacing middleman. The California experience gives them new ammunition. Enron and other traders "sure as hell haven't done a very good job of protecting the American public from the rising price of natural gas or electricity. I don't see that they bring any real value to the steel marketplace," says Daniel R. DiMiccio, CEO of Nucor Corp., one of the nation's leading steelmakers.

In one of his first big bets outside of the energy patch, Skilling is attacking the telecommunications industry. In the past year, Enron has spent nearly \$500 million to create its own high-speed fiber network. But the goal is not to be a traditional telecom player. Instead, Enron wants to create a



The company's recent **SUCCESS** is sure

to make its competition more aggressive

aged generators to offer less power to the exchange and instead to wait until the last minute to sell power to the ISO, which out of desperation would have to pay higher prices. In three lawsuits, consumer groups, municipal water districts, and the City of San Francisco allege that Enron and other electricity marketers engaged in unlawful market manipulation. Several investigations so far have failed to prove collusion by Enron or others. But one study said that the soaring prices couldn't be explained by such factors as high demand and rising fuel and environmental costs. "We concluded that power was being withheld inexplicably, at the exact time at which prices were most vulnerable to manipulation," says Edward Kahn of the Analysis Group/Economics, a co-author of one study backed by the parent of utility Southern California Edison. Adds co-author Paul L. Joskow, a professor of economics at Massachusetts Institute of Technology: "It was bad regulation, bad market design, bad luck, and greed."

NOT ROLLING OVER. Enron dismisses the study as flawed and stated to favor the utility that paid for it. Meanwhile, the attorney general's office, state Public Utility Commission, and FERC are all continuing to investigate. California's current plans to fix the problem involve the state becoming the lead buyer, through long-term contracts that take the uncertainty out of pricing. The Power Exchange is being

vast spot market for high-speed communications capacity, and ultimately a futures market. Consider its deal with Blockbuster Inc. The two signed a 20-year pact for Enron to deliver movies-on-demand to Blockbuster customers, a service that's now in four test markets. Instead of having to build its own network and coordinate a multitude of agreements with local high-speed communications providers, Blockbuster turned the whole thing over to Enron. It pays Enron per movie, getting only the capacity it needs, when it needs it. For now, those movies are moving mostly on Enron's 13,500-mile fiber network. But as a robust market for trading bandwidth develops, Enron could pluck the capacity it needs from other communications companies. It may even sell its fiber network when it no longer needs the physical capacity to ensure delivery to its customers. "The minute I don't need it, it's gone," says Skilling.

Indeed, Enron's new CEO has already demonstrated that he doesn't linger over troubled assets. To help fund its vast ambitions, Enron expects to shed more than \$2 billion in plants and other properties around the world this year, including a gas production plant in India and a wind-power company in California. In the fourth quarter, the company took a \$326 million after-tax charge to cover problems at

ENRON SOURCE

Azurix Corp., its failed water business that's likely to be busted up. Under Skilling, Enron is essentially abandoning its once-ambitious plan to build power plants, pipelines, and other facilities around the globe.

Cover Story

Now, Enron will build assets where they clearly support the trading operations, including places like Spain and Japan. Rival energy marketer and producer Dynegy Inc. of Houston questions just how competitive Enron can be without a significant physical presence in its new commodities "to give you that incremental intelligence," says CEO Chuck Watson. Without

that, "you don't really have a competitive advantage." But investors don't seem worried. Indeed, Enron's stock is up about 175% in the past two years. "One thing about Enron is they're incredibly well managed, very smart, and entrepreneurial," says portfolio manager Robert L. Shoss of shareholder AIG Capital Management Inc. "They've proven they deserve the benefit of the doubt."

As Enron gets bigger, maintaining its entrepreneurial culture and stiff risk-management controls will surely prove a bigger challenge. And more competition from strong rivals, like Dynegy, means "a lot of the margins are going to go away," says one utility analyst. "Early entrants get generous margins that attract other competitors." One of the biggest

ENRON'S BIG WHEEL HAS A HEAVY TREAD

Texas business has always prided itself on its "can-do" attitude. But when it comes to prodding government policymakers to action, nobody comes close to Enron Corp. CEO Kenneth L. Lay. "In recent years, that has become Ken-do," says Chase Untermeyer, director of government affairs at Compaq Computer Corp. and chairman of the Texas State Board of Education.

So what has Ken done? In Houston, Lay led the fight for a new baseball stadium, which opened last April under the Enron name and with \$100 million of its funding. As chairman of the Governor's Business Council under former Governor George W. Bush, Lay pushed for and won state education reform, litigation curbs, and tax



KEN LAY AT THE OPENING OF ENRON FIELD WITH PRESIDENT BUSH, FORMER AND CURRENT

High on Enron's list of priorities is federal authority to approve interstate electricity transmission lines. Lay says he was willing to serve in a key Bush Cabinet post but didn't lobby for a job, and no offer came: "I've got a job, and I can support President Bush in a lot of other ways, just like I did his father."

Beyond the White House, Enron has a vast lobbying operation that pushes issues such as deregulation, tax breaks, telecom, trade, and envi-

Lay was PRESIDENT BUSH'S leading

patron during his years in Austin

cuts. In Washington, Lay's army of lobbyists has sought everything from electricity deregulation to tax breaks.

Now, with Bush in the White House, Lay stands to become one of the most influential corporate players in the country. With the public furor over California's power crisis, he'll work to stave off cries for reregulation of electricity. Says Craig McDonald, executive director of Texans for Public Justice, a liberal consumer advocacy group: "Enron is at the top of the top group of corporations that has the ear of George W. Bush."

"PIONEER." Indeed, the ties between the Texans run deep. They share a background in the energy business and a free-market worldview. Lay was a big backer of the first President Bush, whose Secretary of State James A. Baker III and Commerce Secretary Robert A. Mosbacher were hired as Enron consultants after Bush's '92 defeat. Enron was the

younger Bush's leading patron in Austin, donating more than \$550,000 to the governor, according to the Center for Public Integrity, a Washington watchdog group. When Bush set his sights on the White House, Lay was one of 212 "pioneers" who raised more than \$100,000, and Enron was the campaign's top supplier of corporate jets. Enron donated \$250,000 for the Republican national convention. In addition, Lay sent the maximum \$5,000 to the Florida recount legal fund, and gave \$100,000 to the inaugural committee.

Lay, who steps down as Enron's CEO this month but will remain chairman, intends to stay plugged in. During the Presidential campaign, he was a key Bush adviser on energy. He has since been named a "transition adviser" to the Energy Dept.

ronmental quality. While Enron tilts toward Republicans, it gives generously to both parties. In the 2000 election, the company and its top execs funneled \$1,086,350 in soft money to Republican Party committees and \$519,565 to Democrats, says the nonpartisan Center for Responsive Politics.

Those who have been subjected to Enron's lobbying efforts say the company is persistent but not overbearing in pushing its agenda. "They are forceful and they are persuasive," says former Hill staffer David M. Nemtsov, now president of the Alliance to Save Energy, a nonprofit coalition of companies and government officials. With friends in high places, the next few months will determine just how much Houston's Ken-do can do.

By Richard S. Dunham and Laura Cohn in Washington

PHOTO BY AP/WIDEWORLD

risks is that Enron simply can't create the open markets it needs. California stands as a stark reminder of that. If the state goes back to a "cost-of-service" utility model, where utilities simply pass through their costs to consumers, "that

would cause us trouble," says Skilling.

But Skilling and other industry players don't think that's likely to happen, as other states such as Pennsylvania prove their deregulation models can work. Indeed, some believe that the nation's muddled effort to move toward deregulation is the best of all worlds for Enron. "If the market were really open and very, very efficient, there

isn't a lot of need for these trading intermediaries," says Lawrence J. Makovich, a senior director of electric power research for Cambridge Energy Research Associates. Luckily for Skilling and Enron, that's one vision that's likely to remain a pipe dream for some time.

By Wendy Zellner in Houston, with Christopher Palmeri in Los Angeles, Peter Coy in New York, and Laura Cohen in Washington, D.C.

BusinessWeek Online

For an interview with Skilling, go to the Feb. 12 issue online at www.businessweek.com

DERRING-DO IN THE CORNER OFFICE

Ask Jeffrey K. Skilling's friends about the soon-to-be chief of Enron Corp., and you're likely to hear some tale about his adventure-seeking. Like the time he led some executives and customers on a 1,000-mile dirt-bike trip through Mexico, returning home black and blue. Or how in planning for a coming African safari he wished for the kind of outing "where someone could actually get killed," says Kenneth D. Rice, head of Enron's new broadband-services business.

For a man who spends his life unaging risk at the nation's largest energy merchant, Skilling's out-of-the-office pursuits might seem perplexing. But Enron executives insist that CEO-elect Skilling, 47, combines an odd mixture of tight risk-management controls with a freewheeling entrepreneurial style that has helped boost Enron from \$4 billion to more than \$100 billion in revenues since he joined in 1990. "He's the most innovative guy I've ever been around," says Richard A. Causey, chief accounting officer.

BOY WONDER. From an early age, Skilling, the son of a sales manager for an Illinois valve company, showed the same kind of supreme self-confidence and derring-do that are his trademarks now. Consider his first full-time job at age 13, as chief production director at a startup Aurora (Ill.) tv station. Skilling's first duties were to paint walls at the station, but he quickly learned how to operate every piece of equipment in the place. When the older production director quit in a huff on opening day, Skilling was the only one qualified to take the job. The station went on the air each day at 4 p.m., when Skilling's mother could drop him off after school. "I liked being successful when I was working, and I was

smart," says Skilling, with no trace of modesty.

After graduating with a degree in applied science from Southern Methodist University in Dallas, Skilling went to work for two years for First City National Bank of Hous-

ton, first in operations and then in asset and liability management. After he left, the bank went bust when oil and real estate crashed, ruining the lives of some of Skilling's former colleagues. He credits that experience in part for his intense focus on risk controls at Enron. The bank "had taken this enormous concentrated risk and wasn't able to lay it off," he says.

After graduating in the top 5% of his Harvard MBA class in

1979, Skilling joined McKinsey & Co. in Houston. He alerted executives at one of his energy clients, an Omaha-based pipeline company called InterNorth, to looming problems with overpriced gas contracts. With his help, they created one of the first U.S. gas-marketing organizations.

When InterNorth and Houston Natural Gas merged to form Enron in 1985, CEO

Kenneth L. Lay hired McKinsey and Skilling to help rev up new products. In 1987, Skilling led the creation of the first forward contracts in the gas business, which producers could use to secure financing. When Lay offered him a job in the fledgling trading business, he took it. He rose to CEO by outperforming Enron's asset-development group, which delivered smaller returns on costly overseas power plants. Skilling has never looked back. "I knew this was big," he says. And getting bigger all the time.

By Wendy Zellner in Houston

JEFFREY K. SKILLING

BORN Nov. 25, 1953, Pittsburgh

EDUCATION B.S., applied science, Southern Methodist Univ., 1973; Harvard MBA, 1979

CURRENT JOB

President and COO, Enron Corp.; becomes CEO on Feb. 12

FIRST JOB AT

13, was chief production director for an Aurora (Ill.) TV station

INTRODUCTION TO ENRON

Joined McKinsey & Co. after Harvard and worked with Enron in '87 to create the first forward market for natural gas

HOW HELL CHANGE AS CEO "I'll probably have to be a little less blunt"

BROKEN BONES Eight, including at least one from rock climbing. Broke his back while working one summer on an Illinois highway, which helped him avoid the Vietnam draft

SELF-EVALUATION "I've never not been successful in business or work, ever"

FAMILY Divorced; one daughter, 16, and two sons, 15 and 10



Q&A with Enron's Skilling

FEBRUARY 12, 2001

"In every business we've been in, we're the good guys"

As President Jeffrey K. Skilling prepares to take the reins of Enron Corp. on Feb. 12, he acknowledges that his new role of CEO may require him to be a little "less blunt." Interviews with Skilling at his Houston headquarters make clear doing so will be a challenge for one of the most innovative, provocative players in the energy patch.

Thanks to Skilling and his more diplomatic counterpart, current CEO and Chairman Kenneth L. Lay, Enron has quickly transformed itself from a lumbering pipeline into North America's largest buyer and seller of natural gas and electricity, along with a slew of energy-related financial derivatives. And it's quickly conquering Europe and heading for Japan. While California's troubles with electricity deregulation have caught Enron in the spotlight, Skilling hasn't lost faith in free markets and how the company can benefit from them. Here are edited excerpts of his conversations with Dallas Bureau Chief Wendy Zellner:

Q: When did you see that your trading model could be applied in a much broader way than just natural gas, where Enron started?

A: The real breakthrough for us was electricity. Everyone told us we were crazy, that this just absolutely wouldn't apply, that gas and electricity were different.... I used to remember thinking, well, so what? It's a commodity, for crying out loud. We had the burden of proof, but we were right. We were able to create a market very similar to the market in natural gas.

We'd hear talk about what business-to-business people were going to do in these verticals [bandwidth, steel, pulp, and paper]. It was almost naive. We've created markets, and we knew what it took. And it's not as simple as putting a screen up and saying, O.K., everyone, come and buy and sell the stuff. It's logistics, the back office, the scheduling, the risk management, the credit — all the things that make markets operate. We've done it in gas, we've done it in electricity, we're doing it in bandwidth.

Q: But doesn't market knowledge count for something?

A: Most of the B-to-B guys weren't bringing the market knowledge. Most of them were from outside the industry [and were forming alliances with industry players]. We'd seen in the gas and the electricity business that the incumbents will fight you to the death. Anyone trying to create an open, transparent market is [their] worst nightmare, right?

Q: What's different about taking on the incumbents in these new arenas vs. energy, where you had some assets and market knowledge?

A: We'll see.... Maybe we're just crazy enough to think the parallels are pretty clear. I think the challenge is exactly the same. You've got to create liquidity, and you have to create a transaction infrastructure that allows people to [be certain] that if they need the product they can transact for [it] at a price. Once you've got that, then you see these markets explode. At least, that's been our experience in gas and electricity.

Q: Why is it so difficult for others to gain market share in your business?

A: If you look at this whole concept of creating markets, the fundamental advantage of a virtually integrated system vs. a physically integrated system is you need less capital to provide the same reliability. How do you do that? It's a financial theory. Nondelivery is a nonsystematic risk. If a pipeline blows up or a compressor goes down or a wire breaks, the bigger your portfolio, the greater your ability to wire around that.

So, if for example, I'm just starting in the gas merchant business and I'm selling gas from central Kansas to Kansas City, if the pipeline [between those places] blows up, I'm out of business. For Enron, if that pipeline blows up, I'll back haul out of New York, or I'll bring Canadian gas in and spin it through some storage facilities. If you can diversify your infrastructure, you can reduce nonsystematic risk, which says there's a...very strong tangible network effect.... But you've got to get big, you've got to get that initial market share, or you're toast. That's why we'll continue to see shakeouts in this business. It's impossible to manage risk if you're a little player.

Q: Do you see yourself as sort of trustbusters in other industries?

A: If you walk around the halls here, people have a mission. The mission is we're on the side of angels. We're taking on the entrenched monopolies. In every business we've been in, we're the good guys. That's why they don't like us. Customers love us, but the incumbents don't like us. We're bringing the benefits of choice and

free markets to the world. You have no idea how frustrating it was in the early days of gas. They had built all the rules to protect their monopolies.

Q: Has your broadband business developed the way you thought it would?

A: When I look at the broadband business, we're way ahead of where we were at this [stage] in electricity. We did over 300 transactions last year, which is great. The first year in electricity, I'd be surprised if we did 50.... There's a huge, huge glut [of high-speed communications capacity]. This is exactly our environment. This is natural gas in 1988.

Look at the telecom business. What's the price of throughput? It's collapsing. It's like gas prices did. They're all absolutely leveraged to the hilt, and they need money. [He figures that gives Enron an opening to create forward contracts that will allow such players to get financing, as it did in the gas business.]

Q: But in steel and pulp and paper, those players have been around a long time and gone through more commodity cycles than the telecom guys. Why has it taken so long for industries like that to get on board your market-making model?

A: The old way they reduced the risk is they'd vertically integrate. If you were Exxon in the old days, you integrated across the whole chain.... If you were afraid crude-oil prices would go down, you'd own the refinery, too, because you liked it if crude prices went down.... That made a lot of sense...because it was very expensive to make sure you could get reliable supplies of crude oil to go into a refinery if you didn't own the crude oil.

Well, now you go on your computer and get it instantaneously.... If you have somebody who comes along and says hey, look, I'm going to virtually vertically integrate because it's a whole lot cheaper, you're not going to be cost-competitive.

Q: Do you have a different strategy when it comes to assets than some of your competitors who are buying up power plants?

A: Right now, it's not a bad thing to have, but two years or three years from now.... Electricity is a totally undifferentiated product. It's going to be worse than the commodity chemical business. The last thing you want, in my view, is a gigantic navy of power plants.

Q: But someone has to own the plants. In your view, who would want them?

A: Financial institutions, insurance companies, and pension funds. They have the lowest cost of capital. What we should be doing as an industry is packaging them in a way where we take away the risks that they don't like. They don't like to operate things. They don't like to take the risk on commodity prices. We ought to do that stuff and then sell them the underlying asset with kind of an annuity return.

Q: Is there any kind of commodity that doesn't fit what Enron does?

A: Things that are really unique, one of a kind, knickknacks. And any truly financial commodities don't do much for us. I don't want to compete with Goldman Sachs because I'm not good at what they're good at. They're not good at what I'm good at. I want to focus on things where there tends to be a dedicated, unique delivery and logistics system attached to the commodity and a quasi-commodity. If it doesn't have either of those, I'm not real interested.

Q: How much growth [potential] is in the energy side of the business?

A: If you look at the wholesale side, between the U.S., Europe, and Japan, probably only about 20% of the market has converted from regulated to nonregulated. If we just hang on to our market share, we'll grow by a factor of five over the next couple of years.... Our investors should be watching carefully how we do in pulp and paper and metals. If we're successful there, that's ironclad proof the model translates beyond pure network businesses, like gas and electricity and bandwidth. Then there's really no stopping.

Q: Do you fear you're spreading yourselves too thin, given how much growth is left in the core business?

A: I really don't. I think it's just the opposite. [Enron is out of exploration and development and international development of assets in 27 countries.] Two years from now, we'll be making markets in a number of different commodities, but we'll be making markets — and that's it.... In a lot of ways we're concentrating, getting more focused as time goes on.

Q: What did you learn from the Azurix flop? [Water company Azurix is an Enron spin-off that it recently bought back, after the company failed to meet earnings expectations and the share price plummeted.]

A: It reinforced the realization that it's very hard to earn a compensatory rate of return on a traditional asset investment.... In today's world, you have to bring intellectual content to the product, or you will not earn a fair rate of return.

Q: How do you see outgoing CEO Ken Lay's role changing? [Lay remains as chairman.]

A: Ken has always been in a lot of ways the face of Enron to the outside world, and that's great because Ken is a tremendous representative of the company with the government, the regulators, the customers. I hope Ken will keep doing that. To be honest, I don't think there's going to be a whole lot of change in the way we work together.



①
SECRETARIAT
2002 JAN 18 A 8:11
DEPARTMENT OF
THE TREASURY

January 17, 2002

Dear Secretary Paul O'Neill:

This week, government-sponsored enterprise (GSE) Fannie Mae announced record profits for 2001, with net income rising to \$5.9 billion - 33% higher than in 2000. While such announcements bode very well for shareholders, American taxpayers face far greater risks in view of startling rise in debt being acquired by GSEs.

I encourage you to take a few moments to review the attached document, which outlines the potential risks the GSEs could place upon on the U.S. financial system. For additional information or to discuss these issues, please contact us at (202) 637-8281 or visit our website at www.fmwatch.org.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mike House".

Mike House
Executive Director



January 17, 2002

TO: Secretary Paul O'Neill
FROM: Mike House, Executive Director - FM Watch
SUBJECT: Fannie Mae's Record Profits Pose Unprecedented Risk to American Taxpayers



Fannie's Record Profits Pose Record Risk for U.S. Taxpayer

Government-sponsored enterprise (GSE) Fannie Mae announced on Monday, January 14, record profits for 2001, with net income rising to \$5.9 billion - 33% higher than in 2000. While such announcements bode very well for shareholders, American taxpayers face far greater risks in view of Fannie Mae's startling rise in debt, according to a new report on GSE debt issued by FM Watch. For years, the GSEs have been permitted to operate on thin capital cushions built for best-of-times assumptions. Recent developments illustrate the problem has grown:

At the end of September of 2001, the value of Fannie Mae's shareholder equity was \$5.6 billion lower than where it had been at the end of June as a result of risky hedging in the derivatives market. This reduced the company's equity by \$10.6 billion. Fannie Mae's debt/equity ratio then stood at 53:1, five times more than the average for commercial banks. Monday's release from Fannie Mae reveals that shareholder's equity at the end of 2001 was still \$1.3 billion lower than where it was at the end of June, as a result of its risky hedging. Its debt/equity ratio was 42:1. Truth be told, if Fannie were regulated like a commercial bank, it would face serious risk of closure.

Since September 11, the nation has learned that risks once deemed improbable can quickly become possible. With the nation in a recession, all financial institutions risk being adversely affected but none more than Fannie Mae. Excesses of this type are bad in good times - but they are unconscionable and dangerous in bad times. The savings and loan crisis taught America that under-regulated financial institutions can impose painful costs on U.S. taxpayers in an economic downturn. More recently, the collapse of Enron has underscored the riskiness of derivatives and the need for sufficient oversight. This is particularly true where, as in the case of the GSEs, market perception of an implicit government guarantee presents a substantial risk of a taxpayer bailout.

The Size and Growth of GSE Debt

In recent years, the dramatic growth in GSE debt has significantly increased the risk to U.S. taxpayers. Fannie Mae and Freddie Mac have increased their debt six-fold since 1992, from \$196 billion to \$1.26 trillion in the third quarter of 2001. In a decade when Treasury borrowing dropped dramatically, uncontrolled GSE debt was moving in the opposite direction. Almost unbelievably, the GSEs now guarantee more debt and mortgage-backed securities (MBS) than all comparable U.S. Treasury debt.

- Continued -

0010000000401

This debt has been issued chiefly to fund a lucrative investment portfolio, which was undertaken solely to grow profits for GSE shareholders. Here's how it works: the GSEs borrow funds cheaply because of their implicit government guarantee, and then invest them. The above-market returns are highly profitable - but do nothing to increase American homeownership. In 2000, both GSEs reported that this arbitrage investing accounted for approximately 60 percent of their net income. That's like a local government issuing a revenue bond to build a schoolhouse, and then using part of the money to play the stock market. If the GSEs bet right, their shareholders profit. If they're wrong, the U.S. taxpayer loses.

Excessive Leveraging

Compounding this debt growth, the GSEs are also leveraged far beyond what would be permitted for other financial institutions. At year-end 2000, the GSEs' debt-to-equity leverage for on-balance sheet liabilities was 30:1 versus 11:1 for commercial banks. If the GSEs were to meet the standards imposed on commercial banks, they would have had to hold \$82 billion in capital - or double the amount at that time. In their current condition, the Federal Reserve would deem them "significantly under-capitalized" - and they would face serious risk of closure. These institutions simply are woefully undercapitalized - a situation that becomes more perilous during a recession.

Risky Derivatives Hedging

The GSEs attempt to mitigate the risk associated with their debt through extensive reliance on derivatives. From 1995 to 2000, the GSEs' derivatives exposure increased over 400%. At the end of 2000, the GSEs had \$749 billion in such exposure. This is a massive amount of derivatives exposure.

In the third quarter of 2001, Fannie Mae reported a startling write-down of \$10.6 billion in shareholder equity, reducing its equity by 29 percent from where it stood just three months earlier. Fannie took a big position in the derivatives market and bet wrong. As a result, their debt/equity ratio shot up to 53:1. This approaches a doubling of the GSEs' year-end 2000 leverage ratio of 30:1.

With such low capital, the GSEs simply do not have room to gamble in the complex derivatives markets. Allowed to operate on extremely thin capital margins, the GSEs must be right almost all of the time to hedge their huge portfolios. However, if Fannie Mae's interest rate forecasts are wrong - and many forecasts by reputable companies prove to be wrong in turbulent times - continued losses could spell serious trouble.

Check the facts: Please visit <http://www.fmwatch.org> for additional information on the GSEs' practices and activities, and their potential implications upon the U.S. financial system and exposure to American taxpayers.



January 17, 2002

Dear Mr. Kenneth Dam:

This week, government-sponsored enterprise (GSE) Fannie Mae announced record profits for 2001, with net income rising to \$5.9 billion - 33% higher than in 2000. While such announcements bode very well for shareholders, American taxpayers face far greater risks in view of startling rise in debt being acquired by GSEs.

I encourage you to take a few moments to review the attached document, which outlines the potential risks the GSEs could place upon on the U.S. financial system. For additional information or to discuss these issues, please contact us at (202) 637-8281 or visit our website at www.fmwatch.org.

Sincerely,

A handwritten signature in cursive script, appearing to read 'Mike House'.

Mike House
Executive Director

January 17, 2002

TO: Mr. Kenneth Dam
FROM: Mike House, Executive Director - FM Watch
SUBJECT: Fannie Mae's Record Profits Pose Unprecedented Risk to American Taxpayers



Fannie's Record Profits Pose Record Risk for U.S. Taxpayer

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- Continued -

This debt has been issued chiefly to fund a lucrative investment portfolio, which was undertaken solely to grow profits for GSE shareholders. Here's how it works: the GSEs borrow funds cheaply because of their implicit government guarantee, and then invest them. The above-market returns are highly profitable - but do nothing to increase American homeownership. In 2000, both GSEs reported that this arbitrage investing accounted for approximately 60 percent of their net income. That's like a local government issuing a revenue bond to build a schoolhouse, and then using part of the money to play the stock market. If the GSEs bet right, their shareholders profit. If they're wrong, the U.S. taxpayer loses.

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1997-SE-013602

H O R A T I O

F I F T Y - F I R S T



A L G E R

A N N U A L A W A R D S

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Chairman & CEO
Fruit of the Loom, Inc.

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Frederick K.C. Price
Pastor & Founder
Crestline Christian Center

John Francis Sweeney
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Chicago Mercantile Exchange

Teresa G. Thompson
Governor of Wisconsin

Jim L. Turner
Chairman & CEO
Dr Pepper Bottling
Company of Texas

Anthony Walters
Chairman & CEO
Aerotech Corporation

December 16, 1997

The Honorable & Mrs. Robert E. Rubin
15th & Pennsylvania Ave., NW
Washington, DC 20220

Dear Mr. & Mrs. Rubin,

It is my pleasure to invite you to attend the Fifty-first Annual Horatio Alger Awards Activities honoring Kenneth L. Lay as a recipient of the 1998 Horatio Alger Award. I know you will want to join us in honoring Ken on this very special evening.

On Friday evening, April 24, Ken will receive the Horatio Alger Award at the 1998 Awards Ceremony in Washington, D.C., which will be recorded for a nationally broadcast special on PBS television. He will join the nearly 500 members of the Horatio Alger Association of Distinguished Americans who have been chosen over the past 50 years. The Members of the Association, all recipients of the Horatio Alger Award, symbolize that any American can rise from humble beginnings and triumph over adversity.

In addition to the Award recipients, we will recognize the Horatio Alger National Scholarship recipients—exceptional young people who have faced and overcome extreme hardships. Proceeds from this event support the Association's scholarship and educational programs, which will reach over 80,000 students across the nation this year.

Enclosed is information on the Association and the Awards Activities. You can make your reservation by completing and returning the enclosed reply form. Should you have any questions, please feel free to contact our Awards Activities Committee at (202) 582-6200.

I look forward to seeing you in Washington on April 23-25, 1998.

With best wishes,

William F. Farley
Awards Activities Chairman

Horatio Alger Awards Activities Committee

2020 Pennsylvania Avenue, NW, Suite 175, Washington, D.C. 20006

Tel: (202) 582-6200 Fax: (202) 582-6008

0010000000473

H O R A T I O

F I F T Y - F I R S T



A L G E R

A N N U A L A W A R D S

I am pleased to participate in the 1998 Awards Ceremony by pledging a tax-deductible contribution of:

- \$100,000—PLATINUM** Sponsorship of ten students to attend the National Scholars Conference and Awards Activities; one table of ten with preferred seating at the Awards Ceremony & Dinner; ten seats at the Inaugural Ceremony at the U.S. Supreme Court, Inaugural Dinner at the Library of Congress, Awardee Forum at Ford's Theatre, Chairman's Reception, and Breakfast Saluting the National Scholars; and prominent recognition in the Awards program and other printed material.
- \$50,000—GOLD** Sponsorship of five students to attend the National Scholars Conference and Awards Activities; one table of ten with preferred seating at the Awards Ceremony & Dinner; ten seats at the Inaugural Ceremony at the U.S. Supreme Court, Inaugural Dinner at the Library of Congress, Awardee Forum at Ford's Theatre, Chairman's Reception, and Breakfast Saluting the National Scholars; and prominent recognition in the Awards program and other printed material.
- \$25,000—SILVER** One table of ten at the Awards Ceremony & Dinner; ten seats at the Awardee Forum at Ford's Theatre and Chairman's Reception; two seats at the Inaugural Ceremony at the U.S. Supreme Court, Inaugural Dinner at the Library of Congress, and Breakfast Saluting the National Scholars; and prominent recognition in the Awards program and other printed material.
- \$15,000**—One table of ten at the Awards Ceremony & Dinner; ten seats at the Awardee Forum at Ford's Theatre and Chairman's Reception; and prominent recognition in the Awards program and other printed material.
- \$5,000**—One seat at the Awards Ceremony & Dinner, Inaugural Ceremony at the U.S. Supreme Court, Inaugural Dinner at the Library of Congress, Awardee Forum at Ford's Theatre, Chairman's Reception, and Breakfast Saluting the National Scholars; and prominent recognition in the Awards program and other printed material.
Number of Seats: _____
- \$2,500**—One seat at the Awards Ceremony & Dinner, Awardee Forum at Ford's Theatre, and Chairman's Reception, and prominent recognition in the Awards program and other printed material.
Number of Seats: _____
- I am unable to attend the Awards Ceremony, but wish to pledge a tax-deductible contribution of \$ _____ to support the Association's educational programs.*

A tax deductible contribution made payable to the Horatio Alger Association is enclosed. Tax identification #13-1669975.

Please send an invoice to my attention.

Signature _____ Date _____

The Honorable & Mrs. Robert E. Rubin
15th & Pennsylvania Ave., NW
Washington, DC 20220

Phone: _____ Fax: _____

I am unable to participate at this time.

KLL

The Horatio Alger Association is a 501(c)(3) nonprofit organization. For tax purposes, the Association is a tax-exempt organization. Contributions are tax-deductible to the extent of the donor's adjusted gross income. For the \$100,000 level table, \$2,000 for the \$50,000 level table, \$1,000 for the \$25,000 level table, \$500 for the \$15,000 level table, and \$200 for the \$5,000 level table, and \$150 for the \$2,500 level table. Tax identification number is 13-1669975.

Please mail or fax this reply form to:
Horatio Alger Awards Activities Committee
2020 Pennsylvania Avenue, NW, Suite 175, Washington, D.C. 20006 Tel: (202) 582-6200 Fax: (202) 582-6008

**HORATIO ALGER AWARDS
Activities Committee**

2020 Pennsylvania Avenue, N.W., Suite 175, Washington, D.C. 20006



William F. Farley
Awards Activities Chairman
2020 Pennsylvania Ave., NW, Suite 175
Washington, D.C. 20006

1998-SE-008884

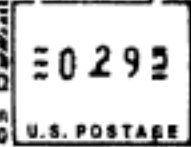
Dear Bob, KENNETH L. LAY 7/21/98

I thought the article on you in the Sunday New York Times Magazine was excellent. Although the writer felt compelled to throw in some caveats, he made it clear that you're a very important reason for the country's economic performance over the past few years. I totally agree and am glad you're where you are. Warm regards, Ken

PRESORTE
FIRST CLASS



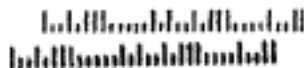
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87-22-98 HOUSTON TX 770

*The Honorable Robert E. Rubin
Department of the Treasury
15th and Pennsylvania Ave. N.W.
Washington, D.C. 20220*

8828220



PO. BOX 1188
HOUSTON, TEXAS 77251-1188

0010000000486

Gene S. Mead
Chairman and
Chief Executive Officer

Tenneco
1275 King Street
Greenwich, Connecticut 06831
Tel 203 863 1111
Fax 203 863 1110



February 25, 1999

The Honorable Robert E. Rubin
Department of the Treasury
Office of the Secretary
1500 Pennsylvania Avenue, NW
Room 3330
Washington, D.C. 20220

Dear Mr. Secretary:

We are writing in follow-up to Jim Thomson's letter of January 20, 1999 (copy attached) inviting you to address the forthcoming meeting of the Russian-American Business Leaders Forum on May 15-16 in New York.

As founding members of the Forum and active participants in its three preceding meetings, we believe that the Forum has played a unique role in fostering sustained and meaningful dialogue with the most politically influential members of Russia's emergent business elite on issues of utmost importance not only for U.S.-Russian economic relations but for U.S.-Russian relations more generally. Despite Russia's failure to create a functioning market economy or a political consensus on behalf of economic reform, we believe that the Forum has played a very constructive role in fostering a fuller and deeper understanding by Russian businessmen and entrepreneurs of what must be done to stabilize and modernize the Russian economy and why the creation of such an economy is in their own and their country's vital interest, as well as in the interest of the United States.

At a time when the economic policy of the new Russian government is still in flux (if not non-existent), when the divisions within the Russian political elite are being exacerbated by preparations for the forthcoming election, including efforts to stoke the fires of increasingly evident anti-Americanism, and when the country is in the midst of a deepening and possibly devastating economic crisis, it seems to us that forthright conversation with Russian entrepreneurs of the sort who will be attending the May meeting of our Forum is urgently important. Furthermore, we are convinced that your leadership of such a discussion could make a major difference in the crucial role these businessmen decide to play in resolving the policy and electoral uncertainties that will determine Russia's near- and mid-term future and thereby the near- and mid-term future of U.S.-Russian relations.



The Honorable Robert E. Rubin
 February 25, 1999
 Page Two

We very much hope that you will be able to join us in New York and look forward to hearing from you at your earliest convenience.

Respectfully,

Co-Signatories:

Kenneth L. Lay /sr

Kenneth L. Lay
 Chairman and CEO
 Enron Corporation

Walter V. Shipley /sr

Walter V. Shipley
 Chairman and CEO
 The Chase Manhattan Bank

Paul H. O'Neill /sr

Paul H. O'Neill
 Chairman and CEO
 Alcoa, Inc.

Ernest Stern /sr

Ernest Stern
 Managing Director
 J.P. Morgan & Co., Incorporated

John E. Pepper /sr

John E. Pepper
 Chairman of the Board
 Procter & Gamble

Maurice Tempelsman /sr

Maurice Tempelsman
 Chairman of the Board
 Lazare Kaplan International, Inc.

Donald H. Rumsfeld /sr

Donald H. Rumsfeld
 Chairman of the Board
 Gilead Sciences, Inc.

John L. Vogelstein /sr

John L. Vogelstein
 Vice Chairman and President
 E. M. Warburg, Pincus & Co., LLC

Henry B. Schacht /sr

Henry B. Schacht
 Director and Senior Advisor
 Lucent Technologies

RAND

James A. Thomson

President and Chief Executive Officer

1700 Main Street

January 20, 1999

PO Box 2138

Santa Monica

The Honorable Robert E. Rubin
Department of the Treasury
Office of the Secretary
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

California

90407 - 2138

310 451 6936

Dear Mr. Secretary:

Fax: 310 451 6077

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Eleanor B. Sheldon

James A. Thomson

Richard B. Wolf

I am writing to invite you to give the principal address at the fourth, semi-annual meeting of the RAND-sponsored Russian-American Business Leaders Forum. This meeting will take place on Saturday May 15 and Sunday May 16, 1999 at The Mark Hotel in New York. A brief description of the Forum and list of its current members is attached, along with reports on its first and second meetings and a short account of its third meeting—meetings at which then-Prime Minister Viktor Chernomyrdin, Paul Volcker, and First Deputy Prime Minister Yuri Maslyukov, respectively, were the keynote speakers.

As will be immediately apparent from these attachments, the Forum is a membership organization that brings together a highly select group of American and Russian corporate CEO's and chairmen for regular, in-depth discussions of strategic issues on the international and national economic, political, and security agendas of the two countries. The purpose of the Forum is not only to foster productive bilateral financial and commercial relations but to promote America's (and Russia's) vital national interests by accelerating Russia's transformation into a "normal" country and reducing the clear and present danger of a failure that could result in serious regional and global instability.

Since the leaders of Russia's emerging private sector are playing and will continue to play a major role in determining the outcome of that country's current and emergent economic and political crisis, the case for engaging them in serious dialogue seems compelling. In short, we believe that your address to the Forum would come at a particularly crucial time when it could have significant influence on Russia's near- and longer-term development.

Ideally, we would like to schedule your address following a reception and dinner for Forum members and a few specially invited guests that will begin at 7:00 p.m. on Saturday evening May 15. If your schedule makes this inconvenient or impossible, however, we would be happy to hear you speak at either a breakfast or luncheon meeting on Sunday May 16.

I and all of the other members of the Forum very much hope that you will be able to join us. I look forward to hearing from you as soon as possible and to seeing you in May.

Sincerely,



JAT:iv

Attachments

TENNECO
1275 King Street
Greenwich, Connecticut 06831
Tel 203 863 1111
Fax 203 863 1110

FACSIMILE COVER SHEET

DATE: February 25, 1999

TO: The Honorable Robert E. Rubin
Department of the Treasury
Office of the Secretary
1500 Pennsylvania Avenue, NW
Room 3330
Washington, D.C. 20220

TEL: 202.622.0054

FAX: 202.622.0073

FROM: Dana G. Mead
Chairman and Chief Executive Officer

SUBJECT: Attached Letter

TOTAL NUMBER OF PAGES INCLUDING COVER SHEET: 4



Kenneth L. Lay
Chairman and
Chief Executive Officer

Enron Corp.
P. O. Box 1188
Houston, TX 77251-1188
713-853-6773
Fax 713-853-5313
Kenneth.Lay@enron.com

December 22, 2000

Mr. Paul O'Neill
[(b)(6)]

Dear Paul:

I am pleased that President-elect Bush has named you to be his Secretary of the Treasury. You will do an outstanding job in that position.

I and Enron stand ready to assist you in any way that we might be able to. In the meantime, I wish you and your family the best of the Christmas season.

Warm regards,

A handwritten signature in black ink, appearing to read 'Ken', written in a cursive style.

Endless possibilities.™

ENRONI WASHINGTON
1775 EYE STREET, NW
Suite 900
Washington, DC 20006
202-466-9145
202-628-3372 (fax)

FAX COVER SHEET

DATE: 3-14/01 4:47 PM

NAIdE: 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)

PROM: 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 enemy 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

[(b)(2)]

Fox, William

From: Aufhauser, David
Sent: Wednesday, January 16, 2002 7:36 PM
To: Fox, William; Wolfe, George
Subject: FW: FYI

fyi

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

From: TKassinger@doc.gov [mailto:TKassinger@doc.gov]
Sent: Wednesday, January 16, 2002 7:01 PM
To: David.Aufhauser@do.treas.gov
Subject: FYI

----- Forwarded by Ted Kassinger/HCHB/Osnet on 01/16/02 07:06 PM -----

Brooke Vosburgh	To: Ted Kassinger
01/16/02 06:37 PM	cc:
	Subject: FYI

Additional Information on Briefing Question

In the wake of media reports on the serious problems at Enron, The President

's economic team, led by Larry Lindsey, Chairman of the National Economic Council, and Glenn Hubbard, Chairman of the Council of Economic Advisers, closely monitored the financial and energy markets. Mr. Lindsey publicly reported the review on CNN's Novak, Hunt and Shields last Saturday, January 12th. They were monitoring because of their concern about the potential effects of the Enron problems on households that rely on natural gas and other energy products and on the potential impact on the national economy.

Their monitoring consisted of observing the spreads in the energy markets to see if they widened to the point of where natural gas disruptions could occur or the national economy could be harmed. They also looked at currency markets, equity markets, bond markets and other financial indicators to determine if there were indications of a shortage of liquidity that might signal a more widespread problem. In addition, the White House coordinated with the Departments of Treasury and Energy. While the spreads did widen, other players entered the markets, and the spreads returned to more normal conditions. Their monitoring was begun in mid-October and continued for a number of weeks as Enron's financial situation sharply deteriorated. At no time did they see any situation that could disrupt energy supplies for families or harm the national economy. Their judgment was correct; even as Enron eventually collapsed, these specific problems did not materialize.

At the same time, the Department of Labor and the Securities and Exchange Commission had identified serious problems that could affect Enron employees and shareholders. For this reason, the Department of Labor undertook an investigation in the pension situation at Enron and the Securities and Exchange Commission began an investigation into Enron.

These actions demonstrate that as public reports showed that Enron was suffering from severe financial deterioration, the Administration acted to protect people's pensions and analyze whether broader markets would be affected. The government did exactly what the government should do.

**Teleconference: January 11, 2002, 10:00 AM Eastern Time
Assessment of Major Global Banks' Exposure to the Argentine Crisis**

Standard & Poor's Ratings Services will hold a telephone conference call on Friday, January 11, 2002, 10:00 AM Eastern Time. This call will feature a discussion of how the crisis in Argentina will be felt by North American and European banks with direct and/or indirect interest in Argentina. The discussion participants will include Standard & Poor's Financial Services Rating analysts; Carina Lopez of the Buenos Aires office, Jesus Martinez of the Madrid office, Arnaud De Toytot of the Paris office, as well as Robert Swanton and Tanya Azarchs of the New York office.

Standard & Poor's recently published a related article on the fragile Argentine financial system entitled "More Questions Than Answers for Argentine Financial System". This article is available on our website. To access it, please go to <http://www.standardandpoors.com/Forum/RatingsCommentaries/FinancialInstitutions> and select the article from the listing of available articles. Please visit Standard & Poor's website to check for updates on the Argentine crisis. To access Standard & Poor's current press releases, go to <http://www.standardandpoors.com/RatingsActions/RatingsNews> and select Financial Institutions and/or Sovereigns from the listing of available sectors.

Call Confirmation# [(b)(2), (b)(4)]
Passcode: [(b)(2), (b)(4)]
U.S./Canada Numbers: 1-712-257-
0429
UK: 44-20-7943-5370

The call will begin promptly at the time indicated. Please call at least 15 minutes before the scheduled start of the call to complete the pre-call registration process. The Call Confirmation # is "6692189" and Passcode: SANDP. Participants will be asked to provide their name, company affiliation, and fax numbers or e-mail address. The entire call will last approximately one hour, and after brief presentations by the analysts, participants will be able to ask questions directly about this topic.

Replays: Recorded replays of the call are made available about an hour after the call concludes. This recording is available until Friday, January 18, 2002. Callers will be asked for their name, company, phone and fax number.

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Lebryk, David

From: Robertson, Linda
Sent: Friday, November 03, 2000 4:31 PM
To: Carter, Ted; Arkin, Steve; Baker, Ros; Conly, Sonia; Cumby, Robert; Davie, Bruce; DeLaVina, Lynda; Flanagan, Rosemary; Gerardi, Geraldine; Holtzblatt, Janet; Iwry, Mark; Knopf, Kevin; McCubbin, Janet; Mikrut, Joseph; Talisman, Jon; Vandivier, David; Walker, Deborah; Atkinson, Caroline; Baukol, Andrew; Budington, Michele; Cetina, Jill; Chaves, Mary; Eichenberger, Joe; Fall, James; Geithner, Timothy; Gelpert, Anna; John, James; Lee, Nancy; Lowery, Clay; Ludden, Ken; Schuerch, William; Stedman, Louellen; Truman, Ted; Walsh, Helen; Alagiri, Priya; Andrews, Lisa; Arnold, Thomas; Bordoff, Jason; Cameron, Art; Carter, Jana; Cohen, Alan; Comstock, Neal; Decker, Larry; Desler, Anne; Egolf, Brian; Eizenstat, Stuart; Fant, William; Flanders, Stephanie; Gathers, Shirley; Grayson, Cherry; Harvey, Reavie; Herold, Valerie; Johnson, Linda; Jones, Janet; Joseph, Verlene; Keene, Carolyn; Keller, Alan; Kim, Carol; Klasky, Helaine; Levine, Marne; Longbrake, John; Luce, Ed; Matera, Cheryl; McAuliffe, Laura; Mejia, Annabella; Moore, Holly; Muldoon, Lara; Nisanci, Didem; Powell, Linda; Robertson, Linda; Sandberg, Sheryl; Smith, Michelle A.; Starks, Ora; Stern, Todd; Summers, Larry; Toohey, Frank; Valentic, Marsha; Barber, Francine; Barbour, Gaylen; Bieger, Peter; Carro, Richard; Cohen, David; Edsall, Alexandra; Greene, Michelle; Joy, David; Kellogg, Cliff; McGivern, Tom; McHale, Stephen; McInerney, Roberta; Sachs, Lee; Wolin, Neal; ex.mail.JONESM; ex.mail.VJORSTAD; Adashek, Jonathan; Affleck-Smith, Joan; Baer, Gregory; Barr, Michael; Bell, Rochelle; Beresik, Michael; Bresee, Elisabeth; DeMarco, Edward; Foote, Norman; Gensler, Gary; Johnson, James; Lebryk, David; Ross, Lisa
Subject: Thanks

Today is my last day at Treasury. As I was walking back from my lunch this afternoon, I must say it was with enormous sadness that I reentered the Treasury building this last time as a member of Team Treasury. This Department and the very special friends I have gained over the last eight years will always be a highlight of my professional experiences. It has been a great honor to work with you. We have shared some of the most important achievements of the Clinton Administration, and our Department will forever be looked upon as one of the primary reasons we had so many successes during this period, economically and in social justice. I truly will miss showing up here next Monday morning. But most of all I will miss our professional and personal relationships, although I know they are not over, but that they will simply now be from a bit further distance.

I will be starting work next Monday at Enron. When I have my new telephone number, E-mail, and mailing info, I will have Janet forward it to you. In the meantime, my home telephone number is [(b)(6)]. Again, thank you very much for being a part of my professional life.