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This paper argues that a BTA for a carbon tax makes non-taxing countries better off relative to a non-BTA world where rates are adjusted to hold emissions constant. In other words, China should push hard for US to include BTA's if we were to do a carbon tax. Basically, as I understand it, their model forces carbon taxes to be fully reflected in consumer prices. The BTA benefits Chinese consumers who are exempt from tax on imported US goods. Burden of tax on exported Chinese goods borne by US consumers. Not clear how general this result is (or if my intuition is entirely accurate) but if true, it is an intriguing result.

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Unilateral Carbon Taxes, Border Tax Adjustments and Carbon Leakage

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Abstract

We examine the impact of a unilateral carbon tax in developed countries focusing on the expected size of carbon leakage (an increase in emissions in non-taxing regions as a result of the tax) and the effects on leakage of border tax adjustments. We start by analyzing the problem using a simple two-country, three-good general equilibrium model to develop intuitions. We then simulate the expected size of the effects using a new, open-source, computable general equilibrium (CGE) model. We analyze the extent of emissions reductions from a carbon tax in countries that made commitments under the Kyoto Protocol (Annex B countries), the expected carbon leakage, and the effects of border tax adjustments on carbon leakage, all relative to our baseline projections for emissions. We also perform extensive sensitivity tests on the parameters of the CGE model. Finally, we consider the effects of imperfect border tax adjustments on leakage, such as global or regional schedules of border taxes.

Keywords: carbon leakage, carbon taxes, climate change, Kyoto Protocol, CGE modeling

JEL Codes: C68, F18, H23, K32, Q54

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The Framework Convention on Climate Change envisions a process whereby developed nations commit to reducing their emission of greenhouse gases before developing nations take similar steps.[1] Following this vision, the Kyoto protocol currently only binds 37 nations to targets on their emissions.[2] No fast-growing developing nation faces emission limitations.

While there are a number of important motivations for this approach, there are two central concerns. The first is whether a carbon price that exempts developing nations can sufficiently reduce global emissions. The developing world is expected to be a major source of emissions in the future. Even if the developed world were to cut its emissions drastically, atmospheric carbon dioxide would not be stabilized by this action alone.

The second concern is that if only developed nations impose carbon controls, emissions in the developing world might go up, offsetting any reductions, in a phenomenon known as carbon leakage. Carbon leakage is thought to arise for two reasons. First, if only a subset of nations impose controls on emissions of carbon dioxide, energy-intensive production may flee to regions without controls. Second, if nations with carbon controls use fewer fossil fuels, the price of fossil fuels may go down, resulting in more use in other regions. Carbon leakage has the potential to defeat the purpose of having carbon controls, inefficiently shift the location of production and energy use, and create domestic political challenges.

Carbon leakage has been a central worry in negotiations regarding an international climate change treaty and in the design of existing emissions control systems. For example, the United States has maintained that the possibility of carbon leakage makes it undesirable and possibly futile for it to impose carbon controls while major developing countries do not.[3] The major developing countries, however, insist that the United States (and other developed countries) must act first to reduce emissions, in accordance with their agreement under the Framework Convention on Climate Change. The result has been an impasse. The European Union on the other hand has imposed a unilateral carbon price but

[1] United Nations Framework Convention on Climate Change, May 9, 1992, 1771 U.N.T.S. 107.

[2] Kyoto Protocol to the United Nations Framework Convention on Climate Change, Dec. 11, 1997, 37 I.L.M. 22, available at http://unfccc.int/resource/docs/convkp/kpeng.pdf.

[3] See Byrd-Hagel Resolution, S. Res. 98, 105th Cong. (1997) (enacted) ("[T]he Senate strongly believes that the proposals under negotiation, because of the disparity of treatment between Annex I Parties and Developing Countries and the level of required emission reductions, could result in serious harm to the United States economy.").

constructed the system to prevent leakage by providing subsidies to trade-exposed industry.[4] The result is a less efficient pricing system.

We analyze the effects of a carbon tax in the developed world and the resulting carbon leakage. Our focus is on the legal and institutional design choices that affect carbon leakage with the goal of understanding how to design an administrable and legal regional carbon tax that most effectively reduces carbon emissions. For example, we consider whether the location of the collection of the tax in the production cycle (i.e., upstream or downstream) can affect leakage, how much border tax adjustments change leakage, and whether administrative or legal restrictions on the types of border tax adjustments that can be used will change these conclusions.

Our analysis relies on two different, although related, tools. We use an analytic general equilibrium model of trade to develop an understanding of the problem and the likely effects. We then use a new, computable general equilibrium model of the global economy, CIM-EARTH, to assess the likely size of the effects and their sensitivity to assumptions.[5]

Our emphasis is on understanding the structure of the problem and the sensitivity of the effects to modeling assumptions and parameters. Simulations of the sort produced here will always have substantial uncertainties. For those who want bottom line results, however, we can report the following, with appropriate caveats. In our simulations, a carbon tax in the Kyoto Protocol Annex B nations (which roughly make up the developed world) will produce only about one-third of the reductions of a global tax. Leakage, however, is only a modest part of the story. Our central measures for leakage under a carbon tax in Annex B, defined as the increase in emissions in the non-taxing region as a fraction of emissions reductions in the taxing region, are in the 15-25 percent range. Most of the reduced emissions in switching from an Annex B tax to a global tax arise because a global tax will help control the increase in non-Annex B countries which is expected to occur even without leakage.

[4] See Pricing Carbon: The European Union Emissions Trading Scheme (A. Denny Ellerman, Frank J. Converty and Christian De. Perthuis (eds)(2010) and David Weisbach, *Carbon Taxation in the EU: Expanding the EU Carbon Price*, Environmental Law Review (2012), doi: 10.1093/jel/eqr033, for discussions of the design of the EU system.

[5] There is a substantial prior literature analyzing carbon leakage, most of it using CGE models. Other literature analyzes special cases using analytic general (or sometimes partial) equilibrium models. Part 2 contains an extensive attempt at replicating the results of prior CGE models; the relevant work is cited there..

We also simulate the effects of border tax adjustments, taxes on the emissions from the production of an imported good and rebates of domestic carbon taxes on the export of goods. Border tax adjustments are thought to reduce leakage because they reduce the incentive to shift production abroad. In our simulations, border tax adjustments reduce leakage substantially. They result in an increase in emissions in the taxing region and a reduction in the non-taxing region, relative to a production tax. This finding is consistent with our understanding of the reasons why leakage occurs, which we discuss below.

Finally, we simulate the effects of an imperfect border tax system. Border tax adjustments are complex to administer because they require the importing country to determine the emissions from the production of a good produced abroad. Knowledge of the particular and constantly changing production processes and energy sources in other countries may not be available. Moreover, there may be legal concerns with some types of border taxes because of the relevant WTO rules. Therefore, we consider presumptive border tax adjustments under which there are schedules of the appropriate border tax adjustments for different types of goods. We compare presumptive schedules of this sort to perfect border tax adjustments. In our simulations, presumptive schedules are not as effective as perfect border taxes. The imperfect systems we simulate result in roughly double the leakage arising from perfect border taxes, although the size of the differences vary based on the type of system and the tax rate. We do not attempt to measure the savings in administrative costs; presumptive schedules may be superior, all things considered.

Before turning to the analysis, it is worth a brief detour to discuss our methodology. Large computational models, particularly computable general equilibrium models such as the model used here, are not commonly found in the legal literature. Even the most advanced computational models are thought to be too crude to capture legal reasoning, which is a mixture of analogical reasoning, the close reading of statutes, knowledge of history, and an understanding of how legal rules fit within a given social, legal, and institutional structure. Moreover, sufficiently advanced computation may not be sufficiently transparent and might depend critically on the model structure and available data.

Law and economics seeks to understand the effects of legal rules through the use of economic methodology. It is a forward looking, pragmatic quest for solutions to legal problems. We view computation as a potential tool for law and economics to gain insights into the likely effects of legal rules and the design of institutions. In the present case, for example, analytic models and econometric techniques, both widely used in law and economics, are unlikely to be able to give a sense of the magnitude of carbon leakage, to analyze the size of the effects of border tax adjustments, and to compare perfect border taxes with imperfect border taxes. We can study all of these issues with a computational model. For example, by comparing perfect and imperfect border taxes, we are able to consider the effect of a possible WTO ruling on the issue in ways that cannot easily be done through more traditional methods.

We address the criticisms of computation in four ways. First, we use an analytic model to generate economic intuitions and hypotheses, much like studies which rely solely on analytic models. We think of the analytic model as a "model of the model." If the results produced by the computational model are not consistent with the predictions of the analytic model, we can then go back to try to understand the underlying economic forces. Combining analytic and computational models allows us to gain insights into the problem that might be less accessible if we considered only numerical simulations. Computation becomes an addition to rather than a substitute for conventional legal and economic reasoning. It becomes a way of estimating the likely magnitude of the effects that we expect to see from the analytic model and a way of testing the robustness of the analytic model to more complex specifications.[6]

Second, we make our code open source, downloadable from our website.[7] All of our code and model assumptions can be examined by anyone.[8] We encourage replication of our results and testing them for robustness to alternative specifications.

[6] Ken Judd discusses the complementarity between computational and analytic models as follows. Analytic models must make strong simplifying assumptions but are able to establish proofs of results within their limited domain. Computational models are able to sample from a much larger space but can only show results from the particular points which are sampled. The two together help get a fuller understanding of an issue than either could alone. Kenneth L. Judd, *Computationally Intensive Analysis in Economics,* Handbook of Computational Economics Introduction to the Handbook in Computational Economics (Leigh Tesfatsion and Kenneth L. Judd (eds) (2006).

[7] Center for Robust Decision making on Climate and Energy Policy (RDCEP) web site, www.rdcep.org

[8] Our model is currently implemented in the AMPL programming language, which requires a license. In addition, we use Global Trade Analysis Project (GTAP) data, which must be purchased (at modest cost). Therefore, unfortunately, actually running our code is not free, although anyone may obtain the necessary licenses. While we plan to switch to an open-source software system, GTAP data is by far the most comprehensive data, and there does not appear to be a viable alternative. Nevertheless, the underlying code and all of its assumptions can be freely examined.

Third, we test the robustness of the model results to our parameter choices. We consider how the results change when central parameters change, both alone and in combination. We present some of these results here and document additional tests on our website.

Finally, we attempt to replicate prior studies of the problem within our model. While we cannot replicate the precise model structures used in prior studies, we can use their parameter choices in our model. Doing so helps show whether differences in model results are due to different parameter choices, model structures, or other unspecified factors.

The result, we hope, shows the potential for using computation to address legal problems. While computation is not suited to all legal problems, in many cases computation can be valuable in understanding the expected effects of a legal rule as an addition to the usual ways of gaining understanding.

This paper comes in two parts. Part 1 discusses the analytic model. We present the basic assumptions of the model and then describe the intuitions behind the solution. The mathematical statement of the model and derivation of the solution is available on our website. We also provide a numerical simulation of the results using parameters derived from the data we use in our CGE model. The simulation allows us to show the solutions graphically and to see the sensitivity of the results to the central parameters. Part II focuses on CIM-EARTH. The documentation for CIM-EARTH is provided on our website and we do not cover the details here. After giving a brief background on the model structure, we describe several elements of CIM-EARTH that are central to this study: the treatment of trade, our data sources, and our parameter estimates. We then present our results from CIM-EARTH, show their sensitivity to central parameter choices, and attempt to replicate the results from prior studies of carbon leakage.

1. Analytic model of carbon taxation

As noted, the standard view is that there are two causes of leakage.[9] First, when only one part of the world taxes emissions, energy-intensive production shifts from the taxing region to the non-taxing region; shifting energy-intensive production to the non-taxing region avoids the tax. Second, because the tax reduces energy use in the taxing regions, overall energy prices may fall, creating an incentive for greater energy use (and emissions) in the non-taxing region. In

[9] See, e.g., Niven Winchester, Sergey Paltsev, and John M. Reilly, Will Border Carbon Adjustments Work?, 11 B.E. Journal of Economic Analysis & Policy, Article 7 (2011).

this section, we use a simple model to consider how these effects arise under different types of taxes.

Model structure and assumptions. Consider a world with only two regions or countries: Home, which imposes a tax on emissions and Foreign, which does not. Each country has a pool of labor, L and L^*, and fossil fuel deposits E and E^* (where variables with asterisks denote Foreign). Assume that these factors cannot be traded: there is no migration and fossil fuel deposits are in the ground.[10]

Some goods, such as services, can be produced solely with labor. We call these goods collectively the labor-good or *l*-good. The production of other goods, which we call the energy-intensive-good or *ei*-good, needs energy. To create energy, the deposits have to be extracted.[11] The resulting energy, such as coal or gas, is then used in production, in combination with labor, to produce the *ei*-good. Emissions are created when the energy is used, and we assume that emissions are proportional to energy use. We do not model damages from emissions.

Our goal is to understand how trade affects emissions. (If there were no trade at all, Foreign activity would not be affected by a Home carbon tax.) To this end, assume that all goods – energy, the *l*-good and the *ei*-good – are traded costlessly. This means that there is a single global price of energy, a single global price of the *l*-good, and a single global wage rate.[12] To differentiate foreign and domestic production, we assume that Home and Foreign varieties of the *ei*-good are different and that consumers prefer their local variety; there is a home bias. (The *l*-good and energy, however, are homogenous.)[13] Therefore, there is an *ei*-good and an ei^*-good each of which can be traded.

[10] This means that we assume deposits cannot be purchased. Bard Harstad, *Buy Coal? Deposit Markets and Environmental Policy*, forthcoming, Journal of Political Economy (2012), considers the effects of a market for deposits.

[11] Extraction, in our model, has increasing marginal costs. Marginal costs will be increasing if, for example, the deposits with the lowest extraction cost are used first, then more expensive deposits, and so forth.

[12] We consider only equilibria in which each country produces some of the *l*-good, a condition that is easily checked given the parameters of the model.

[13] To keep the model simple, we use Cobb-Douglas production functions and utility functions. These take the form $Q = X^{\gamma}Y^{(1-\gamma)}$, where γ is the share spent on X in production or consumption (depending on what the function is representing) and $(1-\gamma)$ is the share of Y. Because we use Cobb-Douglas functions, the relative spending shares of goods, both in production and consumption are fixed. This limits the analysis somewhat.

Note that the model we used in an earlier version of the paper is a special case of the current model. See Joshua Elliott, Ian Foster, Sam Kortum, Todd Munson, Fernando Cervantes Perez and David Weisbach, *Trade and Carbon Taxes*, 100 American Economic Review 465-69

We will consider three tax systems in Home as well as a global tax. The first, which we call a production tax, is imposed on Home use of energy in production. The second, which we call a BTA tax, is a production tax with border tax adjustments. The border tax adjustments are (1) a tax on embedded carbon in imports in the ei^*-good; and (2) a rebate of production taxes previously paid on the *ei*-good when it is exported.[14] Together, these two aspects of border tax adjustments mean that there is a tax on home consumption of *ei*-type goods and no tax on foreign consumption of *ei*-type goods. We can, therefore, think of a BTA tax as a tax on the carbon content of consumption in Home (as compared to a tax on production in Home under a production tax). The final tax is a tax on the extraction of fossil fuels.[15] We can think of the extraction tax as an upstream tax, the production tax as a mid-stream tax, and the BTA tax as a fully downstream tax. Figure 1 presents a picture of the model structure. (The core model equations are presented in the Appendix.)

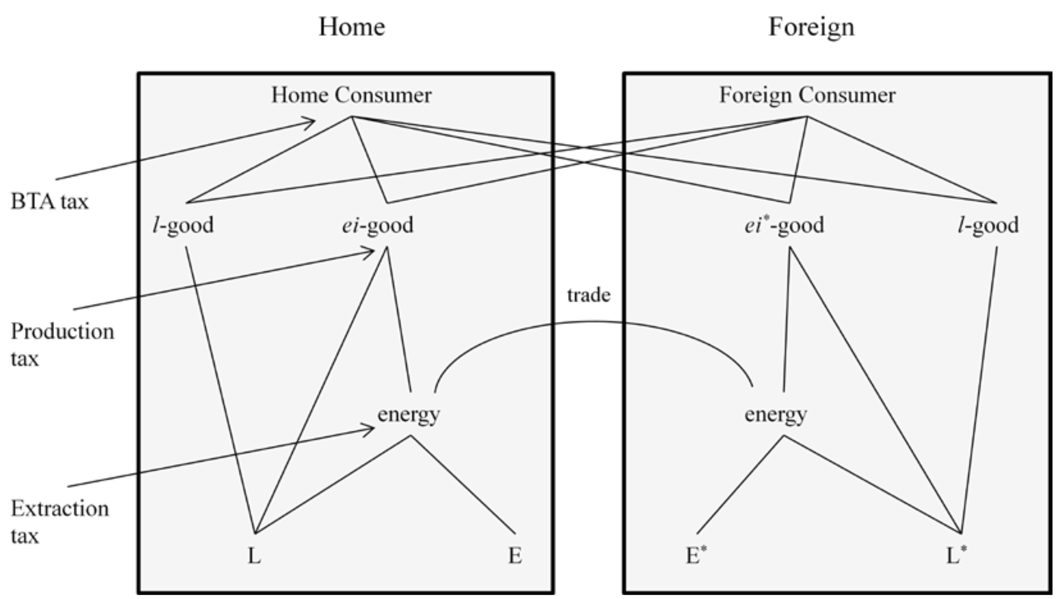

Figure 1: Structure of the Analytic model

(May 2010). The key differences are that in our prior work, there was no home bias in consumption and there was no separate production process to convert energy into a consumption good. Setting the relevant parameters correctly converts the model used here into that model.

[14] The rebate in our model is based on the aggregate energy use in production of the *ei*-good. If there were individual firms, they would take this rebate (per unit produced) as given. This approach avoids the problem of firms using dirty technology for export and clean technology for domestic use.

[15] We need not separately consider an extraction tax with border adjustments as this is equivalent to a production tax.

No-tax case. If there are no taxes, the analysis is straightforward. The countries produce energy in proportion to their relative endowments; the country with the greater endowment will extract more, up to the point at which marginal extraction costs are equated across countries. This efficiency condition arises because extraction has increasing marginal costs, energy is traded so there is a single global price, and labor costs are the same in both countries. The location of energy use, however, is not related to extraction. Instead, because energy is traded, its use depends on the relative demand for each country's variety of the *ei*-good. The country facing higher demand for its energy-intensive products will use more energy. The direction of net trade in energy can go either way as the country with greater deposits could have even greater relative energy demand.

Production tax. A production tax in Home creates a wedge between the world energy price and the cost of energy as an input to produce the *ei*-good. To some extent, the tax can be absorbed by using less energy in the production of the *ei*-good. But after this, the price of the *ei*-good has to go up. As a result, consumers in both countries will substitute away from the Home variety of the *ei*-good. Overall, emissions in Home (which come from the production of the *ei*-good) fall both because of less energy use in production and because of fewer global purchases of the Home variety of the *ei*-good.

The effects in Foreign are essentially the reverse of the effects in Home. Less energy is used in Home due to the tax, which means that the price of energy falls. The use of energy in the production of the ei^*-good, therefore, is cheaper. To some extent, production of the ei^*-good will be more energy-intensive and to some extent the price of the ei^*-good will fall. As a result, consumers around the world demand more of the ei^*-good, resulting in greater production and emissions in the foreign country. There is a production-location effect and an energy-price effect, corresponding to the two types of leakage noted in the literature.

A key parameter in determining the extent of leakage is the amount by which the supply of energy falls due to the decline in the price of energy resulting from the tax: the price elasticity of energy supply.[16] If the supply is completely insensitive to price, total energy production remains the same even with a carbon tax. We get 100% leakage. This might be a world where the marginal source of energy is Saudi Arabia (i.e., with oil that can be extracted at a low cost) and Saudi

[16] This approach is consistent with other analytic models of leakage. See Hans-Werner Sinn, *Public policies against global warming: a supply side approach*, 15 Int'l tax and Public Finance 360-394 (2008); Harstad, *Buy Coal*, note 10.

Arabia simply pumps out the same amount of oil regardless of the price.[17] A carbon tax has no effect on emissions; it just reduces the rents received by energy producers. At the other extreme, if the quantity of energy produced is highly sensitive to the price, leakage will be low. We might think of this world as one where the marginal source of energy is Canadian tar sands (i.e., the energy is difficult and expensive to produce so small decreases in the price of energy can lead to large reductions in production). Leakage can approach zero because the tax reduces energy supply with little reduction in the energy price.

BTA tax. Consider how the results change if we add border tax adjustments. We can think of a production tax with border tax adjustments as falling on Home consumption of *ei*-type goods (i.e., both the *ei*-good and the ei^*-good). As a result, Home consumption of *ei*-type goods of both varieties goes down. The reduction in demand in Home means that overall less energy is used to satisfy Home demand, resulting in a lower price of energy. The price of both *ei*-type goods goes down in Foreign which raises demand for them there. Finally, production of the *ei*-good becomes less energy intensive while production of the ei^*-good becomes more energy intensive.

The net effects are driven to a large extent by the degree of home bias. Consumers in Home prefer their variety of the *ei*-good, so when they decrease their demand for all *ei*-type goods, the effect falls more heavily on Home production. Similarly, Foreign consumers prefer their variety of the good, so when they increase their demand, more of the additional production takes place in Foreign. The result is emissions reductions in Home, and emissions increases in Foreign. Globally, there is a net reduction in emissions but there is still leakage under the BTA tax.[18]

The source of leakage in the production tax case and the border tax case is different. In the production tax case, leakage arises because of the increased global demand for the ei^*-good and because of the increased energy-intensity in Foreign production used to meet that demand. In the BTA tax case, leakage arises from increased Foreign demand for both varieties of the *ei*-good and the fact that much of that demand will be met by Foreign production (and because production there becomes more energy intensive).

[17] It is not easy to characterize Saudi Arabia's strategy and we just use it as a placeholder example without making specific claims about its production choices.

[18] We know there is a global reduction in emissions because the tax directly hits Home consumption while foreign consumption goes up only through the indirect effect of the tax on energy prices which is tempered by shifts in the energy-intensity of production.

The effect of the elasticity of energy supply is similar in both the production tax and BTA tax cases, however: a low elasticity increases leakage. The reason is that in both cases, a low elasticity of energy supply means that supply does not go down much in response to the tax; instead the tax is absorbed into the pre-tax world energy price. The lower world energy price (and relatively fixed supply of energy) results in increased production of *ei*-type goods in Foreign.

Extraction tax. The final tax we consider is an extraction tax in Home. The extraction tax lowers the after-tax price received by Home energy producers. The resulting decrease in Home energy supply raises the global price of energy, creating an incentive for more extraction abroad. Because of the unified global price of energy, *ei*-type production in the two countries faces the same change: an overall higher price of energy. Production will become more labor intensive and global demand for *ei*-type goods of both varieties will go down. The location of the production declines could be in either country.

To illustrate the effects, imagine that all of the energy deposits were in Home. Then all energy producers will bear the extraction tax resulting in reduced supply and a decline in its use in production of *ei*-type goods. The decline will be in both countries, with the share of the decline depending on the relative global demand for each variety of the *ei*-good. If there are energy deposits in Foreign as well, then an increase in extraction there offsets the reduction in extraction in Home, but does not affect where the *ei*-type good production declines occur. If all deposits are in Foreign, of course the extraction tax has no effect. The effectiveness of an extraction tax depends on having a substantial portion of fuel deposits being covered.

In a strict sense, an extraction tax generates no leakage in that foreign energy use does not go up. It will, in fact, go down because of the global increase in energy costs. Nevertheless, we can think of there being leakage in the sense that foreign activity – here extraction of additional deposits – partially offsets the effects of the tax in Home. Leakage in this sense goes up with the supply elasticity, which is in contrast to the effects of the supply elasticity on leakage (in the production sense) under production and BTA taxes.

We can, therefore, think of an extraction tax as an alternative and quite different type of tax than a production or BTA tax. It works by raising the price of energy, which if energy is traded, is a global phenomenon. In contrast, a production tax raises the price of energy use in a particular location and a production tax with border tax adjustments raises the price of consumption in a particular location. If leakage is a serious concern, an extraction tax might be attractive. The downside is that an extraction tax is only effective if a substantial portion of global deposits are covered or if the supply in non-taxed regions is inelastic.[19]

Global tax. The most desirable policy would be one that harmonizes carbon policy around the world. If both countries impose a tax (of the same kind and at the same rate), the distinctions between the different types of taxes largely disappears. Production and extraction taxes create the same wedge between the cost of energy as an input and the price received by those who extract energy. There is, as a result, a shift toward more labor-intensive production of *ei*-type goods and an increase in the price of those goods. Similarly, a BTA tax and a production tax have the same effects on prices, production, and consumption.

The key difference between the three types of taxes under a global tax system is the allocation of the tax revenue. Under an extraction tax, the country where the extraction takes place gets the revenue; under a production tax, the country where production takes place gets the revenue; and under the BTA tax, the country where consumption takes place gets the revenue. As a result, the choice of taxes may have distributional effects. Note that these effects can be offset through transfer payments between the countries.

Simulations. To get a sense of the predictions of our analytic model, we parameterized it to roughly coincide with the data we use for our CGE model. We then run simulations to test the sensitivity of results to changes in the central variables.

Figure 2 shows effects of the three taxes we study on emissions. The global tax reduces global emissions around twice as much as a production tax (i.e., a tax only Home). This result can be seen by comparing the top and bottom lines. We can get a visual sense of leakage by comparing Home reductions under a production tax and global reductions under the same tax. The higher global emissions (smaller reductions) are due to the increase in Foreign emissions because of the tax, which is leakage. Finally, if we add border taxes, global emissions go down relative to a production tax; it appears that leakage is smaller.

[19] Many deposits are located outside of Annex B countries, possibly making an extraction tax less effective than other taxes, at least if non-Annex B countries are not to be subject to emissions restrictions and supply is price elastic. Harstad, *Buy Coal*, note 10, suggests that the taxing countries can make the supply in non-taxing countries price inelastic by purchasing reserves held by non-taxing countries.

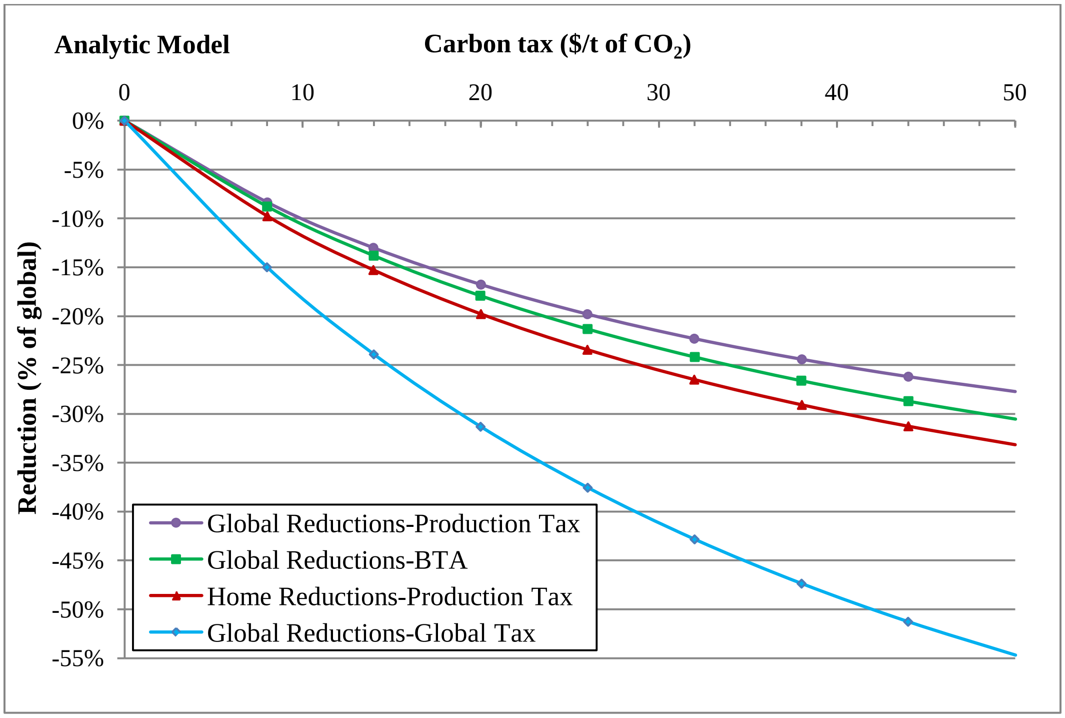

Figure 2: Effects of various taxes on emissions in analytic model

Figure 3 focuses on the effects of border taxes. Like Figure 2, it shows the global emissions reductions under a Home production tax, Home reductions under that tax, and global reductions under a border tax system. It adds a line showing Home reductions when there are border taxes. Home emissions go up when we add a border tax (comparing the bottom two lines). If climate treaties are based on emissions targets for different regions, border taxes will actually make the target more difficult to reach in Home.

Border taxes reduce leakage in this model. We define the leakage rate as the increase in global emissions relative to reduction in emissions in the taxing region under a given tax.[20] With border taxes, it is based on the difference between the middle two lines in Figure 3. Relative to a production tax, border taxes increase Home emissions and reduce global emissions, and both effects contribute to a reduction in the leakage rate.

[20] Formally, if a region x imposes a tax, leakage is ($\Delta emisisons_{World}$ - $\Delta emissions_x$)/$\Delta emissions_x$. This means that leakage under a global tax is defined to be zero (because the numerator is always zero). This does not mean, however, that there are no changes in the location of production or consumption under a global tax which may be of interest to policy-makers.

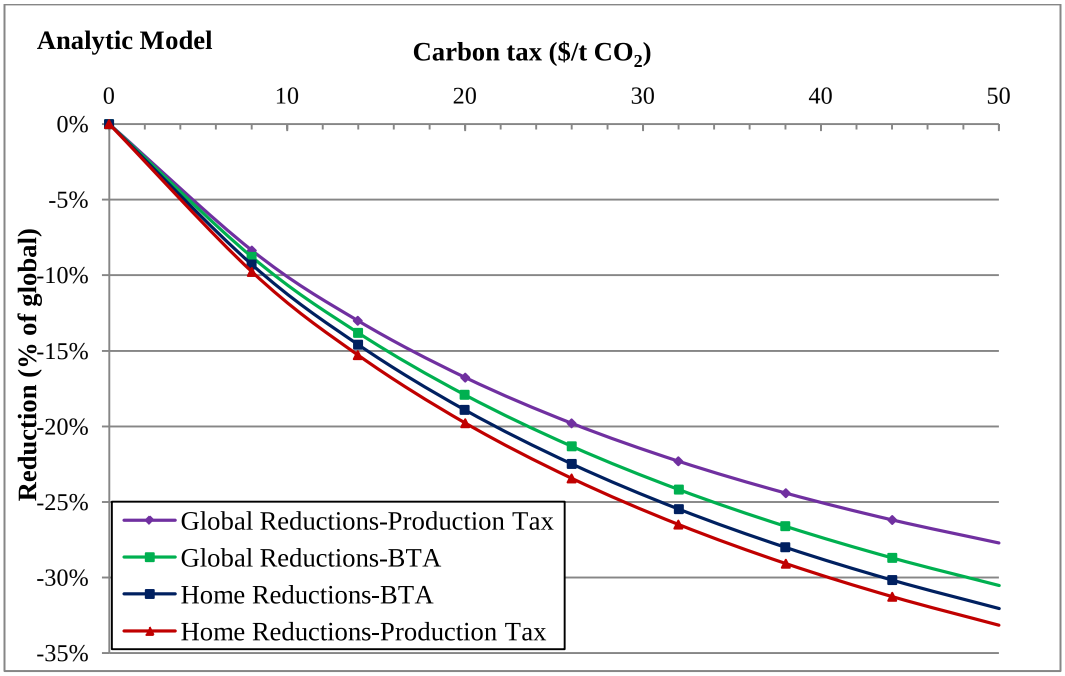

Figure 3: Emissions under Production and BTA taxes

Figure 4 shows the effect of the elasticity of energy supply on leakage for the production and BTA taxes with a tax rate of about $29/ton of CO_2. The upper line is the production tax; the lower line the BTA tax. As we can see, leakage is lower under the BTA tax. Both taxes, however, respond similarly to the supply elasticity and as the elasticity approaches zero, leakage becomes high in both cases. As the elasticity goes up, leakage goes down, and in fact becomes slightly negative with border taxes.[21]

[21] Negative leakage appears to arise because Home is the dominant consumer of the ei^*-good, and its demand goes down. If the elasticity of energy supply is large enough, this effect dominates the energy price decline (which stimulates Foreign production). A recent paper shows that leakage can be negative if (1) the output of the untaxed sector or region is not a perfect substitute for the output of the taxed sector, (2) the taxed sector or region can reduce carbon per unit of output, and (3) capital or labor are mobile between sectors or regions. See Don Fullerton, Daniel Karney, and Kathy Baylis, Negative Leakage, working paper, (2011) (available at: http://works.bepress.com/don_fullerton/61Fullerton et al). Under those conditions, they show that the sector or region facing the carbon tax might reduce carbon per unit of output by using resources drawn away from the other sector or region, shrinking that other sector's output and emissions. That mechanism is not operational here, however, because we have assumed that the tax on carbon applies to all Home sectors, while neither labor nor capital are mobile internationally. If our model were to satisfy those three conditions, then leakage might be lower.

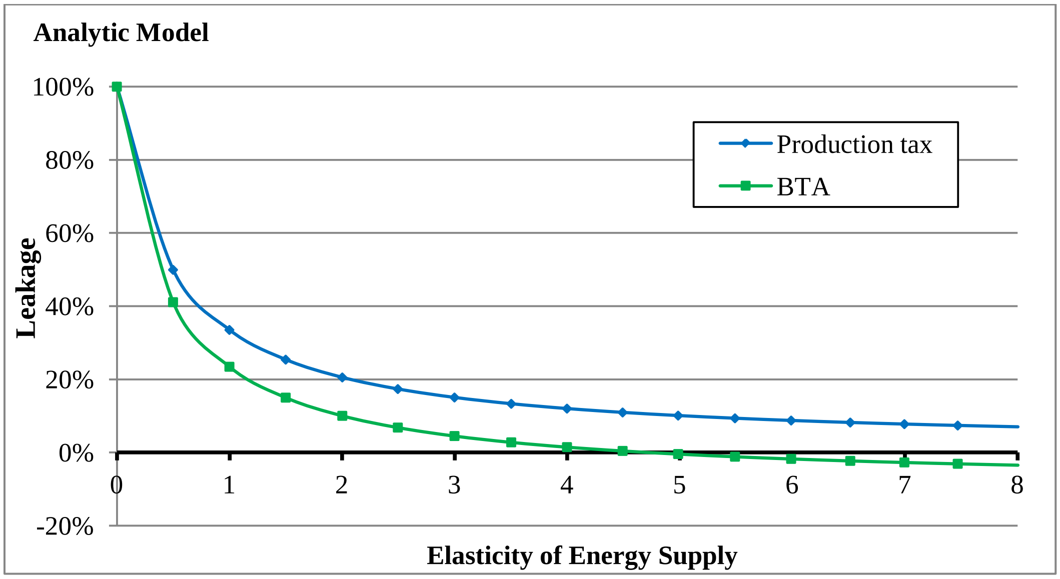

Figure 4: Leakage as a function of energy supply elasticity

We can examine changes in production and consumption in more detail through what we call carbon matrices. We present these results in Table 1, which shows changes from the no-tax case for an \$11/ton tax on CO_2. The rows represent production. For example, the top row is Home energy use in production. The columns represent consumption. The first column in the first row is the energy use for Home production of goods consumed domestically. The second column in the first row is the energy use for goods produced in Home and exported to (and consumed in) Foreign. The last column is total production in each country. The bottom row is total consumption in each region.

We can see in the case of the production tax that Home energy use in production goes down more than Home consumption while Foreign energy use in production goes up, illustrating carbon leakage. Foreign consumption actually goes down because of the substantial decrease in imports of the *ei*-good. If we add border tax adjustments, there is a large drop in Foreign production (relative to the production tax case) for export to Home. Total Foreign production goes down.

Production tax

	Home	Foreign	Prod.
Home	-42.9%	-44.2%	-43.1%
Foreign	10.3%	7.9%	9.2%
Cons.	-26.0%	-8.7%	-21.0%

BTA tax

	Home	Foreign	Prod.
Home	-42.9%	-36.0%	-41.4%
Foreign	-2.1%	8.7%	2.9%
Cons.	-29.6%	-5.6%	-22.6%

Table 1: Carbon matrices in snalytic model

One surprising result from the analytic model is the comparison of the global welfare effects of the production and BTA taxes. We can compare these effects by setting the tax rate so that emissions are the same under the two policies. If emissions are the same, we can ignore the damages from emissions (as they will be the same under either policy) and simply consider welfare from consumption.

Set the tax rates so that emissions are the same under a production tax system and a BTA tax and consider each country's income. There are only two sources of income: labor and returns from exploiting energy deposits. The total labor is fixed and its wage is always 1 in the model, so to measure income, we need only consider the returns from exploiting energy deposits. If emissions are the same under the two tax systems, the total deposits extracted must be the same. If the same deposits are extracted in the two scenarios, the price of energy is also the same. That is, if we set the tax rates so that emissions are the same under a production tax and a BTA tax, the returns from exploiting deposits will be the same. Overall income is unchanged (except for the tax revenues received by Home).

Foreign's income is the same under the production tax and the BTA tax. Climate damages are the same. This means that we can analyze its welfare solely by reference to how much individuals there can consume. With the production tax, foreign consumption of the Home-variety of the *ei*-good includes the tax while under the BTA tax, it does not. Consumers in Foreign can consume more under the BTA tax. Therefore, they are *better* off with border taxes.

Analysis of Home is more complex. If we leave aside tax revenue, it is clear that Home is worse off with border taxes for the same reasons that Foreign is better off. Tax revenue, however, means that Home's income may not be the same in the two cases. If tax revenues are lower when there are border taxes, then Home is worse off. If tax revenues are higher, we have to weigh the additional income against the higher cost of goods, so whether Home is better or worse off will depend on the parameters.

These results about welfare are contrary to standard intuitions which hold that the taxing regions will want to impose border taxes and the non-taxing regions will oppose them. U.S. climate change legislation regularly includes measures to protect domestic industries while developing countries strenuously object to these measures. The simple model is not capturing something going on in the world that motivates political preferences over these policies.

We have three hypotheses about what these motivations are. The first is that views about border taxes are informed by flawed mercantilist thinking, and that if analysts focused on consumer welfare they would agree with the results of our model. Second, our model abstracts from considerations of good or bad jobs or unemployment. The wage is always 1 regardless of where individuals work. There are also no producer profits. If for some reason wages vary across industries (in ways not related to worker productivity), there could be reasons for preferring one system or the other. Finally, our model does not have adjustment costs. It might be the case that in the long run the results of our model would obtain but it is not easy to take a steel worker and turn him into a nurse. To the extent there are efficiency wages (or similar effects) or transition costs, these effects should temper our result, but we would still expect the effects we see in the model to occur in the real world.

2. CGE Modeling of Leakage

Given the understanding of the issue from the analytic model, we can test the results in our CGE model and also assess the likely size of the effects. We present the results from this effort here beginning with background on the model.

2.1. *CIM-EARTH structure*

The detailed structure of CIM-EARTH is described in its documentation, and we refer interested readers there.[22] We describe here the basic structure of the model, how trade is treated, and our data sources. While the model is detailed and complex, in many ways it remains greatly simplified. Some, and perhaps many, of the simplifications can be justified as removing unnecessary complexity, but because some may affect the results, it is important to be aware of the major simplifications we make. We highlight them here.

As in all CGE models, individuals own labor and capital, which they provide to industry in exchange for wages and rents. They use this income to purchase goods and to save so as to maximize their utility. In the current version of the model, labor supply is fixed – consumers do not respond to carbon taxes by working less. In addition, individuals are not forward looking, in that they do not anticipate the future; they save because it brings them utility.

[22] www.rdcep.org and Joshua Elliott, Ian Foster, Kenneth Judd, Elisabeth Moyer, and Todd Munson, *CIM-EARTH: Framework and Case Study*, The B.E. Journal of Economic Analysis & Policy: Vol. 10: Issue 2 (Symposium), Article 11 (2010).

Industry hires labor, rents capital, and buys intermediate inputs, which it combines to create goods. The industry structure is designed to mimic how goods actually flow in our economy. For example, the energy sector uses labor, energy, capital, and deposits to extract energy which is then sold to industries (including the energy industry itself) and households. That is, industry output can be intermediate goods used by other industries or final goods used by consumers. The intermediate goods are used by industries to similarly produce a mix of final and intermediate goods. Eventually, all output is in the form of final goods consumed by individuals or accumulated into stocks of capital.

Industry production functions use a common flexible functional form which allows us to set input shares based on data and allows industries to substitute across inputs based on specified elasticities of substitution. Industries choose the mix of inputs and outputs to maximize profit. The solution to the model involves a set of prices and outputs which makes markets clear in each time period.

The version of the model used for this study has 16 regions and 16 sectors. Each sector has a single representative consumer (we do not study distributional effects). We present the results of our simulations with fewer regions simply for ease of reading; the underlying model is always run with 16 regions and 16 sectors. The current version of the model has only a single type of capital within each region; there are no vintages and capital is perfectly mobile across sectors but immobile across regions.[23] Labor supply is also completely mobile across sectors within each region and completely immobile across regions. As noted, we do not model the effects of taxes on labor supply: labor supply is determined by population growth, which is exogenous.

Many of the central parameters are exogenous. In particular, labor productivity, energy efficiency, land endowment and yield, and resource availability are all modeled based on estimates of exogenous trends. As we discuss below, we analyze the sensitivity of our results to changes in these estimates. We do not, however, attempt to make them endogenous. One justification for using exogenous trends is that we view the model as producing results for the medium-term, so the tax may not have large effects on business-as-usual trends. The effects of a regional carbon tax may be much different in the long-term as it is both easier to shift production abroad in the long term and,

[23] An important implication of this assumption is the there is no foreign direct investment in our model. Foreign direct investment may be an important channel of leakage.

offsetting this effect, the taxes may substantially influence energy efficiency. It is, in future studies, important to make energy efficiency endogenous, particularly for studies of longer-term effects.

A central component of any study of the effects of trade on carbon taxation is how trade is represented in the model. The standard approach in CGE models, which we follow, is to treat each region as producing a slightly different variety of each good. We treat steel from South Korea as a different commodity from steel produced in the United States. Purchasers of the goods have preferences over the varieties and will substitute across the varieties depending on their prices. These elasticities of substitution are known as the Armington elasticities after the inventor of this representation of trade. If the two goods are similar – the origin of steel of a given type might not matter – the Armington elasticity would be high.[24]

The Armington elasticity approach to trade is not based on modern theories of trade but can be consistent with them.[25] It is highly flexible, and we believe it is a reasonable aggregate representation of trade for purposes of modeling. As discussed below, we test the sensitivity of our results to differing assumptions about the central Armington elasticities.

To complement the Armington representation of trade, we include detail on the transport sector. Steel produced in South Korea has to be shipped to the United States if it is to be used in the United States. Shipping and other means of transport are included in our industry structure as a necessary input into traded goods. The transport industry uses energy, so taxes on energy affect transport costs.

We use data from the Global Trade Analysis Project (GTAP).[26] GTAP is a global database with individual country input-output data and bilateral trade and transport data. It covers 113 regions and 57 different commodities. We aggregate the data into 16 regions and 16 commodities. GTAP collects the data through a

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[24] We use Armington elasticities to measure substitution across imported goods, producing what we call an import bundle. The substitution elasticity of this bundle with domestic goods is the import elasticity. The import elasticity measures the competitiveness of domestic production against imports. In this paper, we generically refer to this entire representation as an Armington representation of trade and the overall set of elasticities the Armington elasticities.

[25] See Costas Arkolakis, Arnaud Costinot, Andres Rodriguez-Clare, New Trade Models, Same Old Gains?, 102 American Economic Review 94-130 (2012).

[26] Documentation is available at www.gtap.org

global network of governments and researchers. We ran our study using GTAP 7, covering the year 2004, which was the most recent version available at the time.

The more difficult and problematic data requirement is determining the parameters of the model, primarily the substitution elasticities. These elasticities determine how firms and individuals respond to changes in prices. For example, we want to know how industries will respond if the price of energy goes up, and this depends on firms' ability to substitute away from energy inputs. These elasticities cannot be directly observed. They must be estimated. We base our elasticities on those used in the MIT CGE model used to evaluate climate policies (known as EPPA). MIT obtained these from a literature search and where the literature was not available, elicitation from experts in the relevant industry.[27] We do not have a high level of confidence in these elasticities and, therefore, test the sensitivity of our results to alternative specifications.

Before turning to our simulations, we highlight the key differences between CIM-EARTH and our analytic model. The core models are designed to be similar: the analytic model is essentially a simplified model of CIM-EARTH with far less detail, fewer sectors, and so forth. Nevertheless, there are some important differences. One is that the analytic model uses Cobb-Douglas production and consumption functions, which greatly limits flexibility (because spending shares on inputs or consumption are fixed). The CGE model uses a more flexible functional form which allows input shares to vary. A second is that the analytic model ignores the cost of trading goods so that, absent taxes, the law of one price holds internationally. An implication is that factor rewards are also equated across countries. In contrast, CIM-EARTH is calibrated to actual bilateral trade flows by sector, with costs of trade accounting for differences in import shares across countries. A third is that, while the analytic model has only one factor of production (labor) that is mobile across sectors, CIM-EARTH also incorporates physical capital used in production. Finally, energy is a homogeneous good in the analytic model while CIM-EARTH incorporates the different carbon content, transport costs, prices, and imperfect substitutability between coal, natural gas, and petroleum. This last distinction is particularly important as substitution away from coal is one of the main effects of instituting a moderate price of carbon.

[27] See Mort Webster, Sergey Paltsev, John Parsons, John Reilly, and Henry Jacoby, Uncertainty in Greenhouse Gas Emissions and Costs of Atmospheric Stabilization, Report No. 165, MIT Joint Program on the Science and Policy of Global Change, November 2008.

2.2 *Current trade patterns*

Before turning to our simulations, it is helpful to examine existing trade patterns. Figure 5 shows the relationship between exposure to trade and the energy intensity of production for Annex B.[28] Trade exposure is the percent of local consumption in Annex B coming from imports from non-Annex B countries. Energy intensity is energy use per dollar of revenues for the industry. The size of the bubbles is the CO_2 emissions.

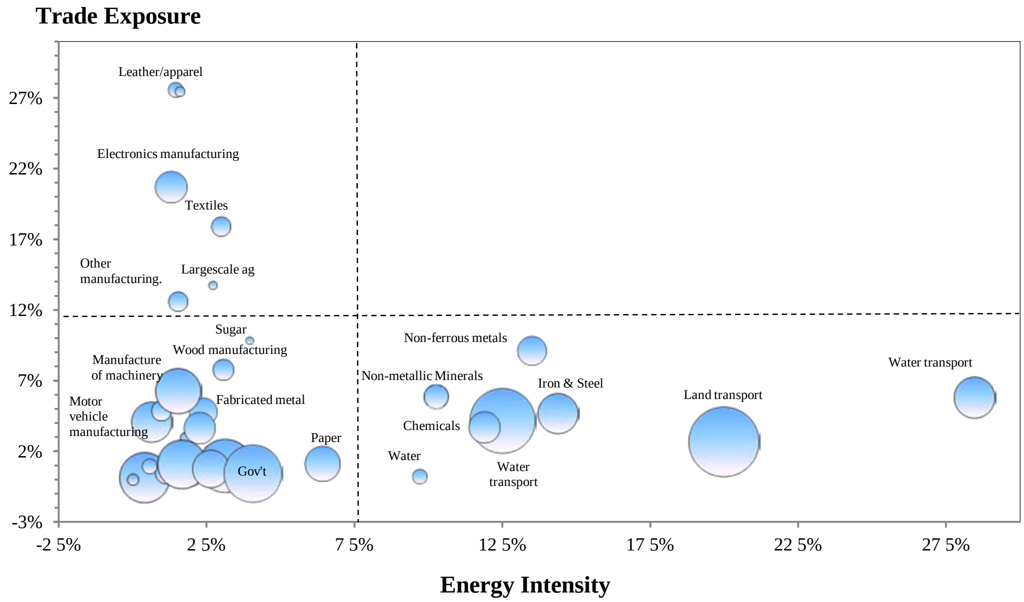

Figure 5: Trade Exposure v. Energy Intensity for Annex B

None of the products with the highest trade exposure are energy intensive: apparel, electronics, and textiles have high trade exposures but require little energy to produce. There are no product categories in the upper-right part of the figure. Services, which occupy the bottom left corner take little energy to produce and are not substantially exposed to trade. The product categories that are most likely to be affected by a tax on emissions are in the lower-right quadrant of the graph: non-ferrous metals (e.g., aluminum, copper, and titanium), iron and steel, chemicals, non-metallic minerals and, perhaps, paper. Non-ferrous metals in particular stand out as both energy-intensive and exposed to trade. The transport sectors – air, water, and land – are also energy intensive and somewhat exposed to

[28] This figure is similar to Figure 1.3 in Trevor Houser et al, *Leveling the Carbon Playing Field: International Competition and U.S. Climate Policy Design* (2008), available at http://pdf.wri.org/leveling_the_carbon_playing_field.pdf. We use GTAP 7 data and analyze it for Annex B while Houser looks at the United States. Houser shows notably larger import shares than we do. We suspect this is because he looks at the United States, while we look at Annex B (so that trade within Annex B does not show up as imports).

trade. It is not clear, however, whether production in these sectors can shift abroad in response to a tax on emissions as their output may be tied to a particular locality.

We can get a better sense of how energy-intensive goods are being traded around the globe by considering where imports come from. Table 2 provides the share of imports into the United States for five energy-intensive goods by origin. Non-Annex-B countries are in gray. Canada dominates the imports of these goods and other Annex-B countries also have large shares. The major exception to this patterns is cement, where China is the largest importer.

U.S. Imports by Origin, 2004										
	Iron & Steel		Non-ferrous metals		Chemicals		Paper		Cement	
Rank	*Source*	*Share*	*Source*	*Share*	*Source*	*Share*	*Source*	*Share*	*Source*	*Share*
1	Canada	14.9	Canada	35.9	Canada	16.0	Canada	55.1	China	15.6
2	Mexico	9.6	Russia	9.8	Japan	9.4	China	6.4	Italy	12.9
3	Brazil	9.3	Peru	6.2	China	9.1	Finland	4.4	Canada	11.0
4	China	7.2	Mexico	5.2	Ireland	8.0	Germany	4.0	Mexico	10.5
5	Russia	5.7	Brazil	4.8	Germany	7.5	Mexico	3.7	Brazil	6.2

Table 2: Country of origin for imports to Annex B of energy-intensive goods

Finally, we can measure trade in what we call embedded carbon.[29] By embedded carbon we mean the carbon emitted in the production of a good, not carbon which is physically in the good. To do this, we start with the standard measure of emissions, which is based on the physical location of the combustion of fossil fuels. We trace how the resulting goods move through the economy and attribute the emissions to the places where goods are consumed. The result is a matrix which is essentially the same as the matrices we used for the analytic model except it covers many regions and is based on actual trade patterns.

In particular, standard measures of emissions, including the Framework Convention's mandatory carbon inventories, attribute emissions to the location where the greenhouse gas is actually released into the atmosphere. For example, if

[29] We follow a prior literature that uses a similar methodology, known as multi-region input-output analysis. For a summary of this literature, see T. Wiedmann, *A Review of Recent Multi-region Input-Output Models used for Consumption-base Emissions and Resource Accounting,* 68 Ecological Economics 211-222 (2009).

fossil fuels are burned in South Korea to produce steel, which is subsequently made into an automobile in Japan, and which is shipped to and driven in the United States, the Framework Convention attributes the emissions from the steel production to South Korea, emissions from the automobile fabrication to Japan, and emissions from gasoline combustion to the United States. By knowing the inputs to steel production and how steel is traded, and automobile production and how automobiles are traded, we can attribute the emissions to the ultimate consumers in the United States.

The GTAP 7 database provides us with input-output tables which tell us the inputs into each industry and where the outputs go. Many of the outputs from an industry will go to other industries while some will be consumed. The input-output tables allow us to trace the flow of goods through the economy to their final consumption. By tracing fossil fuels through these tables, we can determine where goods produced from the combustion of fossil fuels are eventually consumed. In the automobile example, we can see that the fossil fuels burned in South Korea produce steel which is an input into automobile production in Japan, whose output is sold in the United States. Performing this analysis systematically on a global basis allows us convert production measures of emissions into consumption measures and to see the extent of trade in embedded carbon.

Table 3 presents our calculations for 2004. Each entry represents emissions from production in the region in that row which is then consumed in the region in that column, measured in million metric tons of CO_2. For example, the United States emitted 280 million tons of CO_2 to produce goods ultimately consumed in the EU. The sum across a row is the total emissions from production. in a given region. The sum down a column is the total emissions from consumption in a given region.[30]

[30] The region labeled JAZ is an aggregate of Japan, Australia, and New Zealand. CHK is China and South Korea. LAM is all of Latin American including Mexico, the Caribbean, and South and Central America, and ROW includes all other non-Annex B regions: Africa, the Middle East, and South and Southeast Asia.

2004 Mt CO_2	Annex B					Non-Annex B			
	US	**EU**	**RUS**	**JAZ**	**CAN**	**CHK**	**LAM**	**ROW**	**Prod.**
US	5,012	280	7	95	177	109	209	112	6,002
EU	303	3928	63	72	28	96	66	306	4,863
RUS	71	408	1,468	22	3	83	22	100	2,178
JAZ	84	82	3	1,146	8	160	12	98	1,593
CAN	248	33	1	9	223	12	8	10	543
CHK	577	587	32	390	50	3,679	103	478	5,897
LAM	293	122	6	18	16	36	956	40	1,487
ROW	300	657	31	289	20	376	55	3,199	4,928
Cons.	6,888	6,096	1,610	2,043	526	4,551	1,432	4,344	27,491
Net	877	1,235	-566	488	-19	-1,345	-56	-584	

Table 3: Carbon Matrix for 2004, in Mt of CO_2

The standard approach to attributing emissions can be seen by reading down the right-most column, which gives emissions from production in each region. In 2004, the United States was the largest emitter followed closely by China/South Korea (CHK in the table). The EU and ROW (the rest of the world) are next. Global emissions were around 27,500 megatons of CO_2.[31]

Consumption figures are in the row labeled Cons. The United States consumed 6,888 megatons of CO_2 compared to its production of 6002 megatons. This means that the United States was a net importer of 877 megatons CO_2: the goods that it imported had 877 more megatons of embedded CO_2 than the goods that it exported. The bottom row shows the net imports. The European Union was the largest net importer of embedded CO_2, with net imports of 1,235 megatons. China and South Korea (CHK) are large exporters of CO_2, together exporting 1,345 megatons. Therefore, when we examine emissions on a consumption basis rather than a production basis, the developed world has comparatively more emissions; the choice by the Framework Convention to allocate emissions based on a production measure favors the developed world.

[31] Note that we use 2004 data because this is the most recent year for the database used in our computational model. More recent emissions data are available and can be readily accessed in the CAIT database, found at www.cait.wri.org. In 2007, total global emissions were around 33,500 megatons and China was the largest emitter, producing 6,703 megatons compared to 5,827 megatons for the United States. The CAIT data is aggregated from IPCC data and other sources.

2.3 *Business as usual emissions and sensitivity*

Using CIM-EARTH, we project these current patterns to the future under a business as usual (BAU) policy – i.e., assuming no change in carbon policy from that already in place. Figure 6 gives our overall simulations of BAU emissions and shows how the estimates vary when we vary our assumptions about the growth of labor productivity and energy efficiency. The thin gray lines show how our estimates change when we change our assumptions about the growth of energy-efficiency. The colored groups show how changes in assumptions about labor productivity change our results.

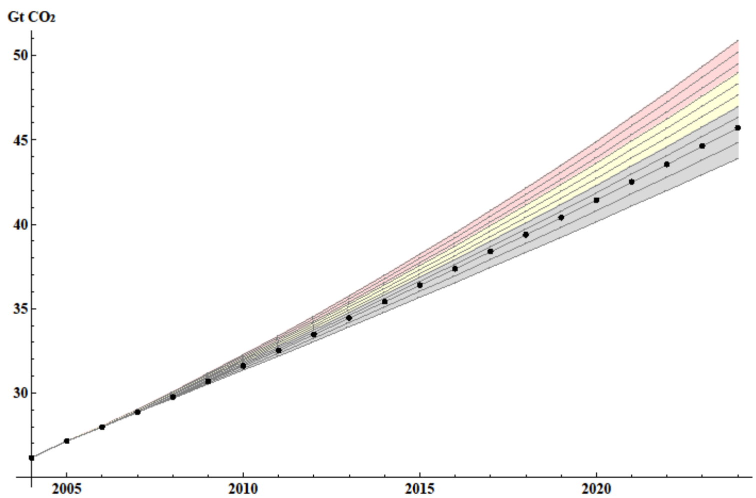

Figure 6: Ensemble of model output for a BAU policy scenario and a range of energy efficiency and labor productivity assumptions.

Figure 7 shows how our results compare to the results of other simulations. Our results are higher than the EIA estimates (red) but in the central range for the IPCC estimates (light gray lines).

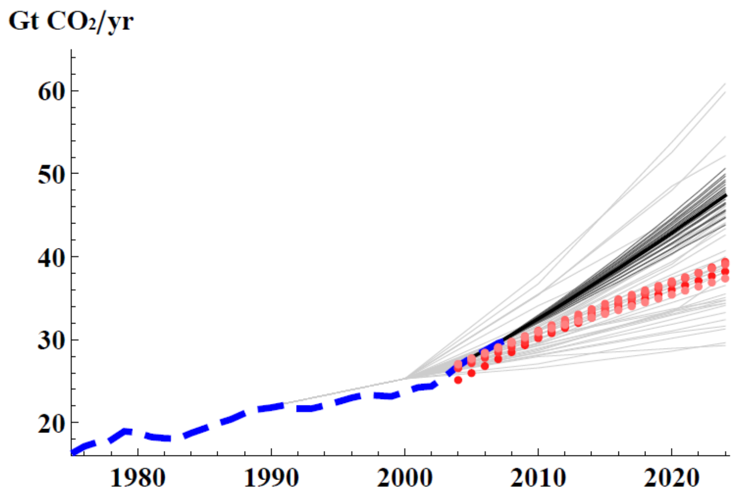

Figure 7: Comparison of historical data (blue), 2005-2009 EIA forecasts (red), IPCC scenarios (light gray), and baseline for ranges of labor productivity and energy efficiency (black lines).

Finally, for each simulation, we can determine which regions are producing and consuming CO_2 using the same matrix format we used above to present the 2004 data. Table 4 provides the breakdown for our central assessment of emissions in 2020. Comparing Table 3, we can see that emissions go up by 59% to 43.8 billion tons. By far the largest expected growth is in emissions from China, which we expect to go up by 130%. Russian emissions are expected to go up by 85%.

2020 Mt CO_2	Annex B					Non-Annex B				
	US	**EU**	**RUS**	**JAZ**	**CAN**	**CHK**	**LAM**	**ROW**	**Prod.**	**2004**
US	6,583	335	12	117	224	244	268	165	7,951	6,002
EU	377	4,347	102	80	35	195	81	429	5,648	4,863
RUS	138	671	2,644	37	6	282	40	215	4,035	2,178
JAZ	89	85	4	1,266	8	290	14	125	1,852	1,593
CAN	331	40	1	10	296	29	12	16	738	543
CHK	1,338	1,298	99	697	121	8,673	228	1,129	13,586	5,897
LAM	391	148	11	21	20	91	1,273	61	2,020	1,487
ROW	447	867	59	345	31	930	78	5,198	7,960	4,928
Cons.	9,697	7,796	2,935	2,543	746	10,736	1,998	7,338	43,791	27,491

Table 4: Carbon Matrix for 2020 BAU Scenario, central case, in megatons of CO_2

2.4 *Simulations*

We consider a number of different tax simulations. We start by comparing global emissions reductions under three different taxes: a global carbon tax, a production tax in Annex B countries, and a BTA tax in Annex B countries, all under various tax rates. Figure 8 presents our results. (Note that we keep the axes the same as in Figure 2 to allow comparison of the analytic model and CIM-EARTH.)

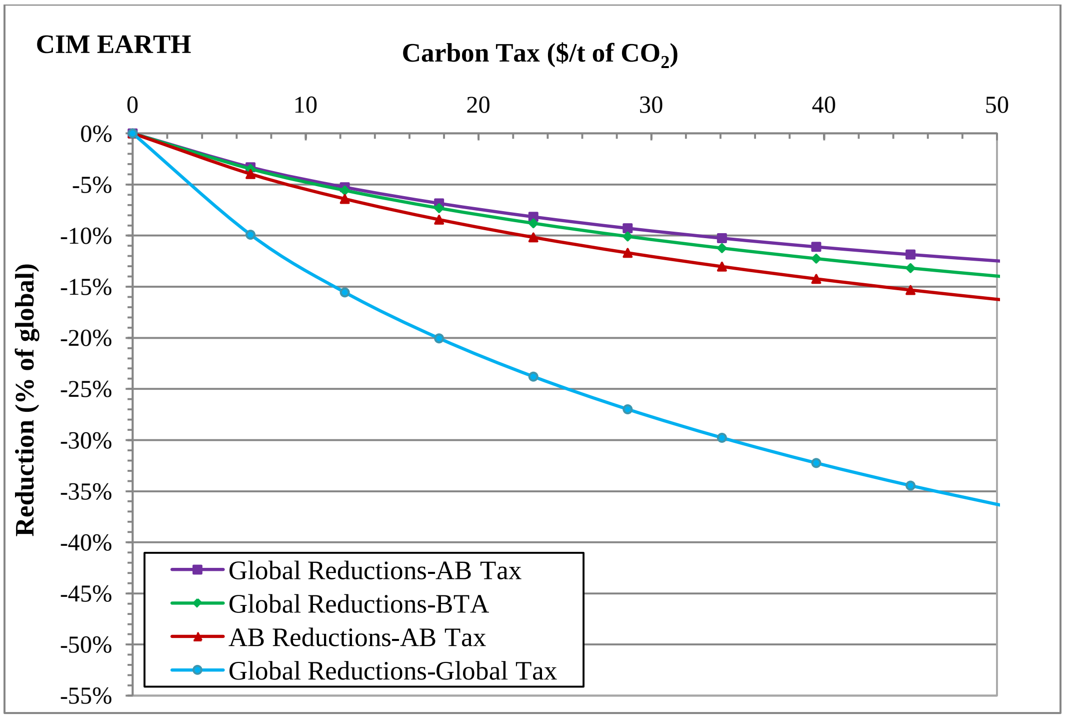

Figure 8: simulation of global emissions reductions under various taxes.

The figure illustrates three results from the model. The first is that a carbon tax only in Annex B, regardless of whether it includes BTAs, has limited potential to reduce global emissions. Under our simulations, an Annex B tax will reduce emissions by only about ⅓ as much as a global tax. The reason is straightforward: most of the growth in emissions is expected to come from non-Annex B countries. The limited effectiveness of an Annex B tax is not by-and-large a result of leakage; it is because major sources of emissions are omitted.

The second result is that leakage rates are between 15 and 25 percent. We can get a visual sense of leakage by comparing the AB reductions under the AB tax to the global reductions under the AB tax. The higher global emissions are a result of an increase in energy use in non-Annex B countries.

Finally, emissions in CIM-EARTH are far less sensitive to carbon taxes than are emissions in the analytic model. This difference can be seen by comparing Figure 8 and Figure 2, which show the same scenarios in the two models. The analytic model shows reductions of 55 percent for a global carbon tax of around $50/ton of CO_2 while CIM-EARTH produces only 36 percent reductions. The analytic model produces reductions of 28 percent for the production tax in Home while CIM-EARTH produces reductions of only 13 percent for the Annex B tax.

We suspect that these differences relate to the ability to substitute away from energy in the two models. The analytic model was parameterized so that the relative shares of various inputs are roughly the same as in CIM-EARTH. For example, relative energy resources in the two regions correspond to the relative energy resources in Annex B and non-Annex B countries. The analytic model, however, uses a fixed substitution elasticity between energy and labor of 1 due to the use of a simplified functional form for which it was possible to obtain a closed-form solution to the model. CIM-EARTH sets the equivalent elasticity at 0.5. This small elasticity makes it more difficult to shift away from energy in CIM-EARTH when we add a carbon tax. As a result, we expect lower reductions in CIM-EARTH than we see in the analytic model.[32]

Figure 9 examines the effects of border taxes. As in the analytic model, emissions in Annex B are higher when there are border taxes. To the extent that Annex B commits to emissions reductions goals, it is easier to meet them with a pure production tax than with BTAs. The reason is that more production shifts to non-taxing regions under a production tax.

Comparing global and Annex B reductions under a BTA system shows that border taxes reduce leakage substantially. As in the analytic model, this result arises because of a reduction in emissions in non-Annex B countries and an increase in emissions in Annex B. We can see the increase in Annex B emissions by comparing the bottom two lines in Figure 9. The global reductions can be seen by comparing the top two lines. Leakage with BTA's is based on the difference in the middle two lines.

[32] Preliminary tests of CIM-EARTH using a substitution elasticity between energy and capital/labor inputs of 1 show sensitivities similar to those in the analytic model.

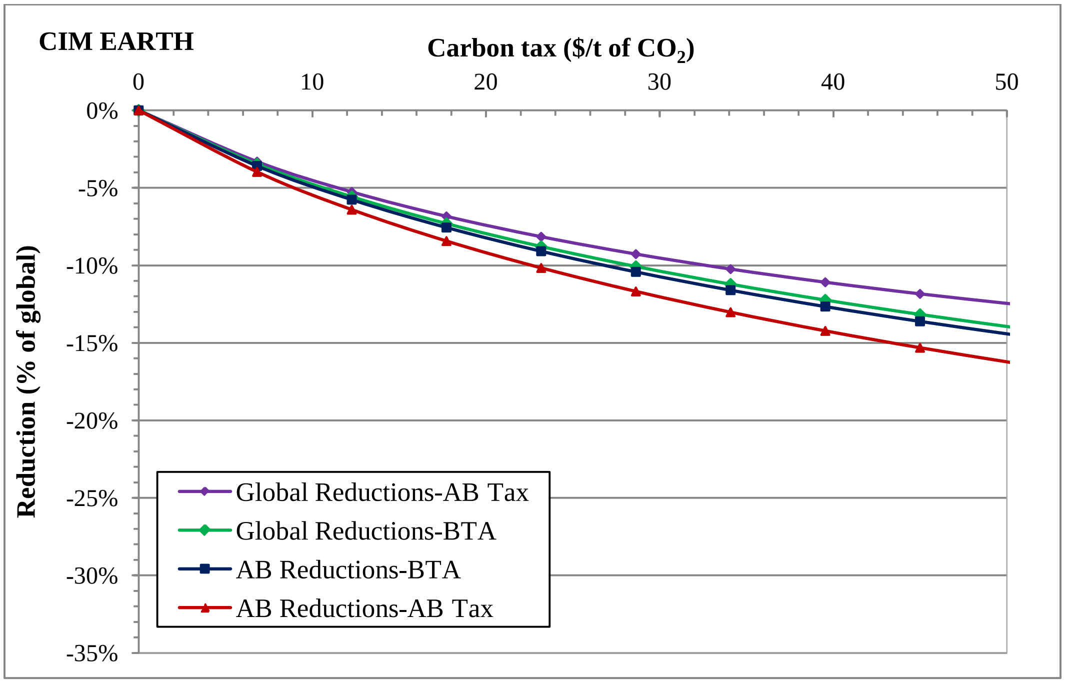

Figure 9: Reductions in emissions in Annex B countries at a percent of 2020 BAU scenario

Examining the carbon matrices provides additional insight. Table 5 gives the carbon matrices for an Annex B production tax at $29/ton tax on CO_2.[33] The numbers are percent changes from the BAU scenario (given in Table 4).

AB-29 v. ref	Annex B					Non-Annex B			
	US	**EU**	**RUS**	**JAZ**	**CAN**	**CHK**	**LAM**	**ROW**	**Prod.**
US	-26.9	-18.9	-21.5	-26.1	-21.3	-24.6	-29.4	-28.7	-26.4
EU	-23.7	-23.3	-19.5	-18.3	-17.8	-21.8	-23.4	-28.1	-23.4
RUS	-38.0	-33.8	-29.3	-34.6	-4.0	-37.5	-39.7	-35.6	-31.4
JAZ	-14.5	-14.5	-17.4	-33.0	-18.8	-22.3	-19.3	-25.0	-28.8
CAN	-21.0	-18.9	-16.4	-19.2	-26.1	-20.4	-20.3	-21.0	-22.9
CHK	1.2	1.7	1.8	2.9	1.9	2.9	2.2	1.2	2.4
LAM	24.8	13.5	46.7	4.0	25.3	2.8	6.5	5.1	10.8
ROW	8.2	12.5	18.2	15.0	8.1	6.2	9.4	4.7	6.6
Cons.	-19.0	-15.0	-26.6	-15.5	-16.8	0.3	-1.2	-0.2	-9.9

Table 5: Percent changes from 2020 BAU for a $29/ton CO_2 tax in Annex B

[33] We ran our simulations in carbon rather than CO_2. Table 5 is for a $105/ton carbon tax, which translates to a $28.64/ton tax on carbon dioxide.

The easiest way to read the table is to consider the four large blocks. The upper left-hand block is production taking place in Annex B countries consumed in those countries. (The diagonal represents production in a given country consumed there. The off-diagonal entries are trade within Annex B.) This production goes down significantly. The lower left-hand block represents imports into Annex B countries from non-Annex B production. As we expect, we see an increase in imports: it is relatively less expensive to purchase energy-intensive goods produced abroad because of the carbon tax. Similarly, if we look at the upper right-hand block, we see a decrease in production in Annex B countries for export into non-Annex B countries. It is more difficult for domestic industries to compete in the export market.

The lower right-hand block is production in non-Annex B countries consumed locally. We can see that this goes up, uniformly. The reason is the lower price of energy due to decreased use in Annex B. This is the second form of leakage discussed above. We can see the net effect by comparing production in Annex B countries (the right-hand column) to consumption in Annex B countries (the bottom row): production declines by more than consumption, showing production leakage.

Table 6 presents the carbon matrix for the BTA tax, again showing percent changes from our BAU simulations. The key block is the lower left-hand corner which shows Annex B imports from non-Annex B countries. This goes from an increase in the production tax case to a decrease in the BTA tax case. Border taxes reduce the incentive to purchase energy-intensive goods from abroad.

BTA	Annex B					Non-Annex B			
v. ref.	**US**	**EU**	**RUS**	**JAZ**	**CAN**	**CHK**	**LAM**	**ROW**	**Prod.**
US	-25.3	-18.0	-20.5	-17.9	-20.0	-23.2	-16.6	-21.4	-21.4
EU	-13.5	-20.2	-17.5	-16.0	-15.7	-25.9	-21.8	-23.2	-20.0
RUS	-31.6	-32.5	-30.3	-29.0	-33.5	-16.4	-19.0	-12.4	-28.6
JAZ	-13.6	-16.0	-16.6	-26.3	-18.8	-25.0	-21.0	-22.3	-19.5
CAN	-15.7	-19.2	-13.7	-18.4	-23.2	-25.0	-21.0	-22.6	-19.5
CHK	-8.0	-9.0	-10.0	-9.9	-10.3	3.1	9.3	5.5	0.3
LAM	-9.6	-2.8	15.2	-1.6	-3.0	-1.2	4.1	0.5	0.5
ROW	-4.2	-5.8	-6.4	-7.0	-4.8	1.7	7.6	3.2	1.1
Cons.	-20.5	-17.3	-28.4	-18.3	-18.5	.05	.02	.04	-10.7

Table 6: Carbon Matrix for BTA tax in Annex B at \$29/ton CO_2.

Looking at the upper right-hand block we can also a smaller reduction in non-Annex B consumption of carbon imports from Annex B countries (relative to the production tax case). This is as expected because the border tax removes the tax on these exports from Annex B. The upper-left and lower right-hand blocks represent production and consumption internal to each region. With border taxes we see slightly lower reductions in emissions in Annex B (for goods consumed in Annex B). Emissions from production in non-Annex B consumed locally show a mixed pattern, with Chinese emissions going up with border taxes and emissions from other regions going down.

2.4 *Robustness/sensitivity/replication*

A central problem with estimating the size of the effects of a regional carbon tax is that we are unsure of many of the central elasticities. As noted, elasticities cannot be directly observed; they have to be econometrically estimated, and the data that might be used for this estimation is scarce. Because of the uncertainty in these parameters, we check the robustness of our results to changes in the central elasticities.

Another problem with CGE modeling of the problem is that it can be difficult to compare CGE results with one another because model structures vary in subtle ways and the underlying data and elasticities may be different. To respond to this problem, we attempt to replicate the choices of elasticities we find in other models.

Robustness checks and replication are similar in that in both cases we compute results within our model for alternative choices of the central parameters. We can perform both activities at the same time by making sure that our sensitivity analyses encompass the parameter choices used in other models. We present two of our results here.[34]

The first sensitivity result we present is the sensitivity of leakage to changes in the price elasticity of energy supply, ψ_{ES}, which as we indicated above for the analytic model, we expect to be a central parameter. A low ψ_{ES} means that the supply of energy does not change much when the price changes, while a high ψ_{ES} indicates that supply is highly sensitive to price. We expect leakage to be higher when ψ_{ES} is low. Figure 10 presents these results.

---

[34] Addition robustness checks are available at www.rdecep.org .

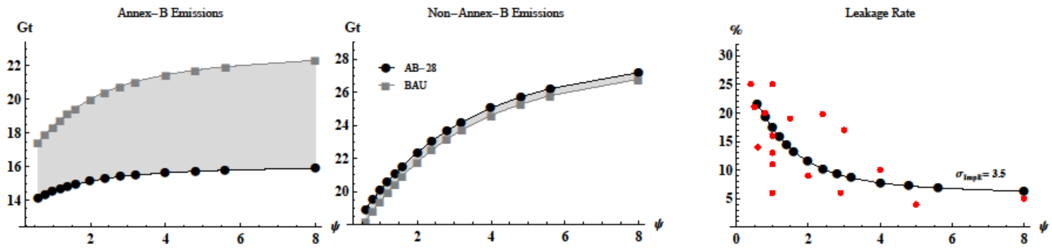

Figure 10: Sensitivity of leakage to ψ_{ES} for a \$29/ton CO_2 tax in Annex B, no BTA's

The left-most two graphs show the change in emissions in Annex B and non-Annex B as we change ψ_{ES}. The vertical difference between the two lines – BAU and AB-28 – highlighted in gray is the change in emissions due to the tax for various values of ψ_{ES}. We can see in the left-most graph that the change in emissions is quite sensitive to ψ_{ES} for low values. There is little effect in non-Annex B regions. The net effect is that leakage is highly sensitive to ψ_{ES}, primarily because of its effect in Annex B. The red dots represent the leakage rates and value of ψ_{ES} used in prior studies.[35]

The second result we show is an attempt to reproduce as closely as possible the full parameter set used in 19 prior studies.[36] The parameters that we

[35] For a list of prior studies, see note 37.

[36] Alain Bernard & Marc Vielle, *Allocation efficace d'un cout global d'environnement entre pays: permis negociables VS taxes ou permis negociables ET taxes?*, Economie Internationale, CEPII research center, issue 2Q, (2000), pp 103-136; Mustafa H. Babiker, and Henry D. Jacoby, *Developing country effects of Kyoto-type emissions restrictions*, MIT Joint program on the Science and Policy of Global Change, Report No. 53 (1999); Mustafa H. Babiker, *Climate change policy, market structure, and carbon leakage*, 65 Journal of International Economics 421-445 (2005); Mustafa H. Babiker, *Subglobal climate-change actions and carbon leakage: the implication of international capital flows*, 23 Energy Economics 121(2001); J. M Burniaux, and Martins J. Oliveira, *Carbon emission leakage: a general equilibrium view*, ECO/WKP (2000)15, Paris: OECD; Jean-Marc Burniaux, and Troung P. Truong, *GTAP-E, and energy-environmental version of GTAP*, Technical Paper No. 16 (2002), available at www.gtap.agecon.purdue.edu/resources/tech_papers.asp; Johannes Bollen, Ton Manders, and Hans Timmers, *Decomposing carbon leakage*, Third Annual Conference on Global Economic Analysis. Melbourne, June 27-30 (2000); Onno J. Kuik and Reyer Gerlagh, *Trade Liberalization and Carbon Leakage*, 24 The Energy Journal 97-120 (2003); Miles Light, Charles Kolstad, and Thomas Rutherford, *Coal markets and the Kyoto Protocol*. Boulder, CO: University of Colorado (1999); Warwick J. McKibbin, M.T. Ross, R. Shackleton, and Peter J. Wilcoxen, *Emissions trading, capital flows and the Kyoto Protocol*, The Energy Journal (special issue on the Kyoto Protocol), 287-333 (1999); Sergey V. Paltsev, *The Kyoto Protocol: regional and sectoral contributions to the carbon leakage*, 22The Energy Journal, 53-79 (2001); P.M. Bernstein, W. D. Montgomery, and Thomas F. Rutherford, *Global Impacts of the Kyoto Agreement: Results from the MS-MRT Model*, Paper presented at the IPCC Working Group III Expert Meeting, May 27-28, The Hague, The Netherlands (1999); Reyer Gerlagh & Onno Kuik, *Carbon Leakage with International Technology Spillovers*, Working Papers 2007.33, Fondazione Eni Enrico Mattei (2007); Everett B. Peterson and Joachim Schleich, *Economic and Environmental Effects of Border Tax Adjustments*, Working paper sustainability and innovation S1/2007 (2007) available at

consider include the Armington elasticities, the elasticity of substitution of energy goods, and the price elasticity of energy supply. Figure 11 shows the leakage reported in prior studies compared to the closest parameter fit within our model. We show the full set of estimates in the left-hand graph. In the right-hand graph, we eliminate an outlier study. We can explain much of the variation in leakage estimates as due to variations in parameters. CIM-EARTH, however, predicts higher leakage than the comparison models when using the same parameter set.

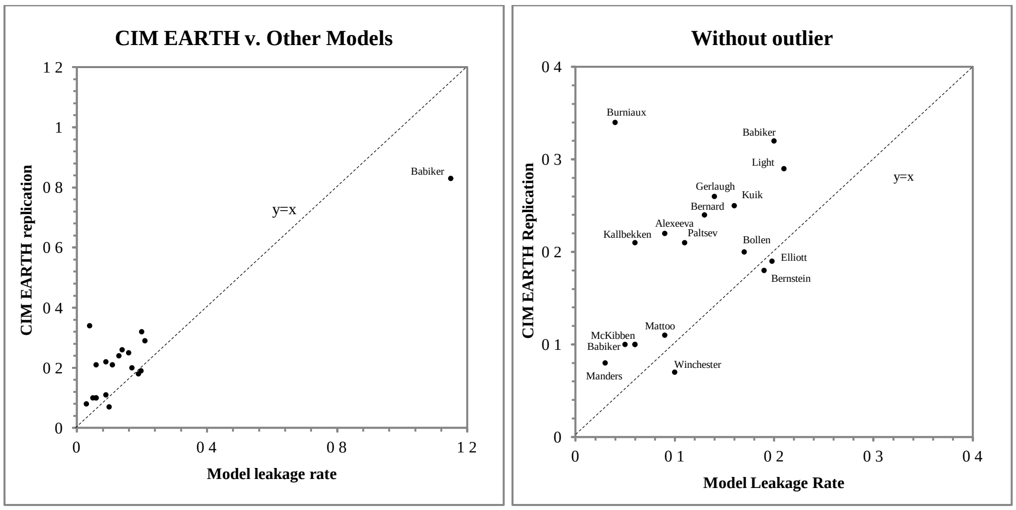

Figure 11: replication of parameters in prior models

4.5 *Proxy tax simulations*

Border tax adjustments are likely to be difficult to implement. To determine the tax on imports, a customs agent would have to know the marginal source of energy used for each stage of production for an imported good. A finished good may have elements produced in many countries with many different

http://econstor.eu/dspace/handle/10419/28514; Steffen Kallbekken, Line S. Flotorp, and Nathan Rive, *CDM baseline approaches and carbon leakage*, 35 Energy Policy 4154-4163 (2007); Andreas Loschel, Victoria Alexeeva-Talebi, Tim Mennel, *Climate Policy and the Problem of Competitiveness: Border Tax Adjustments or Integrated Emission Trading*, ZEW Discussion Paper 08-061, available at http://ideas.repec.org/p/zbw/zewdip/7384.html; Paul Veenendall and Ton Manders, *Border tax adjustments and the EU-ETS, a quantitative assessment*, CPB Netherlands Bureau for Economic Policy Analysis, Document 171 (2008), available at http://www.cpb.nl/en/publication/border-tax-adjustment-and-eu-ets-quantitative-assessment; Aaditya Mattoo, Arvind Subramanian, Dominique Van der Mensbrugghe, and Jianwu He, *Reconciling Climate Change and Trade Policy*¸ World Bank Policy Research Working Paper No. 5123 (2009); Niven Winchester, Sergey Palstev and John Reilly, *Will Border Carbon Adjustments Work*, MIT Joint Program on the Science and Policy of Global Change, Report No. 184 (2010); Warick J. McKibbin and Peter J. Wilcoxen, *The Economic and Environmental Effects of Border Tax Adjustments for Climate Policy*, 2008/2009 Brookings Trade Forum 1-34 (2009).

energy sources, making this task difficult. Worse, to give foreign firms the correct incentive to use low-carbon production methods, the tax has to be sensitive to the particular production choices and energy sources used for each good. For example, if the tax rate is based on national averages, individual firms in a given country would not have an incentive to switch to low-carbon production as doing so would have no effect on the tax imposed and would increase costs. Border tax adjustments may also be contrary to WTO law. In particular, the tax would be based on production methods and therefore "like" products may face different taxes.[37]

To address these concerns, we consider three imperfect border tax regimes. The first is border tax adjustments based on the average emissions from production of a good in the importing country. There are two intuitions behind this approach: (1) local customs agents may have better information about domestic production methods than about foreign production methods, so it would be easier to implement; and (2) it may appeal to domestic industry because it imposes the same tax on imports as domestic industry faces. The disadvantage of this approach is that the tax is unrelated to the actual emissions from production of a good abroad. Foreign firms have no incentive to alter their production in response to the tax. In Figures 12 and 13, where we show our results, this tax is labeled BTA-Regional.

The second is a global system of border tax adjustments where the border tax and the rebate on export are based on a schedule set by a global entity such as the WTO or the UN. The schedule we model is, for each category of goods, equal to the global average emissions from the production of those goods. The intuition here is that border tax adjustments might be part of a global climate agreement. In addition, once negotiated, a schedule would be easy for countries to impose. The disadvantages are similar to the disadvantages of border taxes based on domestic emissions in the production of like goods. In Figures 12 and 13, this policy is labeled BTA-UN.

The final imperfect system we consider is import tariffs. These are perfectly calculated border taxes but imposed only on imports without the corresponding rebate on export. These are punitive, and we imagine them being

[37] There is a large literature on the legality of border tax adjustments for carbon taxes and cap and trade systems, including Roland Ismer and Karsten Neuhoff, *Border tax adjustments: a feasible way to support stringent emission trading*, 24 European J Law Econ 137 (2007); Gavin Goh, *The World Trade Organization, Kyoto and Energy Tax Adjustments at the Border*, 38 Journal of World Trade 395 (2004).

imposed in response to domestic demands by industry fearful of carbon leakage. We label this system Tariff.

Our results are presented in Figures 12 and 13. Figure 12 shows the global emissions reductions under these scenarios, compared to a production tax. Comparing the production tax (the top line) to the other taxes, we can see that all of the border tax systems reduce emissions more than a pure production tax. The reasons are similar to the reasons perfect BTA reduces emissions, as discussed above: emissions in Annex B will go up but emissions in non-Annex B regions go down by more.

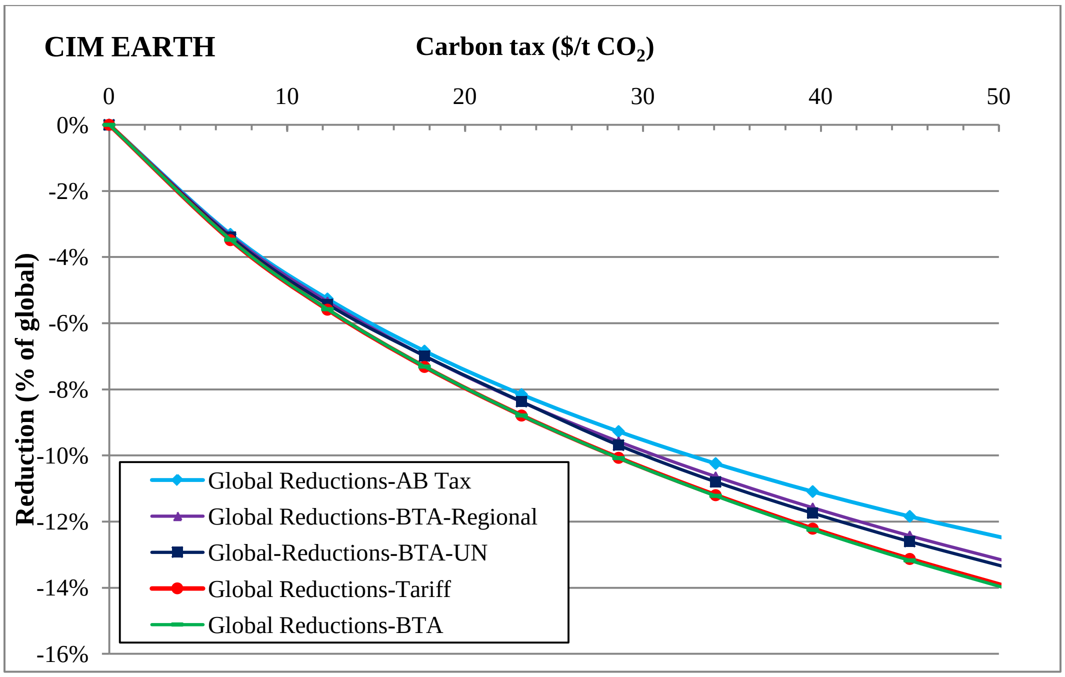

Figure 12: Global emissions reductions under imperfect BTAs.

Figure 13 shows the leakage rate under each scenario. Perfect border taxes reduce leakage the most. The reason is likely that only perfect border taxes provide the correct incentives to reduce emissions in foreign production.

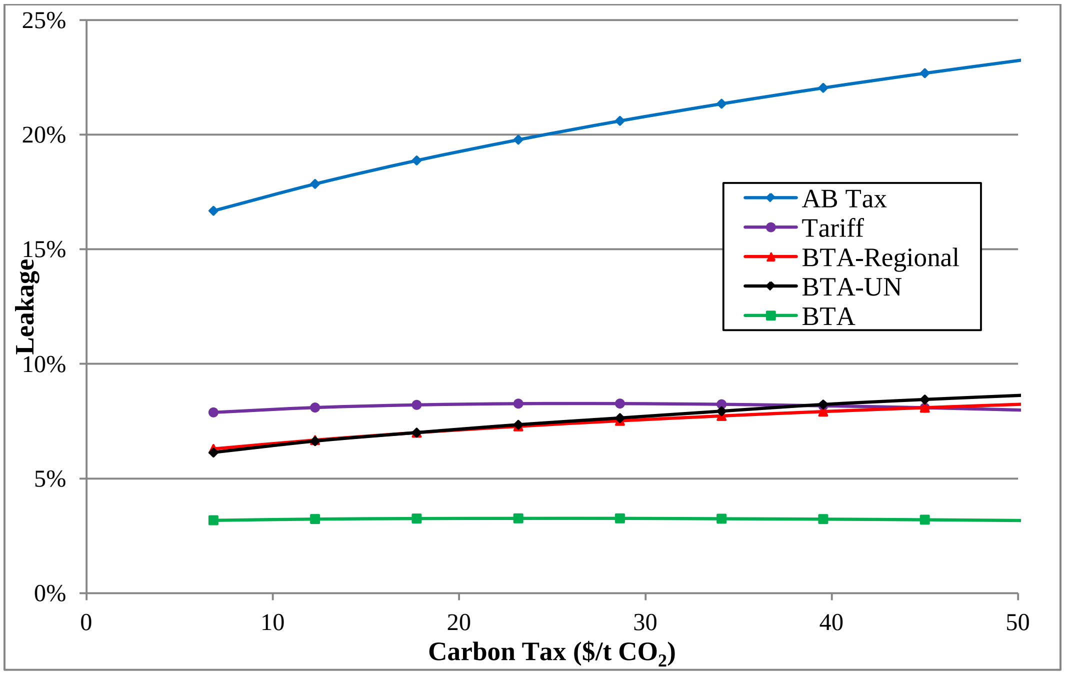

Figure 13: Leakage rate under tax scenarios; labels the same as Figure 12

Comparing the tariff lines in Figures 12 and 13, we can see that tariffs reduce global emissions in almost exactly the same amounts as perfect BTAs but generate more leakage. The difference between a tariff and border tax adjustments is that border tax adjustments have a rebate on export while tariffs do not. The tariff, by not providing a rebate for exports from Annex B, reduces Annex B emissions by more than perfect border taxes, so the denominator in the leakage measure is bigger (tending to reduce the leakage rate). Offsetting this effect, emissions increases in non-Annex B regions are greater under the tariff than under perfect border taxes because there is actually a greater incentive to shift production abroad: Annex B production for export to non-Annex B countries is not as competitive as local production in non-Annex B countries (for consumption there). An exporting Annex B industry therefore may shift production to a non-Annex B country. The net result is around double the leakage.

The UN and regional border tax systems also do not perform as well as perfect border taxes. These systems have higher overall emissions and higher leakage. The reasons here likely relate to the imperfect incentives these systems impose on non-Annex B production. Because the taxes do not respond to production choices, there is a lower incentive to alter those choices. We do not consider the administrative costs of the alternative systems. If the administrative savings are great enough, it may be worth adopting one of these alternative systems notwithstanding their poorer performance.

5. Conclusions

We had a number of goals for this study. One was to introduce CGE modeling of a legal problem and to consider ways that it can be made useful and accessible. To do this, we developed a simplified analytic model of the problem with the same core structure as the CGE model. The simplified model provides economic intuitions which we then simulate in the CGE model. We parameterized the analytic model to match the CGE model so that we could test the sensitivity of the analytic model results to the variables we use in the CGE model. We also made our CGE code open source, provide extensive sensitivity and robustness checks, and attempt to replicate prior studies within our model. While we suspect that CGE modeling of legal problems will remain difficult to do and difficult to understand for many legal analysts, it may be the best way to study certain classes of problems.

A second goal was to understand the structure of the leakage problem and to understand which parameters drive leakage. One central conclusion in this regard is that a key variable is the price elasticity of energy supply. For both production taxes and border taxes, a low price elasticity of energy supply means that leakage is likely to be high. What really matters for global emissions is the total amount of fossil fuels extracted. If energy supply is inelastic, a regional carbon tax will have little effect on global extraction. These results show up in both our analytic model and in our CGE model. In thinking about the design of regional emissions systems, it might be wise to focus on energy supply as much as on demand.

A third goal was to simulate a variety of tax policies to understand their likely effects. Within our CGE model, we consider perfect border taxes and a number of imperfect taxes such as a tax based on a global schedule of emissions for different types of goods. Our simulations show that imperfect border taxes may be significantly inferior at reducing leakage than perfect border taxes. The reason appears to relate to the incentives on foreign producers: with imperfect taxes they gain no benefit from switching to clean production technologies. Our simulations also show the importance of global emissions reductions policies. Carbon taxes only in Annex B have limited potential to reduce emissions, and this is not a result of leakage. Even without leakage, the large expected increases in emissions in the developing world swamp the potential reductions in Annex B.

Appendix

We present below the core equations and parameter values from the analytic model.

Function	**Form**
Endowments (asterisks indicate the foreign country)	Home: L and E Foreign: L^* and E^*
Production of *l*-good	$Q_l = L_l$ $Q_l^* = L_l^*$
Energy production in each country	$Q_{energy} = \left(\frac{L_{energy}}{\beta}\right)^{\beta} E^{1-\beta}$ $Q^*_{energy} \left(\frac{L^*_{energy}}{\beta}\right)^{\beta} E^{*(1-\beta)}$
Trade in energy (M is demand)	$Q_{energy} + Q^*_{energy} = M_e + M_e^*$
Production of *ei*-good	$Q_{ei} = \left(\frac{L_{ei}}{\delta}\right)^{\delta} M_e^{1-\delta}$ $Q^*_{ei^*} = \left(\frac{L^*_{ei}}{\delta}\right)^{\delta} M_e^{*(1-\delta)}$
Utility	$U = (C_{ei})^{\alpha_H} (C_{ei*})^{\alpha_F} (C_l)^{1-\alpha_H-\alpha_F}$ $U^* = (C^*_{ei*})^{\alpha_H} (C^*_{ei})^{\alpha_F} (C^*_l)^{1-\alpha_H-\alpha_F}$
Market clearing	$L = L_{ei} + L_{energy} + L_l$ $L^* = L^*_{ei^*} + L^*_{energy} + L^*_l$ $Q_{ei} = C^*_{ei} + C_{ei}$ $Q_{ei^*} = C^*_{ei^*} + C_{ei^*}$ $Q_l + Q_l^* = C_l + C_l^*$
Parameter	**Calibrated Value**
Share of income spent on own variety, α_H	0.15
Share of income spent on imported variety, αF	0.07
Labor share in e-good production, β	0.74

Labor share in ei/ei*-good production, δ	0.80
Share of labor in H, $\frac{L}{L^w}$	0.71
Share of resource in H, $\frac{E}{E^w}$	0.40

From:	Dotson, Greg
To:	Metcalf, GilbertDisabled
Subject:	MIT Carbon Tax Analysis
Date:	Friday, August 31, 2012 1:31:23 PM

Hi Gib,

Hope you've had a good summer.

In case you missed it, I wanted to share a new report from MIT economists John Reilly and Sebastian Rausch that shows that there are multiple advantages to using a carbon tax to address the nation's looming fiscal cliff and deficit issues. The full report is available at this link: http://globalchange.mit.edu/files/document/MITJPSPGC_Rpt228.pdf. A good summary is available here: http://globalchange.mit.edu/news-events/news/news_id/192#.UD5qa8GPUrM.

The report uses a "current law" baseline, meaning that it assumes expiration of the Bush tax cuts, the expiration of the payroll tax cut, the triggering of the sequester, and the other policy changes scheduled to occur on January 1, 2013. It then models what would happen if a carbon tax that starts at $20 per ton and raises $1.5 trillion over ten years were enacted and the proceeds used (1) to restore some of the Bush tax cuts; (2) to extend the payroll tax reductions; (3) to reduce the corporate tax; or (4) to maintain spending on social programs like Medicare and Medicaid.

The report finds that under each alternative, "the economy is better off with the carbon tax." According to the report:

> "The country faces difficult tradeoffs in getting the Federal budget deficit under control. In our analysis of a carbon tax, we find a win-win-win situation that requires no tradeoff at all. Carbon tax revenue (1) allows cuts in other taxes, (2) benefits the economy, and (3) reduces CO2 emissions and oil imports."

The report also examines the distributional impacts of a carbon tax. The report finds that the impacts depend on which of the four policies are implemented. When the revenue from a carbon tax is devoted to social programs like Medicare and Medicaid, low income households receive significant net benefits. When the revenue from a carbon tax is used to reduce payroll taxes, the impact is largely neutral across households. And when the revenue is used t reduce income or corporate taxes, the impact is "slightly regressive."

As the news release accompanying the report states, "with the carbon tax … the overall economy improves, taxes are lower and pollution emissions are reduced."

Best,
Greg

Greg Dotson

House Energy and Commerce Committee
564 Ford House Office Building< span>
Washington, DC 20515
(202) 225-4407

From:	Jaffe, Judson
To:	Metcalf, GilbertDisabled
Subject:	RE: legislation
Date:	Friday, August 03, 2012 9:12:40 AM
Attachments:	MPC - Section-by-Section Final.pdf

Here's a section by section summary of the bill from Congressman McDermott's website. The text of the legislation still is not available from his website or from Thomas/GPO. I'll keep looking…

http://thomas.loc.gov/cgi-bin/bdquery/D?d112:30:./temp/~bdydst::|/bss/|

Judson Jaffe
Office of Environment and Energy
U.S. Department of the Treasury
Phone: 202.622.7751
Fax: 202.622.6728
Email: judson.jaffe@treasury.gov

From: Metcalf, Gilbert
Sent: Thursday, August 02, 2012 10:46 AM
To: Jaffe, Judson
Subject: legislation

Can you get a copy of this?

McDERMOTT TO INTRO CARBON TAX LEGISLATION: Rep. Jim McDermott (D-Wash.) will introduce a bill today to create a carbon tax that he says will create incentives for long-term changes in the U.S. energy market without harming the economy, and in fact, providing much needed revenues. McDermott: In politics, "you plant seeds. You put ideas out there and you let people think about" it, he said. "If someone has a better idea, I'm willing to consider it. I think that when we come back in January, we talk about tax reform, I don't want it to be thrown on the table" at the last minute. "So I'm putting it out there as a think-piece.'

Gilbert E. Metcalf
Deputy Assistant Secretary for Environment and Energy
U.S. Department of the Treasury
(202) 622-0173 (office)
(202) 316-8028 (mobile)
(202) 622-0037 (fax)
Email: gilbert.metcalf@treasury.gov

Section-by-Section: The Managed Carbon Price Act of 2012 (MCP)

Section 1. Short Title: "The Managed Carbon Price Act of 2012"

Section 2. Greenhouse Gas Emission Substances

Section 9901. Condition Precedent to Sale or Use of Greenhouse Gas Emission Substance

Requires the producers of coal, natural gas, oil and gas refinery, or other covered GHG emissions producer to purchase Permits equal to the amount of CO_2 equivalent emissions produced. GHG substances that are used for noncombustion agricultural purposes do not require a Permit.

The Secretary will impose a Permit equivalency fee on the importers of carbon intensive goods. The fee will be equivalent to the price paid by domestic producers of GHG substances. This provision will expire to the extent that other countries enact similar emissions reductions laws.

Section 9902. Federal Emissions Permit

Generally: Permits will only be available for purchase from the Secretary. Permits are not allowed to be traded or resold.

Purchasing Permits: Permits will be sold in one-quarter CO_2 equivalents (one-quarter ton of CO_2 or equivalent substance). Permits may only be purchased within seven calendar days after a GHG emission substance is produced or imported. This is to prevent hoarding and distortions in the Permit price.

Permit Price: The Secretary in consultation with the EPA Administrator, and the Secretary of Energy, will determine the Permit price. No more than one-year after enactment the Treasury Secretary will publish a 5-year Permit price and quantity schedule for each calendar year. The following year, the Secretary will publish the price for year 6, and will do this on an annual basis. This way, businesses always have a 5-year price window to plan around. The Secretary can at any time before the start of a new year decrease the price of permits. The Secretary may only increase the permit price for a published no less than 2 years before the year in question.

Price Collar: MCP requires that the Secretary set Permit prices within a maximum and minimum price collar. MCP stipulates the price collar for the first 12 years after implementation. 5-years after enactment and every 10-years thereafter, the Secretary will publish a new price collar schedule.

Emissions Targets: While the price and quantity of Permits are set by the Secretary every 5-years, MCP requires emissions reductions of 80% of 2005 levels within 42 years. The Secretary must meet specific reductions targets every 10 years. Because MCP does not take effect until 2 years after enactment, the first target occurs 12 years after enactment. The first target requires a

30% reduction of in emissions. The following three decades require 20%, 20%, and 10% reductions respectively.

Annual Report: 15 months after enactment, and every year thereafter, the Secretary shall publish a report detailing the number of Permits sold, and the extent to which GHG emissions reductions are being achieved. The report will also contain the methodology used by the Secretary to determine Permit prices and quantities, as well as an estimation of the price of Permits for the decade following the current 5-year window.

Section 9903. Definitions

Carbon Dioxide Equivalent: Means, for each GHG emission substance, the quantity of that substance the EPA administrator determines makes the same contribution to global warming as 1 metric ton of CO_2.

GHG Emissions Substances: Coal, petroleum, natural gas, methane, nitrous oxide, sulfur hexafluoride, perfluorocarbons, hydrofluorocarbon, and any other substance as determined by the EPA Administrator.

Publication of Schedule: The Secretary shall publish a schedule listing each covered GHG substance, and the quantity of each substance required to make 1 metric ton of CO_2.

Section 9904: Information Reporting Requirements

In making determinations for price and quantity of Permits, the Secretary may solicit information from industry regarding estimated future use of GHG substances.

Section 6433. Refunds of Federal Emission Permit Fee for Certain Uses

The Secretary is allowed to refund Permit fees in the event the Producer has purchased too many Permits. This is expected to be negligible as Permits are purchased after production of the GHG substance.

The Secretary shall also make payments to exporters of carbon intensive goods equal to the cost that domestic producers pay for such carbon intensive goods.

Section 4691. Greenhouse Gas Emissions Substances (Failure to Obtain a Permit)

If a producer fails to obtain a Permit, he must pay the amount of the fee, and a tax equal to the fee paid. Essentially, a producer will be liable for twice the amount of the applicable Permit fee.

Section 9512. Energy and Economic Security Trust Fund

75% of the Permit fees will be transferred to the newly created Energy and Economic Security Trust Fund (EEST). From there, the EEST will distribute a monthly dividend to every lawful United States resident. Each resident will receive one individual share, with dependents receiving one-half of an individual share. No more than 2 dependents may be taken into account for each resident.

The remaining 25% shall be used for deficit reduction. Absent deficit reduction needs, the remaining amount will then go to dividend payments.

From: Jaffe, Judson
To: [redacted] @brookings.edu"
Subject: Carbon Tax Workshop at the Brookings Institution
Date: Monday, July 16, 2012 9:48:00 AM

Danny,

I attended the last workshop at RFF and would like to come to the upcoming one on the 27th if possible.

Thanks!
Jud

____
Judson Jaffe
Office of Environment and Energy
U.S. Department of the Treasury
Phone: 202.622.7751
Fax: 202.622.6728
Email: judson.jaffe@treasury.gov

From:	Jaffe, Judson
To:	Hall, Daniel
Subject:	Fw: korea carbon tax
Date:	Friday, June 08, 2012 3:50:39 PM

Did we ever get details on this?

From: Metcalf, Gilbert
Sent: Friday, June 08, 2012 03:42 PM
To: Jaffe, Judson
Subject: korea carbon tax

I think you sent me an informal briefer on Korea's new carbon tax but I can't find it. If you have, could you resend?
Thanks.
Gib

Gilbert E. Metcalf
Deputy Assistant Secretary for Environment and Energy
U.S. Department of the Treasury
(202) 622-0173 (office)
(202) 316-8028 (mobile)
(202) 622-0037 (fax)
Email: gilbert.metcalf@treasury.gov

From: Metcalf, Gilbert
To: Jaffe, Judson
Subject: FW: MIT Carbon Tax Analysis
Date: Friday, August 31, 2012 1:34:00 PM

---

fyi

Gilbert E. Metcalf
Deputy Assistant Secretary for Environment and Energy
U.S. Department of the Treasury
(202) 622-0173 (office)
(202) 316-8028 (mobile)
(202) 622-0037 (fax)
Email: gilbert.metcalf@treasury.gov

From: Dotson, Greg [mailto:Greg.Dotson@mail.house.gov]
Sent: Friday, August 31, 2012 1:31 PM
To: Metcalf, Gilbert
Subject: MIT Carbon Tax Analysis

Hi Gib,

Hope you've had a good summer.

In case you missed it, I wanted to share a new report from MIT economists John Reilly and Sebastian Rausch that shows that there are multiple advantages to using a carbon tax to address the nation's looming fiscal cliff and deficit issues. The full report is available at this link: http://globalchange.mit.edu/files/document/MITJPSPGC_Rpt228.pdf. A good summary is available here: http://globalchange.mit.edu/news-events/news/news_id/192#.UD5qa8GPUrM.

The report uses a "current law" baseline, meaning that it assumes expiration of the Bush tax cuts, the expiration of the payroll tax cut, the triggering of the sequester, and the other policy changes scheduled to occur on January 1, 2013. It then models what would happen if a carbon tax that starts at $20 per ton and raises $1.5 trillion over ten years were enacted and the proceeds used (1) to restore some of the Bush tax cuts; (2) to extend the payroll tax reductions; (3) to reduce the corporate tax; or (4) to maintain spending on social programs like Medicare and Medicaid.

The report finds that under each alternative, "the economy is better off with the carbon tax." According to the report:

> "The country faces difficult tradeoffs in getting the Federal budget deficit under control. In our analysis of a carbon tax, we find a win-win-win situation that requires no tradeoff at all. Carbon tax revenue (1) allows cuts in other taxes, (2) benefits the economy, and (3) reduces CO2 emissions and oil imports."

The report also examines the distributional impacts of a carbon tax. The report finds that the impacts depend on which of the four policies are implemented. When the revenue from a carbon tax is devoted to social programs like Medicare and Medicaid, low income households receive significant net benefits. When the revenue from a carbon tax is used to reduce payroll taxes, the impact is largely neutral across households. And when the revenue is used t reduce income or corporate taxes, the impact is "slightly regressive."

As the news release accompanying the report states, "with the carbon tax … the overall economy improves, taxes are lower and pollution emissions are reduced."

Best,
Greg

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From:	Metcalf, Gilbert
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Subject:	FW: NJ: Republican Thinkers Launch New Climate-Change Initiative
Date:	Tuesday, July 10, 2012 10:47:00 AM

Interesting article

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Republican Thinkers Launch New Climate-Change Initiative

By Coral Davenport | Tuesday, July 10, 2012 | 6:07 a.m.

A small cadre of big-name Republican thinkers, disturbed by their party's stance on climate change, are engaging in a nationwide campaign, launching on Tuesday, to persuade the GOP to embrace "conservative solutions" to global warming.

Over the past two years, tea party groups and fossil-fuel-funded super PACs have driven the GOP far to the right on global warming, as more Republicans question climate science or recant their former support of climate policy. That's led to a rift between moderates and hard-line conservatives -- emblematic of a larger divide in the party -- as some moderate Republicans fear that rejecting climate change could lead their party to be branded as antiscience.

The Energy and Enterprise Initiative, based at George Mason University, aims to unite moderate Republicans concerned about climate change with hard-line fiscal conservatives who want to cut taxes and government spending. It's led by former Rep. Bob Inglis, R-S.C., who has been on the outs with the right wing of his party since he lost his 2010 primary as a direct result of his support for climate-change policy.

On its own, Inglis's voice might not be enough to change the Republican conversation about climate change. But he has the support of Gregory Mankiw, economic advisor to the Mitt Romney campaign and the former chief economist of President George W. Bush's Council of Economic Advisers; Douglas Holtz-Eakin, president of the influential conservative think tank American Action Forum, former head of Bush's Council on Economic Advisers, and economic adviser to **John McCain's** 2008 presidential campaign; Art Laffer, the prominent conservative economist and former senior adviser to President Reagan; and George Shultz, Reagan's secretary of State, along with a slew of other conservative economic thinkers.

Mankiw, Romney's advisor, has long been a leading advocate of this policy -- although the Romney campaign declined to answer whether Romney himself would support it. Though Mankiw isn't expected to give speeches on behalf of the new campaign, given his involvement with Romney, Inglis described Mankiw as an "ally." And in an e-mail to *National Journal*, Mankiw wrote, "I am supportive of this effort."

Laffer, however, has already given one speech, at Vanderbilt University, supporting the policy. Last year, Holtz-Eakin held living-room meetings about climate change with New Hampshire voters.

The campaign will push one policy: a new tax on carbon pollution or gasoline consumption, paired with a cut in the income or payroll tax, creating a revenue-neutral, market-driven solution to an environmental problem while cutting taxes that conservatives dislike.

The idea is essentially to create a tax that will discourage fossil-fuel use and pollution while eliminating a tax in order to incentivize work and income. It's an old idea that environmentalist and former Vice President Al Gore also has supported, but one that conservative economists say could be reborn in a next year's effort to pass a sweeping tax-reform package.

The campaign will send conservative thinkers across the country to speak about the policy to conservative audiences, such as gatherings of college Republicans, members of the Federalist Society, or the annual Conservative Political Action Conference.

"Conservatives have the answer to energy and climate—it's free enterprise and fixing market distortions," Inglis told *National Journal*. "Entrepreneurs and investors will deliver the fuels of the future. It will be faster and more efficient than government. It's just a matter of conservatives stepping forward and engaging rather than retreating into denial about science, which is a strange place for us to be."

The initiative will be a tough sell in today's hotly partisan political climate, where any proposal of a new tax—let alone an energy tax—is explosive. But the moderates see an opening for the argument in a coming effort to overhaul the nation's tax code, a debate in which conservatives will push to cut income, payroll, and corporate taxes.

And in addition to the big-name GOP economists, the proposal may also find backing in other, surprising quarters: ExxonMobil, the nation's biggest oil company, has backed a carbon tax. The campaign also will work with insurance companies—long-standing allies of the Republican Party, but also a group which must take into account the projected impacts of climate change, such as property damage caused by rising sea levels and increased flooding.

Michael McKenna, a Republican energy lobbyist and strategist who works closely with House GOP leadership on energy policy, predicted that the push is likely to gain traction on the Hill.

"I think it has the potential to be important, mostly because people who would oppose them are kind of asleep at the switch," McKenna wrote in an e-mail. "It is also clearly an attempt to prepare for whatever sort of conversation we are going to have about tax reform in the next however many years."

Still, McKenna said Republicans are likely to encounter plenty of problems in the details of the proposal.

“It suffers from a real lack of specifics," he wrote. "If you work the math, it looks like this: We use about 140 billion gallons of gasoline each year, and the payroll tax brings in about 750 billion each year. I realize that there are other things that would get taxed in such a regime, but if you simplify it, it looks like it would take a $5 a gallon tax on gasoline to clear the same amount of money. The guys who favor this never talk specifics, and now I know why—the specifics are incredibly unappetizing.”

National Journal attempted last year to survey congressional Republicans on their views on climate change. Sixty-five GOP lawmakers—40 House members and 25 senators across the ideological spectrum—agreed to respond.

Twenty of the 65 Republicans said they think climate change is causing the Earth to warm; 13 said that climate change isn’t causing the Earth to warm; and 21 said they didn’t know, the science isn’t conclusive, or they didn’t want to answer the question definitively. Nineteen said that human activities do contribute to climate change—but of those 19, only five said they believed a “significant amount” of climate change was due to human activity, while 14 said they believed human activity contributes “very little” to climate change. Five said they believed that climate change was not at all attributable to human activity.

The biggest obstacle will likely be opposition from influential conservative lobbyist Grover Norquist, president of the group Americans for Tax Reform, who has signed 539 Republican lawmakers and candidates onto a pledge promising never to raise taxes.

“Even a revenue neutral swap would be an extremely bad move for taxpayers,” Norquist told *National Journal*. “It would create a new tax that would certainly grow over time—name a tax that didn’t ... and the old tax that was pruned back, would also grow again."

He called the initiative "a very bad idea for taxpayers and is clearly being pushed by advocates of ever-larger government … with a possible assist from ‘conservatives’ who have no sense of history.”

The true measure of the campaign’s success will be whether the issue is championed by key Republican lawmakers, who will have to agree to push for it as part of a tax reform package as well as stand by it on the campaign trail.

One key Republican with sterling conservative fiscal chops is already doing just that—with backing from an influential tea party group. Rep. **Jeff Flake**, R-Ariz., the current favorite to become Arizona's next senator next year, supports the idea. In 2009, he co-authored a bill with Inglis to create a carbon tax paired with a cut in the payroll tax. And the bill won backing from the head of the Arizona chapter of Americans for Prosperity, the influential tea party group with ties to the oil company Koch Industries.

Another possible backer is Sen. **Lisa Murkowski** of Alaska, the senior Republican on the Senate Energy and Natural Resources Committee.

Environmentalists and the White House are watching the effort the effort closely. After President Obama's effort to move a cap-and-trade climate change bill through Congress died—and contributed to the losses of many incumbent Democrats in Congress in 2010—Democrat-led efforts to push climate policy are likely to face a wall of opposition in the coming years.

Strategists say an effort led by Republicans—a "Nixon goes to China"-type moment—is likely the only chance for moving climate policy before 2016.

"This is an important step. If the U.S. is ever going to get a carbon tax, it has to have a conservative address," said Joshua Freed, director of the clean-energy program at Third Way, a Democratic think tank. "For this to morph from an aspiration into a policy contender, we need the heft of Republicans who hold office and are weighing the impact of reelection to settle in."

From: [Urbanas, Elizabeth (Beth)]
To: [Jaffe, Judson]
Subject: Fw: Treasury News Briefing for Wednesday, September 12, 2012
Date: Wednesday, September 12, 2012 7:00:07 AM

Oh joy.

From: Bulletin News [mailto:Treasury-Editors@BulletinNews.com]
Sent: Wednesday, September 12, 2012 06:06 AM
To: TREASURY-Editors@BulletinNews.com <TREASURY-Editors@BulletinNews.com>
Subject: Treasury News Briefing for Wednesday, September 12, 2012

Mobile version and searchable archives available at treasury.bulletinnews.com.

Treasury News Briefing

TO: THE SECRETARY AND SENIOR STAFF

DATE: WEDNESDAY, SEPTEMBER 12, 2012 6:00 AM EDT

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Treasury in the News

Triggering Of Underwriter Option Pushes AIG Bailout Profit To $15.1 Billion.

Treasury's announcement Tuesday that the underwriters of its Monday $18 billion sale of AIG stock have exercised their option to buy an additional $2.7 billion in shares sparked a continuation of yesterday's positive coverage of the bailout resolution in media outlets. They note the government's total profit on the AIG bailout is now $15.1 billion. Shorter reports in outlets today do not dive as deeply into analysis to explicitly frame the plan as a victory for Treasury as in yesterday's reports, but media do continue noting the prospect of a profit on a bailout was once considered out of the realm of possibility. Wire reports devote significant coverage to CEO Robert Benmosce's plans for the firm now that the government is a minority holder, but Treasury spokesman Matt Anderson stressed in Bloomberg's report that the department maintains a say in issues like executive pay until its last share is sold.

Michael J. De La Merced writes in the New York Times (9/12, De La Merced, Subscription Publication, 1.23M) "DealBook" blog, "Apparently, $18 billion worth of American International Group shares weren't enough for investors" after "underwriters for the offering exercised what's known as an overallotment option to meet higher-than-expected demand." The total offering represented "the single-biggest sale of Treasury's holdings in AIG to date."

The AP (9/12) reports Treasury announced booking the additional $2.7 billion sale "one day after the government reported a profit on its four-year investment in the bailed-out financial firm. ... The sales cut the government's stake in AIG to less than 16 percent."

Andrew Ross Sorkin reported on CNBC Squawk Box (9/12) "here's the important part: Treasury says this represents a profit, a profit, of $12.4 billion to date on Uncle Sam's investment. And of course four years ago that was something that I don't think anybody - including Hank Paulson and Tim Geithner - imagined."

On Bloomberg TV (9/11, 8:07 a.m. EST, 100K), Betty Liu said the "US taxpayer has a reason to celebrate" after being made whole on the bailout stake. "A real turnaround story," she added.

Steve Shaefer writes for Forbes (9/12, 928K), "The success of the bailouts from an execution and profitability standpoint will be debated endlessly, but from the standpoint of keeping the financial system intact it is difficult to argue with Geithner: the bailouts should never have been necessary, but when they became essential they had the desired effect," alluding to the secretary's Monday statement. He explains, "the biggest financial institutions to take government money have in large part repaid those bailout loans and are on sounder, if not crisis-proof, footing today."

The Los Angeles Times (9/12, Puzzanghera, 629K) reports, "The Fed and the Treasury Department pledged more than $182 billion to keep AIG afloat after it nearly went bankrupt in September 2008. AIG did not tap all that money, but many analysts predicted that the U.S. would never come close to recovering the bailout funds."

CNN Money (9/12) reports, "When it sells off its remaining stake, Treasury should turn a profit on the $69.8 billion portion of the AIG bailout that came out of the Troubled Asset Relief Program." Explaining the remaining elements of the TARP program, CNN explains, "Treasury records show it received about $25 billion more than the $230 billion that it gave to the big banks," but "about $14.8 billion is still owed by nearly 400 smaller banks that received TARP help." However, losses on Fannie Mae and Freddie Mac's Treasury loan of $187.5 billion "could dwarf what was lost on the rest of the finance sector."

Reuters (9/12) reports ratings firms took two very different approaches to the sale, with S&P lowering its outlook from stable to negative while Fitch raised its rating on the insurer. CEO Bob Benmosche said that with the sales, AIG may be able to offer a dividend by next summer. Addressing the government's stake, Benmosche on CNBC Tuesday said "I think they'll be out pretty quickly," adding that at that time the "focus would turn to considering a dividend, assuming capital positions and regulators allow for it by then." Addressing possible routes for several holdings Benmosche said AIG can still sell its remaining stake in former subsidiary AIA Group, as well as a possible sale or public offering of aircraft leasing business ILFC.

Bloomberg News (9/11, Tracer, Griffin, 1M) reports AIG, which "bristled at US pay curbs, is nearing an end to Treasury Department compensation limits as Chief Executive Officer Robert Benmosche winds down a taxpayer bailout." Treasury spokesman Matt Anderson explained the department "can restrict pay for top managers until the U.S. sells its final AIG share," and AIG executives are itching for the limits, as well as those for dividends, to be lifted. The insurer said in its annual report the restrictions limit its ability to "attract talent and retain and motivate our highest performing employees." Gary Townsend, head of Hill-Townsend Capital, said, "TARP was our government operating at its best. The subsequent involvement in the minutia of companies' compensation practices was government regulation at its worst."

Dow Jones Newswires (9/12) reports the $20.7 billion figure represents the fifth-largest follow-on stock offering since the financial crisis. Dow Jones explains that CEO Benmosche, responding to concerns that Fed oversight now brought by the firm's thrift after the sale could limit AIG's future purchases of Treasury holdings, said executives "are giving thought to whether we should now close the bank" to avoid the regulation.

On NPR All Things Considered (9/12), John Ydstie interviewed several people about the wind-down. Brookings Institution fellow Doug Elliott said, "This is definitely an occasion to celebrate. ... It's further evidence that the financial rescue packages that we put in place that the public hated so much were very much worth it," while Morningstar's Jim Ryan explained, "We think that this signifies that the firm is basically back on its own and free to chart its own course." Former SIGTARP Neil Barofsky again dissented, argued "you have to look back to the original intentions, which was to spur a robust economic recovery, which we haven't had, to address the rampant foreclosure crisis, which we didn't do."

Democratic Strategist Bill Buck writes in a blog for WWJ-TV Detroit (9/12) that the sale at a profit is "one of the signs that we are better off than we were four years ago." Tying the profit to what he frames as the success of the auto bailouts, Buck says while the rescues were not popular "they were effective. And every month we get fresh evidence that they performed better than expected."

Newsday: Bailouts Mostly A Success. Newsday (9/12, 412K) under the headline "AIG Sale Shows 2008 Bailouts Are (Mostly) Working Out" editorializes that while the "bailouts were practically the definition of a necessary evil," in the end "not only did Washington rescue the financial system and the auto industry, but many of its investments are paying off." It notes that not only has the AIG bailout returned billions for taxpayers, but also saved 57,000 jobs. Newsday concludes, "The results aren't all good. Taxpayers remain saddled with Fannie Mae and Freddie Mac. The financial system, while safer, remains vulnerable to 'too big to fail.' But things could have turned out much worse; in 2008, most people thought they would."

Salmon: TARP Funds For Jobs Makes Sense. Felix Salmon in his Reuters (9/12) blog writes that Deborah Solomon's idea in yesterday's Bloomberg View (9/11, Solomon, 1M) column to use TARP proceeds to launch a jobs program is a good one in principle, noting it falls roughly into the same ballpark at President Obama's $447 billion jobs act. He says that such an initiative would face uncertain prospects however, explaining that job creation is more of an art than a science and does not necessarily respond effectively to one-off capital expenditures. But, he concludes - noting that Treasury officials value plans over no plans - at least it's a plan.

FSOC To Look At Naming First Non-Bank Institutions.

Bloomberg News (9/12, Hopkins, Katz, 1M) reports, "Regulators are poised to choose the first U.S. non-bank companies that are likely to be branded potential risks to the financial system, according to two people with knowledge of the plans." According to the sources, the FSOC "plans to request confidential data from as many as five firms at a meeting this month." Bloomberg News writes that AIG and GE have said they expect to be named systemically important institutions. Bloomberg News says the council meeting is "tentatively scheduled" for September 28th. Bloomberg News notes that Treasury Secretary chairs the council and has previously said FSOC was looking at AIG "very, very carefully." Bloomberg News adds that Treasury and AIG spokespersons declined to comment for the story.

Money Market Reform Said To Have Weak Support From Democratic Lawmakers. Politico (9/12, Warmbrodt, 25K) reports, "In one of the first major financial reform battles since the passage of sweeping Wall Street reforms in 2010, support from Hill Democrats is missing in action." Politico says that in the wake of the SEC's decision not to vote on money market mutual fund reform when it became apparent SEC Chairwoman Mary Schapiro would not have enough votes, FSOC, "the super panel of regulators led by Treasury Secretary Timothy Geithner, is mulling over what steps it can take to further Schapiro's plan." However, Politico says that it is doing so "without strong support from congressional Democrats." Politico goes on to quote tepid support for some sort of reform from Senator Chuck Schumer (D-NY) and Senator Robert Menendez (D-NJ).

Strong Precedent For Pre-Election Action By Fed.

Discussing the prospects for QE, the New York Times (9/12, Appelbaum, Subscription Publication, 1.23M) reports that this would be far from the first time the Fed acts directly before an election, as it "has announced policy changes in September or October during 10 of the last 15 presidential election years, dating back to 1952." Notably, in September 1992, the Fed cut the benchmark rate to a three-decade low, but President George H. W. Bush blamed Chairman Alan Greenspan for costing "him a second term by failing to act more quickly and more forcefully." The Times explains while the Fed takes pains to avoid political reactions but the "imminence of the election makes it inevitable that the decisions reached by the Fed's policy-making committee will be judged through a political lens." The Times says that "Bernanke met only three times with President Obama last year, and most recently met with the president at the end of May, although he continues to meet regularly with Treasury Secretary Timothy F. Geithner."

Competitive Enterprise Institute Sues Treasury Department Over Documents.

The Daily Caller (9/12) reports that "the Competitive Enterprise Institute announced it had filed a lawsuit against the Treasury Department to compel them to 'stop stonewalling' and release internal documents related to plans for a 'possible effort' to enact a carbon tax during Congress' lame-duck session this fall." The Daily Caller notes, "Detecting a concerted effort to pass a carbon tax, CEI filed a Freedom of Information Act request on August 8 with the Treasury Department Office of the Deputy Secretary for Environment and Energy and also with the Office of Legislative Affairs, asking for 'deliberations pertaining to the carbon tax.'"

Six Federal Agencies Rarely Rehire Retirees With Full Pensions, Salaries In Tact.

The Federal Times (9/12, 40K) reports, "About three years ago, Congress granted agencies wide authority to rehire federal retirees and pay them both their full pensions as well as their full salaries," but the Government Accountability Office has "found [that] six federal agencies are barely using the so-called dual compensation waiver authority at all." In fact, between fiscal 2010 and 2011, "the Treasury Department, Office of Personnel Management, US Postal Service, US Agency for International Development, Small Business Administration, and the Nuclear Regulatory Commission" granted "only 187 waivers in the first year, and 247 in the second year. That amounts to less than one thousandth of a percent of the more than 500,000 full-time employees at those agencies."

Financial International News

German Constitutional Court Rejects Injunction Against Bailout Fund.

Bloomberg News (9/12, Matussek, 1M) reports this morning, "Germany's top constitutional court cleared the way for the permanent euro-area rescue fund, rejecting bids to halt German ratification of the 500 billion- euro ($644 billion) backstop, while imposing some conditions on its use." The court "dismissed motions filed by groups including a conservative lawmaker and an opposition political party that sought to block the fund," but "stipulated that a cap of about 190 billion euros be set on German liabilities before ESM ratification, unless parliament decides to back extra funds." Bloomberg News quotes chief justice Andreas Vosskuhle as saying, "The review has concluded that the laws that were challenged, with high probability, do not violate the constitution."

Reuters (9/12, Breidthardt and Niederhoefer) also reports the news this morning and quotes the court as saying, "No provision of this treaty may be interpreted in a way that establishes higher payment obligations for the Federal Republic of Germany without the agreement of the German representative." Reuters writes that Henk Potts of Barclays Wealth said the decision was a positive one for moving towards solving the eurozone crisis.

Wolf: ECB Plan Is Good, But Not Enough To Save Euro. Martin Wolf writes in his Financial Times (9/12, Wolf, Subscription Publication, 448K) column that the ECB bond-buying plan was a strong measure and ECB President Mario Draghi should be praised for pushing it through. However, Wolf says the ECB cannot solve the crisis alone and a policy of maintaining the eurozone is a political one. Wolf argues a weak point in the plan is the ECB's insistence on conditionality. If states tap funds and receive ECB help but fail to meet conditions, what will the ECB do? If it continues to intervene it could escalate political opposition in Germany, but if it stops it could fail to meet its promise of doing enough to preserve the euro. Wolf says the ECB plan has bought some time, but debtor and deficit countries must still each make the political choices to preserve the currency union.

European Commission To Propose Plan For ECB Supervision Over All Eurozone Banks Today.

The Wall Street Journal (9/12, Stevens, Henning, Subscription Publication, 2.08M) says the European Commission on Wednesday will propose that the European Central Bank regulate all of the euro-zone's 6,000+ banks, a proposal greeted with skepticism in Germany. For example, Germany's private-sector banks welcome the proposal as a way to level the playing field and stabilize the financial system, but public-sector banks voice opposition, saying their lower-risk business model should help them avoid such ECB supervision. German politicians and German Finance Minister Wolfgang Schauble agree, saying ECB supervision should target larger, systemically relevant banks first.

Reuters (9/12) says European Commission President Jose Manuel Barroso will outline the proposal today in a speech. Reuters writes the EU member states will need to approve the reforms, which, when enacted, which would create a kind of eurozone-wide deposit insurance and give the ECB regulatory authority over all of the eurozone's banks. When implemented, it would also allow the ESM to lend directly to banks, avoiding member states such as Spain from adding to their sovereign debt in order to clean up their banks.

However, the Wall Street Journal (9/12, Steinhauser, Froymovich, Subscription Publication, 2.08M) reports that after push-back from Germany on the ESM directly recapitalizing banks, the EU Internal Market Commissioner Michel Barnier said this week that eurozone countries would still have to change the rules of the bailout funds, quoting him as saying, "It's not as if the moment the supervisor exists the mechanism is obliged to react."

Bloomberg News (9/12, Christie, Brunsden, 1M) explains that according to the proposal, although the ECB would be responsible for all eurozone banks, it "would depend on national regulators for day-to-day supervision and ensuring that banks comply with European rules." Bloomberg News writes that the plan is looking "to phase in the new system by Jan. 1, 2014, and all 27 EU members will need to sign off." Bloomberg News quotes Richard Reid of the International Centre for Financial Regulation as saying, "These proposals mark the latest step in what will be a very long and tortuous process of discussion and argument."

Der Spiegel (GER) (9/12, 1.05M) reports in an English-language article about the opposition in Germany to a unified bank supervisor with authority over small banks, but it also notes that Germany is skeptical a banking union can be as quickly achieved as the EU Commissioners plan. Spiegel concludes, "Barroso, though, is prepared to fight for his project, and wants the European Parliament to pass a resolution this Thursday on an ambitious banking union. Securing a large majority in parliament is considered to be a sure thing. That the German government will be impressed is far less likely."

Schaeuble Says US Debt Too High, Germany A Role Model.

Reuters (9/12) reports that in a speech to the Bundestag, German Finance Minister Wolfgang Schaeuble emphasized that fear over the US debt was a drag on the global economy. Reuters quotes Schaueble as saying, "Ahead of the election in the United States there is great uncertainty about the course American politics will take in dealing the U.S. government's debts, which are much too high," adding "We need to remind ourselves of that sometimes and the global economy knows that and is burdened by it." Reuters notes that Treasury Secretary Timothy Geithner has said the US will probably hit the $16.4 trillion debt ceiling by the end of this year.

Dow Jones Newswires (9/12, Rieker) reports on Schaeuble's speech, emphasizing the Finance Minister's claim that Germany was a role model for Europe. Dow Jones quotes Schaeuble as saying, "We are, in all humility, a role model for many European countries," adding, "Growth and deficit reduction aren't mutually exclusive." Schaeuble also defended the ECB's independence and said that the causes of the eurozone crisis were "mistaken fiscal and economic policies of the member countries, and they can only be corrected there." Not by an "easy use of the bank-note printing press."

Schaeuble Says Greece Must Meet Conditions. MNI News (9/12) reports that Schaeuble said in his speech that "there cannot be any new negotiations about the Greek budget consolidation and reform program agreed with the EU and the IMF." MNI quotes Schaeuble as saying, "It is clear that all conditions from the program agreed only at the start of the year must be met," adding, "If this would not be the case then confidence would be again destroyed and contagion risks for the whole Eurozone would be again increased."

WaPost Profiles Merkel's Germany. Under the headline, "As Germany rises, Frau Nein says, 'Yes,'" the Washington Post (9/12, Faiola, 552K) says Merkel "is taking tentative steps toward flexing Germany's atrophied muscles, offering tantalizing clues of what Europe would look like under a stronger, more assertive Berlin. The picture taking shape - including that of a nation boldly pursuing what many here are calling a 'special relationship' with China - is providing the political establishment in the United States with some mildly indigestible food for thought." Last week, when Merkel expressed support for the ECB buying government bonds to aid Italy and Spain, she drew criticism from "some of her political allies as well as the German news media, with a few wondering whether the Iron Frau had suddenly gone soft."

In Barcelona, 1.5 Million People Rally For Independence From Spain.

The New York Times (9/12, Minder, Subscription Publication, 1.23M) reports from Barcelona, "Catalonia's national day turned into a huge separatist rally on Tuesday, presenting yet another challenge to Prime Minister Mariano Rajoy as he seeks to force Spain's regions to enact drastic budget cuts." The Times adds that "as many as 1.5 million" people, "many of whom had traveled here from other parts of Catalonia," gathered in Barcelona for the protest, "organized under the slogan 'Catalonia, New European State.'"

Bloomberg News (9/12, 1M) writes that "Catalonia's President Artur Mas said he'll push for independence from Spain unless the central government allocates a bigger share of tax revenue to the region." Bloomberg News writes that Catalan nationalists "are looking to capitalize on the financial crisis roiling Spain to gain independence. The region's obligations to transfer tax revenue to the national coffers to help poorer regions forced Mas to request a 5 billion-euro ($6.4 billion) loan from the regional rescue fund last month."

Finnish PM Says Spain Should Avoid EU Bailout. The Wall Street Journal (9/12, Román, Subscription Publication, 2.08M) reports that Finnish Prime Minister Jyrki Katainen said at an event in Madrid that Spains should try to avoid tapping EU bailout funds. He also praised Spain's reform efforts saying that those policies were more important than meeting the country's 6.3% of GDP deficit target this year.

Troika Eases Portugal's Deficit Targets.

The AP (9/12, Hatton) reports that the troika "have agreed to ease" Portugal's "budget targets as it struggles to cut its debt load amid a recession, Finance Minister Vitor Gaspar said Tuesday." Gaspar said "that Portugal's budget government deficit goal this year has been raised from its original target of 4.5 percent to 5 percent of the country's €171 billion economy." Still, the Finance Minister said Lisbon "is readying new austerity measures for next year, including more tax hikes that risk deepening public and political hostility to the coalition government."

Bloomberg News (9/12, 1M) reports, "Gaspar now projects GDP will shrink 1 percent next year. He previously estimated GDP growth of 0.2 percent for 2013." Bloomberg News adds that Secretary of State for Treasury and Finance Maria Luis Albuquerque said Portugal plans to "carry out debt market operations as it aims to regain access to bond markets by September 2013."

The Wall Street Journal (9/12, Kowsmann, Subscription Publication, 2.08M) writes that the troika said that Portugal's austerity program remains on track despite the adjustments. The Journal quotes a troika representative as saying, "The extension in the timeline for the reduction of Portugal's budget deficit will ease the short-term economic cost and social impact of this necessary adjustment."

Dutch Polls Show Pro-EU Liberals And Labor In The Lead For Today's Election.

Bloomberg News (9/12, 1M) reports, "Dutch voters elect a new parliament today, with the campaign's final poll showing the Diederik Samsom's opposition Labor Party closing to a virtual tie with Prime Minister Mark Rutte's Liberal Party." According to a TNS NIP poll, "The Labor Party, which calls for easing budget-deficit cutting to boost growth, would take 34 seats, while the Liberals would win 35." Bloomberg News says if the election results match the poll numbers "a grand coalition" similar to the one "that governed for eight years until 2002" would be possible "making unlikely a shift in direction in Dutch backing for German Chancellor Angela Merkel's austerity-first approach toward the euro-area financial crisis."

BBC News (9/12) reports that "hours before voting was due to start, the main party leaders took part in a final TV debate on Tuesday night with opinion polls putting the two pro-European parties almost neck-and-neck." BBC News says that during the debate, Rutte "emphasised the importance of the Netherlands staying in the eurozone while strongly opposing further financial assistance for Greece." Samson on the other hand "said EU states should work together over the crisis and rejected the idea that the Netherlands would be guided either by France or Germany in its approach to the eurozone."

MarketWatch (9/12) writes that Societe Generale's Michala Marcussen argued in a note to clients that "a strong finish by both the Liberal Party and Labor, as reflected in the polls, would show that voters favor a pro-euro government." Marcussen is quoted as saying, however, that "many voters are still undecided and any surprise gains for the euro-skeptic parties would be seen as a negative signal by markets."

Samaras To Talk With Coalition About Cuts After Draghi Meeting.

MarketWatch (9/12) reports "Greek Prime Minister Antonis Samaras and Finance Minister Giannis Stournaras met with European Central Bank President Mario Draghi and other ECB officials at the institution's headquarters on Tuesday, the ECB said, to talk about Greece's efforts to meet the terms of its bailout." MarketWatch quotes an ECB statement as saying, "Both parties agreed that Greece has already taken significant steps towards budgetary consolidation and economic modernization but that major challenges remain."

Ekathimerini (9/12) reports, "After meeting with Draghi, Samaras to reconvene with coalition partners Prime Minister Antonis Samaras is due to meet his coalition partners on Wednesday night in a bid to move closer to an agreement on a new round of spending cuts, which he discussed on Tuesday with European Central Bank President Mario Draghi." Ekathimerini writes that the "meeting was an opportunity for Samaras to discuss with Draghi ways that the ECB could play a significant part in easing the financial pressure on Athens and reducing Greece's debt burden, although there was no confirmation that this subject was raised."

Greek Budget Deficit Beats Target. Bloomberg News (9/12, Petrakis, Weeks, 1M) reports, "Greece's state budget deficit in the first eight months of 2012 beat the budget target and in August the country recorded a surplus for the first time this year." Bloomberg News writes that according to preliminary data from the finance ministry, "The gap, which excludes outlays by state-controlled enterprises, was 12.4 billion euros ($15.9 billion) compared with 18.7 billion euros in the same period a year earlier and a target of 15.2 billion euros." August saw a surplus of 850 million euros.

Greece Appoints Panel To Look Into German War Reparations. The New York Times (9/12, Kitsantonis, Subscription Publication, 1.23M) reports, "The Greek government has appointed a panel to determine whether Germany might still owe Greece money in reparations for Nazi war crimes, a move that indicates the extent to which the shaky coalition government in Athens is trying to appease lawmakers from the extreme right and left." Deputy Finance Minister Christos Staikouras "signed a decision appointing four members of the State Audit Council to scour historical archives 'in relation to German reparations' and to issue a verdict by year-end."

Greek President Calls For End To "Merciless Lashing" From Creditor Countries. The AP (9/12) reports Greek President Karolos Papoulias "urged the country's creditors Tuesday to ease their demands for more austerity, claiming that the country has suffered a "merciless lashing.'" The AP quotes Papoulias as telling a group of Canadian officials, "I think we have paid enough for our mistakes, and Europe must realize that it needs to help Greece."

Wen: Room For Stimulus To Reach Growth Goals.

Bloomberg News (9/12, News, 1M) reports, "Chinese Premier Wen Jiabao signaled there's more room for fiscal and monetary policy to support growth, saying the nation has full confidence it will meet its economic goals for the year." Speaking at the World Economic Forum in Tianjin, Wen said, "Be it monetary or fiscal, we still have ample strength," explaining "we will appropriately use that for preemptive policy and fine-tuning to propel stable economic growth." Wang Qinwei of Capital Economics said, "The government has fiscal and monetary war chests to revive growth but there does not seem to be much appetite to roll out a large-scale stimulus package."

The Wall Street Journal (9/12, Back, Orlik, Subscription Publication, 2.08M) reports Wen vowed to meet the government's goal for 7.5% growth this year, saying the government "will not hesitate" to use its 1 trillion yuan budget surplus or 100 billion yuan special reserve fund to bolster the economy. The comments came after weak data suggested the slowdown may be finally impacting the country's job market, with a Manpower Group business survey showed more manufacturing companies are planning to shave their work forces. The job market to this point has remained resilient throughout the slowdown, and likely explains why the government has resisted unleashing massive stimulus like in 2009, the Journal explains.

The Financial Times (9/11, Anderlini, Subscription Publication, 448K) reports Wen offered a spirited defense of the economy and the government's response in what was likely his highest-profile appearance before he is replaced in the country's leadership transition next month. Responding to criticism over the government's 2008 stimulus efforts, he said, "Thanks to our efforts, China was among the first to achieve an economic upturn and what we did was also vital in promoting world economic recovery." FT notes that many within China accuse Wen of weakness on economic policy over his ten year term, quoting an unnamed official who claimed the premier ran a caretaker government that rode on the back of growth already set in motion.

Chinese Regulator Denies Capital Outflow Wave. MNI News (9/12) reports the State Administration of Foreign Exchange, China's foreign exchange regulator, "denied Wednesday that the economy is facing any significant capital outflows, arguing that signs of outflows are simply balance sheet items being shifted between banks and corporates as perceptions about the outlook for the yuan change." The regulator "acknowledged in a report...that the volume of inflows into China has shrunk as companies cut their short dollar positions," but "denied that a large short position is building against the Chinese currency." SAFE explained, "Companies are adjusting their funding behavior. There is no clear sign that Chinese companies are stockpiling foreign exchange assets and shorting the Chinese yuan."

Friedman Links Greater Trust, Prosperity In China. Thomas Friedman, in his New York Times (9/12, Subscription Publication, 1.23M) column, writes from Hangzhou, China: "To see what happens when you introduce just a little more trust in this society, spend a day, as I just did, participating in the 'AliFest' - the annual gathering of thousands of Chinese entrepreneurs who are linked together in the giant Chinese e-commerce Web site Alibaba.com." Alibaba sales this year aim to top eBay and Amazon.com combined. This happened, in part, "because it has built trusted, credible markets of buyers and sellers inside China, connecting consumers, inventors and manufacturers who would have found it hard to do transactions before. ... The creation of global trusted business frameworks like Alibaba is starting to enable a new generation of Chinese innovators - who are low cost, but high skilled - to extend their reach."

Professor Issues Warning About China's Economy. In the Wall Street Journal (9/12, Subscription Publication, 2.08M), Patrick Chovanec, associate professor of practice at Tsinghua University's School of Economics and Management, cites the poor economic performance of solar, wind, and electric car companies under Beijing's 12th Five-Year Plan that has produced dozens of Chinese Solyndras. Chovanec argues that China is no better than the US at picking winners and losers in the green industry. Chovanec recalls President Obama's State of the Union address this year, in which he said, "I will not cede the wind or solar or battery industry to China...because we refuse to make the same commitment here," adding that President Obama may want to rethink that stance given China's experience.

UK Treasury To Begin Hunt For King's Successor To Head Newly-Beefed Up BoE.

Bloomberg News (9/12, Vina, 1M) reports, "Applicants to replace Bank of England Governor Mervyn King will have until Oct. 8 to inform Chancellor of the Exchequer George Osborne that they're interested." Bloomberg News writes that Osborne told Parliament that Treasury "will place an advertisement in the Economist magazine on Sept. 14, beginning a three-month recruitment process involving interviews with senior civil servants who will draw up a shortlist for Osborne to consider." Bloomberg News notes that the process "has been complicated after the Libor scandal embroiled several potential candidates including the former front-runner, Bank of England Deputy Governor Paul Tucker."

The Financial Times (9/12, Jones, Parker, Subscription Publication, 448K) says that FSA chair Lord Adair Turner and BoE deputy governor for financial stability Paul Tucker are considered strong candidates for the role. The Times notes that Bank of Canada governor Mark Carney has been speculated on as an outside candidate but denied he was being considered.

South Korean Jobless Rate Unchanged In August.

Bloomberg News (9/12, Kim, 1M) reports, "South Korea's workforce expanded last month, with the unemployment rate unchanged from July even as Europe's debt crisis capped demand for exports." Statistics Korea announced the jobless rate stood still at 3.1 percent, compared to a 3.2 median estimate in Bloomberg's survey. The figures come after the government "announced 5.9 trillion won ($5.2 billion) of measures to support growth" this week, and while analysts have called on policymakers to unleash more action, Bloomberg explains they are "holding off from larger fiscal stimulus to preserve ammunition for any deeper global slowdown."

Japan Machinery Orders Beat Expectations.

Bloomberg News (9/12, Mayger, Ujikane, 1M) reports, "Japan's machinery orders rose more than forecast in July even as weakness in exports and waning subsidies for auto purchases threaten to stifle economic growth." Orders grew 4.6 percent, beating the median forecast of 2 percent in Bloomberg's survey. Bloomberg explains the "increase stemmed from a 12 percent rise in manufacturing orders, the largest month-on-month jump since December 2009, boosted by several large orders from the steel industry, according to a Cabinet Office official." A separate index showed the country's "largest manufacturers turned optimistic for the first time in four quarters."

Officials: Brazil Unlikely To Meet 2013 Primary Budget Surplus Target.

Bloomberg News (9/12, Galvao, Soliani, 1M) reports that two Brazilian officials said the country "is likely to miss its fiscal target next year because of tax cuts and other stimulus measures introduced to boost growth." The officials, who are not authorized to discuss the forecast in public, say the Brazilian government's "initial estimates shows it is likely to take advantage of accounting rules allowing it to subtract certain investments from its primary budget surplus target next year." Bloomberg notes that "the government is seeking a budget surplus before interest payments next year of 155.9 billion reais ($77 billion), or about 3.1 percent of gross domestic product."

Leading National News

Gallup's Economic Confidence Index Rises Sharply.

Politico (9/12, Byers, 25K) reports that "Gallup's Economic Confidence Index's weekly average" has risen "11 percentage points to -18, marking the sharpest increase since the polling organization began daily tracking in 2008." Politico adds that "the jump could prove troublesome for Republican presidential candidate Mitt Romney, whose campaign is asking voters to determine whether they are better off than they were four years ago (when the index hovered around -60.)"

Fewer Job Openings In July. The CBS Evening News (9/11, story 6, 0:50, Pelley) reported, "We got more evidence" on Tuesday "that the US economy is slowing. There are fewer job openings." According to the Labor Department "there were 3.67 million openings in July. ... That works out to one job for every three and a half people."

Trade Deficit Up In July. Bloomberg News (9/12, Jamrisko, 1M) reports, "The US trade deficit widened in July for the first time in four months as the global economic slowdown reduced demand for American-made goods." The deficit "grew 0.2 percent to $42 billion, smaller than projected, from a revised $41.9 billion in June, Commerce Department figures showed." The AP (9/12) notes that "American exports fell 1 percent, to $183.3 billion," and "economists noted that the deficit would have grown much faster had it not been for a 6.5 percent drop in oil imports, largely reflecting cheaper global prices." USA Today (9/12, Mullaney, 1.78M) runs a similar story this morning.

Morgan Stanley To Assume Control Of Smith Barney.

Michael J. De La Merced writes in a New York Times (9/12, De La Merced, Subscription Publication, 1.23M) "DealBook" blog post that "Morgan Stanley has reached an agreement to take full control of the Smith Barney retail brokerage joint venture, a business that it has called a crucial part of its future." De La Merced calls the deal a "coup" for the company, after months of discussions with its partner, Citigroup. He notes that the challenge now "will be whether the business of advising wealthy customers on their investments can help lift Morgan Stanley's sagging fortunes as its core investment banking and trading operations contend with difficult markets and a heavier regulatory burden." The two companies agreed to value the brokerage at $13,5 billion, which was closer to Morgan Stanley's estimate.

Bloomberg News (9/12, Keoun, Moore, Griffin, 1M) reports that after several months of talks between the two companies, "an independent appraiser's report, delivered late on Sept. 10, and a phone call from Morgan Stanley Chief Executive Officer James Gorman to Citigroup CEO Vikram Pandit helped settle the matter within hours." Bloomberg notes that the agreement "avoided repeated fights in future years over what the unit is worth and helped Citigroup lock in a price higher than the appraisal." However, it "also forced Citigroup to take a $4.7 billion writedown on its investment in the business."

The Financial Times (9/11, Alloway, Braithwaite, Subscription Publication, 448K) reports that Morgan Stanley will now pay $1.89 billion an additional 14% of the Citigroup stake, buy another 15% for nearly $2 billion by June 2013, then the remaining 20% by the new June 2015 deadline.

Stabenow Says Farm Bill Is "Stuck."

Senate Agriculture Committee Chairwoman Debbie Stabenow said Tuesday that the $500 billion farm bill is currently "stuck" and added that if a bill is received from the House, it would be negotiated in October and passed in November when lawmakers return to Washington after the election. Reuters (9/12) notes that lawmakers have been unable to reach agreement on the amount of cuts in support to farmers and food stamps.

House Republicans Divided. Meanwhile in the House, Republicans are divided over a decision by their leaders to block action on the farm bill. Politico (9/12, Rogers, 25K) reports that when they returned from the summer recess, "farm state lawmakers set off what was described as a spirited discussion at Monday's meeting the GOP whip team, and the echoes continued at a Tuesday session of the full Republican conference."

Potential Negative Impact Of Monetary Easing By Fed Explored.

In an op-ed for the Wall Street Journal (9/12, Subscription Publication, 2.08M) Phil Gramm, former chairman of the Senate Banking Committee and a senior partner of US Policy Metrics, and John Taylor, a professor of economics at Stanford University and a senior fellow at the Hoover Institution, note the potential downside of additional Treasury and mortgage backed security purchases by the Federal Reserve. They argue that the positive impact of those policies will be small when compared to the costs that will result when the Fed is forced to sell those bonds and securities in order to prevent inflation.

Obama: 9/11 Victims "Will Never Be Forgotten."

Media coverage of yesterday's commemoration of the 9/11 tragedy shies away from politics. As the AP (9/12, Feller, Kuhnhenn) reports, "President Barack Obama and challenger Mitt Romney declared a fleeting truce for partisan digs Tuesday," and "campaigns pulled their negative ads and scheduled no rallies." However, "both candidates stayed in the public eye." While the President is portrayed in a favorable light, he is not a central figure in the coverage, particularly on the network newscasts.

ABC World News (9/11, story 5, 2:10, Sawyer, 8.2M) and the CBS Evening News (9/11, story 8, 3:00, Pelley, 6.1M), for example, don't even mention him in their coverage of yesterday's ceremonies. At the New York ceremony, NBC Nightly News (9/11, lead story, 3:25, Allen, 8.37M) reported in its lead story, "politicians were excluded for the first time," as "organizers said" they wanted "to keep the focus on the families." President Obama, added NBC, "led a moment of silence at 8:46 a.m., the time the first plane struck the North Tower, and later, laid a wreath during a tribute at the Pentagon, where 184 people were killed." Obama was shown saying, "This is never an easy day, but it is especially difficult for all of you."

Obama's remembrances of the Sept. 11 attacks, however, received widespread local television coverage across the nation. Generally, the President's activities and remarks were included as part of larger stories about memorial ceremonies held in New York City, at the Pentagon and in Shanksville, Pennsylvania. Many reports included clips of the President addressing families of victims as well as video of the President and First Lady at the Pentagon and walking in Arlington National Ceremony.

Some typical examples: WTVR-TV Richmond, VA (9/11, 7:04 p.m. EDT, 18,941) reported in its broadcast, "Virginians and other Americans pause today to observe the 11th anniversary of the September 11 terrorist attacks. Victims families gathered at Ground Zero, the Pentagon, and Shanksville memorials, while both President Obama and Mitt Romney offered reflections on the day." Obama "started the day with a moment of silence on the White House lawn. He and the First Lady laid a wreath at the Pentagon, where 184 people were killed." Obama: "No matter how many times we come together on this hallowed ground, know this, that you'll never be alone. Your loved ones will never be forgotten." KTVN-TV Reno, NV (9/11, 5:01 p.m. PDT, 17,246) showed footage of the same Obama quote.

WKOW-TV Madison, WI (9/11, 6:03 p.m. CDT, 1,671) showed the President saying, "Eleven times we have marked another September 11th, come and gone. Eleven times we have paused in remembrance and reflection. In unity and in purpose. This is never an easy day. But it is especially difficult for all of you, the families of nearly 3,000 innocents who lost their lives. Your mothers and fathers. Your husbands and wives. Your sons and your daughters."

WNCN-TV Raleigh-Durham, NC (9/11, 6:10 p.m. EDT, 14,368) reported that the President's also made "an unscheduled stop at Arlington National Cemetery," where he "and the First Lady paid tribute to those killed in Afghanistan and Iraq. They walked along the white markers, pausing at one larger grave. It was put in place to honor the 10 members of the military and DEA killed in that chopper crash in 2009." WKRC-TV Cincinnati, OH (9/11, 6:09 p.m. EDT, 82,144) notes that "Mr. Obama placed presidential challenge coins at the base of the headstones."

The Washington Post (9/12, Henderson, 552K) also notes that "the Obamas visited the graves in Section 60, one of the sections where those killed in Afghanistan and Iraq are buried under white marble markers."

The Washington Times (9/12, Crabtree, 76K) recounts that notes that "with several aides gathered at their sides, the president, somber and wearing a dark suit, and Mrs. Obama, in a muted purple overcoat and dress, bowed their heads for an extended moment of silence."

Carlo Muñoz and Jeremy Herb, in a post for The Hill (9/12, Muñoz, Herb, 21K), quote Obama as saying, "When the history books are written, the true legacy of 9/11 will not be one of fear or hate or division. It will be a safer world, a stronger nation and a people more united than ever before."

The Washington Post (9/12, Henderson, 552K) reports, "According to a Washington Post/ABC News poll, Obama has a clear advantage over Romney on foreign policy and national security. Four in 10 voters say the country is safer since Obama took office; only one in eight sees the country as less secure." Moreover, "51 percent of all voters polled said they trust Obama to handle terrorism; 40 percent said they trust Romney to do so."

The Wall Street Journal (9/12, Maloney, Subscription Publication, 2.08M), AP (9/12) and McClatchy (9/12, Doyle), among other news outlets, also include Obama quotes as part of their coverage of the 9/11 anniversary.

Biden Visits Victims' Families In Shanksville. NBC Nightly News (9/11, lead story, 3:25, Allen, 8.37M) reported that "in Shanksville, Pennsylvania, Vice President Biden comforted" the victims' families. The Pittsburgh Post-Gazette (9/12, Luna, 192K) describes Biden's remarks as "heartfelt." Said the Vice President, "I wish we weren't here. ... I wish we didn't have to be here. It's a bittersweet moment for all of the country, especially the families." The Post-Gazette adds that "some family members said they connected with Mr. Biden because of his own suffering, losing his wife and baby 40 years ago in a car crash."

The Philadelphia Inquirer (9/12, Worden, 346K) reports, "While politicians were shunned at 9/11 memorial services elsewhere Tuesday....Biden proved the right choice for the families of those who died aboard Flight 93." Adds the Inquirer, "There was no electioneering, only heartfelt words from a man who knew the pain of tragedy as well as they did, a man who had lost his first wife and young daughter in a car accident 39 years ago."

The Pittsburgh Tribune-Review (9/12, Peircea, Pickels, 174K) reports that also present was Interior Secretary Ken Salazar, who "told the crowd that the memorial is a place to reflect on the heroics of the passengers and crew of Flight 93." Said Salazar, "This is a place where Americans can celebrate the spirit of America and heroes who rose up and protected the United States of America."

Politico (9/12, Epstein, 25K) also notes that Biden "drew on the sorrow of his own personal losses as he addressed the memorial marking 11 years since United Airlines Flight 93 crashed into a Pennsylvania field." Said Biden, "I...know from my own experience that today is just as momentous a day for all of you, just as momentous day in your life, each of your families, as every September 11th has been, regardless of the anniversary."

Romney Commemorates 9/11 Victims In Reno Address To National Guard Convention. The Reno (NV) Gazette-Journal (9/12, 42K) reports on its website that "Republican presidential nominee Mitt Romney received a standing ovation after he spoke for about 19 minutes at the National Guard Association national convention at the Reno-Sparks Convention Center." the Gazette-Journal adds that "the crowd appreciated that Romney stayed away from politics during his speech," and instead "praised the National Guard for the service they provide." The Las Vegas Review-Journal (9/12, Vogell, 200K) notes that Romney refused to talk politics.

The Las Vegas Sun (9/12, Damon, 41K) reports that the GOP candidate called the attacks "evil and cowardly and heinous acts," and said the anniversary of 9/11 should serve to "renew our resolve to protect America from the designs of evil men."

As part of its 9/11 coverage, NBC Nightly News (9/11, lead story, 3:25, Allen, 8.37M) reported that Romney "struck a patriotic tone" in Reno, and showed him saying, "We remember with heavy hearts the tragic loss of life and we express thankfulness for the men and women who responded to that tragedy."

As part of a story on conservative criticism of the Romney campaign, meanwhile, ABC World News (9/11, story 2, 2:35, Sawyer, 8.2M) showed the GOP candidate saying in Reno, "We must keep our promises and regain the trust of all who have worn the uniform and served our country." ABC added that "his speech come after criticism Romney left Afghanistan out of his convention speech."

Noting Romney's praise for the military, the New York Times (9/12, Parker, Subscription Publication, 1.23M) reports that he offered it after "facing criticism for failing to mention American troops or the Afghan war effort in his convention speech." The Times adds that "sidestepping criticism of his convention remarks, Mr. Romney also highlighted the threat of defense cuts, a theme he has used recently to hammer the Obama administration." Under the headline "Romney Talks Up Military In Nevada," the Wall Street Journal (9/12, Nelson, Subscription Publication, 2.08M) quotes Romney as saying, "The return of our troops cannot and must not be used as an excuse to hollow out our military through devastating defense-budget cuts."

The Los Angeles Times (9/12, Landsberg, 629K) reports that Romney went "easier than usual" on Obama, saying, "With less than two months to go before election day, I would normally speak to a gathering like this about the differences between my and my opponent's plans for our military and for our national security. ... There is a time and a place for that, but this day is not that."

Likewise, the Washington Post (9/12, Rucker, 552K) describes Romney as "under criticism for failing to mention the war in Afghanistan or recognize America's troops in his convention speech last month." Yesterday, in Reno, he "paid tribute to those who lost their lives in the terrorist attacks on Sept. 11, 2001." While "he made no mention of President Obama and drew only subtle contrasts with the president's foreign policy, the Republican nominee delivered a muscular address calling for an 'American century' marked by clear resolve and enhanced US military might."

Politico (9/12, Tau, 25K) reports that "Republicans and Mitt Romney used the anniversary to pivot to foreign policy and defense themes - hoping to close the trust gap between the GOP ticket and Obama." Another Politico (9/12, Gerstein, Gibson, 25K) story, however, reports that during his speech, Romney "had a chance to draw some clear distinctions with Obama," but "instead" he "soft-pedaled his critique, citing the Sept. 11 anniversary." Adds Politico, "In his brief discussion of Afghanistan, Romney appeared to support the general thrust of Obama's policy to hand over control of security to Afghan forces by 2014."

The Washington Times (9/12, Mclaughlin, 76K) reports, "Romney said the usual political attacks should cease on the anniversary of the terrorist attacks, but he did question the notion that the withdrawal of troops overseas will generate savings in the Pentagon and said that the Department of Veterans Affairs is in need of serious reform."

Dylan Byers, in a post for Politico (9/12, Byers, 25K) reports that "the highly anticipated speech was Romney's chance to settle the score, prove that he was very concerned about our armed servicemen, and go on the attack on matters related to foreign policy." However, "unfortunately for him, the cable networks didn't give his remarks full coverage. Even Fox New...cut out early."

Coburn Blocking Funding For 9/11 Museum. Politico (9/12, Wong, 25K) reports, "New York officials struck a deal to restart construction of the 9/11 memorial museum." However, "on the 11th anniversary of the Sept. 11 terrorist attacks, lawmakers on Capitol Hill were still squabbling over" it. Politico notes that "since last fall, Sen. Tom Coburn has objected to a Democratic bill that would provide $20 million a year in federal funding to run the National September 11 Memorial & Museum at Ground Zero...over concerns the new spending isn't paid for, and his spokesman said Coburn isn't backing down now."

National Polls Continue To Show Obama In The Lead.

The RealClearPolitics average of recent polling on the presidential race between President Obama and Mitt Romney shows the President ahead 49.4% to 45.4%, up 0.9% since yesterday. RCP's electoral map shows the Obama/Biden ticket leading in states totaling 221 electoral votes, Romney/Ryan 191, and 126 too close to call.

Gallup's three-day tracking poll of 3,050 "registered voters" shows Obama leading 50%-44%.

Rasmussen's seven-day tracking survey of 1,500 "likely voters" has the President ahead 48%-45%.

An IBM/CSM/TIPP poll of 808 "registered voters" (9/4-9/9) has Obama leading 46%-44%.

Not included in the RCP average, a Reuters/Ipsos poll of 1,182 "likely voters" (9/7-9/11) finds the President leading 46%-43%.

Also not in the RPC average, a DailyKos/SEIU/PPP (D) poll of 1,000 "likely voters" (9/7-9/9) has the President leading 50%-44%.

RCP Average Has Obama Job Approval At 49.6%. The RealClearPolitics average of recent polling on the President's job approval has Obama's approval at 49.6%, and disapproval at 47.2%. Approval is up 0.4% since yesterday; disapproval is down 0.2%.

The latest Gallup daily tracking poll of 1,500 "adults" (9/8-9/10) shows the President with a 50% approval rating and 43% disapproval. Rasmussen's automated survey of 1,500 "likely voters" (9/8-9/10) finds Obama's approval at 52%, with 47%

disapproving of his performance.

An ABC News/WPost poll of 826 "registered voters" (9/7-9/9) has the President's job approval at 48%, with 50% disapproving.

Not included in the RPC average, a DailyKos/SEIU/PPP (D) poll of 1,000 "likely voters" (9/7-9/9) shows Obama with a 47% approval rating and 48% disapproval.

Obama Camp "Flush With Good News." Under the headline "Team Obama Has Post-Convention Glow," The Hill (9/12, Easley, 21K) reports that "the Obama campaign has been flush with good news since the Democratic National Convention, leaving both it and its Republican counterpart scurrying to deal with the altered dynamics of the race." The Hill notes the August fundraising numbers, which showed the Obama camp had outraised Romney for the month, and adds that "perhaps the best news for the Obama campaign is that...polling numbers include reaction to last Friday's weak job report, which showed employers added only 96,000 jobs."

The Los Angeles Times (9/12, Lauter, 629K) reports on the "raft of new polls, all reporting fairly similar numbers," which "underscores two critical facts about where the presidential race stands:" Obama "has emerged from the back-to-back conventions having erased the edge that...Romney had enjoyed on the economy and holds a small, but consistent, lead."

Under the headline "Why Mitt Will Win," however, Dick Morris writes in The Hill (9/12, Morris, 21K), "It appears that the bulk of the Obama post-convention bounce has been in blue states," and "pollsters are using 2008 models of voter turnout. Some are combining '04 and '08 but skewing their samples to '08 numbers," when African-American "participation swelled to 13 percent."

Nervous Conservative Commentators Criticize Romney. With polls showing Mitt Romney trailing President Obama, media reports last night and this morning note that nervous conservatives have begun to criticize their standard-bearer. The criticism is seen as a worrying sign for Romney's chances in November. Some analysts say underlying conservative dissatisfaction with Romney explains why those on the right appear ready to criticize him now.

ABC World News (9/11, story 2, 2:35, Sawyer, 8.2M) referred to "a surprising twist in the presidential race," as Romney faces "criticism...not from the President or the Democrats, but from some prominent members of his own party." Moreover, "our new ABC News/Washington Post poll shows why. ... The President has opened up a six point lead over...Romney since the convention." According to the poll, "more Americans now trust the President on the economy than Romney," and "and on that point conservative commentator Laura Ingraham jumping in tweeting 'Earth to Team Romney. Time to apply turnaround skills to Romney's campaign.'" George Will, meanwhile, was shown saying, "If the Republican Party cannot win in this environment, it has to get out of politics and find another business." ABC added that "many conservative critics now argue Romney must start delivering details."

While ABC World News highlighted that its poll shows Obama ahead six points among "registered voters," Karl Rove mentioned the same survey's results among "likely voters," which had the President leading by just one point. Rove said on Fox News Special Report (9/11), "Republicans on Monday were down because they saw the CNN poll with a six-point lead. They saw the Washington Post poll with a one-point lead. Obama got a bounce out of it. The question is how big is it going to be? ... I'd say be careful about putting too much in the post-convention polls. Look at where things settle out at the end of the week, or early next" week.

Jonathan Martin of Politico said on MSNBC Hardball (9/11, 689K), "Romney is facing the cruel convergence of the calendar and some tough polling," and "conservatives are starting to get nervous. When that happens, they start to take out the weapons. And they start shooting." Martin added, "I don't think it's totally fair or appropriate right now for the conservatives to get overly anxious. There's a lot of campaign to go here. Romney is still very much in the contest. He's not where they'd like to be ideally but running against an incumbent president, he is still very much just after Labor Day in the game."

Nia-Malika Henderson of the Washington Post said on MSNBC Hardball (9/11, 689K), "I think we've known for a long time that Republicans have been dissatisfied with this candidate, and in some ways, he is a candidate without a party. This is a party that seems to be in flux. They have many different tents in this party, the Tea Party, social evangelicals and he's having to juggle all this and it's like trying to wrangle cats, and he's just not been so good at it so far. Sure, there's a lot of time left, but I think all of these opportunities that he's had so far, whether it's picking a vice president, whether it's articulating his vision at the convention, he's come up short."

Dylan Byers, in a post for Politico (9/12, 25K), reports that in his show yesterday, Rush Limbaugh said, "If Obama wins, let me tell you what it's the end of: The Republican Party. There's gonna be a third party that's gonna be oriented toward conservatism. I know Rand Paul thinks libertarianism. And I know if Obama wins, the Republican Party is gonna try to maneuver things so conservatives get blamed. ... The only problem is, right now Romney's not running a conservative campaign."

As the Huffington Post (9/12, Grim, 500K) puts it, "Romney and his team will be hit with a merciless barrage of friendly fire in the days after the November election if the presidential race continues its current trajectory." The Post adds that "neither the conservative commentariat nor the base...has ever been enamored of Romney," and now "with polls moving in the president's direction, the Romney campaign continuing to stumble, and Obama outraising Romney for the first time in months, conservatives are wondering if the lemon they bought is enough to finish the race."

Dana Milbank writes in the Washington Post (9/12, 552K) that GOP leaders "had all kinds of things to talk about in their first day back on Capitol Hill from their month-long recess." However, "there was one thing House Republican leaders did not mention in their statements to the cameras after Tuesday morning's caucus: Mitt Romney." Milbank notes that "seven [GOP] leaders at the microphone didn't mention Romney even when asked about him - as though he is some sort of political Voldemort."

Romney, says Politico (9/12, Allen, Vandehei, 25K), "is getting the full John Kerry treatment on national security - and some top Republicans are alarmed by what they see as his ham-handed response to it." The GOP candidate "is getting hit almost daily now by Democratic attacks that he is wobbly and therefore untrustworthy on national security."

Kathleen Parker writes in the Washington Post (9/12, 552K), "One of the great fallacies of politics - and life - is that one must be liked to be effective. ... This ridiculous matrix for assessing a candidate's qualifications for office is the inevitable offspring of the cultural coupling of narcissism and attention-deficit disorder, otherwise defined as an inability to think for more than two minutes about anything more complicated than oneself."

Panetta: Author Of Bin Laden Raid Book Could Face "Penalty."

Interviewed on CBS' This Morning, "Defense Secretary Leon Panetta suggested Tuesday the former Navy SEAL who wrote a pseudonymous account of the assassination of Osama bin Laden could face some type of 'penalty,'" Politico (9/12, Robillard, 25K) reports. Added Panetta, "I think we have to take steps to make clear to him and to the American people that we're not going to accept this kind of behavior." The Washington Times (9/12, Sherfinski, 76K) notes that Panetta also asked, "How the hell can we run sensitive operations here that go after enemies if people are allowed to do that?"

Biden Travels To Ohio Today; Obama To Visit State On Monday.

The AP (9/12, Daly) reports from Charlotte, Ohio, that Vice President Biden "toured the state by car over the weekend in a journey that was part campaign rally, part family road trip," and will be back in Ohio today, "when he campaigns in Dayton - his third trip to Ohio in the past two weeks." Obama, meanwhile, "will travel to Columbus and Cincinnati on Monday, his second visit to Ohio this month." The AP notes that "both Republicans and Democrats say internal surveys show a tight race in Ohio, with Obama narrowly ahead."

Presidential Camps, Allies Have Spent $575M On Ads In 12 Swing States.

USA Today (9/12, Moore, 1.78M) reports, "Presidential candidates and supporting groups have already spent $575 million on political ads in 12 swing states, according to an NBC News analysis released Tuesday. More than half the money, 55%, has been spent in the swing states of Florida, Ohio and Virginia. Romney and allies have outspent Obama and his forces, if narrowly, in seven states," while the President "and his supporters have spent more in Florida, Ohio and Colorado, and the two sides are virtually tied in Virginia and New Hampshire, according to NBC, which based the report on data from SMG/Delta, an ad-tracking firm."

Virginia's Hampton Roads Region Being Inundated With Political Ads. The Washington Times (9/12, Rosiak, 76K) reports, "Hampton Roads, the military-laden community on Virginia's southeastern shoreline, is drowning in advertising. It's a swing region at every level," with VA2 Rep. Scott Rigell (R) "in the toughest battle for re-election of any of the state's 11 congressmen," George Allen (R) and Tim Kaine squaring off to succeed retiring Sen. Jim Webb (D) in one of the most high-profile Senate contests "in the nation, and Republican presidential nominee Mitt Romney" needing "to win in Hampton Roads in order to offset increasingly Democratic Northern Virginia. All of those campaigns - and the 14 independent groups that also are advertising in the region - make Hampton Roads more saturated than any major city in the other battleground states of Florida, Nevada, Colorado or Ohio."

Some Companies Using Politically-Themed Ads To Sell Their Products. USA Today (9/12, Horovitz, 1.78M) reports on the "onslaught of politically themed ads from consumer product giants selling" their products. "There's bourbon (Maker's Mark). There's coffee (7-Eleven). There's chicken (Boston Market). And there's office services (FedEx)." Of 7-Eleven, USA Today notes, for example, "For the fourth-consecutive presidential election, the chain is asking its customers to help predict the outcome," with backers of President Obama "being asked to buy coffee in blue cups," and backers of Mitt Romney being asked to purchase coffee in "red cups. The chain keeps a running tab on the purchases and updated results will be posted daily on a micro-site."

Bank Of America Ready To Return To Lending After Cost-Cutting.

Adamn O'Daniel writes in a Charlotte (NC) Business Journal (9/12, Subscription Publication, 14K) "Bank Notes" blog post that Bank of America CFO Bruce Thompson told an investor conference Monday that the company is "ready to get back to its core business of lending money," as it is "mostly finished in selling off non-core assets." O'Daniel adds that the "bank feels it has cleaned up its business mix enough to put more emphasis on loan growth," and is "pressing hard" into loans to mid-sized businesses.

Clinton Stumps For Obama In Miami.

Reporting on former President Bill Clinton's campaign appearance in Miami yesterday, Politico (9/12, Epstein, 25K) calls him "Professor Bill Clinton," and reports that his "explaining stuff tour began...with a sober dissertation on the 2012 election." In his "41-minute tour through President Barack Obama's track record," Clinton "spoke about using federal policy to boost people from poverty to the middle class and fought back against the Republican Party's individualism."

The Miami Herald (9/12, Caputo, 162K) also calls Clinton "the Secretary of Explaining Stuff," and notes that in Miami "he lived up to the new nickname given him by...Obama." Like Politico, the Herald says "Clinton performed like a professor, explaining the campaign's most complex issues, while Republican Mitt Romney's campaign remained largely silent, saying the 11th anniversary of the Sept. 11, 2001, terrorist attacks shouldn't be about politics."

The New York Times (9/12, Landler, Subscription Publication, 1.23M) reports that Clinton visited Miami "fresh from an appearance at the Democratic convention that confirmed his status as President Obama's No. 1 surrogate and all-around B.F.F." Yesterday, "Clinton reprised much of the detail-laden defense of Mr. Obama's first term that he delivered in Charlotte," lavishing "special attention on two particularly resonant issues in a state with many students and older voters: education loans and health care."

Another Politico (9/12, Epstein, Thrush, 25K) report notes that while "Clinton made a methodical case for Obama's economic policies in prime time last Wednesday night...the argument lost a bit of punch and coherence on the road." Yet "flawed surrogate that he is, Clinton remains the only game-changer in the 2012, outside the candidates themselves."

The AP (9/12, Pace), meanwhile, reports that Clinton addressed a campaign rally in Miami yesterday, in which he urged "Americans to remember the Sept. 11, 2001 attacks by being a 'good citizen' and registering to vote."

Role Of Surrogates In 2012 Presidential Race Examined. The Washington Post (9/12, Roig-Franzia, 552K) reports on the role of surrogates in the presidential race, saying their emergence is "a once-every-four-years occurrence fraught with off-message meandering and narrative-undercutting peril, not to mention the promise of on-message boostering and narrative enhancement." The Post adds, "Ideally, the surrogate can be tamed - handed a sheaf of talking points to be eloquently and efficiently delivered. But the surrogate can be a wild thing, too - an unpredictable and dangerous beast." To the latter point, the Post notes, for example, that Maryland Gov. Martin O'Malley, a surrogate for President Obama, and ex-New Hampshire Gov. John Sununu, a Mitt Romney surrogate, have suffered high-profile stumbles in interviews this cycle.

Profile Examines Obama's Decision-Making, Daily Routine.

In a lengthy piece for Vanity Fair (9/12, 1.23M), Michael Lewis offers a generally favorable profile of President Obama, cast as a very thoughtful decision-maker. To prepare the story, Lewis sent six months with the President. The profile, which Lewis interweaves with the story of Air Force Apt. Tyler Stark, who was shot down over Libya in March 2011, examines Obama's decision making in the context of his decision to intervene in Libya. A "person" who attended the meeting on Libya said, "Obama structures meetings so that they're not debates. ... They're mini-speeches. He likes to make decisions by having his mind occupying the various positions. He likes to imagine holding the view." Lewis' story also examines the day-to-day routine of the President's life from selecting what to wear each day to his news reading habits to his time on the basketball court with White House aides.

White House Demanded Quote Approval For Vanity Fair Story. Vanity Fair editor Grayson Carter said Monday that the White House insisted on approving all quotes that would appear in an article authored Michael Lewis as a condition of cooperating with his story. The New York Times (9/12, Peters, 1.23M) reports that Lewis, who was "granted extraordinary access to President Obama" for the story, said that "ultimately the White House disallowed very little of what he asked to use. And he described having access to the president that was unusually unfettered. About 95 percent of what he witnessed was on the record, he said." Lewis notes that what the White House asked to exclude "was usually of little relevance to his article anyway - like a discussion between Mr. Obama and his political strategists about their electoral strategy in Florida."

Romney's Stance On Vietnam War While A Student At Stanford Explored.

On its front page, the New York Times (9/12, A1, Wines, Subscription Publication, 1.23M) reports that when Mitt Romney was an 18-year old freshmen at Stanford University in 1966, he supported "the Vietnam War, even joining a counterprotest against the occupation of the office of the university president, Wallace Sterling." Today, "some classmates remember his pro-war stand as principled and heartfelt; others say he merely championed the worldview of his father, George Romney, then Michigan's governor, [and] a war supporter." The Times adds that "just as Mr. Romney's views on some other issues evolved over the years, his public assessments of the Vietnam War shifted markedly. His pro-war sympathies at Stanford changed four years later, when he recanted and called the war a mistake."

House Panels To Mark Up Bills Aimed At Blocking Obama Welfare Changes.

In the wake of a ruling from the GAO that Congress could vote on President Obama's proposed changes to welfare, two House committees on Thursday will mark up a measure aimed at blocking those changes. The Hill (9/12, Viebeck, Wasson, 21K) reports in its "Healthwatch" blog, "Under the administration's revised policy, federal waivers would allow states to test new approaches to boost employment among low-income families. In exchange, states would have to prove that their new methods are effective, or lose the waivers, the administration says." The House resolution, which will be marked up by the Ways and Means and Education and Workforce Committees, "answers Republican governors' requests for more flexibility under the landmark 1996 welfare-to-work law which produced the Temporary Assistance for Needy Families program (TANF)." Sen. Orrin Hatch "introduced a companion resolution in the upper chamber Tuesday."

House GOP Aims To Ratchet Up Pressure On Obama Ahead Of Election. In what it describes as "the latest attempt by House Republicans to take an aggressive stance against the Obama administration in the" lead-up to "the election," the Daily Caller (9/12, Boyle) reported, "The House Judiciary Committee plans to storm back into Washington, D.C. as Congress comes out of its summer recess with a Wednesday morning hearing examining President Barack Obama's 'abuse of power.'" Already, the Daily Caller notes, "The House Ways and Means Committee is drilling into how the Treasury Department terminated the pensions of 20,000 non-union Delphi salaried retirees during the 2009 auto bailout. House oversight committee chairman Rep. Darrell Issa remains intent as ever on his quest for justice in the Operation Fast and Furious scandal. And, House Energy and Commerce committee Republicans are planning on continuing to draw attention to the failures of Obama's green energy programs – with emphasis on Solyndra."

Democrats Use Return To Session To Blast Ryan.

Democrats used Congress' return to session to attack Rep. Paul Ryan's "long-standing proposal to reshape federal entitlement programs, as well as some of his recent statements on the campaign trail," the Washington Post (9/12, Kane, 552K) reports. Ryan "came under intense fire" Tuesday as Democrats made floor statements and held news conferences, using "every chance to poke at the House Budget Committee chairman." The Post adds, "Ryan spokesman Brendan Buck responded to the criticism, saying, 'President Obama should tell his friends in Congress to focus their attention on creating jobs and stopping his devastating defense cuts.'"

The Washington Times (9/12, Dinan, 76K) reports that after one month as Mitt Romney's running mate, it remains to be seen whether Rep. Paul Ryan's impact on the race "helps or hurts the Romney ticket on Election Day." Republicans argue Ryan has been good for the ticket, noting that he has increased enthusiasm and given them "a reason to talk about big ideas, though they acknowledge they are having to answer tougher questions about the budgets Mr. Ryan wrote as House Budget Committee chairman." Meanwhile, Democrats say Ryan has been "even better for them, giving them a firm target to fire at - particularly on Medicare."

House Votes To Limit Agency Spending On Conferences.

In reaction to a 2010 GSA conference in Las Vegas which cost more than $1 million, the House voted Tuesday to place a $500,000 per meeting cap on Federal agency spending on conferences and to place a limit on the number of people who can attend. The Hill (9/12, Kasperowicz, 21K) reports in its "Floor Action" blog that the voice vote approval of the Government Spending Accountability Act came "after a quick debate in which members of both parties expressed support for the bill." The Hill adds that the bill now heads to the Senate where it could be approved "in the coming weeks, given criticism that both Republicans and Democrats heaped on the GSA."

Romney Transition Team Considers Early Staff, Policy Decisions.

The Wall Street Journal (9/12, Murray, Paletta, Subscription Publication, 2.08M) reports that Mitt Romney's transition team is considering a number of personnel and policy decisions that will need to be made quickly after the election if Romney wins. The Journal notes that the Department of Health and Human Services is of particular interest to the team as they consider Romney's vow to repeal the President's healthcare law. The team is attempting to identify key roles at each agency and consider possible staff to fill them. In addition, they are considering policy changes which will require congressional support and others that Romney can implement using executive powers.

Adelson Could Get $2 Billion Tax Cut If Romney Is Elected.

According to a new report (9/12, 25K) from the Center for American Progress Action Fund, casino mogul Sheldon Adelson, who has said he will spend as much as $100 million to help elect Mitt Romney, stands to get a $2 billion tax cut if Romney is elected. The Huffington Post (9/12, Terkel, 500K) notes that the report says Adelson's tax cut would be the result of a but in the top tax rates, maintaining low rates on dividends and capital gains, eliminating the estate tax, and providing a $1.2 billion to Adelson's company, Las Vegas Sands Corp.

WPost: Romney Must Explain How He Would Pay For Tax Cuts. The Washington Post (9/12, 552K) editorializes that Mitt Romney "is specific about how much he will cut income tax rates for every American: by one-fifth. But he is vague about how he'll pay for this, though he insists he can cut rates without losing revenue." To the Post, "the danger is a repeat of 2001 and 2003, when President Bush and Congress enacted tax cuts that plunged the nation into debt."

Miller Derides GOP For Pushing Tax Breaks For Wealthy During Wartime. Matt Miller writes in the Washington Post (9/12, 552K) that since 9/11, "the United States has been continually at war. But never before in our history has a political party made it a national priority to cut taxes for wealthy Americans at a time of war." Adds Miller, "Something snapped in the Republican mind after 9/11. We've now put a trillion dollars of war on our kids' credit card, with Republicans leading the charge for tax cuts for the top the entire time."

Chicago Teacher Strike Continues.

The teacher strike in Chicago continued Tuesday with both sides offering differing assessments of the issue that separate them. Television coverage of the strike was much lighter Tuesday evening. Only two of the three national television news broadcasts reported on the strike, and while the networks dedicated more than 11 minutes of coverage to the story on Monday, the coverage on Tuesday totaled less than three minutes. For the most part, the network reports focused on the issues separating the two sides, however one report did note the difficulty of the situation for Democrats who have been strong allies of the teachers' unions and will be looking for their help to mobilize voters in November.

Like the television coverage, print coverage of the strike is also much lighter today. Many of the pint reports focus on the issues on the table in the strike, and several note that the two sides even differ on how many issues remain to be resolved. A number of reports also note that the strike's role in the presidential campaign, pointing out Mitt Romney's criticism of the teachers and the potential implications for President Obama, who risks alienating a key segment of his base as Election Day approaches.

NBC Nightly News (9/11, story 4, 3:05, Williams, 8.37M) reported that the strike "has now stretched through day two. And again tonight, thousands gathered and marched in the downtown loop at rush hour after picketing around the city all day. Earlier reports that these two sides were close are being shot down by the union tonight as we learn more about what separates these two sides." NBC (Ellis) added, "A major stumbling block in negotiations, reforms linking 25% of the teacher's evaluation with standardized test results." NBC added, "The strike comes at an awkward time for the Democrats. Analysts point out that teachers union has been a strong ally of the Democratic Party, which will look to that union to help get out the vote in November."

ABC World News (9/11, story 3, 2:10, Sawyer, 8.2M) reported, "Now to the big showdown in Chicago; 29,000 teachers still on strike, 350,000 schoolchildren on pause. Tonight, the battle is being watched from Hawaii to Maine, at least 23 states debating the same question. How do you grade a teacher?" ABC (Perez) added, "The fight is about a program that would eventually base as much as 40% of a teacher's evaluation on standardized test scores. A formula the union argues will unfairly cost teachers their jobs. Mayor Rahm Emanuel believes the new measure will help turn around the districts' staggering statistics."

The Chicago Sun-Times (9/12, Esposito, Spielman, Fitzpatrick, Rossi, 369K) reports that Chicago Mayor Rahm Emanuel claimed "there were only two major issues remaining to work out," but Chicago Teachers Union President Karen Lewis said "they had agreed on only six of nearly 50 issues." The Sun Times adds, "The dueling statements from leaders on both sides came as the district said the hours of 147 contingency schools open for half days during the strike would be extended by two more hours, from 8:30 a.m. to 2:30 p.m., starting Thursday, to meet parent demand. So far, attendance at those schools - which teachers have picketed in force - has been much lower than expected."

USA Today (9/12, Keen, Toppo, 1.78M) reports that the question of how much weight schools give to student test scores when evaluating teachers is "foremost among the disputes" in the strike. Emanuel, "following the lead of the Obama administration, wants to make test scores represent as much as 40% of evaluations. The union says many other factors, including a student's health and family situation and the stresses of poverty, make test scores less relevant. Schools across the nation are wrestling with the same issues, which have long-term political repercussions that could undermine the longstanding bond between Democrats and unions."

The Chicago Tribune (9/11, Hood, Delgado, Dardick, 463K) notes the national and political implications of the strike, pointing out that Emanuel's "education reform agenda is being closely watched by national reformers and labor leaders," and noting that a "prolonged work stoppage may even have ramifications in the hotly contested presidential election, as both the Obama and Romney camps said Monday they were aware of the escalating conflict and sought to assign blame."

A front page story in the New York Times (9/12, A1, Davey, Yaccino, Subscription Publication, 1.23M) also notes the disagreement between the two sides over how many issues remain unresolved. The Times reports that "while Chicago Board of Education officials have said the two sides are not far apart in their talks, the union said in a news release Tuesday that it had so far agreed to only six of 49 articles contained in the current contract." The Times also points out the role the strike is playing in the presidential camping, noting that while Mitt Romney issued a statement "expressing disappointment in the teachers," President Obama on Monday "issued no specific reaction to the strike."

The Washington Post (9/12, Layton, Wallsten, Turque, 552K) examines the political implications of the strike for the President, noting that the it "threatens to place Obama at odds with a critical segment of his political base in the final weeks of a campaign in which he has little margin for error." The Post adds that Obama "has much to lose, and administration officials are working behind the scenes to end the conflict, which appeared headed into its third day. If Emanuel, who is closely associated with the president, is seen as knuckling under to union demands, critics could depict Obama as in thrall to public sector employees who locked 350,000 children out of school. Should Emanuel be perceived as the victor, the president could lose valuable ground with the most powerful forces in organized labor."

The Wall Street Journal (9/12, Banchero, Subscription Publication, 2.08M) examines the conflict between Emanuel and union head Karen Lewis. The Journal says the strike has made Chicago a key battle ground over control of public schools and says Lewis has managed to position herself as a leader of the effort opposing the national-education reform movement. Meanwhile, the Journal notes that Emanuel said Tuesday that the strike was unnecessary, saying at a news conference, "It's not about getting rid of people, it's about raising the standards, raising the qualities in the schools."

Strike Puts Emanuel In A Political Squeeze. Bloomberg News (9/12, Jones, Preston, 1M) says the strike has put Emanuel, who campaigned that he would not be "another Richard M. Daley, who in 22 years bought labor peace, helping to drain cash reserves and create crushing union- pension liabilities," in "a squeeze. The school district he oversees faces a deficit that may reach $1 billion, and resolving the dispute by giving in to the union risks embracing the kind of financial behavior he campaigned against." Bloomberg adds, "Emanuel has few options for addressing the strike, financial analysts and others who know Chicago's budget standing say. While the city is forecasting its smallest budget gap since 2009 - $369 million in fiscal 2013 - a richer union contract may increase the separate deficit already projected to reach $1 billion in next year's budget for the school system, which Emanuel controls."

Meyerson: Chicago Strike Is A Democratic "Civil War." In his column for the Washington Post (9/12, 552K) Harold Meyerson describes the strike as a "civil war" between "the Democrats' disparate wings," and says the future of education reform and "the role of unions within the party, and by extension, the nation" are at stake. Meyerson adds, "If this war within the Democratic Party spreads beyond Chicago, it doesn't augur well for the future of education or the party. If Democrats are bent on committing suicide, the Emanuel mode of union-busting looks like a fine place to start."

NYTimes: Strike Was Unnecessary. An editorial in the New York Times (9/12, Subscription Publication, 1.23M) says the strike "seems particularly senseless because it is partly a product of a personality clash between the blunt mayor, Rahm Emanuel, and the tough Chicago Teachers Union president, Karen Lewis." The Times adds that the "differences between the two sides were not particularly vast, which means that this strike was unnecessary," and notes that of the strike continues much longer "the union could pay a dear price in terms of public opinion."

More Commentary. In an op-ed for the Wall Street Journal (9/12, Moreno, Subscription Publication, 2.08M) Paul Moreno, a professor of history at Hillsdale College, examines the growth of public sector unionism and notes that public unions tend to do well when the nation's economy is doing well and taxpayers do not notice their true costs and they tend to have a more difficult time during periods like this, when the economy is lagging.

In an editorial, USA Today (9/12, 1.78M) criticizes the striking teachers saying Chicago's children are suffering while the teachers are "pursuing goals that are out of step with reality." USA Today adds, "Is it really too much to ask that teachers' performance be realistically rated in exchange for $76,000 a year, a 16% raise and summers off? Not in the real world. But that's not necessarily a place that teacher unions inhabit."

In an accompanying op-ed in USA Today (9/12, Weingarten, 1.78M) Randi Weingarten, president of the American Federation of Teachers, the parent union of the Chicago Teachers Union, defends the teachers, arguing that they want "the tools and conditions to do their jobs and help all students succeed." Weingarten adds, "No one wants to strike. And no one strikes without cause. ... Chicago's teachers would rather be in the classroom. But they have an obligation to stand up and do what is best for their students and Chicago's public schools."

DOJ Clears Rep. Buchanan In Criminal Probe.

Politico (9/12, Bresnahan, 25K) reports that attorneys for Rep. Vern Buchanan (R-FL) "say the Justice Department has ended a criminal probe into the Florida lawmaker, including allegations that he improperly reimbursed former employees for contributions to his campaign committee." Politico calls the decision "a major boost for Buchanan, who has been targeted by Democrats and congressional watchdog groups throughout this election cycle. 'The Department of Justice today informed Congressman Vern Buchanan, R-FL, that it has closed its investigation of all allegations against him and will not bring any criminal charges,' said a statement from Buchanan's reelection campaign." Politico notes that Sam Kazran, a former business partner of Buchanan, had claimed that the lawmaker had directed him to repay employees for donations from 2005 to 2007, a claim that Buchanan denied.

USCIS Approves First Batch Of Deferred Deportation Applicants.

The AP (9/12, Caldwell) reports DHS on Tuesday announced it had approved the first "small group of applications" for "young immigrants seeking to avoid deportation and get a work permit." DHS said the approved applicants would receive confirmation this week but the Department did not specify "how many applications had been approved." DHS spokesman Peter Boogaard said USCIS had thus far received an estimated 72,000 applications since the policy was initiated last month and "has now begun notifying individuals of the determination on their deferral requests."

The New York Times (9/12, Preston, Subscription Publication, 1.23M) highlights USCIS' ability to process the applications despite initial fears it would face a workload surge once the policy was enacted, noting, "The figures for applications received so far...show that large numbers of young immigrants are ready to take the risk of coming forward, administration officials and immigrant advocates said, and that the agency in charge has been able to manage the rush of paperwork." The Times says the program was a test for USCIS, "which has not been known for brisk efficiency," and adds, "Given only two months to prepare, Alejandro Mayorkas, the director of the agency, worked to rally its 18,000 employees, including some 11,000 federal workers, to rise to the task." Regarding the agency's capabilities, Mayorkas stated, "If somebody submits documents that show by the preponderance of the evidence that they meet the guidelines, we are poised to move the cases as quickly as possible," adding that work permits for the approved applicants are expected to be issued "in coming weeks."

Rove Denies Claim He Advocated Funding Planned Parenthood.

Karl Rove is denying a claim in a new book that he encouraged the leader of the group Susan G. Komen for the Cure to start funding Planned Parenthood again. The Daily Caller (9/12) reports that Rove said "the charge made by former Komen senior vice president Karen Handel in 'Planned Bullyhood' is 'not accurate.' He declined to elaborate." the Daily Caller adds, "If the allegation is true, it would mean that Rove was advising Komen to restore Planned Parenthood funding as Mitt Romney and the other Republican candidates for president were railing against it."

Scarborough Denies Report He Is Mulling A 2016 Presidential Bid.

The Vanity Fair (9/12, 1.23M) reports that after the presidential inauguration in January, former Congressman and current MSNBC host Joe Scarborough "plans on publishing a memoir that will serve-no joke-as a vehicle to test the waters for a presidential run in 2016."

However, Politico (9/12, Byers, 25K) reports in its "Media" blog that Scarborough "says he has no plans to run in 2016, despite a report in Vanity Fair that suggests otherwise." Politico notes that MSNBC says the Vanity Fair interview and photo shoot "actually took place in 2010, when talk about Scarborough's political ambitions centered on the 2012 election."

Most Of Gulf Region's Oil And Gas Production Restored After Isaac.

The Wall Street Journal (9/12, Sider, Subscription Publication, 2.08M) reports that nearly all oil and gas production capacity has been restored in the Gulf of Mexico region following Hurricane Isaac. US regulators say all but around 4% of the region's oil production and 5% of the region's natural gas output have been restored. According to economists and analysts, the economic impact from Isaac is likely to be minimal, particularly in comparison to larger storms like Hurricanes Katrina and Rita.

EPA To Investigate Lead Contamination Near New Jersey Homes.

USA Today (9/12, Young, 1.78M) reports, "The Environmental Protection Agency will begin digging up dangerous lead contamination this month around a dozen homes in New Jersey, part of one of the largest state efforts yet to re-examine health risks posed by soil near hundreds of old factory locations identified by a USA TODAY investigation." The piece notes that "in Edison, N.J., the EPA will spend up to $1.26 million to replace soil in local yards," and "state regulators also have asked the EPA to clean up contamination at a Newark condo complex built atop another factory site and state-run soil testing is continuing at sites in Clifton and Verona."

Drought's Impact On Arkansas River Examined.

The CBS Evening News (9/11, story 5, 2:30, Axelrod, 6.1M) reported on the impact of the drought on the Arkansas River, noting, "High in the Colorado Rockies is where the trouble starts for millions of affected by this year's devastating drought. These are the headwaters of the Arkansas River-- the first of 1,469 miles. So we're looking at basically a stream." Gary Hanks, Colorado deputy water commissioner: "It's probably running about a third of what it usually would be running at this time of the year." CBS added, "This summer Hanks has cut off the water to all but two farms and ranches."

Investors Buying Foreclosed Properties .

The Wall Street Journal (9/12, Whelan, Subscription Publication, 2.08M) reports that major financial firms have raised $8 billion to purchase foreclosed homes in the hope of making a profit renting or reselling the properties. While investors had hoped to purchase the properties in bulk, the Journal reports that banks have been selling the properties one at a time on the assumption that it will bring higher prices for them. The result has been that buyers have not yet seen a large influx of cash from the process, but executives are encouraged by the early results.

Medved: Obama Campaign's Message Of Hope, Change Has Turned Negative.

In USA Today (9/12, 1.78M), talk radio host Michael Medved writes, "As the echos of the boisterous political conventions finally die down, there's a moment to reflect on a key difference between this year's somber presidential race and the historic campaign of 2008: This time, we won't hear the stirring music of hope and change." He notes that this year, "the Democrats have once again turned to music to try to rally their largely defensive and beleaguered troops, but the results have seemed nasty rather than hopeful, apologetic more than uplifting." Medved argues, "Of course, negative campaigning can be effective, but it highlights the president's dilemma when his followers lift their voices in recollection of his opponent's long-deceased dog rather than celebrate the incumbent's inspiring achievements. The music of hope and change has become the music of cringe and rage."

Marcus Proposes Debate Questions For Obama, Romney.

In her column for the Washington Post (9/12, 552K) Ruth Marcus suggests several questions for next month's presidential debates. Marcus' suggestions, which focus "on the budget, taxes and entitlements," include questions for the President on his fiscal commission, Social Security, and Medicare, as well as question for Mitt Romney on reducing the debt without increasing revenue, reducing Federal spending, and Medicare and Medicaid.

Lopez: Constructive Economic Discussion Unlikely In Remainder Of Campaign.

In his column for the Los Angeles Times (9/12, 629K) Steve Lopez writes that with the presidential campaign in full swing, "there is virtually no chance of hearing constructive conversations about policies that will affect our lives for years to come. 'Tis the season of partisan exaggeration, simplification and bold, inspired lack of specificity, particularly when it comes to jobs and the economy, a centerpiece of this election." Lopez adds, "President Obama can't seem to explain in any detail what he'd do differently in a second term, nor why, if congressional Republicans beat back his job-creation proposal in the first term just for the sheer toxic fun of it, we should expect anything different in Round Two. And Mitt Romney? He's now promising 20% tax cuts across the board, fellow Americans, and please don't ask for details on how he'd pay for them."

WSJournal: Complex Regulations Contributed To Financial Crisis.

An editorial in the Wall Street Journal (9/12, Subscription Publication, 2.08M) praises a presentation prepared by Bank of England Director of Financial Stability Andrew Haldane and his colleague Vasileios Madouros at the Fed's annual policy meeting in Wyoming. The Journal says the paper demonstrates that complex regulations are a big part of the reason large banks are difficult to regulate and that those complex regulations contributed to the financial crisis.

NYTimes: Aurora Victims Should Not Be Forgotten.

The New York Times (9/12, A30, Subscription Publication, 1.23M) editorializes, "Nearly two months after the shooting spree in Colorado that left 12 dead and 58 wounded, survivors, civic leaders and generous citizens are confronting the victims' traumas and a future of costly care," which "is the painful challenge that communities across America typically have to face after the national spotlight moves elsewhere." The Times argues, "The grim prognoses of Aurora victims struggling beyond the mayhem should be required reading for all the many politicians who mouth sympathy but ritualistically genuflect to the gun lobby."

NYTimes: West Virginia Ruling "Serious Setback" For Judicial Campaign Reform.

The New York Times (9/12, A30, Subscription Publication, 1.23M) editorializes that "the West Virginia Supreme Court of Appeals ruled last week to deny matching funds under the state's pilot campaign financing program for judicial races to a Republican candidate, Allen Loughry II, for a seat on that court." The Times argues, "The West Virginia court should have recognized a judicial election exception to reach a different result. Instead, it applied the Supreme Court's wrongheaded view that providing public funds to underfinanced candidates based on an opponent's spending level impedes the free speech of the better-financed candidate."

Matthews: College Still Great Return On Investment.

Dylan Matthews in the Washington Post (9/12, Matthews, 552K) "WonkBlog" writes that Megan McArdle in her Newsweek cover story questioning the value of college education given the rising costs at one point admits herself what he says is the correct conclusion: "Experts tend to agree that for the average student, college is still worth it today." Matthews says the "best numbers on this come from the Brookings Institution's Hamilton Project," which "estimate that the return on investment for an associate's degree is about 20 percent, and the return for a bachelor's is about 15 percent." In other words, "the lifetime value of a bachelor's degree is $570,000 relative to a high school diploma, at a cost of only about $109,740." While he says McArdle's fears are overblown for now, he warns they won't be for long if costs keep rising.

Americans Increasingly Shunning Banks For Alternatives.

The Wall Street Journal (9/12, Fields, Jackson-randall, Subscription Publication, 2.08M) reports that a new FDIC report slated for release Wednesday shows that Americans are increasingly turning to non-traditional banking options for their personal finances as part of an apparent lasting backlash against the banking sector for high fees and reduced trust after the financial crisis. The data show households without a bank account or who use outside options rose 28.3% of America's households, up from the 25.6% in the agency's 2009 report. The Journal explains that while the "underbanked" category has traditionally been associated with financial hardship, the increasing array of alternative options has sparked a shift in the landscape as even affluent households choose to drop traditional options. Regulators remain wary of the shift, with CFPB Director Richard Cordray saying the agency's focus is "on whether that consumer can get the same consumer protections and safeguards no matter which services or products he or she chooses to use to manage household finances."

Leading International News

US Ambassador To Libya Reportedly Killed Amid Anti-US Protests In Cairo, Benghazi.

The release of anti-Islam film sparked violent protests in Cairo and Benghazi yesterday, where demonstrators attacked the US Embassy and Consulate respectively. Late Tuesday, Secretary Clinton confirmed that a State Department officer was killed in Benghazi and condemned the attacks. The attacks are gaining heavy media coverage, including reports in the nation's major dailies as well as just under four minutes of airtime on last night's network news broadcasts.

Reuters (9/12, Nakhoul) is reporting early this morning that Ambassador Gene Cretz was killed in the attack on the US Consulate in Benghazi along with three other embassy staff members, according to a Libyan official.

In a statement late Tuesday, the AP (9/12) reports Secretary Clinton confirmed that an unnamed State Department officer was killed in Benghazi. Reuters (9/12, Mohammed) quotes Clinton as saying, "Some have sought to justify this vicious behavior as a response to inflammatory material posted on the Internet. The United States deplores any intentional effort to denigrate the religious beliefs of others. But let me be clear: There is never any justification for violent acts of this kind."

Noting Clinton's statement, the New York Times (9/12, Kirkpatrick, Subscription Publication, 1.23M) reports protestors in Benghazi, "armed with automatic rifles and rocket-propelled grenades," attacked the Consulate and set it on fire. According to "some news reports...American guards inside the consulate had fired their weapons, and a brigade of Libyan security forces arriving on the scene had battled the attackers in the streets as well." Libyan officials "told reporters that an American employee of the consulate was fatally shot and that at least one other American staff member had been hurt."

The AP (9/12) reports Wanis al-Sharef, "an interior ministry official in Benghazi, said the two were shot at the consulate during an attack by armed men who stormed the building," but "provided no further details." Reuters (9/12, Elyan, Al-Mosmari) reports that its staff witnessed looting of the consulate after gunmen shot at the building and others threw homemade bombs into the compound, sparking several small fires.

The Los Angeles Times (9/12, Abdellatif, Parker, 629K) reports Clinton also "said she had called Libyan President Mohamed Magariaf to help arrange better protection for Americans in Libya," adding that "in light of the attacks, US officials and allies around the world are taking extra precautions against similar assaults."

On NBC Nightly News, Richard Engel reported that "several hundred demonstrators gathered in front of the US Embassy" in Cairo, and "then a few dozen of the demonstrators managed to scale the perimeter walls, get inside the embassy, pull down the US flag, replace it with a black Islamic flag" and "scribble graffiti on the embassy wall." NBC also briefly noted the attack in Benghazi.

In its lead story last night, ABC World News (9/11, lead story, 2:09, Marquardt, 8.2M) reported, "The protesters are furious about a movie, which appears to have been made in America, that they say insults the Prophet Muhammad." The movie is being promoted by Florida Pastor Terry Jones, "who infamously burned a Quran in 2010." ABC said the US Consulate in Benghazi was attacked, "believed to have also been sparked by that same controversial film."

According to the New York Times (9/12, Kirkpatrick, Subscription Publication, 1.23M), the "mobs were set off by Egyptian media reports about a 14- minute trailer for the video, called the "Innocence of Muslims," that was released on the Web" by Israeli-

American Sam Bacile and later promoted by Jones as part of his "proclamation of Sept. 11 as 'International Judge Muhammad Day.'"

The Washington Post (9/12, Birnbaum, Tabei, 552K) reports State Department spokeswoman Victoria Nuland "said she was not aware of any injuries" to embassy staff in Cairo, but "it was not immediately clear how many Americans were inside the embassy at the time of the incident or if any arrests were made." According to the Post, the security breach "appeared to catch both the United States and Egyptian security forces by surprise."

According to McClatchy (9/12, Youssef), "In Cairo, police surrounded the embassy building but made no move to confront the demonstrators as they sprayed graffiti on the 12-foot walls that encircle the compound" and "also made no move to challenge the protesters as they lowered the American flag."

The Wall Street Journal (9/12, Bradley, Nissenbaum, Subscription Publication, 2.08M) reports the State Department was unable to confirm a connection between the film and the attacks, but in the hours leading up to the protests, the US Embassy in Cairo released a statement saying it "condemns the continuing efforts by misguided individuals to hurt the religious feelings of Muslims-as we condemn efforts to offend believers of all religions."

Filmmaker Goes Into Hiding. The AP (9/12) reports the California-based filmmaker, Sam Bacile, "went into hiding Tuesday" after the protests erupted. Speaking by phone "from an undisclosed location," Bacile "remained defiant, saying Islam is a cancer" and that he "intended his film to be a provocative political statement condemning the religion." Said the filmmaker, "This is a political movie. The US lost a lot of money and a lot of people in wars in Iraq and Afghanistan, but we're fighting with ideas."

China's Heir-Apparent, Xi Jinping, Disappears.

The CBS Evening News (9/11, story 4, 1:45, Pelley, 6.1M) says the intrigue over the apparent disappearance of Xi Jinping, the man expected to be China's next president, began after he canceled last Wednesday's meeting with Secretary of State Hillary Clinton. Meanwhile, the Chinese government is blocking search results for Xi's name. This comes as China's fast-growing economy "is slowing down and Chinese authorities are concerned with keeping control as the new government takes over." State Department officials "are curious. They were given a reason for Xi's cancellation but they were asked not to reveal it and they have not."

The Wall Street Journal (9/12, Page, Subscription Publication, 2.08M) attributes the Xi disappearance to an apparent health problem, noting that if he emerges with the next week, succession plans will remain unaffected, but that could change if he remains absent for longer than that. For example, a prolonged absence could impact whether Hu should step down this year as chairman of the Central Military Commission. When asked Tuesday about whether Xi was still alive, Foreign Ministry spokesman Hong Lei said: "I hope you will ask a serious question."

More Commentary. A Washington Post (9/12, Board, 552K) editorial says, "The fact that China's citizens and the world were left to wonder [about Xi's whereabouts] is yet more evidence that the country's creaky Stalinist political system is entirely unprepared to meet the challenges it faces - from a slowing economy to a booming social Internet." The Post adds, "More than 300 million Chinese now have social media accounts, and an army of government censors is unable to stem rumors about Mr. Xi's disappearance or complaints about the lack of official information." The Post suggests that Xi and Li Keqiang push for greater political transparency, adding: "A good first step would be to tell the truth about their own activities."

A Wall Street Journal (9/12, Subscription Publication, 2.08M) editorial expresses hope that Xi recovers quickly and suggests that, when he assumes office, he should revise the government's information policy. The Journal says Beijing must earn the full trust of its people and the world by creating the transparent and democratic institutions that would make it unthinkable for an heir-apparent to disappear for political reasons.

Report: Major Flaws In US Missile Defense Strategy.

The New York Times (9/12, Broad, Subscription Publication, 1.23M) says a report from a panel of top scientists and military experts working for the National Research Council revealed "major shortcomings" with the US antimissile system, such as a vulnerability to some types of long-range strikes. The panel "recommended an overhaul that would make the antimissile system 'far more effective,' including adding new sensors and interceptor rockets, as well as an additional base in Maine or upstate New York from which interceptors could be fired." The 's report recommended that the antimissile plan's final phase - "intended to protect the United States from long-range Iranian missiles - be scrapped in favor of the stronger domestic system. In short, the panel would undo part of Mr. Obama's shift [towards defenses in Europe against shorter-range Iranian missiles] and strengthen Mr. Bush's antimissile approach, creating more of a hybrid."

Egypt Pressing Iran To End Support For Assad.

The AP (9/12, Hendawi) reports Egypt is "trying to convince Iran to drop its unquestioned support" for Syrian President Bashar Assad "in order to end that country's bloody civil war in exchange for help in easing Tehran's regional isolation." According to "officials close to the Egyptian presidency," President Mohammed Morsi "made the offer when he met last month with Iranian President Mahmoud Ahmadinejad in Tehran." The officials said Morsi offered a package of incentives to Tehran, including restoration of full diplomatic ties, mediation in talks to "improve relations" between Iran and its Gulf Arab neighbors, as well as a "safe exit" for Assad and his family.

Assad, meanwhile, will meet soon with new UN special envoy Lakhdar Brahimi, UN Secretary-General Ban Ki-moon said yesterday, AFP (9/12) reports. "Special representative Brahimi is soon going to have a meeting with Syrian authorities including president Assad, and he has already been engaged with the key stakeholders," Ban told reporters in Bern, "without providing more details about the highly anticipated visit."

UN: More Than 250,000 Syrians Have Fled Country. NBC Nightly News (9/11, story 6, 3:00, Williams, 8.37M) reported, "The UN now says more than a quarter million Syrians have been forced to flee their own country, most of them to crowded refugee camps in Turkey, Lebanon, Iraq and most of all in Jordan." Ann Curry added that actress Angelina Jolie, a special UN envoy on refugees, "drew a crush of news cameras as she visited a camp in Jordan," where "the head of the UN Refugee Agency and Jordan's foreign minister made an urgent appeal for more international aid to help a growing flood of refugees."

The New York Times (9/12, Cumming-Bruce, Subscription Publication, 1.23M) reports the UN said yesterday that an "extraordinary acceleration" in the number of refugees is "compounding the difficulties for humanitarian relief efforts." Noting the UNHCR's appeal yesterday, the Times says UN officials "are talking to Jordanian authorities about finding new locations in less harsh surroundings for facilities to receive" refugees.

Fayyad Unveils Price, Tax Cuts In Bid To Stem West Bank Protests.

The Washington Post (9/12, Greenberg, 552K) reports, "Scrambling to head off intensifying protests against the high cost of living in the West Bank," Palestinian Prime Minister Salam Fayyad announced price and tax cuts Tuesday. Fayyad also "said government employees, hundreds of whom staged a two-hour work stoppage and demonstrated outside his office Tuesday, would be paid half their August salaries by Wednesday, and he pledged efforts to complete the wage payments in a week."

The AP (9/12, Daraghmeh) reports Fayyad "claimed the crisis was beyond his control and said Israel's occupation of the West Bank is the 'major reason' for the problems." But in "an effort to help the Authority deal with the crisis, Israeli Prime Minister Benjamin Netanyahu announced late Tuesday night that he ordered $63 million from the tax money it collects for the Palestinians to be paid in advance."

AFP (9/12) notes that earlier on Tuesday, Netanyahu said his government was "working on several fronts to help the Palestinian Authority with its economic problems."

European CFR Fellow Offers Perspective On Gaza And Peacemaking. In the New York Times (9/12, Subscription Publication, 1.23M), Daniel Levy, a fallow at the European Council on Foreign Relations, says: "New dividing lines have emerged within Israel's ruling elites, and the disagreements do not revolve around the details or timing of cutting a peace deal with Mahmoud Abbas. There are three competing tendencies within Israel's ruling coalition: annexationists (who want to formally take over the West Bank), status quo merchants (who wink at the notion of two states while expanding settlements), and Bantustan two-staters (who want the Palestinians to accept 50 percent of the West Bank as constituting a state)." Levy concludes, "Either Israel takes bold and urgent action to reverse the 1.5 percent doctrine by getting out of the West Bank and East Jerusalem, or it acknowledges that the doctrine has triumphed and embraces a democratic solution that moves beyond the classic two-state paradigm and guarantees full and equal rights for all residents in some form of confederation or unitary state."

Al Qaeda Suspected After Deadly Car Bomb In Yemen.

McClatchy (9/12, Baron) reports, "A car bomb targeting Yemen's defense minister exploded Tuesday outside the office of the prime minister in central Sanaa, missing its target but killing at least seven soldiers and five nearby civilians." While "there was no immediate claim of responsibility for the attack...suspicion immediately fell on Al Qaida in the Arabian Peninsula." The New York Times (9/12, Arrabyee, Cowell, Subscription Publication, 1.23M) notes that "militants have struck at government targets in Yemen in retaliation for the government's campaign against Qaeda cells."

After Attack, Security Chiefs Replaced. Reuters (9/12, Ghobari) reports that following yesterday's attack, Yemeni President Abd-Rabbu Mansour Hadi replaced several security officials and some ministers viewed as loyal to former president Ali Abdullah Saleh. Hadi replaced the heads of military intelligence and national security with senior defense official Ahmed al-Yafie and Ali Hassan al-Ahmadi, a former governor of Shabwa province, respectively. He also new ministers of oil and minerals and eduction.

Merkel, China Tighten Relationship As Concerns Remain About Human Rights.

The Washington Times (9/12, McPhedran, 76K) says German Chancellor Angela Merkel met last week with Chinese Premier Wen Jiabao and his likely successor, Li Keqiang, marking her sixth visit to China since taking office in 2005, but the closeness of the two countries has prompted some German concern about Merkel's refusal to bring up the Chinese human rights issue. Tom Koenigs, chairman of the German parliament's human rights committee, said: "Human rights was a minor issue in her trip." Before the visit, German officials acknowledged that its relationship with China was "special," given that trade and consultations between the two countries have increased recently. China "is now Germany's second-biggest supplier and its fifth-biggest customer." Chinese companies are also "buying into increasingly more small- to medium-sized German companies, the backbone of the German economy."

China Sends Patrol Ships To Islands Bought By Japan.

The Washington Post (9/12, Harlan, Yang, 552K) reports China yesterday "sent two patrol ships to waters near a remote and disputed island chain" that Japan's cabinet approved the purchase of earlier in the day. Chinese state media called the move a show of "undisputable sovereignty" and criticized Japan's decision to nationalize the islands as "ridiculous and absurd" and an "open provocation against China."

The New York Times (9/12, Perlez, Subscription Publication, 1.23M) reports the Japanese government's purchase of the islands for nearly $30 million from a Japanese family "was intended to prevent the conservative governor of Tokyo from buying them, a step that would have heightened the clash with China, Japanese officials said." But in "an unusual array of strong statements by top leaders in recent days, China has asserted that the islands have belonged to China since ancient times."

Reuters (9/12, Takenaka) reports the US responded yesterday by cautioning the two nations against further escalating tension and urging calm. "We think in the current environment we want cooler heads to prevail, frankly," Assistant Secretary of State Kurt Campbell said in Washington. "We have enormous stakes in the maintenance of peace and stability. We believe that peaceful dialogue and the maintenance of peace and stability is of utmost importance always but particularly now in this set of circumstances."

US Urged To Preempt Possible Conflict Over Senkakus Diplomatically. In a Center For Strategic And International Studies (9/12) paper, Yoichiro Sato of Ritsumeikan Asia Pacific University says the Senkaku/Daioyutai Islands dispute between Japan and China "requires a slight but immediate and carefully calibrated revision to US policy," because "failing to do so risks emboldening China to militarily occupy the islands." The US is "seemingly in a catch-22, where making a clearer commitment to defense of the Senkakus would antagonize China, while not making this commitment would both embolden China and isolate Japan." However, Sato says "creative linkages with other bilateral and regional issues would create gains for the US," so "concessions from Japan on the basing issues would be made easier in return for a clearer US commitment to the defense of the Senkakus."

Housing

Study Says Banks Pushed 800,000 Homeowners Into Unnecessary Foreclosure.

ProPublica (9/12, 500K) reports that "as a result of banks' disorganization and understaffing - particularly at the peak of the crisis in 2009 and 2010 - homeowners were often forced to run a gauntlet of confusion, delays, and errors when seeking a mortgage modification." ProPublica asks, "how many people have been pushed toward foreclosure unnecessarily?" A study from the Federal Reserve Bank of Chicago, the government's Office of the Comptroller of the Currency, Ohio State University, Columbia Business School, and the University of Chicago - concluded the amount to be about 800,000 homeowners, "by analyzing a vast data set available to the OCC." ProPublica adds that the authors sought to measure the impact of HAMP, and "what they found was that certain banks were far better at modifying loans than others."

FHFA's DeMarco Shares Plan On Fannie, Freddie Reform.

The Housing Wire (9/12, Panchuk) reports, "Federal Housing Finance Agency Acting Director Ed DeMarco shared a tentative plan on government-sponsored enterprise reform while speaking to the American Mortgage Conference," saying the agency plans to release next month a white paper on the topic. FHFA proposes a structure for the secondary mortgage market that "includes recommendations for a new, standardized pooling and servicing agreement and a revamped framework for reps and warranties on all conventional loans sold or delivered after Jan. 1, 2013." The Housing Wire adds, "DeMarco's statements show an acting director who remains dedicated to winding down the GSEs, while maintaining a key role in establishing the securitization structure that will eventually support private-label MBS deals ten years from now."

Banks React Positively To Mortgage Buyback Rules Overhaul.

Reuters (9/12) reports that the Federal Housing Finance Agency's new details on what types of mortgages banks would be forced to buy back from Fannie Mae and Freddie Mac reassured the mortgage finance industry, which said the changes will bring welcome certainty. David Stevens, president of the Mortgage Bankers Association, said, "The plan outlined today should give lenders the confidence they need to help more qualified borrowers."

In the "Realty Check" blog of CNBC (9/12), Diana Olick writes, "Banks have been asking for more clarity in the whole repurchase process, and the FHFA is promising that new framework." However, FBR's Paul Miller predicts "this will have minimal impact" on loosening credit for those with lower FICO scores, noting "still huge put-backs in process on legacy loans from Fannie Mae, Freddie Mac and the FHA." Also, "the future existence of Fannie Mae and Freddie Mac themselves are still in question, and banks are also facing new regulations under the Dodd-Frank law."

Additional Issues Said To Prevent Increased Lending. In a column on Bloomberg News (9/12, 1M), Deborah Solomon writes that we are "unfairly limiting the ability of borrowers to obtain mortgages or refinance loans" even as "the Fed is spending huge sums of money to lower mortgage rates." Solomon says the FHA eased the put-back concern, but this may not "give banks the confidence they need to lend, and early comments aren't exactly encouraging." She notes that other obstacles to making more loans "remain, including the lack of final mortgage standard and risk-retention rules required by the Dodd-Frank financial law" and predicts that "until all of these are resolved - not to mention the fates of Fannie and Freddie - lending will likely remain depressed."

No Government Plans To Change Role Of Fannie, Freddie.

Time (9/12, Matthews, 3.38M) reports, "Though the housing market appears to have found its footing in recent months, and Fannie and Freddie have recently returned to profitability, the future of these institutions...remain as uncertain as they were the day the federal government took them over." Time predicts "the federal government - through its conservatorship of the GSEs - will for the foreseeable future remain the largest single player in the housing finance sector" as the "GSEs have not pulled back in their role as a primary source of liquidity for the nation's housing finance system" and "neither the President nor Republicans have outlined a credible plan for getting the federal government out of the housing market in any meaningful way." Furthermore, it isn't clear that it could happen, as "many in the industry are skeptical that private capital will return to take over this role from Fannie and Freddie without seriously impeding Americans ability to finance their home purchases."

Freddie Mac Okays Clears Mortgage Principal Reduction In More States.

The Housing Wire (9/12, Prior) reports, "Freddie Mac will allow mortgage servicers to apply federal taxpayer dollars to reduce principal or pay past due balances for struggling borrowers in all states that have designed such programs." In California, Nevada, Michigan, Arizona, Rhode Island, and Ohio sState housing finance agencies "put money from the $7.6 billion Treasury Department Hardest Hit Fund toward eligible borrower principal," and "a Freddie Mac spokesman said servicers are cleared to participate in all state Hardest Hit Fund states that do not require matching amounts by the servicer or investors." Only $217.4 million of the Hardest Hit Funds available were spent as of the end of last year, and "much of the delay is caused by a lack of participation by the government-sponsored enterprises." The Housing Wire adds, "A Fannie Mae spokesman did not immediately say if it was expanding its servicer participation as well."

US Called To Embrace Principal Forgiveness. In an editorial, Bloomberg News (9/12, 1M) writes the housing market would have recovered sooner "if the White House hadn't been so cautious." Over concern it would be criticized for helping "reckless borrowers, the government has used overly strict criteria" in deciding who to aid, and "President Barack Obama has been too passive in letting the regulator of Fannie Mae and Freddie Mac block those companies from forgiving debt on the loans they back," causing "lackluster" results. Praising some states for their principal foregiveness programs, Bloomberg News calls for the Department of the Treasury to " follow the states' lead...by assuming 100 percent of the cost of principal reductions for Fannie- and Freddie-backed loans," conclude that "all homeowners, not just those receiving aid, would benefit from a faster turnaround in the housing market, and this is why any political heat is worth taking. "

Despite Mortgage Industry Backing, GOP Opposes New HARP Expansion Bill.

The Housing Wire (9/12, Prior) reports nine housing industry trade groups sent a letter supporting a Democratic bill to "expand the Home Affordable Refinance Program to more Fannie Mae and Freddie Mac borrowers." However, the GOP "will continue to push against the plan, leaving it little chance of making it out of the House even if a Senate majority clears it this month as Democrats hope."

Book Review: Oonagh McDonald's Fannie Mae And Freddie Mac: Turning The American Dream Into A Nightmare.

In an op-ed on Forbes (9/12, 928K), Peter Wallison of the American Enterprise Institute reviews Oonagh McDonald's book "Fannie Mae And Freddie Mac." He writes that, "for reasons that have always eluded me, the causes of the financial crisis have become a bloody battleground in the left/right war," and one of the questions that have become politicized is "whether Fannie Mae and Freddie Mac-and government housing policy generally-might have caused the crisis." Wallison writes that this "thoroughly researched and heavily documented book...she shows that an ideological bias in favor of low-income lending led the U.S. government-over a sixteen year period-to promote subprime and other low quality mortgages, degrade mortgage underwriting standards, and cause both the mortgage meltdown and the global financial crisis."

House Passes Bill To Financially Strengthen FHA.

The AP (9/12) reports, "The House has passed legislation to strengthen the financial position of the Federal Housing Administration" by setting the annual premiums paid for mortgage insurance at a minimum of 0.55 percent of the mortgage balance and allowing the housing secretary to raise that to 2.05 percent. The bill would also "exclude unscrupulous lenders from the program and require those who commit fraud to repay the FHA." The AP notes that the FHA reserve fund, "which insures more than $1 trillion worth of mortgages, is near depletion."

The Housing Wire (9/12, Prior) reports, "The Department of Housing and Urban Development will also be required to report on 'early period delinquencies' under the bill" instead of only reporting the number of mortgages are 90 days or more past due as it does now. Under the bill HUD also can "prohibit lenders from originating future FHA loans based on delinquency rates in either certain geographies or nationally," although it "would be required to establish an appeals process...and to report the number of improperly underwritten loans it finds, as well the effect these mortgages have on the insurance fund." FHA Acting Commissioner Carol Galante said in a statement, "We are pleased that the bill passed by the House includes provisions that will allow FHA to continue its efforts to strengthen its enforcement capabilities in order to protect its insurance fund and American taxpayers."

CQ (9/12, Khatami, Subscription Publication) reports, "As originally written, the Congressional Budget Office estimated that the bill would cost $11 million between fiscal 2013 to 2017 to implement." The amended bill "includes offsets by redirecting $2.5 million annually through fiscal 2016 from administrative contract expenses." The National Mortgage Professional (9/12) also covers this story.

Expected Fed Another Stimulus Program Could Have Limited Effect On Mortgages.

The Los Angeles Times (9/12, Puzzanghera, Reckard, 629K) reports on the expectation that the Fed will "unveil plans for a third round of its controversial bond-buying program." If the Fed makes mortgage-bond purchases, it lowers the interest rates that those securities offer investors, meaning that home lenders could lower the rates on loans. However, analysts "said the effect for consumers has been damped as rates have sunk to unprecedented lows." A study "by Michael D. Bauer, an economist with the Federal Reserve Bank of San Francisco, found that rates on mortgage securities declined much more than rates on the loans themselves." Scott Simon, head of the mortgage-backed securities team at Pimco, said that "banks making the loans 'aren't passing it on to consumers,'" adding, "Rather, they are making even more money."

Sellers See Housing Market As Poor For Them.

In the "Heard on the Street" column of the Wall Street Journal (9/12, Subscription Publication, 2.08M), Justin Lahart writes that fallen housing prices and low mortgage rates make it a good time to buy a home, especially with rising rents. In the Thomson Reuters/University of Michigan's survey of consumers in August, most households thought that it isn't a good time to sell a home. Lahart adds that this lack of enthusiasm is a reason for a lack of inventory, which can be expected to increase prices. Lahart concludes that this means the Fed doesn't need to try to push mortgage rates lower through another round of quantitative easing.

Firms Increasingly Buying At Foreclosure Auctions.

The Wall Street Journal (9/12, C1, Whelan, Subscription Publication, 2.08M) reports that Wall Street is getting into buying, renovating, and the renting out foreclosed homes. For instance, Colony Capital LLC is getting yields of 7% to 8% on rents, which is more than many other types of real estate. Still, because banks are selling houses individually, instead of in lots, such buyers aren't getting giant profits.

California Foreclosures Fell In August.

The Business Journal (9/12) reports, "Foreclosure activity dropped throughout California in August, according to new date from Foreclosure Radar," with notices of default "down 23.60 percent compared to last month and 49.06 percent from a year ago while notices of sale dropped 9.8 percent in 36.87 percent respectively."

The San Jose Mercury News (9/12, Carey, 535K) reports, "Foreclosure filings dropped sharply around the Bay Area in August, while investors bid up prices for homes sold at courthouse auctions." Michelle Lenahan of ForeclosureRadar said, "This is absolutely a direct response to the lack of inventory throughout the Bay Area." While total foreclosure sales rose "about 16 percent for August in all four counties," they were "down sharply from a year ago."

DC Area Sees Increase In Renting.

The Washington Post (9/12, Sturtevant, 552K) reports in its "Where We Live" blog, "Notwithstanding steady recovery in the region's homeownership market, much of the recent population growth and a sizeable portion of the residential construction activity in the Washington area have been associated with growth in the renter population." The area's homeownership rate "has fallen faster than the national rate" due to the foreclosure crisis, "potential homebuyers saw that the financial benefits of homeownership were no longer assured" and would-be buyers have had difficulty getting a mortgage.

Markets

Dollar Falls Against Euro After German Court Clears Path For ESM.

Bloomberg News (9/12, Goodman, 1M) reports this morning, "The euro rose to a four-month high against the dollar after Germany's top constitutional court cleared the way for ratification of Europe's permanent bailout fund, boosting demand for the shared currency." Bloomberg News writes, "The euro appreciated 0.3 percent to $1.2895 at 9:42 a.m. London time after rising to $1.2902, the strongest since May 14," and the "dollar was little changed at 77.85 yen."

Oil Up This Morning On Stimulus Expectations.

Bloomberg News (9/12, Sharples, 1M) reports this morning, "Oil traded near the highest level in three weeks amid speculation China and the U.S. will add stimulus to their economies, sustaining demand for fuel in the world's biggest crude-consuming nations." Bloomberg News writes, "Crude for October delivery was at $97.39 a barrel in electronic trading on the New York Mercantile Exchange, up 22 cents, at 3:09 p.m. Singapore time. The contract yesterday rose 0.7 percent to $97.17, the highest close since Aug. 22."

Gold Holds At High Ahead Of Fed Meeting.

Reuters (9/12) reports this morning that at 6:47 GMT spot gold was up 0.3 percent to $1,736.20 per ounce, while US gold had risen 0.2 percent to $1,738.80 ahead of the Federal Reserve's policy meeting.

New IPhone Could Sell 10 Million Units By Month's End.

Bloomberg News (9/12, Satariano, 1M) reports amid heavy coverage, "Apple Inc.'s debut of its redesigned iPhone will test anew its high-stakes strategy of once-a-year upgrades for a product that accounts for about 70 percent of the company's profits." According to Gene Munster, an analyst at Piper Jaffray Cos., the company "could sell as many as 10 million iPhones by the end of September alone." Bloomberg notes that "one of the biggest challenges for Apple may be manufacturing enough devices to keep up with demand. Shortages from screen manufacturers ... may limit how many iPhones Apple can ship, according to Barclays Plc. That may hinder Apple's ability to sell about 50 million iPhones by December, as many analysts have predicted."

Domm: Market Hanging On Fed, IPhone Announcements.

Patti Domm writes for CNBC (9/12) that the "Fed's meeting and Apple's iPhone 5 announcement are two forces that could keep a lift in stocks this week, or let them down hard." Investors have high expectations for both the Apple announcement Wednesday and the Fed's Thursday. Art Cashin, director of floor operations at UBS, said investors expect every Apple announcement to be a miracle, and "It may be tough for them to live up to expectations." Randy Frederick, Charles Schwab director of trading and derivatives, said of QE, "If we don't get it, the market's probably going to sell off because if there's any reason for the rally, it has to be that."

Exchanges Crafting Plans To Avoid New Rules After Glitches.

The Wall Street Journal (9/12, Strasburg, Bunge, Subscription Publication, 2.08M) reports that NYSE Euronext and Nasdaq OMX are consulting with their largest customers to brainstorm plans aimed at showing regulators they have remedied the technology glitches that have marred exchanges this year. NYSE officials met with customers in August, and Nasdaq has a similar meeting planned for Monday. People with knowledge of the discussions say the parties are considering "kill switches" allowing exchanges to shut down trading at certain thresholds. The SEC has increasingly expressed concerns over high-speed trading risks evidenced by the glitches, and the exchanges are moving to flesh out their plans before the industry's industry roundtable October 2 that is likely to devote focus to the problem.

Knight CEO Expects New Rules. The Los Angeles Times (9/12, Tangel, Times, 629K) reports Knight Capital CEO Tom Joyce "expects regulators to impose new rules in the wake of his firm's nearly fatal computer-trading glitch, but that the financial system will be stronger." Joyce, speaking at a Barclays financial services conference in New York, said the "debacle showed how operational risk, not 'regulatory risk,' is the biggest threat facing firms as stock trading has become faster and more computerized." He expects new circuit breakers and rules allowing rollbacks of erroneous trades, saying, "There's no reason to put a firm at risk because some knucklehead or series of knuckleheads at the firm made a big mistake."

Stocks Finish Higher.

The AP (9/12, Craft) reports, "Investors spent Tuesday preparing for two events sure to move markets this week: a Federal Reserve meeting and a court decision on whether Germany can help support its struggling neighbors. And if the stock market's gains Tuesday are any sign, they expect both events to turn out well." The Dow "rose 69.07 points to close at 13,323.36," while the S&P "rose 4.48 points to 1,433.56" and the Nasdaq "increased 0.51 of a point to 3,104.53." The Wall Street Journal (9/12, Jarzemsky, Subscription Publication, 2.08M), Bloomberg News (9/12, 1M) and the Financial Times (9/12, Rodrigues, Subscription Publication, 448K), among other news outlets, also report the stock numbers this morning.

Budget

Analysis: White House "Struggling To Sell" ACA.

The Washington Times (9/12, Cunningham, 76K) reports, "President Obama's health care law has helped millions of Americans obtain insurance coverage, prescription-drug discounts and premium rebates - but with only part of the overhaul in place and widespread confusion about what it does, the administration is still struggling to sell it to voters." The Times notes that the biggest parts of the law "won't take effect until well after the November election, meaning most Americans aren't seeing major changes," and when they do, "they don't connect them with the law." Meanwhile, "administration officials, eager to shift public opinion, have tried to tout every benefit and savings estimate."

Study: Insurance Premiums See Moderate Increase.

On the front page of its "Business" section, the New York Times (9/12, B1, Abelson, Subscription Publication, 1.23M) reports on a study released Tuesday by the Kaiser Family Foundation, which found that "a family with employer-provided health insurance now pays just under $16,000 in annual premiums, an increase of about 4 percent over a year ago," while "individual policies purchased through an employer rose even less, increasing just 3 percent from last year to an average of $5,615." According to Kaiser, "the lower premiums were a sign that the rise in health care costs continued to be modest," although "the study's authors were cautious about the explanation, wondering whether the smaller increases in recent years signaled the start of a long-term trend or were simply the result of a slow economy."

McClatchy (9/12, Pugh) quotes Drew Altman, Kaiser Family Foundation's president and CEO, who said, "In terms of employee insurance costs, this year's 4 percent increase qualifies as a good year, but it still takes a growing bite of middle-class workers' wages, which have been flat or falling in real terms." Gary Claxton, a Kaiser vice president, added that it is "unclear what's behind this year's return to moderate growth in premium rates, but they could reflect a correction of sorts for last year's higher-than-expected rate hikes."

Jenkins: Insurance Woes Played Hand In Healthcare Reform Passage.

In the Wall Street Journal (9/12, Subscription Publication, 2.08M), columnist Holman W. Jenkins, Jr. draws a correlation between

WellPoint's insurance rate increases and the resurrection of the Affordable Care Act legislation. He argues that the Administration's backlash spurred by the increases may have helped to garner support for the bill. Jenkins questions why the ACA legislation keeps insurers, but concludes that increased costs under the reform will keep insurance CEOs in demand.

Debt Debate

Moody's Warns It Will Cut Rating For US Debt If "Cliff" Talks Fail.

In its lead story, the CBS Evening News (9/11, lead story, 4:10, Pelley, 6.1M) (9/11, lead story, 4:10, Pelley) reported last night, "Another credit rating agency," Moody's Investor Services, "threatened" on Tuesday "to downgrade the US government's credit rating...unless the White House and Congress reach a deal on taxes, spending, and the debt." Added CBS, "The national debt just topped $16 trillion and counting with no solution in sight."

The AP (9/12) reports that "Moody's Investors Service...said it would likely cut its 'Aaa' rating on U.S. government debt, probably by one notch, if budget negotiations" over the so-called fiscal cliff fail. The AP notes that "a year ago, Moody's cut its outlook on U.S. debt to 'negative,' which acts as a warning that it might downgrade the rating," while "rival agency Standard & Poor's took the drastic step of stripping the government of its 'AAA' rating on its bonds on Aug. 5, 2011."

The Wall Street Journal (9/12, Paletta, Subscription Publication, 2.08M) reports that Moody's said that a plan will have to "lead to specific policies that produce a stabilization and then downward trend in the ratio of federal debt" to GDP "over the medium term." Moody's remained neutral on the mix between cuts and tax increases. The Journal quotes Moody's as saying, "The actions of policy makers in terms of long-term fiscal measures at the end of the year or in early 2013 will be important determinants of how we deal with the rating outlook," adding, "Including reform of entitlement programs would add to the long-term stability of any fiscal plan."

Bloomberg News (9/12, Detrixhe, 1M) also reports the news and quotes David Brown at Neuberger Berman in Chicago as saying, "People are not worried about or focused on the Moody's report," adding, "The U.S. has time and the means to deal with it." However, Bloomberg News also quotes Thomas Roth of Mitsubishi UFJ Securities USA Inc as saying, "Everybody knows that if we don't get our house in order, we're in trouble," adding, "If you get downgraded twice, you're certainly not going to lend to that government at a lower rate."

Steve Schaefer writes for the Forbes (9/12, 928K) website that another "wrinkle in the Moody's note Tuesday: the ratings agency says that maintaining its outlook depends on a 'relatively orderly' increase to the debt ceiling, which will likely be reached around the end of 2012." Forbes notes that "a further downgrade will be a problem for a new Treasury Secretary," but "Timothy Geithner has repeatedly said he does not expect to stay on if President Obama wins re-election, and Republican challenger Mitt Romney would certainly want to install his own Treasury Secretary should he defeat the incumbent."

The Financial Times (9/11, Harding, Politi, Rodrigues, Subscription Publication, 448K),among other news outlets, also report the story this morning.

Boehner "Not Confident At All" US Will Avoid "Fiscal Cliff."

The Wall Street Journal (9/12, Boles, Paletta, Subscription Publication, 2.08M) reports that while it appears Congress will manage to avoid a showdown over a government shutdown, House Speaker John Boehner said Tuesday he is "not confident at all" that lawmakers will be able to steer clear of the fiscal cliff. Other leaders have taken a brighter view, with Senate Majority Leader Harry Reid saying he is "optimistic" the parties will put aside their differences and reach a deal. Boehner's comments came only hours after Moody's said it may downgrade US debt in such an event, but explained it would give Congress leeway into the beginning of the year before taking action.

The Washington Times (9/12, Lengell, 76K) reports Boehner "said he's not optimistic Congress will be able to steer clear of the 'fiscal cliff' looming at year's end, blaming the Senate and White House for failing to work House Republicans on drafting a plan." Asked yesterday "if he thought Congress and the White House could broker a deal on the issues, Mr. Boehner, Ohio Republican, responded, 'I'm not confident at all.'" House Majority Leader Eric Cantor, meanwhile, "said there's a 'lack of leadership in this administration' for failing to take the lead on finding ways to avoid the sequestration cuts targeting the military."

Roll Call (9/12, Newhauser, Subscription Publication, 19K) quotes Boehner as saying, "Listen, the House has done its job on both the sequester and on the looming tax hikes. ... The Senate at some point has to act, and on both of these, where's the president? Where's the leadership? Absent without leave."

Politico (9/12, Sherman, Allen, 25K) reports, "The truth is that none of the top leaders or their aides are in serious negotiations." Instead, "the key players" are "simply pointing fingers and praying that voters clarify Washington's power structure in November in a way that favors Republican entitlement cuts or Democratic tax hikes."

Obama: Run-Up To Election Not Best Time For Debt Talks. In its lead story, the CBS Evening News (9/11, lead story, 4:10, Pelley, 6.1M) reported "in an interview, President Obama told us that if he's reelected, he will reach a compromise with Republicans" on the budget deficit and long-term debt. However, said Obama, "Two months before an election the Speaker is obviously supportive of my opponent and his party and he wants to win as many seats as he can and he's not going to go out of his way to try to help me get things done that he thinks I may be able to take credit for."

Financial Reform

Dimon Talks Europe, Regulation At Conference.

Jessica Silver-Greenberg writes in a New York Times (9/12, Subscription Publication, 1.23M) "DealBook" blog post that JPMorgan Chase CEO Jamie Dimon "sat down on Tuesday for what banking analysts called a 'fireside chat' during the Barclays 2012 Global Financial Services Conference." Silver-Greenberg notes that during a Q&A session, Dimon "responded to questions about things like his stance on the mounting turmoil in Europe and regulatory changes, in particular the Volcker Rule, which restricts banks from trading with their own money." The piece adds that Dimon "has long been a vocal opposition of some of the regulation being hammered out in Washington."

IMF Study: New Rules To Cause 'Modest' Rise In Interest Rates.

Bloomberg News (9/12, Rastello, 1M) reports that a study by IMF staff suggests "new financial regulations will cause a 'modest' increase in the interest rates banks charge on loans in developed countries as lenders reduce costs." The study, published Tuesday, says "higher capital and liquidity requirements will boost average bank lending rates in the long term by 28 basis points in the U.S., 18 basis points in Europe and eight basis points in Japan." The IMF study also noted that the increase in lending costs is lower than in OECD and Bank for International Settlements studies.

The Wall Street Journal (9/12, Mcgrane, Subscription Publication, 2.08M) notes that the study is the latest to give evidence against the argument by banks the several of the new rules will hurt lending and raise loan costs for borrowers. The study estimates that a business borrowing from an American bank would pay $2,800 more in interest each year on a $1 million loan.

The Financial Times (9/12, Beattie, Subscription Publication, 448K) reports that the study says, "Banks appear to have the ability to adapt to the regulatory changes without actions that would harm the wider economy." It goes on to say, "Banks and other financial institutions will continue to adjust, with considerable pain, to the new reforms, but the long-term effects on borrowers and on the economy should be relatively limited compared to the large potential benefits from reducing the damage from future crises."

Solomon: Obstacles Remain, Keeping Lending Down.

Deborah Solomon writes in her Bloomberg News (9/12, 1M) column that the "government has spent trillions of dollars pushing mortgage rates to historic lows while imposing strict lending guidelines that have made credit harder to get." Solomon says the FHFA "moved to ease one barrier with new rules intended to limit the risk that banks will have to buy back flawed mortgages from Fannie Mae and Freddie Mac." She notes that the other obstacle banks usually cite is the tough lending standards by bank examiners. Adding that other obstacles remain, Solomon cautions, until "all of these are resolved - not to mention the fates of Fannie and Freddie - lending will likely remain depressed."

Retail Group Looks To Block Swipe-fee Settlement.

Bloomberg News (9/12, Smythe, 1M) reports that "the National Retail Federation said it will try to block a settlement of as much as $7.25 billion with Visa Inc. and MasterCard Inc. over the fees they charge stores when customers pay with credit cards." Bloomberg notes that the group, representing over 9,000 retailers, "said the proposed settlement of merchants' price-fixing claims does nothing to prevent Visa and MasterCard from raising the so-called swipe fees in the future."

The AP (9/12, D'innocenzio) notes that "the NRF, which is not a party to the lawsuit that led to the settlement, says it is unsure whether outside groups will be allowed to intervene, or if the case qualifies as a class action." The group also says "it believes the proposed settlement will not stop swipe fees from continuing to rise, which will hurt both retailers and shoppers, and that it will prevent any future legal challenges." Mallory Duncan, senior vice president and general counsel for NRF, said, "The settlement was by the credit card companies and for the credit card companies. This will not help merchants or customers."

Professor, Analyst: "Naked" CDS Could Expand Sovereign Credit Market.

In a Wall Street Journal (9/12, Subscription Publication, 2.08M) op-ed, University of Houston Professor Stuart M. Turnbull and Risk Analysis & Control consultant Lee M. Wakeman advocate for "naked" credit default swaps for sovereign debt that would let investors hold the insuring CDS without the underlying security. The two say the swaps provide a channel to shift risk and grow credit markets, thereby increasing options for governments and reducing their financing costs. They claim that speculation risks are overblown, and claim leaders may be hostile toward such a shift since they are an insightful signal of a country's creditworthiness.

Banks Said To Find Loophole With "Credit Transformation."

Karen Weise in a post for Bloomberg BusinessWeek (9/12, 921K) says Bloomberg (9/11, Keoun, 1M)'s story yesterday detailing banks new use of "credit transformation" to circumvent collateral requirements for the CFTC's new clearinghouse rules shed light on what could be a $4 trillion loophole in the regulations. She explains "if traders go bust, banks could be left holding risky bonds instead of high-grade securities" but for now the "traders are happy because they have the quality collateral they need, and the banks are happy because they collect fees and interest for lending out their goods." Weise notes that CFTC Commissioner Bart Chilton raised such concerns when finalizing the rules, saying "exempted trades designed for 'legitimate purposes are going to morph, kind of chimerical,' into more complex, riskier financial products."

TARP

Chrysler Unveils New Models For 2013, 2014.

The Wall Street Journal (9/12, Rogers, Subscription Publication, 2.08M) reports that Sergio Marchionne, chief executive of Fiat and Chrysler, showed off more than a half-dozen new cars and Jeeps to be released in the next two years. The Journal says that Chrysler is counting on a new lineup of cars in 2013 and 2014 to establish the company as a major seller of small cars, continue gains on sales in the US, and expand sales internationally.

Chevy Volt Ad Nominated For GLAAD Award.

An ad by GM for its Chevrolet Volt has been nominated for a 2012 Gay & Lesbian Alliance Against Defamation Amplifier Award "for its creative approach to reaching gay, lesbian, bisexual and transgendered consumers," the Detroit Free Press (9/12, Bomey, 219K) reports. The ad, which features the Volt saying, "Mom, Dad, I'm electric," was nominated by GLAAD in "the LGBT market category. Other nominees include Toyota's Lexus luxury brand, Orbitz, Absolut Vodka, Gilead Sciences and Amtrak. The awards will be distributed in a ceremony Oct. 2."

OCC "Refused" Monadnock's TARP Repayment.

The New Hampshire Business Review (9/12, Sanders, 50K) reports that Monadnock Community Bank "wants to pay back its loan under the federal Troubled Asset Relief Program so it can complete its merger with GFA Federal Credit Union, but it can't, according to bank President William M. Pierce Jr." This is because the government told the bank to hold on to its money for the time being. The Business Review notes five other New Hampshire banks paid back a total of $38 million, "but the Office of the Comptroller of the Currency refused the money," Pierce said. The agency "was concerned that Monadnock had too many troubled loans on its books." Monadnock's merger deal with GFA was approved by shareholders in May, but still hasn't received the necessary approval from the Comptroller of the Currency. Pierce says, "They are just crossing all their T's. They want a good template for other credit unions. We are sort of blazing a new trail here."

TFI/Sanctions

Netanyahu Criticizes Obama Administration Over Iran.

Key media reports last night and this morning are reporting an increase in tensions between the US and Israel on the issue of Iran, and drawing connection between these renewed strains and the US presidential race.

Reuters (9/12, Spetalnick, Fisher-Ilan) was the first news outlet to report that President Obama, in what's being seen as a public snub, will not meet with Benjamin Netanyahu next week when the Israeli PM visits the US. While White House spokesman Tommy Vietor tells Reuters the meeting will not take place due to scheduling conflicts, Obama aides reportedly believe Netanyahu favors Mitt Romney in the upcoming presidential election. The White House's decision, which came on the same day Netanyahu strongly criticized US policy toward Iran, is viewed as potentially alienating key Jewish voters. The Wall Street Journal (9/12, Mitnick, Solomon, Subscription Publication, 2.08M), meanwhile, reports that some US officials believe Netanyahu's criticism of the Administration was designed to affect the US election.

Julian Pecquet, in a post for The Hill (9/12, Pecquet, 21K) reports that Obama's move is "widely seen as a snub to one of the most vocal critics of the administration's Iran policy." Pecquet calls "the worsening relationship between" the two leaders "gold for Republicans, who are looking for ways to undermine Obama's advantage on national security while cutting down his support among Jewish voters."

A later Reuters (9/12) dispatch reports that Obama telephoned Netanyahu on Tuesday. In a summary of the call, the White House said the two leaders "reaffirmed that they are united in their determination to prevent Iran from obtaining a nuclear weapon, and agreed to continue their close consultations going forward." Reuters adds that an unnamed Israeli official had said earlier that the White House had refused an Israeli request for a meeting next week between Obama and the Prime Minister - something the White House denies. The Washington Times (9/12, Boyer, 76K) notes that in a statement, the White House said last night, "Contrary to reports in the press, there was never a request for Prime Minister Netanyahu to meet with President Obama in Washington, nor was a request for a meeting ever denied."

The CBS Evening News (9/11, story 2, 2:40, Pelley, 6.1M) reported that Netanyahu "publicly scolded the Obama administration for refusing to lay down a red line which would trigger a military strike." Netanyahu was shown saying, "If Iran knows that there is no red line...what will it do? Exactly what it's doing. It's continuing without any interference towards obtaining nuclear weapons." CBS added that "Netanyahu seemed to be reacting to remarks by Secretary of State Clinton who told a radio interviewer two days ago there is still time to head off Iran's nuclear program." Clinton said, "We're not setting deadlines. We're... You know, we're watching very carefully about what they do because it's always been more about their actions and their words." However, "in an interview with CBS...Defense Secretary Panetta insisted the US has a very clear red line." Panetta was shown saying, "When they make the decision to go ahead and build a nuclear weapon, that for us is a red line."

NBC Nightly News (9/11, story 3, 0:35, Williams, 8.37M) also reported that "what seems to have set this off" are "recent remarks by...Clinton," and added that "the President is not going to meet with Netanyahu when he comes to address the UN here in New York later this month."

Bloomberg News (9/12, Ben-David, Lakshmanan, 1M) reports that Panetta also said "the U.S. has 'pretty good intelligence' about Iran's nuclear activities and that it would take time for Iran to make a nuclear weapon 'once they make a decision to do it.'" Said Panetta, "It's roughly about a year right now, a little more than a year. ... We think we will have the opportunity, once we know that they've made that decision, to take the action necessary to stop it." The AP (9/12, Teibel) notes that "although the United States has accused Iran of trying to develop nuclear weapon capability under the cover of a peaceful program, the Obama administration has said it does not believe Iran has yet decided whether to build an atomic bomb - if it in fact develops the ability to do so."

The New York Times (9/12, A1, Kershner, Gladstone, Subscription Publication, 1.23M) reports on its front page that the remarks "threatened to elevate the Iranian uranium enrichment program as a virulent campaign issue less than two months before the American presidential elections." The Times adds that "in another indication of the fraught diplomacy between Israel and the Obama administration in the heated period before the presidential elections," House Intelligence Committee chairman Mike Rogers "reported 'a very sharp exchange' between Mr. Netanyahu and the American ambassador in Israel, Daniel B. Shapiro, during a meeting in Jerusalem on Aug. 24." Speaking to a Michigan radio station, Rogers said, "It was very, very clear the Israelis had lost their patience with the administration."

The Washington Post (9/12, Greenberg, 552K) says Netanyahu's comments signal "a deepening dispute with Washington" and "a blistering response to...Clinton's statement that the United States is 'not setting deadlines.'" Netanyahu, who "told an interviewer Sunday that Israel is discussing red lines" with the US, "did not say whether those discussions include any new offers from the Obama administration, but White House press secretary Jay Carney waved off that suggestion Monday." Said Carney, "We believe that there remains time and space for that effort to bear fruit. ... We've also made clear that the window of opportunity for reaching a solution by that means will not remain open indefinitely." Reporting on Netanyahu's words, the AP (9/12) refers to the "ratcheting up" of "a public feud with the US," while the Financial Times (9/12, Dyer, Subscription Publication, 448K) headlines its story "US And Israel In Open Feud Over Iran."

In an editorial, the Wall Street Journal (9/12, Subscription Publication, 2.08M) argues that the Administration's message to Netanyahu is that the US will not stand with Israel if it attacks Iran. Obama's message, adds the Journal, is also giving Iran additional diplomatic wiggle room.

Diplomats: New Intel Shows Iran Closer To Ability To Build Nuclear Bomb. The AP (9/12, Jahn) reports, "The UN atomic agency has received new and significant intelligence over the past month that Iran has moved further toward the ability to build a nuclear weapon, diplomats tell the Associated Press." Those diplomats "say the intelligence shows that Iran has advanced its work on calculating the destructive power of an atomic warhead through a series of computer models that it ran sometime within the past three years." The new intel "comes from Israel, the United States and at least two other Western countries and concludes that the work was done sometime within the past three years."

P5+1 Pressing IAEA For Action On Iran. The Wall Street Journal (9/12, Crawford, Subscription Publication, 2.08M) reports members of the so-called P5+1 are pressing the IAEA to increase pressure on Iran amid new reports that Tehran is working on developing a nuclear weapon. According to the Journal, envoys are drafting a joint statement or resolution to be issued by the agency calling on Iran to answer questions about its nuclear program.

Israeli Cabinet Member: 2007 Strike Against Syria A Precedent For Attack On Iran. The Washington Times (9/12, Rabinovich, 76K) reports from Jerusalem that Environment Minister Gilad Erdan said Monday on Israel Radio that "a 2007 airstrike on a Syrian nuclear reactor - which Israel has never publicly acknowledged," justifies "the Jewish state's right to launch a unilateral attack on Iran's nuclear facilities if the U.S. refrains from action." Said Erdan, "President [George W.] Bush did not agree to the United States taking part [in the 2007 raid], but in any event the right step was taken."

Poll: Obama's Support Among Jewish Voters Down 19 Points Since 2008. The Daily Caller (9/12, May) reports that "Obama's support among Jewish voters is down 19 percentage points since his 2008 election victory, a new" Investor's Business Daily/Christian Science Monitor/TIPP poll finds. The survey finds Obama's "support among Jewish voters has dropped from 78 percent in 2008 to 59 percent today." Meanwhile, Mitt Romney "garners 35 percent of the Jewish vote, up from Senator John McCain's 21 percent showing in 2008."

US Treasury Urges Lebanon To Enforce Iran, Syria Sanctions.

Reuters (9/12) reports that during a visit to Beirut yesterday, Deputy Treasury Secretary Neal Wolin urged officials to ensure that international sanctions on Iran and Syria are enforced. In a statement, the US Embassy said Wolin "underscored the need for Lebanon to prevent abuse of the Lebanese financial sector by illicit actors and for Lebanese banks and regulatory authorities to remain vigilant against the evasion of sanctions by Iran and Syria."

The Daily Star (9/12, 4K) reports that "Prime Minister Najib Mikati's press office said discussions focused on the possible repercussions of the Syria crisis on Lebanon's banking and economic sectors," adding that "Wolin thanked the Lebanese government for its continued cooperation with the U.S. banking sector." The Daily Star notes that before the meeting with Mikati, Wolin held talks with President Michel Sleiman at Baabda Presidential Palace. The US Embassy added that Wolin "encouraged Lebanese officials to take steps to reduce Lebanon's economic vulnerabilities and promote sustainable growth, including reducing the public debt burden and improving the regulatory and infrastructure system to promote private sector growth."

Julian Pecquet writes in The Hill's (9/12, Pecquet, 21K) "Global Affairs" blog that "Wolin's trip to Lebanon, Saudi Arabia and Tunisia comes as the administration is under fire from Republicans and Israel to turn the screws on Iran and get the country to abandon its alleged nuclear weapons program." Pecquet notes that "Wolin will also meet with senior government officials in Saudi Arabia to review U.S.-Saudi cooperation in sanctioning Iran and Syria. And he'll discuss United States help for transitioning Middle East countries during his stops in Saudi Arabia and Tunisia."

The Financial Times (9/12, Fielding-Smith, Subscription Publication, 448K) reports that Wolin urged senior officials to prevent the Lebanese financial sector from helping to evade Syrian and Iranian sanctions.

Cuba Travel License Renewals Under More Scrutiny.

The Miami Herald (9/12, Tamayo, 162K) reports that an "Obama administration 'revision' of the regulations on 'people-to-people' trips to Cuba ... has begun to disrupt the tours for American travelers." The Treasury Department has renewed only "only a handful" of the one-year licenses for the tours, as many more are still pending. The Herald notes that "an estimated 10,000 Americans visited Cuba in the past year under the 140 licenses for people-to-people travel issued by Treasury's Office of Foreign Assets Control, in charge of enforcing U.S. economic sanctions on Cuba and other nations." The Herald quotes Jeff Braunger, OFAC program manager for Cuba travel licensing, as saying the agency "revised" its requirements for licenses in May partly "because of reports we received concerning travel under the licenses." Braunger said in an email, "These changes provide clarity to applicants and licensees seeking renewals, facilitate OFAC's review of license applications, and help to deter abuses by licensees." The Herald notes that "OFAC spokesman John Sullivan added that his agency is working to quickly resolve renewal applications that were returned for additional information 'but not necessarily rejected.'"

Gross' Wife Fears He May Not Survive Imprisonment. The Washington Post (9/12, Gearan, 552K) reports Alan Gross, a USAID contractor imprisoned in Cuba for nearly three years, "is in poor health and may not survive to serve out the remainder of his 15-year sentence, his wife said Tuesday after visiting him last week." Judy Gross said in a "brief" interview that "her husband...is angry with the Cuban and American governments" because he "feels like he's been dropped and ignored."

The AP (9/12, Haven) says "US diplomats were initially hopeful Cuba would release Gross on humanitarian grounds," but Cuban officials "have become increasingly insistent that Gross's plight be linked to that of five Cuban agents sentenced to long jail terms in the United States. Washington has said repeatedly it will not consider a trade."

As part of "a more aggressive legal and publicity campaign to win his release," Gross' new US attorney, international human rights lawyer Jared Genser, "has filed a petition with the UN Working Group on Arbitrary Detention to rule Gross' detention violates Cuba's obligations under the International Covenant on Civil and Political Rights," the Miami Herald (9/12, A1, Tamayo, 162K) reports on its front page.

South China Morning Post Answers Questions On Iran Sanctions.

The South China Morning Post (9/12) discusses current sanctions against Iran and how they might affect overseas businesses. The piece discusses the significance of the sanctions, effects on non-US companies, sectors that face increased risks, and ways to mitigate sanctions risks. The Morning Post says, "sanctions against Iran are enforced by the Office of Foreign Assets Control (a division of the US Treasury) and the US Department of State. OFAC may also refer potential criminal cases to the US Department of Justice."

Federal Reserve

Economist Consensus Forecasts QE3 Today.

Bloomberg News (9/12, Zumbrun, Kearns, 1M) reports, "The Federal Reserve is likely to announce a third round of bond purchases tomorrow, according to almost two-thirds of economists in a Bloomberg survey, while also extending the duration of its zero-interest-rate policy into 2015." The survey predicted buys of $300 billion in Treasuries and $400 billion in mortgage-backed securities. Bloomberg explains, "Some Fed officials have spoken so enthusiastically about new easing that a decision to keep policy unchanged tomorrow could trigger a downturn in markets, said Neal Soss, chief economist for Credit Suisse Group AG." He explained, "Disappointing the markets doesn't seem like a good strategy, but it's not obvious how much more GDP to expect if they fulfill market expectations for more action."

Eichengreen: Fed Audit Proposal Dangerous.

Barry Eichengreen in a post for Project Syndicate (9/12) warns against the Republican platform's proposal to audit the Fed, claiming it "might be viewed as an opportunity to score political points or steer policy in self-serving directions, with delicate information leaked in order to pressure policymakers." He explains while the Fed is not perfect, "handing over effective control to congressmen with one eye on the next election would be infinitely worse." He explains the Fed has already undertaken its own voluntary shift toward transparency, and concludes, "The Fed almost certainly will move even further in the direction of transparency. ... No less is required to reconcile independence with accountability in a democratic society. But an audit overseen by politicians is not the right way."

Financial Regulatory Agencies

Peregrine CEO Reaches Plea Deal On Fraud, Embezzlement Charges.

Reuters (9/12) reports that Peregrine Financial CEO Russell Wasendorf Sr., who is charged with stealing more than $200 million from his firm's clients and misleading federal regulators, has agreed to plead guilty to mail fraud, making false statements to regulators, and embezzlement of customer funds, prosecutors said on Tuesday. Reuters notes that Wasendorf, 64, faces up to 50 years in prison, according to the terms of the plea agreement, which was made public at a hearing on Tuesday.

Bloomberg News (9/12, Sandler, 1M) reports that Wasendorf "has provided 'valuable information' on the assets and liabilities of companies he controlled to the CFTC and its chosen receiver, the Federal Bureau of Investigation and the Department of

Justice during 12 hours of interviews, the receiver said yesterday in a federal court filing in Chicago." Bloomberg adds, "Many of Wasendorf's assets, which include a publishing venture, an unprofitable restaurant, a boat, aircraft, cars and 4,000 bottles of wine, were bought or supported by funds embezzled from customers, based on information the receiver said he had obtained since the collapse of the brokerage in July."

The AP (9/12, Foley) reports from Cedar Rapids, IA, that prosecutors say Wasendorf "will plead guilty to mail fraud, embezzling customer funds and two counts of making false statements to regulators. U.S Magistrate Judge Jon Scoles confirmed the agreement but hasn't ruled on the matter. Prosecutors said the agreement calls for Wasendorf, 64, to be sentenced to up to 50 years in prison."

The Des Moines (IA) Register (9/12, Epstein, 122K) reports, "Wasendorf has been in federal custody since his July 13 arrest for lying to federal regulators. The alleged misconduct by the former head of the defunct futures and commodities brokerage first came to light after a failed suicide attempt on July 9, which included a lengthy note detailing the scam. Wasendorf has agreed to plead guilty to mail fraud, embezzling customer funds and two counts of making false statements to regulators, according to prosecutors. U.S. Magistrate Judge Jon Scoles confirmed the agreement Tuesday during a detention hearing in Cedar Rapids, but has not ruled on it."

The Waterloo and Cedar Falls (IA) Courier (9/12, 40K) reports, "Defense attorney Jane Kelly said Wasendorf's agreement came without the usual promises that defendants seek when they decide to plead guilty. She said Wasendorf has been cooperating with both FBI investigators and attorneys who are trying to determine the whereabouts of some $200 million missing from his commodity firm's customer segregated account. The government, represented by Assistant U.S. Attorneys Peter Deegan and Matthew Cole, argued Wasendorf is still at risk of taking his own life or fleeing the area."

Senior MF Global Officials Reportedly Said Corzine Knew About Misuse Of Funds.

FOX News Business (9/12, Gasparino) reports, "In the days following MF Global's stunning implosion last year, a senior executive at the firm made a startling concession to investigators looking into both the company's demise and the loss of more than $1 billion in customer money, according to people with direct knowledge of the matter." Fox continues, "MF Global's chief financial officer for North America, Christine Serwinski, told investigators that her boss, MF Global's chief executive, Jon Corzine, was well aware of the use and possible misuse of the customer funds during the firm's final days, and as a result, Corzine may end up in 'jail,' these people add. Serwinski's initial account of MF Global's bankruptcy - and who might be to blame for the loss of $1.6 billion in customer funds - has yet to be disclosed, and could add a new dimension to the year-long federal investigation into the firm's implosion."

FDIC Mulls Idea Of Creditors Receiving Stake In New Bank Incarnations.

American Banker (9/12, Adler, Subscription Publication, 9K) reports that despite the reality creditors "could lose money in the wind-downs of large firms that are authorized by the Dodd-Frank Act, many of them may own a piece of the startup that emerges from the failed company's ashes." The FDIC has discussed preserving healthy parts of failed firms in a new private company. American Banker notes, however, that "for that to work, some bondholders of the failed company would get a consolation prize of sorts instead of their limited repayment: stock in the new company." They would receive equity no greater in value that what they would have received otherwise.

Internal Revenue Service

IRS Awards UBS Whistleblower $104 Million.

The AP (9/12) reports that the IRS has "awarded an ex-banker $104 million for providing information about overseas tax cheats - the largest amount ever awarded by the agency." Bradley Birkenfeld exposed widespread tax evasion at UBS AG in a case that resulted in a $780 million fine and "an unprecedented agreement requiring UBS to turn over thousands of names of suspected American tax dodgers to the IRS." IRS spokeswoman Michele Eldridge said in an email, "The IRS believes that the whistleblower statute provides a valuable tool to combat tax non-compliance, and this award reflects our commitment to the law." In a summary of the award, the IRS said, "The comprehensive information provided by the whistleblower was exceptional in both its breadth and depth." NBC Nightly News (9/11, story 5, 1:50, Myers, 8.37M) reported that "Birkenfeld will have to pay taxes on the award and pay his lawyers, who say they now plan to pursue a presidential pardon."

Bloomberg News (9/12, Schoenberg, Voreacos, 1M) reports that the case "led to an erosion of the use of Swiss bank secrecy by wealthy Americans to cheat the IRS. At least 11 banks are under criminal investigation in the U.S. Two dozen offshore bankers, lawyers and advisers, as well as 50 American taxpayers, have been charged with crimes." Stephen Kohn, one of Birkenfeld's lawyers, said, "Today the IRS sent a message to every American taxpayer who still has an illegal offshore account. Turn yourself in while there is still an amnesty program. Turn yourself in before your banker does." In a statement confirming the award, the IRS said, "The whistle-blower statute provides a valuable tool to combat tax non-compliance, and this award reflects our commitment to the law."

The New York Times (9/12, Kocieniewski, Subscription Publication, 1.23M) reports that the award is "also a milestone for the agency's whistle-blower program, which offers informants rewards of up to 30 percent of any fines and unpaid taxes recouped by the government."

The Wall Street Journal (9/12, Saunders, Sidel, Subscription Publication, 2.08M) reports that Senator Charles Grassley (R-IA), who sponsored the law, said, "The IRS encourages courageous actions. An award of $104 million is obviously a great deal of money, but billions of dollars in taxes owed will be collected that otherwise would not have been paid as a result of the whistleblower information."

The Financial Times (9/12, Scannell, Subscription Publication, 448K) also quotes the IRS as saying, "The comprehensive information provided by the whistleblower was exceptional in both its breadth and depth. While the IRS was aware of tax compliance issues related to secret bank accounts in Switzerland and elsewhere, the information provided by the whistleblower formed the basis for unprecedented actions against UBS."

The Washington Post (9/12, Elboghdady, 552K) and the Fiscal Times (9/12, Ehley) also reported on the story.

IRS Official Explains Agency's Role In Healthcare Law To House Committee.

Reuters (9/12, Dixon) reports that the IRS assured lawmakers Tuesday that agents would not play a role in enforcing the requirement that Americans buy health insurance as part of President Obama's Affordable Care Act. IRS Deputy Commissioner Steven Miller told a subcommittee of the House Ways and Means Committee, "IRS revenue agents will not be involved. There will not be audits."

Bureau of Public Debt

Treasury 10-Year Note Rises Ahead Of Auction.

Bloomberg News (9/12, Goodman, Jenkins, 1M) reports this morning, "Treasuries dropped for a second day as investors prepared for a two-day Federal Reserve meeting and a $21 billion auction of 10-year notes." Bloomberg News writes that the "benchmark 10-year yield rose one basis point, or 0.01 percentage point, to 1.71 percent at 8:26 a.m. in London." Bloomberg News adds, "The difference between yields on 10-year notes and similar- maturity Treasury Inflation Protected Securities, a gauge of expectations for consumer prices over the life of the debt, was little changed today at 2.39 percentage points after rising to 2.4 percentage point on Sept. 10, the most since March."

Three-year Notes Met With "Blockbuster Demand."

The AP (9/12) reports that the Treasury Department "raised $32 billion Tuesday in a sale of three-year notes that was met with blockbuster demand." According to research from Nomura Securities, "For every $1 that was offered, buyers placed $3.94 in bids, the highest demand for the notes recorded," and they "fetched a yield of 0.337 percent." The yield on 10-year notes was 1.70 percent, with 30-year bond yields rising to 2.85 percent and yields on five-year notes at 0.67 percent.

Editorial Wrap-Up

The New York Times.

"Chicago Teachers' Folly." An editorial in the New York Times (9/12, Subscription Publication, 1.23M) says the strike "seems particularly senseless because it is partly a product of a personality clash between the blunt mayor, Rahm Emanuel, and the tough Chicago Teachers Union president, Karen Lewis." The Times adds that the "differences between the two sides were not particularly vast, which means that this strike was unnecessary," and notes that of the strike continues much longer "the union could pay a dear price in terms of public opinion."

"Aurora's Aftermath." The New York Times (9/12, A30, Subscription Publication, 1.23M) editorializes, "Nearly two months after the shooting spree in Colorado that left 12 dead and 58 wounded, survivors, civic leaders and generous citizens are confronting the victims' traumas and a future of costly care," which "is the painful challenge that communities across America typically have to face after the national spotlight moves elsewhere." The Times argues, "The grim prognoses of Aurora victims struggling beyond the mayhem should be required reading for all the many politicians who mouth sympathy but ritualistically genuflect to the gun lobby."

"False Promises On Ovarian Cancer."

"A Defeat For Impartial Courts." The New York Times (9/12, A30, Subscription Publication, 1.23M) editorializes that "the West Virginia Supreme Court of Appeals ruled last week to deny matching funds under the state's pilot campaign financing program for judicial races to a Republican candidate, Allen Loughry II, for a seat on that court." The Times argues, "The West Virginia court should have recognized a judicial election exception to reach a different result. Instead, it applied the Supreme Court's wrongheaded view that providing public funds to underfinanced candidates based on an opponent's spending level impedes the free speech of the better-financed candidate."

The Washington Post.

"Specifics, Mr. Romney." The Washington Post (9/12, 552K) editorializes that Mitt Romney "is specific about how much he will cut income tax rates for every American: by one-fifth. But he is vague about how he'll pay for this, though he insists he can cut rates without losing revenue." To the Post, "the danger is a repeat of 2001 and 2003, when President Bush and Congress enacted tax cuts that plunged the nation into debt."

"Where Is Xi Jinping?" A Washington Post (9/12, Board, 552K) editorial says, "The fact that China's citizens and the world were left to wonder [about Xi's whereabouts] is yet more evidence that the country's creaky Stalinist political system is entirely unprepared to meet the challenges it faces - from a slowing economy to a booming social Internet." The Post adds, "More than 300 million Chinese now have social media accounts, and an army of government censors is unable to stem rumors about Mr. Xi's disappearance or complaints about the lack of official information." The Post suggests that Xi and Li Keqiang push for greater political transparency, adding: "A good first step would be to tell the truth about their own activities."

"Montgomery's Shackled Police."

The Wall Street Journal.

"Obama To Israel: You're On Your Own." In an editorial, the Wall Street Journal (9/12, Subscription Publication, 2.08M) argues that the Administration's message to Netanyahu is that the US will not stand with Israel if it attacks Iran. Obama's message, adds the Journal, is also giving Iran additional diplomatic wiggle room.

"Speech Of The Year." An editorial in the Wall Street Journal (9/12, Subscription Publication, 2.08M) praises a presentation prepared by Bank of England Director of Financial Stability Andrew Haldane and his colleague Vasileios Madouros at the Fed's annual policy meeting in Wyoming. The Journal says the paper demonstrates that complex regulations are a big part of the reason large banks are difficult to regulate and that those complex regulations contributed to the financial crisis.

"China's Leader Vanishes." A Wall Street Journal (9/12, Subscription Publication, 2.08M) editorial expresses hope that Xi recovers quickly and suggests that, when he assumes office, he should revise the government's information policy. The Journal says Beijing must earn the full trust of its people and the world by creating the transparent and democratic institutions that would make it unthinkable for an heir-apparent to disappear for political reasons.

The Big Picture

Headlines From Today's Front Pages.

Los Angeles Times:
Region's Odor Of The Day Was Fish And Foul
A Race To Solve Hantavirus Riddle
School Strike Bigger Than Chicago
Healing, With A Punch
Aspirations To All Of The Above

Wall Street Journal:
Israel Blasts US Over Iran
In Chicago, Standoff Built Over Two Years
Footnote To Financial Crisis: More Shun Banks

New York Times:
Israeli Sharpens Call For United States To Set Iran Trigger
Teachers' Leader In Chicago Strike Shows Her Edge
Gay Marriage Vote Rises As Test In Upstate GOP Race
Dissecting Romney's Vietnam Stance At Stanford
Amazon, Forced To Collect A Tax, Is Adding Roots
Whistle-Blower Awarded $104 Million By IRS

Washington Post:
Obama, Teachers Face Split Over Strike (9/12, Layton, Wallsten, Turque, 552K)
As Germany Rises, 'Iron Frau' Unbends A Little
A Public Rift Over 'Red Line' On Iran
A Breast-Feeding Quiz: Is It Okay In Class?
Killed 'Just Walking To School – How Does That Happen?'

Financial Times:
Moody's In Threat To Strip US Of Top Rating
Israeli Premier Hits At US Over Iran
'Tarantula' Snares $104m Reward For Whistleblowing In UBS Tax Case

Washington Times:
Ryan Not Adding Fuel To Republican Ticket
Political-Ad Tsunami Swamps Southeast Va.
Selling Healthcare Law Tricky On Campaign Trail
Another US Credit Downgrade On Horizon
Merkel Tightens Ties With China Bus Slights Rights

Mob Attacks Embassy, Desecrates US Flag

Story Lineup From Last Night's Network News:
ABC: Egypt-US Embassy Attack; Politics-Romney Poll Numbers; Education-Chicago Teacher Strike; Health-Fish Oil Supplements; 9/11 Anniversary Observances; Economy-Facebook Stock; Economy-Product Downsizing.
CBS: Politics-Obama Interview; Iran-Nuclear Program; 9/11 Remembrances; China-Heir Apparent Disappears; US Drought-Arkansas River; Economy-Jobs Numbers; Health-Yosemite-Hantavirus; 9/11 Remembrances.
NBC: 9/11 Anniversary Observances; Egypt-US Embassy Protests; Iran-Nuclear Program; Education-Chicago Teachers Strike; IRS-Whistleblower Reward; Syria-Refugee Crisis; Health-Fish Oil Supplements; NASA-Jupiter Asteroid Hit; UK-Cambridge Overseas Tour; Butterfly Migration-Climate Change.

Story Lineup From This Morning's Radio News Broadcasts:
ABC: Libya-US Consulate Attack; Egypt-US Embassy Protests; White House-Israel; Politics-Jimmy Carter-Election Comments; Education-Chicago Teachers Strike; Weather-Las Vegas-Flooding.
CBS: Libya-US Consulate Attack; Egypt-US Embassy Attack; White House-Israel; Education-Chicago Teachers Strike; Alabama-Professor Pleads Guilty To Killing Colleagues.
NPR: Libya-US Consulate Attack; Egypt-US Embassy Attack; Georgia-Anti-Government Group Investigation; Weather-Las Vegas-Flooding; White House-Undocumented Work Permits; Economy-Asian Stocks; Pakistan-Factory Fire; South Africa-Miner Disputes; UBS Tax Evasion Scheme-Whistleblower Reward.

Washington's Schedule

Today's Events In Washington.

White House:

PRESIDENT OBAMA -Receives the Presidential Daily Briefing, Oval Office, closed press; departs the White House en route Joint Base Andrews, South Lawn, open press; departs Joint Base Andrews en route Las Vegas, Nevada, out-of-town travel pool; arrives Las Vegas, Nevada, McCarran International Airport, open press; delivers remarks at a campaign event, Cashman Center, open to pre-credentialed media; departs Las Vegas, Nevada en route Aurora, Colorado, McCarran International Airport, open press; arrives Aurora, Colorado, Buckley Air Force Base, open press.

VICE PRESIDENT BIDEN -Travels to Dayton, Ohio, delivers remarks at a campaign event, Wright State University, open press; returns to Washington, DC; hosts a reception with Dr. Jill Biden for Jewish community leaders, Naval Observatory.

US Senate: 1:30 p.m. - 2:30 p.m. SMALL BUSINESS POLICY BRIEFING - The Credit Union National Association hosts policy briefing on Access to Capital for Small Business with Sen. Mark Udall (D-CO) and Rep. Ed Royce (R-CA). Location: G-50 Dirksen.

2:30 p.m. PHYSICIAN PAYMENTS SUNSHINE ACT - Senate Special Committee on Aging Chairman Herb Kohl will convene a roundtable discussion entitled, Let the Sunshine in: Implementing the Physician Payments Sunshine Act. Location: 562 Dirksen.

5:30 p.m. NEW YORK FARM DAY - Sen. Kirsten Gillibrand hosts the 11th annual New York Farm Day, bringing together producers of New York's award-winning wines, farm-fresh products and seafood, as well as leading restaurateurs from across New York State. Location: Kennedy Caucus Room, 325 Russell.

FLOOR SCHEDULE 9:30 a.m. - The Senate onvenes and resumes consideration of the motion to proceed to S. 3457, the Veterans Job Corps Act.

9:30 a.m. ENERGY & NATURAL RESOURCES - Full Committee Hearing to receive testimony on S. 3469, the Nuclear Waste Administration Act of 2012. Location: 366 Dirksen.

10 a.m. ENVIRONMENT & PUBLIC WORKS - Full Committee and Subcommittee on Clean Air and Nuclear Safety joint hearing entitled, Oversight Hearing: NRC's Implementation of Recommendations for Enhancing Nuclear Reactor Safety in the 21st Century. Witnesses: Allison M. Macfarlane, Chairman, Nuclear Regulatory Commission; Kristine L. Svinicki, Commissioner, Nuclear Regulatory Commission; George Apostolakis, Commissioner, Nuclear Regulatory Commission; William D. Magwood, IV, Commissioner, Nuclear Regulatory Commission; William C. Ostendorff, Commissioner, Nuclear Regulatory Commission. Location: 406 Dirksen.

10 a.m. FOREIGN RELATIONS - Intelligence update on Syria and Iran. Top Secret/Closed. Location: SVC-217.

10 a.m. HOMELAND SECURITY & GOVERNMENTAL AFFAIRS - Moving from Scandal to Strategy: The Future of the General Services Administration. Witnesses: Daniel M. Tangherlini, Acting Administrator, U.S. General Services Administration; Brian D. Miller, Inspector General, U.S. General Services Administration. Location: 342 Dirksen.

10 a.m. JUDICIARY - Full Committee hearing entitled The Citizens United Court and the Continuing Importance of the Voting Rights Act. Location: 226 Dirksen.

10 a.m. VETERANS' AFFAIRS - Markup: Meeting to Consider Legislation Pending Before the Committee. Location: 418 Russell.

2 p.m. COMMERCE, SCIENCE, AND TRANSPORTATION - Full Committee Hearing, The Path From LEO to Mars. Mission update from Dr. Fuk Li, Director, Mars Exploration Directorate, NASA Jet Propulsion Laboratory and Dr. John Grotzinger, Mars Science Laboratory Project Scientist, California Institute of Technology. Witnesses: Dr. Steven W. Squyres, Goldwin Smith

Professor of Astronomy, Cornell University; Dr. Charles F. Kennel, Chair, Space Studies Board, The National Academies; Distinguished Professor of Atmospheric Science (Emeritus), Senior Advisor, Sustainability Solutions Institute, University of California San Diego, Scripps Institution of Oceanography; Jim Maser, President, Pratt & Whitney Rocketdyne. Location: 253 Russell.

2:45 p.m. FOREIGN RELATIONS - Nomination hearing. Nominees: Joseph E. Macmanus, to be Representative of the United States of America to the Vienna Office of the United Nations and to be Representative of the United States of America to the International Atomic Energy Agency, with the rank of Ambassador; Sharon English Woods Villarosa to be Ambassador to the Republic of Mauritius and the Republic of Seychelles; Walter North, of Washington, to be Ambassador to Papua New Guinea, the Solomon Islands and the Republic of Vanuatu. Location: 419 Dirksen.

US House: 11 a.m. CONGRESSIONAL GOLD MEDAL - ARNOLD PALMER - Congressional Gold Medal Ceremony honoring Arnold Palmer for his contributions to the game of golf and his civic contributions to the nation. With Speaker of the House John Boehner; Senate Majority Leader Harry Reid; Senate Republican Leader Mitch McConnell; House Democratic Leader Nancy Pelosi; Members of Congress; Arnold Palmer & Invited Guests. Location: Rotunda, United States Capitol.

11:30 a.m. - 12:30 p.m. CONVERSATIONS WITH CONSERVATIVES - Participants include: Rep. Tim Huelskamp (KS-01), Rep. Jeff Landry (LA-03), Rep. Razl Labrador (ID-01), Rep. Jim Jordan (OH-04), Rep. Scott Garrett (NJ-05), Rep. Steve King (IA-05), Rep. David Schweikert (AZ-05), and Rep. Tom McClintock (CA-04). Location: 2203 Rayburn.

1 p.m. CONGRESSIONAL PROGRESSIVE CAUCUS - Holds an ad hoc hearing on year-end Congressional budget and fiscal issues. The hearing will focus on job creation, the impending budget sequestration process, realistic ways to increase revenue and reduce the national debt, and how to preserve Medicare, Medicaid and Social Security. (Members and witnesses will be available to the press following the hearing at approximately 2:30 p.m.) Location: 2237 Rayburn.

FLOOR SCHEDULE 10 a.m. - The House meets for Morning Hour debate, followed by legislative business at noon.

9 a.m. WAYS AND MEANS - Subcommittee on Social Security will hold a hearing to examine the impact on beneficiaries of direct deposit of Social Security benefits. Location: B-318 Rayburn.

9:45 a.m. ENERGY AND COMMERCE - Subcommittee on Commerce, Manufacturing, and Trade hearing on Where the Jobs Are: Moving the Economy with Mobile Apps. Location: 2322 Rayburn.

9:45 a.m. OVERSIGHT & GOVERNMENT REFORM - Subcommittee on National Security, Homeland Defense, and Foreign Operations Hearing, Dawood National Military Hospital, Afghanistan: What Happened and What Went Wrong? Part II. Witnesses: Lt. Gen. William B. Caldwell, United States Army; Maj. Gen. Gary S. Patton, United States Army; Kenneth P. Moorefield, Deputy Inspector General for Special Plans and Operations, U.S. Department of Defense. Location: 2154 Rayburn.

10 a.m. ARMED SERVICES - The Full Committee will meet to receive testimony on Operational Contracting Support: Learning from the Past and Preparing for the Future. Witnesses: Alan F. Estevez, Assistant Secretary of Defense for Logistics and Materiel Readiness; Brigadier General Craig C. Crenshaw, USMC, Vice Director, J-4, Joint Staff; Moshe Schwartz, Specialist in Defense Acquisition, Congressional Research Service; Tim DiNapoli, Acting Director for Acquisitions and Sourcing, U.S. Government Accountability Office. Location: 2118 Rayburn.

10 a.m. EDUCATION & THE WORKFORCE - Subcommmittee on Health, Employment, Labor and Pensions and Subcommittee on Higher Education and Workforce Training joint hearing, Expanding the Power of Big Labor: The NLRB's Growing Intrusion into Higher Education. Location: 2175 Rayburn.

10 a.m. ENERGY AND COMMERCE - Subcommittee on Oversight and Investigations holds rescheduled hearing on DOEs Nuclear Weapons Complex: Challenges to Safety, Security, and Taxpayer Stewardship. Location: 2123 Rayburn.

10 a.m. FINANCIAL SERVICES - Full Committee Markup. A list of legislation will be released at a later date. Location: 2128 Rayburn

10 a.m. FOREIGN AFFAIRS - Hearing on Beijing as an Emerging Power in the South China Sea. Location: 2172 Rayburn.

10 a.m. FOREIGN AFFAIRS - Full Committee Oversight Hearing, Beijing as an Emerging Power in the South China Sea. Witnesses: Bonnie Glaser, Senior Fellow, Freeman Chair in China Studies, Center for Strategic and International Studies; Peter Brookes, Senior Fellow, National Security Affairs, The Heritage Foundation.(Former Deputy Assistant Secretary of Defense for Asian and Pacific Affairs) Location: TBA.

10 a.m. HOMELAND SECURITY - Subcommittee on Cybersecurity, Infrastructure Protection, and Security Technologies Hearing, The EMP Threat: Examining the Consequences. Witnesses: NPPD Office of Infrastructure Protections Infrastructure Analysis and Strategy Division Director Brandon Wales. Location: 311 Cannon.

10 a.m. JUDICIARY - Full Committee Hearing, The Obama Administration's Abuse of Power. Location: 2141 Rayburn.

10 a.m. TRANSPORTATION AND INFRASTRUCTURE - Subcommittee on Aviation Hearing, A Review of and Update on the Management of FAAs NextGen Program. Location: 2167 Rayburn.

10 a.m. - 12 p.m. SCIENCE, SPACE AND TECHNOLOGY - Subcommittee on Space and Aeronautics Hearing, Examining NASA's Development of the Space Launch System and Orion Crew Capsule. Location: 2318 Rayburn.

1 p.m. SMALL BUSINESS - Full Committee Hearing, User Fees in the Aviation Industry: Turbulence Ahead. Location: 2360 Rayburn.

2 p.m. HOMELAND SECURITY - Subcommittee on Emergency Preparedness, Response, and Communications Hearing, Resilient Communications: Current Challenges and Future Advancements. Witnesses: NPPD CS&C, Deputy Assistant Secretary Roberta Stempfley; David Turetsky Chief, Public Safety and Homeland Security Bureau, Federal Communications Commission. PANEL TWO: Trey Forgety, Director of Government Relations, National Emergency Number Association; Kyle Malady, Senior Vice President, Global Network Engineering and Operations, Verizon; Terry Hall, President, APCO International; Chris McIntosh,

Interoperability Coordinator, Office of Veterans Affairs and Homeland Security, Commonwealth of Virginia. Location: 311 Cannon.

2 p.m. - 4 p.m. SCIENCE, SPACE AND TECHNOLOGY - Subcommittee on Investigations and Oversight Hearing, Mismanagement of Funds at the National Weather Service and the Impact on the Future of Weather Forecasting. Location: 2318 Rayburn.

2:30 p.m. FOREIGN AFFAIRS - Organ Harvesting of Religious and Political Dissidents by the Chinese Communist Party. Witnesses: Damon Noto, M.D., Spokesman, Doctors Against Forced Organ Harvesting; Gabriel Danovitch, M.D., Professor of Medicine, UCLA Medical School; Charles Lee, M.D., Spokesman and Public Relations Director, Global Service Center for Quitting the Chinese Communist Party; Ethan Gutmann, Adjunct fellow, Foundation for the Defense of Democracies, and Author, Losing the New China. Location: 2172 Rayburn.

2:30 p.m. WAYS AND MEANS - Subcommittee on Health will hold a hearing to examine implementation of health insurance exchanges as authorized by the Democrats' health care law (P.L. 111-148 and 111-152). Location: 1100 Longworth.

3 p.m. RULES - Meets on H.R. 6213, the No More Solyndras Act, H.R. 6365, the National Security and Job Protection Act, and H.J. Res. 117, the Continuing Appropriations Act, 2013. Location: H-313.

Other: TRANS-PACIFIC PARTNERSHIP - The 14th Round of TPP Negotiations. Location: Lansdowne Resort, 44050 Woodridge Parkway, Leesburg, VA.

AHIP - MEDICARE AND MEDICAID - America's Health Insurance Plans' Medicare Conference (Sept. 9-11) and Medicaid Conference (Sept. 12-13). Location: Capital Hilton, 16th and K Sts. NW.

CHCI PUBLIC POLICY CONFERENCE - The Congressional Hispanic Caucus Institute brings together national leaders, elected officials, corporate executives, community activists, and educators to discuss critical issues facing the Latino community and the nation. The event officially kicks off CHCI's 35th Anniversary Hispanic Heritage Month (HHM) Events. Highlights: 9 a.m. - 10:30 a.m. The Congressional Hispanic Caucus Institute (CHCI) will host its Closing Plenary: The Economy, Jobs, U.S. Competitiveness - Latinos Lead the Way. With Shaun Donovan, Secretary of Housing and Urban Development; Rep. Pedro Pierluisi, CHCI Board Member; Monica Lozano, CEO, Impremedia; Richard Trumka, President, AFL-CIO; Monica Gil, Senior VP of Public Affairs and Government Relations, Nielsen; Dr. Matt Barreto, Co-founder, Latino Decisions and Professor of Political Science, University of Washington; Maria Hinojosa, President, The Futuro Media Group and PBS Journalist. 10:45 a.m. The Congressional Hispanic Caucus Institute (CHCI), as part of its 2012 Latino Leaders Summit Series, will host a session on Health: Diabetes and Obesity in the Latino Community. Chaired by Rep. Lucille Roybal-Allard, panelists will discuss risk factors, barriers to care, and prevention of diabetes and obesity in the Latino community. 12:30 p.m. - 2:30 p.m. The Congressional Hispanic Caucus Institute (CHCI) will host its Closing Luncheon on Latinos in the Media as part of its 2012 Public Policy Conference. Movie director David Ayer, actor Michael Pena, writer Esther J. Cepeda and NHMC President Alex Nogales will join CNN Anchor Zoraida Sambolin for a pointed discussion on the portrayal of Latinos in the media and its impact on Latinos and society. 3 p.m. - 5 p.m. Latino Youth Town Hall: Empowering Latino Youth - Educate. Vote. Lead. With America Ferrera, Actress and Voto Latino Co-Chair; Taboo of the Black Eyed Peas, Musician and Voto Latino Co-Chair; Gina Rodriguez, Actress; Frankie Negron, Recording Artist; Rep. Linda Sanchez, CHCI Board Member; Rep. Ben Ray Lujan, CHCI Board Member. Location: Ronald Reagan Building and International Trade Center, 1300 Pennsylvania Ave. NW.

AHIP SUMMIT ON PAYMENT REFORM - America's Health Insurance Plans holds its Summit on Payment Reform and Delivery Transformation. Location: Capital Hilton, 16th and K Sts. NW.

NAFCUS 2012 CONGRESSIONAL CAUCUS - Sept. 12 - 14. National Association of Federal Credit Unions 2012 Congressional Caucus. Multiple addresses by members of Congress. Highlights: 10:30 a.m. - 12 p.m. William Lacy Clay, Jr. (D-Mo.), member, House Committees on Financial Services and Oversight and Government Reform; Rep. Jim Clyburn (D-S.C.), assistant Democratic leader and third-ranking Democrat in the House; former majority whip; Michael Fryzel, board member, National Credit Union Administration; Rep. Michael Grimm (R-N.Y.), member, House Committee on Financial Services; Rep. Jeb Hensarling (R-Texas), vice chairman, House Committee on Financial Services; co-chair, Joint Select Committee on Deficit Reduction; appointed to the Presidents National Commission on Fiscal Responsibility and Reform; Donald H. Layton, CEO, Freddie Mac.

NEUROSCIENCE CONFERENCE - 8 a.m. - 5 p.m. The 2012 U.S.-Israel Neurotechnology and Neuroscience Conference will join leaders from academia and industry to highlight the latest developments in the study and treatment of brain function and disorders. The event is hosted by the United States-Israel Science and Technology Foundation (USISTF), the Israel-US Binational Industrial Research and Development Foundation (BIRD), and the US-Israel Binational Science Foundation (BSF). Participants include former U.S. Rep. Patrick Kennedy (D-RI) and Israeli Ambassador to the U.S. Michael B. Oren. Location: The National Academy of Sciences Building, The NAS Auditorium, 2100 C Street NW.

GOVERNMENT EFFICIENCY CAUCUS - 8:30 a.m. - 10 a.m. A Capitol Hill breakfast to discuss ways to make government funded transportation projects more efficient and current developments in national transportation policy. Participants: Rep. Todd Young (R-IN) and Rep. Jim Matheson (D-UT), caucus co-chairs; Terry Ruhl, president, transportation business, CH2M Hill; Lou Pack, senior vice president, transportation business, ICF; Mark Langley, president and CEO, Project Management Institute. Location: 441 Cannon.

DIGITAL SEMINAR - RIDDLE - 8:35 a.m. The U.S. Government Printing Offices (GPO) Chief Information Officer Chuck Riddle will deliver the keynote address at the seminar A Cloud on Every Desk: Moving Towards a Virtual Desktop Infrastructure, hosted by 1105 Government Information Group - publishers of Federal Computer Week and Government Computer News. Location: Willard InterContinental Hotel, 1401 Pennsylvania Avenue NW.

AFRICAN GROWTH AND OPPORTUNITY ACT - 9 a.m. AGOA: Successes to Date and the Road Ahead. A high-level discussion featuring remarks by U.S. Trade Rep. Ron Kirk, members of Congress, the African diplomatic corps and private sector leaders. Hosted by The AGOA Action Coalition and The Africa Society of the National Summit on Africa. Location: Senate Visitors Center, SVC-200.

VULNERABLE POPULATIONS - IMPROVING HEALTH - 9 a.m. The Intersection of Housing Policy and Health: Policy Options to Improve Health for Vulnerable Populations. Location: National Press Club, 529 Murrow Room, 14th Street NW.

NADA CONFERENCE - 9 a.m. - 11:30 a.m. Nearly 300 new-car and truck dealers from across the country are expected for the National Automobile Dealers Association's 37th annual Washington Conference and fly-in. The conference includes briefings from NADA, lawmakers and government officials. Highlights: 9:30 a.m. Sen. Max Baucus (D-MT). 10 a.m. Acting Secretary of Commerce, Dr. Rebecca Blank. 10:45 a.m. House Majority Whip Kevin McCarthy, R-CA. Location: J.W. Marriott Hotel, Grand Ballroom, 1331 Pennsylvania Avenue, NW.

HOUSING AND HEALTH - 9 a.m. - 12 p.m. Abt Associates and some of the nations leading experts from federal agencies, advocacy and policy organizations discuss The Intersection of Housing Policy and Health: Policy Options to Improve Health for Vulnerable Populations, exploring proposals to increase the use of rental housing subsidies as a platform for improved health of the homeless and those with complex health needs. Location: National Press Club.

AMERICAS OUTSTANDING OLDEST WORKER - 9:30 a.m. Experience Works, the nation's largest organization serving older workers through the Senior Community Service Employment Program (SCSEP), will present America's Outstanding Oldest Worker for 2012. The honoree will speak briefly and be available for interviews. Location: National Press Club, Zenger Room, 529 14th Street NW.

READING IS FUNDAMENTAL - 9:30 a.m. Panel discussion featuring experts and thought leaders focused on STEAM education - science, technology, engineering, arts and mathematics. Panelists will discuss proven techniques and new strategies for using children's books as a primary tool for introducing STEAM in the earliest years of a child's path to academic achievement. Panelists include: P. David Pearson, Ph.D., Professor of Language and Literacy, Society and Culture at the Graduate School of Education at the University of California, Berkeley and Chair of the International Reading Association's Literacy Research Panel; Judy Cheatham, Ph.D., Vice President of Literacy Services at Reading Is Fundamental; Brian Fitzgerald, Chief Executive Officer at Business-Higher Education Forum. Location: National Press Club, 529 14th Street NW.

CENSUS BUREAU - POVERTY AND INCOME - 10 a.m. The U.S. Census Bureau will hold an audio news conference and Web conference to announce the findings from its report: Income, Poverty, and Health Insurance Coverage in the United States: 2011. This annual report contains the official national findings from the Current Population Survey (CPS). With David Johnson, chief, Social, Economic and Housing Statistics Division, U.S. Census Bureau.

BUDGET SEQUESTER - HEALTH CARE IMPACT - 10 a.m. - 11 a.m. The American Hospital Association, the American Medical Association and the American Nurses Association will release the findings of a new report that measures the economic impact of the Budget Control Act (BCA) of 2011. With Rich Umbdenstock, AHA President and CEO; Dr. Jeremy A. Lazarus, MD, American Medical Association President; Cindy R. Balkstra, MS, RN, CNS-BC, First Vice President, American Nurses Association. Location: National Press Club, Bloomberg Room, 529 14th Street NW.

11:30 a.m. NASA - CLIMATE - NASA Scientist Lora Koenig to Discuss on My Winter in Greenland and Summer in Antarctica. Location: Mary Pickford Theater, third floor, James Madison Building, 101 Independence Ave. S.E.

From: Jaffe, Judson
To: Metcalf, GilbertDisabled
Subject: RE: Brookings carbon tax event
Date: Monday, July 16, 2012 9:55:00 AM

Yes, I'm definitely going to go.

Judson Jaffe
Office of Environment and Energy
U.S. Department of the Treasury
Phone: 202.622.7751
Fax: 202.622.6728
Email: judson.jaffe@treasury.gov

From: Metcalf, Gilbert
Sent: Monday, July 16, 2012 9:46 AM
To: Jaffe, Judson
Subject: Brookings carbon tax event

Jud,
Were you planning to attend the Brookings event on July 27? I may have a meeting conflict that morning but would like someone from our office to attend.
Gib

Gilbert E. Metcalf
Deputy Assistant Secretary for Environment and Energy
U.S. Department of the Treasury
(202) 622-0173 (office)
(202) 316-8028 (mobile)
(202) 622-0037 (fax)
Email: gilbert.metcalf@treasury.gov

From: Adkins, Liwayway
To: Jaffe, Judson
Subject: RE: Brookings follow-up
Date: Monday, August 20, 2012 5:20:52 PM

Great, thanks. I'll send an invite.

-----Original Message-----
From: Judson.Jaffe@treasury.gov [mailto:Judson.Jaffe@treasury.gov]
Sent: Monday, August 20, 2012 5:19 PM
To: Adkins, Liwayway
Subject: Re: Brookings follow-up

Sure. How about Wednesday at 3pm.

----- Original Message -----
From: Adkins, Liwayway [mailto:Liwayway.Adkins@Hq.Doe.Gov]
Sent: Monday, August 20, 2012 03:02 PM
To: Jaffe, Judson
Subject: Brookings follow-up

Hi Jud,

I'd like to follow up with you on the Brookings carbon tax workshop we attended a few weeks ago. Would you have any time to talk briefly by phone Wed. to Fri. of this week?

Thanks,

Liwayway

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Liwayway G. Adkins
Office of Climate Change Policy and Technology Office of Policy and International Affairs U.S. Department of Energy
1000 Independence Ave., SW, Room 7H085
Washington, DC 20585
(202) 586-6909
~~~~~~~~~~~~~~~~~~

From:	Metcalf, Gilbert
To:	Hall, Daniel; Jaffe, Judson
Subject:	FW: Latest Research from RFF
Date:	Wednesday, May 02, 2012 10:46:00 AM
Attachments:	RFF-IB-12-03[1].pdf

fyi

Gilbert E. Metcalf
Deputy Assistant Secretary for Environment and Energy
U.S. Department of the Treasury
(202) 622-0173 (office)
(202) 316-8028 (mobile)
(202) 622-0037 (fax)
Email: gilbert.metcalf@treasury.gov

-----Original Message-----
From: Kopp, Ray [mailto:Kopp@rff.org]
Sent: Wednesday, May 02, 2012 10:27 AM
To: Kopp, Ray
Cc: Hayes, Kristin; Hill, Key; Bush, Barbara
Subject: Latest Research from RFF

Friends and Supporters of the Center for Climate and Electricity Policy, It is my pleasure to send to you the latest research by RFF. The attached issue brief (that will be made public later this week) presents results from our model of the US electric utility sector regarding the revenues that might be generated from a tax placed on emissions of carbon dioxide. As you may know, there is renewed interest in a carbon tax as a component of fundamental tax reform likely to be addressed by the next Congress and RFF is pursuing an agenda of research and engagement to inform that policy dialog. An abstract is provided below.

If you have any questions and/or comments, please do not hesitate to contact me.

Ray

Abstract

In a new issue brief The Variability of Potential Revenue from a Carbon Tax, RFF researchers show that carbon tax revenues from the electricity sector are notably uncertain, based not only on the level of tax but also on several market conditions beyond the price of carbon itself. These include forecasted levels of natural gas prices and electricity demand, both of which have changed significantly in the past few years.

Karen Palmer, Anthony Paul and Matt Woerman use RFF's Haiku model to analyze potential carbon tax revenues under a range of assumptions, including carbon tax rates of $10, $25 and $40 per ton. They find that carbon tax revenues from the electricity sector and for the economy will vary substantially with tax rates, and revenues are uniformly lower when natural gas is less expensive and when demand growth is lower. In addition, the effect of these factors gets bigger the higher the carbon tax rate. Under a carbon tax of $25 per ton in 2020, for example, revenues from the electricity sector can vary by roughly 18 percent and total carbon tax revenues can vary by up to 7 percent. With the higher $40 tax trajectory, tax revenues vary by as much as $25 billion per year, which is equal to roughly 30 percent of total annual tax revenue in the electricity sector. These variations are important to keep in mind as analysts and policymakers consider deficit reduction and revenue raising goals.

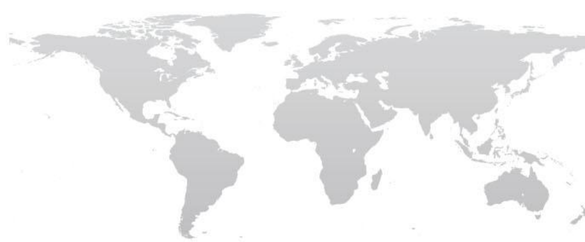
Finally, the political economy of a carbon tax proposal will depend importantly on what happens to electricity prices locally. Palmer, Paul and Woerman's analysis suggests that some of the regions that have low electricity prices currently will tend to be the hardest hit, in part because of their heavy reliance on coal. Nonetheless, for moderate carbon tax rates, these regions will continue to have low electricity prices, and the carbon tax tends to reduce existing price differences across the regions.

ISSUE BRIEF

The Variability of Potential Revenue from a Tax on Carbon

Karen Palmer, Anthony Paul, and Matt Woerman

RESOURCES FOR THE FUTURE



May 2012
Issue Brief 12-03

Resources for the Future

Resources for the Future is an independent, nonpartisan think tank that, through its social science research, enables policymakers and stakeholders to make better, more informed decisions about energy, environmental, natural resource, and public health issues. Located in Washington, DC, its research scope comprises programs in nations around the world.

The Variability of Potential Revenue from a Tax on Carbon

Karen Palmer, Anthony Paul, and Matt Woerman[1]

Introduction

Washington is preparing for the upcoming presidential and congressional elections of 2012, and many policy watchers are busy trying to predict what the major items will be on the post-2012 policy agenda in Washington. The outcome of the election will shape this agenda to a large extent, but several of the issues that the government will need to tackle are already self-evident. Among these are the large and growing federal budget deficits, which are historic in size and growing rapidly. Reducing these deficits will require a bundle of spending cuts and new revenue sources, and some see the need to tackle this challenge as an opportunity for major tax reform in the United States. It may also present an opportunity for dealing with one of the most pressing environmental issues of our time, which is reducing the emissions of carbon dioxide (CO_2) that contribute to global climate change. Indeed, imposing a tax on CO_2 emissions could provide a means to discourage emissions of CO_2 and a source of revenue that could be used to address looming deficits and potentially play a role in tax reform focused on cutting taxes on individual and corporate incomes.

The role that a carbon tax could play in these efforts will depend on how much revenue such a tax is likely to produce. Some have estimated that a carbon tax of $10 per ton of CO_2 could generate annual tax revenues of $60 billion (Aldy et al. 2008), and experts suggest that a carbon tax of about $25 would raise roughly $125 billion per year.[2] The amount of carbon tax revenue will

[1] The authors are Senior Fellow, Center Fellow in the Center for Climate and Electricity Policy and Senior Research Assistant, respectively at Resources for the Future. The authors wish to thank Dallas Burtraw for inspiration and helpful comments, Adam Stern for research assistance and the Smith Richardson Foundation for financial support.

[2] "Considering a U.S. Carbon Tax: Frequently Asked Questions," webpage forthcoming in May 2012. Resources for the Future, www.rff.org.

depend on the level of the tax and how it is designed, including which sectors are covered and whether some of the tax revenues will be designated for special purposes, such as mitigating energy price increases for low-income households or limiting the impact on emissions leakage due to a domestic tax on energy-intensive and trade-exposed industries. Such provisions were included in the Waxman–Markey cap-and-trade bill (HR 2454), and large constituencies would advocate for such provisions in a carbon tax bill as well.

Carbon tax revenues will also depend on conditions in energy markets. Past analysis of economy-wide cap-and-trade programs (U.S. Energy Information Administration [EIA] 2009a) suggests that, for a Waxman–Markey type of policy, with CO_2 prices rising from $18 per ton in 2012 to $65 per ton in 2030, roughly 70 percent of the emissions reductions will come from the electricity sector, even though this sector currently accounts for only about 40 percent of domestic CO_2 emissions. This disproportionate reduction in emissions from electricity compared to other sectors is a result of its heavy use of coal as a fuel and the accompanying large potential for fuel switching. This, in turn, means that electricity ultimately will be responsible for less than 40 percent of the revenues from a carbon tax. The amount of carbon tax revenue from electricity will depend on the role of coal in electricity generation going forward, which in turn will depend on the price of natural gas. It will also depend on the future growth of electricity demand.

In this issue brief, we look at the sensitivity of carbon tax revenues from the electricity sector to carbon tax rates and secular trends in the forecasted levels of natural gas prices and electricity demand (Burtraw et al. 2012). We show that (a) carbon tax revenues from the electricity sector and for the economy will vary substantially with tax rates, (b) realizations of natural gas prices and electricity demand will have an important effect on potential revenues, and (c) the effect of these factors gets bigger the higher the carbon tax rate. Under a carbon tax of $25 per ton in 2020, revenues from the electricity sector can vary by roughly 18 percent and total carbon tax revenues can vary by up to 7 percent. After a point, increases in the tax rate lead to falling tax revenues as the tax base starts to erode with diminishing reliance on fossil fuels and greater use of renewables and nuclear. Lastly, we show that the effects of recent secular trends (that is, trends not driven by policy decisions) toward lower natural gas prices and reduced electricity demand growth almost perfectly offset a carbon tax of $10 per ton in 2020 on the national average retail electricity price.

Model and Scenarios

This analysis uses RFF's Haiku electricity market model (Paul et al. 2009) to look at the effects of different carbon tax trajectories on electricity markets under different assumptions about natural gas prices and growth in electricity demand. The Haiku model contains dynamic price-responsive modules for electricity demand and fuel supply that are calibrated to EIA's forecasts in their reference case projections but can vary from these forecasts according to information and policies represented in the model. Although this analysis is primarily focused on the effects of different policy scenarios on carbon tax revenues from the electricity sector, it also explores other aspects of electricity markets, including electricity prices, electricity generation levels, and the mix of fuels and technologies used to generate electricity in the future. This analysis identifies these effects by comparing the results of simulations with a carbon tax to the relevant baseline scenario without a carbon tax. The assumptions underlying the baseline and policy scenarios are described next.

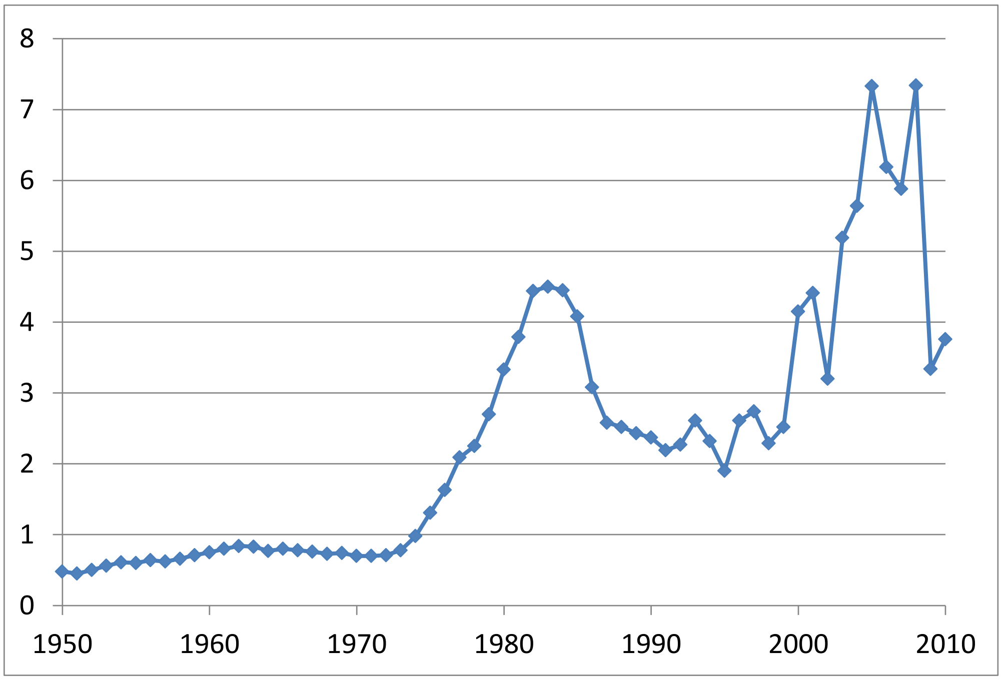
BASELINE SCENARIOS

This analysis includes two baseline (BL) scenarios: one based on natural gas price and electricity demand growth trajectories that are consistent with EIA's Annual Energy Outlook (AEO) from 2011 (EIA 2011a; labeled AEO11 BL in the figures) and another based on EIA forecasts of gas prices and demand in the AEO from 2009 (EIA 2009b; labeled AEO09 BL in the figures). Over this time horizon, the perspective of energy analysis regarding both future electricity demand growth and fuel prices, has evolved dramatically, particularly for natural gas.

The evolution in EIA's electricity consumption and price forecasts is driven by assumptions about investments in energy efficiency, which are driven in part by state and national standards, as well as the slow recovery from the economic downturn of 2008. The efficiency investments have a lasting effect in that they are expected to result in more energy-efficient capital, reducing energy use over the long run. The downturn in the U.S. economy has an important effect in the short run, but that effect decays over time as the economy is assumed to return to normal levels of employment and economic activity. The sum of these two effects is that the 2011 forecast has lower levels of electricity consumption in all future years than the 2009 forecast, and this difference generally increases over time. For example, EIA's 2009 forecast projects an additional 65 terawatt-hours (TWh) of electricity consumption in 2012 compared to the 2011 forecast. By 2025, however, the difference between the projections increases to 142 TWh. These differences in the two AEO projections are reflected in the two different Haiku baseline scenarios through the different growth rates applied to electricity demand functions.

EIA forecasts of natural gas prices have also evolved considerably in recent years. EIA's AEO 2009 forecast projected total natural gas consumption in 2020 of 21.53 trillion cubic feet at an average wellhead price of $6.84 per million British thermal units, whereas the 2011 forecast projects total natural gas consumption in 2020 of 25.34 trillion cubic feet at an average wellhead price of $4.47 per million British thermal units. Between these two projections, consumption has increased by 18 percent while the price has fallen by 35 percent. In the Haiku model, the supply curve for natural gas is varied by calibrating to alternative EIA forecasts for 2011 and 2009.[3] These recent changes to EIA's projections of natural gas prices reflect the volatile nature of natural gas prices in recent history. Figure 1 shows natural gas prices dating back to 1950 (EIA 2011b). Following a long period of stability, natural gas prices began to rise in the early 1970s and then fall throughout the 1980s, although in a relatively smooth manner. After the deregulation of natural gas prices throughout the early 1990s, however, prices became much more volatile with greater annual changes and sharp increases followed by sharp decreases or vice-versa. This change is best exemplified by the period 2002 to 2009, when the price quickly rose from $3.2 per thousand cubic feet (Mcf) in 2002 to $7.3/Mcf in 2005, and then sharply dropped from $7.3/Mcf in 2008 to $3.3/Mcf the next year.

Figure 1. Annual Average Natural Gas Wellhead Prices (2005$/Mcf)



In all other respects, the underlying assumptions in the two baseline scenarios are identical. These assumptions include estimates of future capital costs for new investments and the costs of other fuels. In all of the scenarios included in this analysis, the Clean Air Interstate Rule (CAIR) is assumed to remain in effect.[4] CAIR imposes regional constraints on sulfur dioxide and nitrogen

[3] For more information about this calibration and the calibration of electricity demand growth rates in Haiku, see Burtraw et al. (2012).

[4] CAIR was promulgated in 2005 but was subsequently vacated by the DC Circuit Court of Appeals and remanded to the U.S. Environmental Protection Agency. However, it remains in effect until a replacement is available; presumably, this will be CSAPR.

oxide emissions that are similar to, but somewhat less stringent than, those under the Cross-State Air Pollution Rule (CSAPR).[5]

POLICY SCENARIOS

This analysis considers three different carbon tax rates in combination with each of the baseline scenarios described above. The carbon tax is expressed as a tax on emissions of CO_2. Each scenario imposes a trajectory of CO_2 tax rates that grows at 5 percent annually in real terms. The tax rates assumed in 2020 under the three scenarios are $10, $25, and $40 per ton. (All dollar amounts are in 2009$.)[6]

Results

The results of this modeling analysis reveal that the level of a carbon tax and realizations of natural prices and electricity demand will have important effects on electricity prices, carbon tax revenue, electricity production, and emissions of CO_2. They also show how electricity markets in different regions of the country are affected under the various scenarios. Each of these factors is discussed in more detail below.

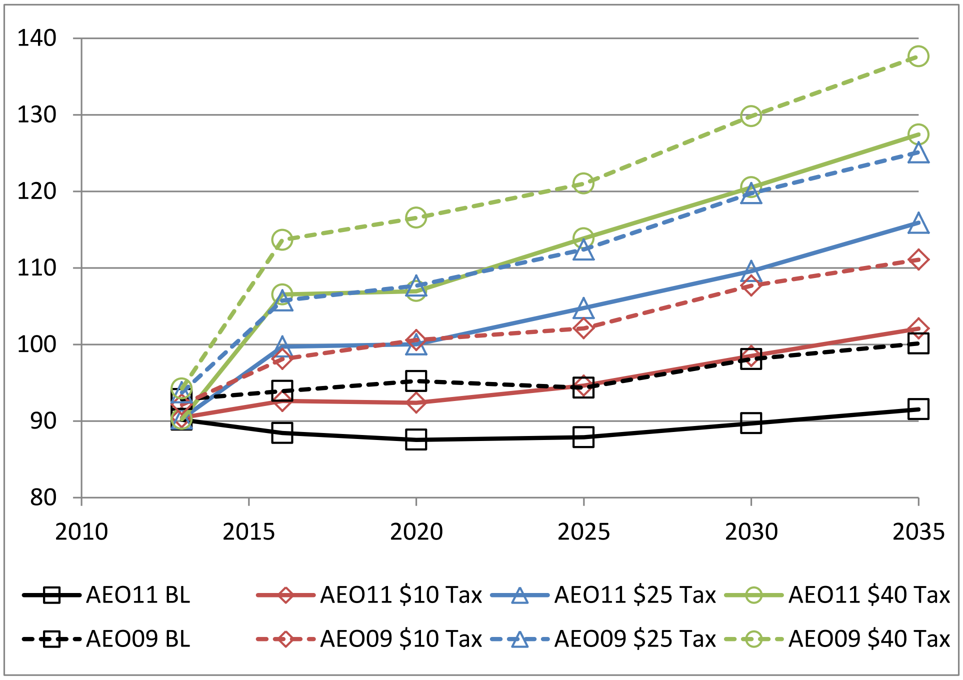
NATIONAL ELECTRICITY PRICES

Figure 2 shows the national average retail electricity price projections under different carbon tax scenarios and for both baselines. The solid lines represent those scenarios that use AEO 2011 assumptions for electricity demand growth and natural gas supply and the dashed lines represent the AEO 2009 scenarios. As projected prices increase with the level of the carbon tax, they also increase over time as the carbon taxes grow in real terms. The results also show that imposing the $10 tax trajectory on AEO 2011 assumptions yields prices approximately equal to AEO 2009 projections without a carbon tax. In other words, the electricity price reductions projected due to secular changes in natural gas supply and electricity demand between the AEO11 BL scenario and the AEO09 BL scenario (solid black versus dashed black lines in the graph) is almost exactly undone by imposing the $10 tax trajectory on the AEO 2011 assumptions (solid red line). In fact, at every tax level, the electricity price increments from the next lower tax level are almost exactly offset by recent secular trends.

[5] As of this writing, CSAPR has been stayed by the DC Circuit of the U.S. Court of Appeals pending judicial review.

[6] In all of these scenarios, we assume that revenues from the tax are returned in a lump-sum manner to households; in other words, they do not affect the fiscal position of the United States or the behavior of consumers in electricity markets.

Figure 2. National Average Retail Electricity Prices ($/MWh)



CARBON TAX REVENUES

The carbon tax revenues are clearly sensitive to underlying assumptions about natural gas supply and electricity demand growth, and they are uniformly lower when natural gas is less expensive and when demand growth is lower. Variability of carbon fee revenues with respect to these factors depends on the level of the fee. Figure 3 illustrates that for a $10 tax trajectory, tax revenues vary depending on assumptions about secular trends by a few billion dollars per year. With the higher $40 tax trajectory, tax revenues vary by as much as $25 billion per year, which is equal to roughly 30 percent of total annual tax revenue in the electricity sector. Another way to think about the variability is on a cumulative basis. Table 1 shows that the net present values of total carbon tax revenues over the 20-year time horizon from 2016 through 2035 vary by just over 14 percent for the $10 tax trajectory and by close to 27 percent for the $40 trajectory.

Figure 3. Annual Carbon Tax Revenues from the Electricity Sector (billions of 2009$)

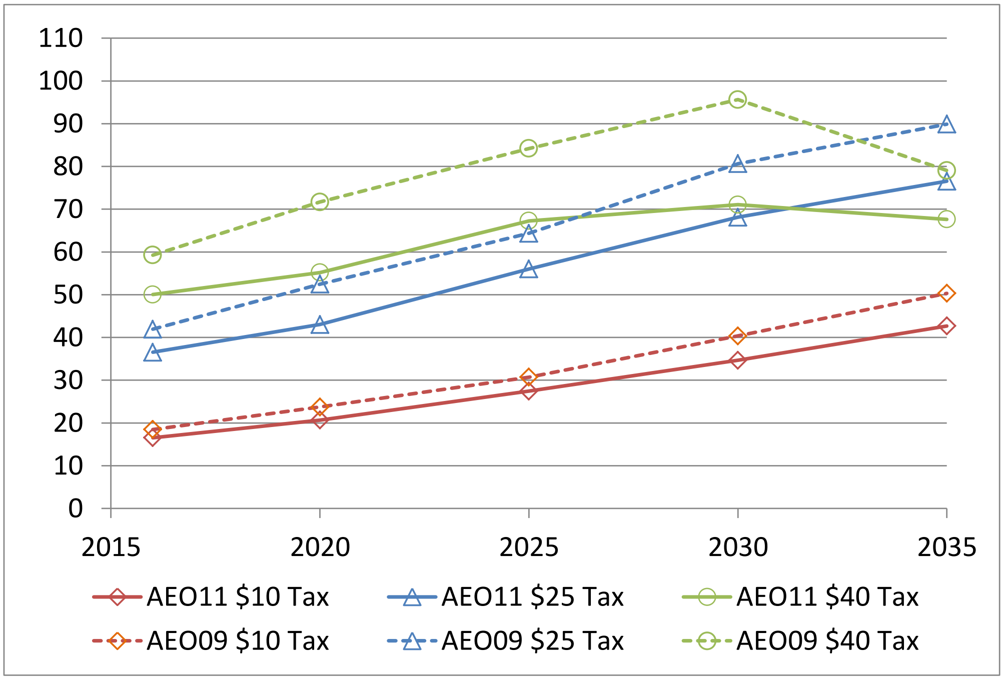


Table 1. Net Present Value of Carbon Tax Revenues from the Electricity Sector

	Net Present Value in 2016		
Baseline scenario	$10 Tax scenario	$25 Tax scenario	$40 Tax scenario
AEO 2011 (billions of 2009 $)	337.8	680.0	788.1
AEO 2009 (billions of 2009 $)	387.2	800.3	997.6
Percentage difference (%)	14.6	17.7	26.6

Annual carbon tax revenues also change over time as a result of changes in the tax rate and emissions profile. For the $10 and $25 tax trajectories, carbon tax revenues increase over time as the level of the tax rises. For the $40 tax trajectory, tax revenues increase until 2030 and then start to decline. Under the low demand and gas price projections of AEO 2011, revenues increase only slightly after 2025, and the decline after 2030 is gradual. With the higher gas price and demand growth in the AEO 2009, both the increase in tax revenues up until 2030 and the subsequent rate of decline are much higher. The decline in revenues is a direct result of the erosion of the CO_2 tax base as emissions fall faster than the tax rate grows, due to changes both in total generation and in the share of generation from fossil generators. The next section explores the effect of the policies on generation mix in more detail.

This analysis focuses only on the electricity sector, but a carbon tax would also generate revenues from other sectors of the economy. A previous analysis of an economy-wide cap-and-trade program (EIA 2009a), which yields a carbon price trajectory a little higher than the $25 tax trajectory analyzed here, suggests that nonelectricity sectors would provide additional tax revenues of $87.0 billion in 2016, which would increase to $234.2 billion in 2030. The analysis projects carbon tax revenues from the electricity sector of $51.7 billion in 2016, which would increase to $83.6 billion in 2026 and then fall to $72.1 billion in 2030. This suggests that the electricity sector would provide 24 to 37 percent of total carbon tax revenues. As shown in Figure 2, annual tax revenues from the electricity sector under the $25 tax trajectory can vary by approximately 15 to 20 percent. This indicates that the total revenue from a carbon tax could vary by roughly 4 to 7 percent as a result of changing forecasts of natural gas prices and electricity demand.

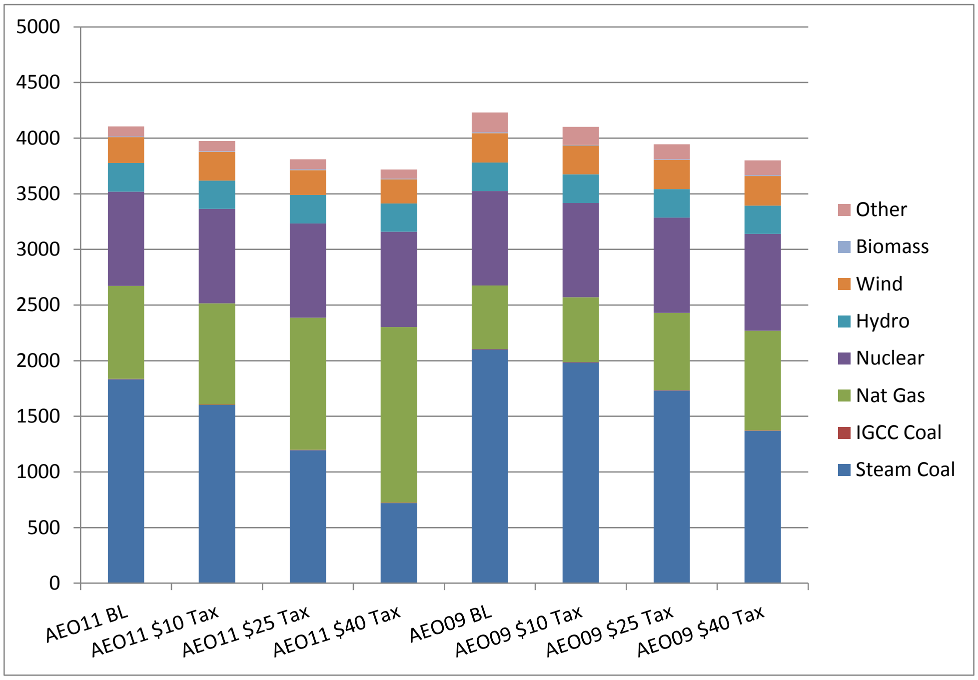
GENERATION TECHNOLOGIES

Both fuel prices and carbon taxes have important effects on how electricity is produced. Figures 4 and 5 show the mix of fuels and technologies used to generate electricity under each of the scenarios in 2020 and 2035, respectively. Under the AEO 2011 low gas price assumptions, natural gas plays a bigger role in electricity generation than under the 2009 cases. Under both assumptions about secular trends, that role grows over time and as the tax level increases. The relative shares of natural gas versus coal are a function of the relative prices of the two fuels, which in turn depend on their CO_2 emissions rates and the level of the carbon tax. In 2020, imposing a $25 tax on CO_2 with the AEO 2009 high gas price assumptions results in relative shares of coal and gas that are similar to those that occur in the AEO 2011 baseline scenario.

Under the $40 carbon tax trajectory, steam coal generation is driven to a small share by 2035, especially under the AEO 2011 lower gas price assumptions.[7] The overall share of fossil generation in 2035 under the $40 tax is 48 percent under AEO 2011 assumptions, but is only 42 percent under the 2009 assumptions. This diminution in the tax base is the reason for the rapid decline in CO_2 tax revenues in that scenario. As the carbon tax rate increases across scenarios and over time, so too does the role of nonemitting generation, including nuclear and wind. Also, the higher electricity demand growth assumptions in the 2009 case mean that the absolute level of nonemitting generation is higher, particularly by 2035.

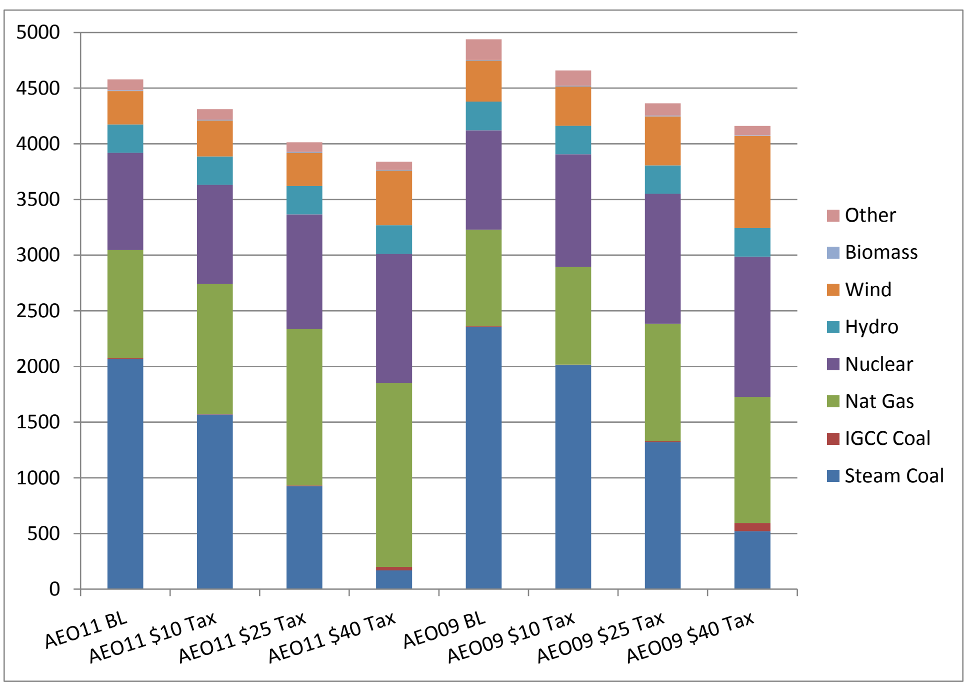
[7] Haiku does not simulate retrofit carbon capture and storage investments on existing coal boilers. By 2035, that technology might be commercially viable and would tend to increase the share of surviving coal boilers.

Figure 4. Electricity Generation in 2020 (TWh)



Note: IGCC, integrated gasification combined cycle.

Figure 5. Electricity Generation in 2035 (TWh)



Note: IGCC, integrated gasification combined cycle.

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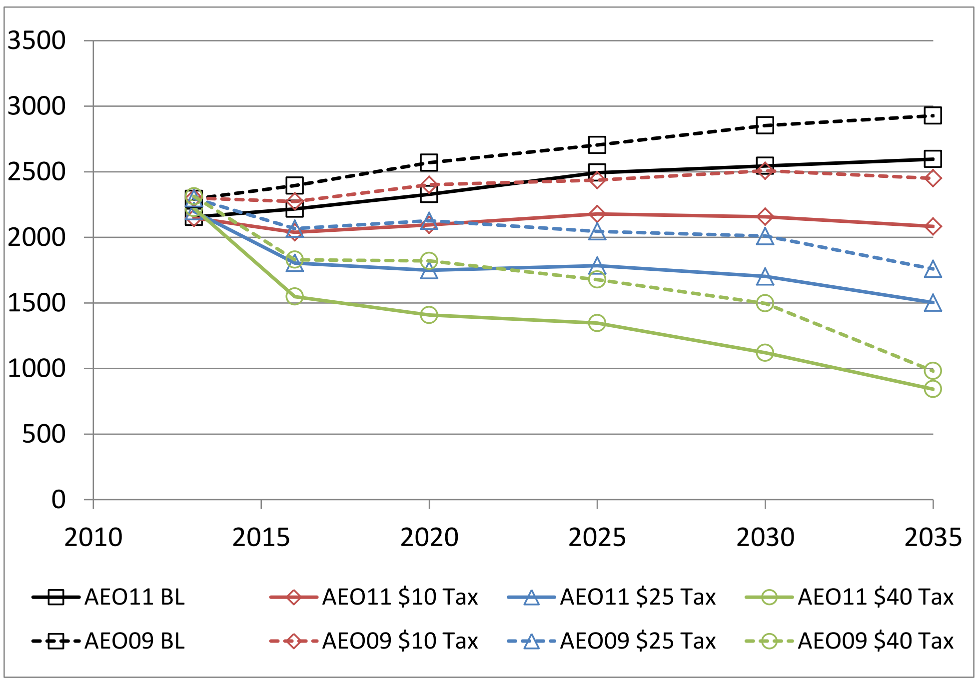
CO_2 EMISSIONS

The effects of the different scenarios on emissions of CO_2 from the electricity sector are displayed in Figure 6. Changes in secular trends between AEO 2009 and AEO 2011 result in a lower projected trajectory of CO_2 emissions. Under the more recent assumptions, CO_2 emissions decline slightly over time under the $10 tax trajectory (red solid line) and by more than 25 percent with the $25 tax level (blue solid line). The difference in emissions between the AEO 2009 and 2011 baseline cases is equivalent to the effect of imposing the $10 tax trajectory on the AEO 2009 case. The combination of lower gas prices, more end-use energy efficiency, and the slower-than-expected recovery from the recession has had an important effect on lowering the future emissions of CO_2 relative to levels that were anticipated in early 2009.

Figure 6. National CO_2 Emissions from Electricity Generation (million tons)



REGIONAL OUTCOMES

The national average retail electricity price trajectories shown in Figure 1 mask some important regional differences. Because the existing fleet of electricity generating capacity is heterogeneous across different regions of the country, and because consumers in different regions face different forms of electricity market regulation, the retail price effects of a CO_2 tax vary regionally. The price effects of the $25 tax in 2020, under the AEO 2011 assumptions, are shown in Figure 7. The number within each region is the regional retail electricity price ($/MWh) under the AEO11

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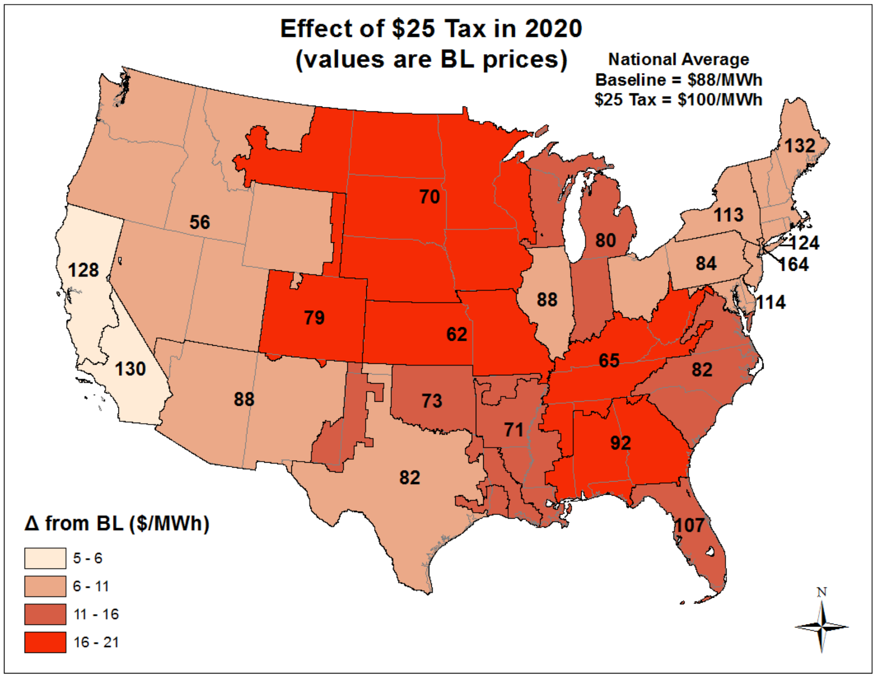
baseline scenario, whereas the color of each region represents the price change due to the $25 carbon tax.

Figure 7. Regional Retail Electricity Prices



Note: MWh, megawatt-hour.

The largest price increases occur throughout the Plains, Appalachia, parts of the Midwest, and to a lesser extent the Southeast. These are the most coal-intensive regions of the country, some of which generate more than 70 percent of their electricity from coal in AEO11 BL. Because coal is more CO_2-intensive than other generation fuels, these regions face the largest tax burden, which is passed through to consumers in higher retail electricity prices. The regions of the country that rely less on coal to generate electricity, such as the Northeast, the West, and Texas, see smaller price effects. These regional differences in price changes have the interesting effect of generally leveling retail electricity prices across the country. The regions that experience the largest price increases, as shown by the boldest coloring in Figure 7, have prices below the national average in the baseline and continue to experience prices below the national average under the $25 carbon tax. Conversely, the regions with the highest baseline electricity prices, such as the Northeast and California, see only small to moderate price increases under the $25 tax. This results in smaller regional price disparities than exist without a tax on CO_2.

Conclusions

As the federal government looks for ways to address the fiscal challenges posed by large and growing federal deficits, discussions about a carbon tax have quietly emerged to identify a potentially important source of new revenue. A carbon tax has much to recommend it, particularly because it provides an incentive to reduce emissions that are damaging to the environment and because it could be used to displace future taxes on investment income or labor, forms of economic activity that tend to be discouraged by increased taxes.

To understand the role that a carbon tax might play in fiscal reform, it is important to understand how much revenue such a tax might generate. A substantial fraction of the tax revenue from a carbon tax will come from the electricity sector. In this issue brief, we show that the amount of electricity-related revenue from a carbon tax will depend importantly on secular trends with respect to electricity demand growth and natural gas supply. The variability of the tax revenues with respect to those trends depends on the level of the tax. Under a $10 tax trajectory, annual electricity sector revenues vary by only a few billion dollars. If the $40 tax trajectory is adopted, revenues vary by up to 30 percent. Overall, the net present value of tax revenues from the electricity sector over the 20-year horizon beginning in 2016 varies from close to $350 billion to roughly $1 trillion, with even larger revenues expected from outside the sector with an economy-wide tax, as electricity is responsible for well under 50 percent of total carbon emissions in the United States.

The carbon tax has an important impact on the price of electricity paid by consumers. In this analysis, we show that the effects of recent secular trends toward lower natural gas prices and reduced electricity demand growth almost perfectly offset a carbon tax of about $10 per ton.

The political economy of a carbon tax proposal will depend importantly on what happens to electricity prices locally. Our analysis suggests that some of the regions that have low electricity prices currently will tend to be the hardest hit, in part because of their heavy reliance on coal. Nonetheless, for moderate carbon tax rates, these regions will continue to have low electricity prices, and the carbon tax tends to reduce existing price differences across the regions.

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