Power Trader Tied to Bush Finds Washington All Ears

By LOWELL BERGMAN and JEFF GERTH

Curtis Hébert Jr., Washington's top electricity regulator, said he had barely settled into his new job this year when he had an unsettling telephone conversation with Kenneth L. Lay, the head of the nation's largest electricity trader, the Enron Corporation.

Mr. Hébert, chairman of the Federal Energy Regulatory Commission, said that Mr. Lay, a close friend of President Bush's, offered him a deal: If he changed his views on electricity deregulation, Enron would continue to support him in his new job.

Mr. Hébert (pronounced A-bear) recalled that Mr. Lay prodded him to back a national push for retail competition in the energy business and a faster pace in opening up access to the electricity transmission grid to companies like Enron.

Mr. Hébert said he refused the offer. "I was offended," he recalled, though he said he knew of Mr. Lay's influence in Washington and thought the refusal could put his job in jeopardy.

Asked about the conversation, Mr. Lay praised Mr. Hébert, but recalled it differently. "I remember him requesting" Enron's support at the White House, he said of Mr. Hébert. Mr. Lay said he had "very possibly" discussed issues relating to the commission's authority over access to the grid.

As to Mr. Hébert's job, Mr. Lay said he told the chairman that "the final decision on this was going to be the president's, certainly not ours."

Though the accounts of the discussion differ, that it took place at all illustrates Enron's considerable influence in Washington, especially at the commission, the agency authorized to ensure fair prices in the nation's wholesale electricity and natural gas markets, Enron's main business.

Mr. Lay has been one of Mr. Bush's largest campaign contributors, and no other energy company gave more money to Republican causes last year than Enron.

And it appears that Mr. Hébert may soon be replaced as the commission's chairman, according to Vice President Dick Cheney, the Bush administration's point man on energy policy.

Mr. Lay has weighed in on candidates for other commission posts, supplying President Bush's chief personnel adviser with a list of preferred candidates. One Florida utility regulator who hoped for but did not receive an appointment as a commissioner said he had been "interviewed" by Mr. Lay.

Mr. Lay also had access to the team writing the White House's energy report, which embraces several initiatives and issues dear to Enron.

The report's recommendations include finding ways to give the federal government more power over electricity transmission networks, a longtime goal of the company that was spelled out in a memorandum Mr. Lay discussed during a 30-minute meeting earlier this spring with Mr. Cheney.
Mr. Cheney's report includes much of what Mr. Lay advocated during their meeting, documents show. Both men deny discussing commission personnel issues during their talk. But Mr. Lay had an unusual opportunity to make his case about candidates in writing and in person to Mr. Bush's personnel adviser, Clay Johnson. And when Mr. Bush picked nominees to fill two vacant Republican slots on the five-member commission, they both had the backing of Enron, as well as other companies.

Mr. Lay is not shy about voicing his opinion or flexing his political muscle. He has transformed the Houston-based Enron from a sleepy natural-gas company into a $100 billion energy giant with global reach, trading electricity in all corners of the world and owning a multibillion-dollar power project in India. He has also led the push to deregulate the nation's electricity markets.

Senior Bush administration officials said they welcomed Mr. Lay's input but did not always embrace it: President Bush backed away from curbing carbon-dioxide emissions, an effort supported by Enron, which had looked to trade emission rights as part of its energy business.

"We'll make decisions based on what we think makes sound public policy," Mr. Cheney said in an interview, not what "Enron thinks."

The Bush-Lay bond traces back to Mr. Bush's father and involves a personal and philosophical affinity. Moreover, Enron and its executives gave $2.4 million to federal candidates in the last election, more than any other energy company. While some of that went to Democrats, 72 percent went to Republicans, according to an analysis of election records by the Center for Responsive Politics, a nonprofit group.

"He's for a lot of things we're for," said Mr. Johnson.

But when it came to deciding on nominees for the commission, Mr. Johnson said that Mr. Lay's views were not that crucial. The two most important advisers, he said, were Andrew Lundquist, the director of Mr. Cheney's energy task force, and Pat Wood 3rd, the head of the Texas public utility commission.

As governor, Mr. Bush named Mr. Wood to the utility commission. This year, when the White House filled the two Republican slots on the federal agency, Mr. Wood was the first choice, Mr. Johnson said.

Consumer advocates and business executives praise Mr. Wood. But Mr. Lay also had a role in promoting him. Shortly after Mr. Bush was elected governor in 1994, Mr. Lay sent him a letter endorsing Mr. Wood as the "best qualified" person for the Texas commission.

In all, there are five seats on the commission, two held by Republicans, two by Democrats and one held by a chairman who serves at the pleasure of the president. Mr. Hébert, who became a commissioner in 1997, was named chairman by Mr. Bush in January.

The Federal Energy Regulatory Commission's mandate to ensure fair prices in wholesale electricity and natural gas markets makes it crucial to sellers like Enron as well as consumers.

The movement toward deregulation sometimes leaves the commission caught in a tug of war: power marketers like Enron are trying to break into markets and grids controlled by old-line utilities, which operate under state regulation. The commission's chairman has considerable latitude in setting its agenda.

As part of its oversight of the wholesale electricity markets, the commission ordered several companies to refund what it considered excessively high prices this year in California. One lesser offender named in the commission's public filings - $3.2 million, of a total of $125 million - was an Enron subsidiary in Oregon.

Enron owns few generating assets, but buys and sells electricity in the market. Many of those transactions resemble the complicated risk-shifting techniques used by Wall Street for financial instruments.

Mr. Hébert, after he became chairman, initiated an examination into the effects those techniques have on the
electricity markets. "One of our problems is that we do not have the expertise to truly unravel the complex arbitrage activities of a company like Enron," he said, adding, "we're trying to do it now, and we may have some results soon."

William L. Massey, one of the agency's two Democratic commissioners, said he supported the inquiry but had not been aware of it - an indication of the chairman's ability to set the commission's agenda.

Finally, the commission is trying to speed the pace of electricity deregulation by opening up the nation's transmission grid, much of which is owned by privately owned utilities that enjoy retail monopolies. Some Enron officials say the commission has been moving too slowly to open the grid. They attribute some of the problem to utilities. But they also fault Mr. Hébert.

"Hébert still has undeserved confidence in some of the vertically integrated companies coming to the table and dealing openly" with transmission access issues, said Richard S. Shapiro, an Enron senior vice president.

The utilities, however, maintain that they provide cheap and reliable service for their customers. Washington lobbyists for one Southern utility said that Enron was really interested in focusing on the utility's big-business clients, which under state regulation pay higher rates than residential customers.

Since 1996, about half the states have moved to open their retail markets to competition, and the commission has begun to make it easier for outsiders to use the nation's transmission grid. But the promise of cheaper rates has been largely unfulfilled. So the push for more deregulation, in which Enron has been a leader, has slowed, especially when California's flawed program led to skyrocketing rates and chaotic markets.

Mr. Hébert is a free-market conservative who favors deregulation but also recognizes the importance of state's rights. A former Mississippi regulator, he is a protégé of Trent Lott, the Senate Republican leader from Mississippi. Mr. Hébert said Mr. Lott was instrumental in his nomination to the commission in 1997 by President Clinton.

President Bush elevated Mr. Hébert to chairman on Inauguration Day, a move Mr. Lay said he told the White House he supported.

Mr. Johnson, the White House personnel chief, said that Mr. Lott and Mr. Hébert had both been told that Mr. Hébert could remain chairman at least until the administration's nominees - Mr. Wood and Nora Brownell, a Pennsylvania utility regulator - are confirmed by the full Senate. The Senate energy committee voted earlier this week to approve the two nominees, after a hearing last week indicated strong support.

It is widely expected that President Bush will name Mr. Wood to replace Mr. Hébert as chairman after the Senate acts.

In an interview for a forthcoming episode of "Frontline," the PBS series, Mr. Cheney suggested as much. "Pat Wood's got to be the new chairman of the F.E.R.C., and he'll have to address" various problems in the electricity markets, he said.

Mr. Hébert said that no one had told him he was being replaced. If someone else is named chairman, Mr. Hébert can remain a commissioner until the end of his term, which expires in 2004.

It was a few weeks after President Bush made him chairman that Mr. Hébert said he spoke by telephone with Mr. Lay.

Mr. Lay told him that "he and Enron would like to support me as chairman, but we would have to agree on principles" involving the commission's role in expanding electricity competition, Mr. Hébert said of the conversation.

A senior commission official who was in Mr. Hébert's office during the conversation said Mr. Hébert rebuffed Mr. Lay's offer of a quid pro quo. The official said that he heard Mr. Hébert's side of the conversation and then,
after the call ended, learned the rest from him.

Mr. Hébert said that he, too, backed competition but did not think the commission had the legal authority to tell states what to do in this area. Concerning the issue of opening transmission access through the creation of regional networks, Mr. Hebert supports a voluntary process while Enron seeks a faster and more compulsory system.

Mr. Lay said that while he might have discussed issues relating to the commission's authority concerning access to the grid, "there was never any intent" to link that or any other issue to Mr. Hébert's job status.

The commission is a quasijudicial agency, so decision-makers like Mr. Hébert must avoid private discussions about specific matters pending before the commission. Mr. Hébert and Mr. Lay both said that line was not crossed, but Mr. Hébert said he had never had such a blunt talk with an energy-industry executive.

Mr. Lay added that his few recent conversations with Mr. Hébert were nothing special. "We had a lot of access during the Clinton administration," he said.

And he said that while making political contributions "probably helps" to gain access to an official, he made them "because I'm supporting candidates I strongly believe in."

Last June, Enron executives were asked to make voluntary donations to the company's political action committee. The solicitation letter noted that the company faced a range of governmental issues, including electricity deregulation.

This year, some people who sought but did not get nominations to the commission said that Mr. Lay and Enron had had a role in the process.

One was Joe Garcia, a former Florida utilities regulator and prominent Cuban-American activist. He said he had been "interviewed" by a few Enron officials, including Mr. Lay, who he said had not been as "forceful or insistent" as the other Enron officials.

But in their conversation, Mr. Garcia said, Mr. Lay made clear that he would be visiting the White House, adding that "everyone knew of his relationship and his importance."

Mr. Johnson, the White House personnel chief, could not cite another company besides Enron that sent him a list of preferred candidates for the commission, but he remembered hearing the views of Tom Kuhn, who heads the utility industry trade group, the Edison Electric Institute. Mr. Kuhn was a classmate of Mr. Johnson and Mr. Bush at Yale.

As for his conversation with Mr. Garcia, Mr. Lay said he was comfortable with his candidacy but "I'm not sure what I told him about my friends at the White House."
Veep Tried to Aid Enron
Key role in India debt row
By TIMOTHY J. BURGER
Daily News Washington Bureau
WASHINGTON

Ice President Cheney tried to help Enron collect a $64 million debt from a
giant energy project in India, government documents obtained by the Daily
News show.
"Good news is that the veep mentioned Enron in his meeting with [Indian
opposition leader] Sonia Gandhi yesterday," a National Security Council aide
wrote in a June 28 e-mail.
Two other e-mails indicate that President Bush was to bring the subject up
with Indian Prime Minister Atal Bihari Vajpayee, but the idea was scrapped
before they met.

Dick Cheney
The documents are the latest indication that there were contacts between the
Bush administration and Enron on issues directly related to the company's
business. The White House maintains Enron enjoyed no special favors from the
White House or Cheney.
Treasury Secretary Paul O'Neill and Commerce Secretary Donald Evans have
conceded that they spoke with Enron chief Kenneth Lay last fall about the
energy giant's impending failure, but they insist they refused to help.
The new documents, obtained under the Freedom of Information Act, indicate
Cheney took a key role in pushing the Maharashtra State Electricity Board to
make good on the huge debt claimed by Enron for a power plant it built in
Dabhol, India.

Cheney spokesman Mary Matalin denied yesterday that Enron officials
prodded Cheney to raise the issue with Gandhi, widow of slain Prime Minister
Rajiv Gandhi and daughter-in-law of assassinated Prime Minister Indira
Gandhi.
"This is not our issue," Matalin said. "It was in the briefing papers, so he
asked the question. The vice president didn't remember that topic at all. I
asked him directly."
White House and other top officials were interested in the Dabhol project
partly because the taxpayer-backed Overseas Private Investment Corp.
provided insurance against losses resulting from political problems in
India. Overseas could face exposure as high as $300 million.
The $3 billion Dabhol project was started in 1992 and built amid political
wrangling in India that included allegations of bribery. The plant
eventually was completed, but it has never been used. It involved at least
40 international finance institutions, including Overseas, and Enron's
partners included General Electric and the Bechtel Corp.
The e-mails indicate the State and Treasury departments also were deeply
involved in making Enron's case.
The highest-level contact they verify was Cheney's June 27 meeting with
Gandhi, president of the opposition Congress Party.
Other e-mails indicate Lay was expected in Washington around that time, but
they do not say whether he was in contact with Cheney's office.
Lay - whom Bush used to call "Kenny Boy" - has given more than $600,000 to
support Bush's political career.
Matalin said Lay and Cheney never discussed the Indian debt or Enron's
financial condition. The documents obtained by The News showed that the National Security Council had given the Overseas Private Investment Corp. high hopes that Bush would raise the issue with Vajpayee in a Nov. 9 meeting. The investment corporation had sent the White House "talking points on Dabhol prepared for the President's meeting with Prime Minister Vajpayee," according to a Nov. 1 e-mail. But a Nov. 5 e-mail, whose sender and recipient are blacked out, warned, "President Bush cannot talk about Dabhol."

White House economic adviser Lawrence Lindsey, who was previously paid $50,000 a year as an Enron adviser, also "was advised that he could not discuss Dabhol."

National security adviser Condoleezza Rice, however, was still expected to raise the issue - but did not, another e-mail says.
WASHINGTON, Jan. 16 (UPI) -- The White House disclosed Wednesday that a group of President Bush's economic advisers monitored Enron Corp.'s financial status from mid-October last year to see if the collapse of the energy giant might adversely disrupt supplies of natural gas or harm the economy.

"Their monitoring was begun in mid-October and continued for a number of weeks as Enron's financial situation sharply deteriorated," according to a White House statement released Wednesday afternoon. "At no time did they see any situation that could disrupt energy supplies for families or harm the national economy."

The White House said the judgment of this group -- including Bush economic advisers Larry Lindsey and Glenn Hubbard -- "was correct; even as Enron eventually collapsed, these specific problems did not materialize."

The White House has been peppered by questions from Congress and the media about who in the Bush administration received private pleas from Enron officials. The White House has said that no action was taken to bail out or benefit Enron as a result of those calls and that the study by the economic advisers was begun on media reports and not as a result of Enron efforts.

The White House said the Securities and Exchange Commission, chaired by Harvey Pitt, a former securities lawyer who had represented Enron's auditing firm Arthur Andersen LLP before the SEC, moved expeditiously along with the Department of Labor to try to protect employees and investors as the company collapsed.

"The administration acted to protect people's pensions and analyze whether broader markets should be affected. The government did exactly what the government should do," the statement said.

The White House has ignored suggestions that Pitt should step aside because his connection to Andersen might be a conflict of interest.

Meanwhile, California Rep. Henry A. Waxman, the ranking Democrat on the House Committee on Government Reform, released a letter he forwarded to Vice President Dick Cheney on Wednesday charging that Bush's National Energy Policy recommendations may have been influenced by Enron.

Waxman said an analysis prepared by his staff showed "that numerous policies in the White House energy plan are virtually identical to the positions Enron advocated" and the "range of energy policies" in the plan that "would help Enron is enormous."

On Jan. 3, Cheney's office forwarded a letter to Waxman confirming that Cheney had met with Enron Chairman Kenneth Lay privately on April 17, 2001, and Enron executives met with Cheney's energy plan staff on five other occasions including Oct. 10, a few days before Enron disclosed previously unpublished debt.

"This creates the unfortunate appearance that a large contributor received special access and obtained extraordinarily favorable results in the White House energy plan," Waxman's letter said.

A spokeswoman for Vice President Cheney called Waxman's letter "partisan, election year maneuvering," and restated what the vice president has said in the past weeks: There was no discussion of Enron's financial straits with neither Cheney nor his staff.

01/18/2002
For Immediate Release
Thursday, Jan. 17, 2002

Grassley: Enron News Underscores Need for Tax Shelter Legislation

WASHINGTON - Sen. Chuck Grassley, ranking member of the Committee on Finance, today said revelations that Enron might have used tax-haven subsidiaries to avoid taxes and hide its financial debts underscore the need for tax shelter legislation.

For several months, Grassley has been the lead Republican in a bipartisan effort to draft legislation that would help the Internal Revenue Service identify tax shelters and police the illegal use of these vehicles. He and his colleagues have not yet introduced their bill.

Grassley said he is part of a Finance Committee effort to review whether Enron used certain tax vehicles that might have masked the company's financial condition.

"It was a shock to read that Enron may have used nearly 900 tax-haven subsidiaries to avoid taxes and hide its financial debts," Grassley said. "We need to know more about Enron's activities in these haven countries, but even with what we know right now, this is one more example of why Congress should act on tax shelter legislation. This legislation would force disclosure of tax shelters so that the IRS can better police them. We also need to fully assess the role that offshore tax havens may play in facilitating tax shelters. I'm a tax cutter, but if there's one thing I can't stand, it's a tax cheat. When one person or company fails to pay their share of taxes, it falls on everybody else to pick up the slack. So you can be sure that I'll pursue this issue when Congress comes back in session."

Grassley also is preparing legislation that would tighten up protections for retirement plan participants in light of Enron's collapse. He hopes to introduce a bill in the next few weeks.

-30-
For Immediate Release
Monday, Jan. 14, 2002

Grassley Explores New Protections for Retirement Plan Participants

WASHINGTON - Sen. Chuck Grassley, ranking member of the Committee on Finance, is pursuing whether Congress should tighten up protections for retirement plan participants in light of Enron's collapse.

"Millions of Americans have hundreds of billions of dollars invested in employer-sponsored retirement plans," Grassley said. "These plans receive favored treatment under the federal tax code. The Committee on Finance has the primary responsibility, under its jurisdiction, for making sure retirement plans comply with the tax code and other laws. Our committee also has the responsibility to fix any weaknesses that might leave retirement plan participants in trouble if their employer goes under."

Grassley said the details of the Enron retirement plans are still forthcoming. However, he said, some areas already are emerging as targets for scrutiny. Specific areas Grassley is looking into are:

Company stock. Under current rules, a company can restrict a retirement plan participant from selling the match received in company stock through an employee stock ownership plan. (Enron employees' company stock matches were restricted.) Grassley is researching whether employees should be able to change this investment choice prior to an arbitrary age.

Mandated purchases of company stock. Current law allows a plan sponsor to compel employees to purchase up to 10 percent of employer stock as a condition of participating in a 401(k) plan. Grassley said he thinks this rule should be eliminated.

Fiduciary rules. These rules ensure that companies properly invest and handle retirement plan money, including spending the money for the exclusive benefit of their employees. Retirement plans are tax-favored vehicles, authorized under the Internal Revenue Code. Grassley said he wants to learn whether Enron officials violated their fiduciary duties and if, in general, whether Congress should change the existing rules.

Black-outs. A "black-out" or "lockdown" occurs when a plan is shut down for a period of time to allow, for example, change to another plan administrator. Enron had such a "black-out," though the length of time is disputed. Grassley said he wants to get the facts on this event because it may coincide with the decline in the company's stock value.

Mandated diversification of stocks in retirement plans. Some legislation has been introduced that mandates employees hold no more than a certain percentage of stock in their 401(k) plan. Diversification in one part of the plan should indicate that all investments should be mandated. Grassley said he has an open mind, but thinks mandates are not desirable nor particularly feasible.

Grassley said he is pursuing these ideas with experts from outside groups and agencies such as the Treasury Department, the Labor Department and the Pension Benefit Guaranty Corporation.

"The tax code smiles on retirement plans, for good reason," Grassley said. "Tax breaks encourage employers to set up retirement plans and employees to take..."
part in those plans. If employers find it easy to break the rules, then Congress has to re-write the rule book. Otherwise, employees counting on a secure retirement might be left out in cold."

In addition to the retirement plan track, Grassley said he is part of an effort to look into whether Enron used certain tax vehicles that might have masked the company's financial condition.

-30-
We are officially requesting an interview with the Secretary today to talk about Enron and those phone calls. We are doing a follow-up story today and there is intense interest in asking him some follow-up questions.

Thanks,

Glenn
Michele,

Ari just said we needed to ask Treasury if we wanted to know the date of Mr. O'Neill's contacts/conversations w/ Mr. Lay of Enron. Can you get us that date? Ari said he wasn't sure of the exact date.

Thanks - matt

Matt Cuddy
CNBC Washington
(202) 776-7405

Because e-mail can be altered electronically,
the integrity of this communication cannot be guaranteed.
Michele,

The editors at the Reuters bureau are insisting I ask for the times on the Oct. 28 and Nov. 8 calls from Ken Lay. If times from call logs are not immediately available, would it be possible to give a more general time (early morning, mid-afternoon, etc.)? With Enron re-stating earnings that morning, the question is whether that came up if the call was received before the restatement. Sorry for the hassle and thanks.

Rgds,
JN

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Enron's influence Reached Deep

There's been no indication that the Bush administration's ties to the once-giant company are illegal, but the sheer volume of Enron connections to the executive branch offers a study in the long reach of a powerful campaign contributor.

More Political News

- Re-Show Show Matter in Flint for Senate <http://letters.washingtonpost.com/Y0RH061481DEDAC33977>
- Hart Building Likely to Resurface Tuesday <http://letters.washingtonpost.com/Y0RH061481C7DAC33977>
- Press Gets Twisted Up in Pretzel Logic <http://letters.washingtonpost.com/Y0RH061481C3DAC33977>
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- House Member Questions EPA Office Cleanup <http://letters.washingtonpost.com/YORH061481E4DAC33977>
- For a Day, West Wing In Bush's Reality TV <http://letters.washingtonpost.com/Y0RH061481EDAC33977>
- In Mrs. Bush, A Wardrobe That Works <http://letters.washingtonpost.com/Y0RH061481EFDAC33977>

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Hart Building Stays Shut -- For Now

Plans to reopen the Hart Senate Office Building, which has been closed for three months due to anthrax, were put on hold Thursday after further delays.

More Political News

- Energy Task Force Records at Issue
- Bush Antitrust Overhaul Collapses
- New Al-Qaeda Video Released
- Kennedy Urges Tax Cut Deferrals
- Bush Defends Free-Market Path
- In The Press: Pumping Up Europe
- Bush Names 11 Bin Laden Advisors
- Congressmen Line Up To Dump Clinton
- In the Hill, Parties Reach Funding Deal
- U.S. Russia back Nuclear tests for Bush trip
- In Pakistan, Bush seeks Qaeda action
- "Deadly" is new word in battle

January 15, 2002

QUOTE OF THE DAY

"You are victims not only of your own actions but of the system which employed you."


___________________________________________________________

NATIONAL

Doctors' New Practices Offer Deluxe Service for Deluxe Fee <http://www.nytimes.com/2002/01/15/health/15DOCT.html?todaysheadlines>- The move has prompted accusations that the doctors are abandoning lower-income patients to cater to the wealthy.

Trial Begins for Priest Accused of Molestation <http://www.nytimes.com/2002/01/15/national/15PRIE.html?todaysheadlines>- A former priest in Boston has been accused by more than 130 people of sexually molesting boys for over 30 years.


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INTERNATIONAL

Key Militia Leader Dies in Bomb Blast in the West Bank.

<http://www.nytimes.com/2002/01/15/international/middleeast/15MIDE.html?todaysheadlines>- After the head of a militia affiliated with Yasir Arafat's Fatah faction was killed on Monday, Palestinian gunmen killed an Israeli soldier.
1,430 Being Held in Pakistan as Part of Terror Crackdown
As part of a widening crackdown on extremists ordered by the president, Pakistan has detained 1,430 people and sealed 390 offices of militant groups.

U.N. Pleads for More Aid for Afghanistan's New Government
With Afghanistan's interim government unable to pay its workers, the United Nations made an impassioned plea for nations to increase their financial donations.


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BUSINESS
Enron's Chairman Received Warning About Accounting <http://www.nytimes.com/2002/01/15/politics/15ENRO.html?todaysheadlines>
An Enron executive told the company's chairman in August that improper accounting threatened to bring down the company, Congressional investigators said.

A lawyer for Enron said that Kenneth L. Lay used his company stock to repay a loan sometime last year, an indication that Mr. Lay had shed more of his holdings than had previously been disclosed.

U.S. Loses Trade Case to Europeans on Offshore Tax Havens
An international ruling is considered all but certain to renew trans-Atlantic trade tensions and could cost American companies billions of dollars in higher taxes.


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TECHNOLOGY
New Side to Face-Recognition Technology: Identifying Victims
Since Sept. 11, discussion of the disputed technology of face recognition has focused on its potential for identifying terrorists. But English police want to use the software to search for missing children.

Palm introduced kits that help software developers create programs utilizing Bluetooth, an emerging technology for wirelessly connecting digital devices.

A New York-based trade group is set to release a set of standardized guidelines to gauge the effectiveness of Internet marketing.


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POLITICS
Enron's Chairman Received Warning About Accounting <http://www.nytimes.com/2002/01/15/politics/15ENRO.html?todaysheadlines>
An Enron executive told the company's chairman in August that improper accounting threatened to bring down the company, Congressional investigators said.

The White House physician said that he would monitor President Bush for a few days.

The Bush administration said the changes would reduce unnecessary paperwork.
SPORTS
The Tampa Bay Buccaneers fired Coach Tony Dungy. Bill Parcells has been widely mentioned as a replacement but says "nothing is imminent."

With 10 seconds left and the score tied, Nets center Todd MacCulloch made the block that was the key to his team's win over the San Antonio Spurs.

Barry Bonds and the San Francisco Giants agreed on Monday night to a $90 million, five-year contract.


ARTS
Making (and Breaking) an Opera Record: Domingo Celebrates Verdi <http://www.nytimes.com/2002/01/15/arts/music/15NOTE.html?todaysheadlines>
Placido Domingo's landmark four-CD set of the complete Verdi arias for tenors is far more than a feat.

"There's a future which is predictable." This kernel of reflection from the documentary "Derrida" summarizes the fare at the 20th annual Sundance Film Festival.

In an 1881 Ballet, Optimism as It Used to Be <http://www.nytimes.com/2002/01/15/arts/dance/15ARTS.html?todaysheadlines>
Today a ballet that confidently portrays Light defeating Obscurantism can at most stir nostalgia for a paradise lost.


NY REGION
Nearly four years after they shot three unarmed men during a traffic stop, two troopers pleaded guilty to misdemeanor charges.

Rudolph W. Giuliani gave the Yankees the right to leave the city on 60 days' notice if the team does not get a new stadium.

The Democratic majority in the State Assembly rejected Gov. George E. Pataki's request to pass a complex health care bill.


OP-ED
By PAUL KRUGMAN
The Bush administration fears, and the press suspects, that the latest revelations in the Enron affair will raise the lid on crony capitalism, American style.

By BARNETT R. RUBIN
The elimination of the Taliban regime made possible the establishment of a new administration, but at the price of empowering some corrupt and brutal figures.
By DAVID CALLAHAN
The emerging story of Enron’s collapse is about an abuse of corporate power.

Nichols, Robert

From: NewsHeadlines@letters.washingtonpost.com
Sent: Tuesday, January 15, 2002 8:13 AM
To: robert.nichols@do.treas.gov
Subject: Jan. 15 News Headlines from washingtonpost.com

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- TV Listings <http://letters.washingtonpost.com/Y0RH0614CB47DAC33977>

Online Extras
- Get the complete roundup of Post coverage of America’s fight against terrorism, including background, graphics, multimedia and more. Turn to the America at War <http://letters.washingtonpost.com/Y0RH0614CB40DAC33977> special report
- Get perspective from The Post on the latest events, as well as insightful commentary from many of the nation’s columnists and opinion leaders. Delve into Editorials & Opinion <http://letters.washingtonpost.com/Y0RH0614CB44DAC33977>

Live Online
- Did you make a New Year’s resolution to get fit and eat better? Stay true to your commitment by joining the weekly discussion hosted by Post health and nutrition writer Sally Squires, The Lean Plate Club, <http://letters.washingtonpost.com/Y0RH0614CB4EDAC33977> 1 EST
- What is the political web woven by the Enron scandal, and who might it snare? Ask the executive director of the Center for Responsive Politics, Larry Noble, <http://letters.washingtonpost.com/Y0RH0614CB4BDAC33977> 1 EST
- Check out other Tuesday discussions <http://letters.washingtonpost.com/Y0RH0614CB76DAC33977>

Shopping/Classifieds
- Government Jobs <http://letters.washingtonpost.com/Y0RH0614CB73DAC33977>
- More From Marketplace <http://letters.washingtonpost.com/Y0RH0614CB7CDAC33977>

Tuesday, January 15, 2002

Politics
http://letters.washingtonpost.com/Y0RH0614CB79DAC33977

In stops at farm towns along the Mississippi River, President Bush promised Monday to restore Americans' confidence in the listless economy, but said that a full recovery depends on making
people feel safer from terrorism.

More Politics News

The Colombian government and the country's largest rebel group agreed Monday to return to peace talks, after last-minute diplomatic efforts removed negotiating obstacles.

More World News

Dozens of immigrants detained after the Sept. 11 terror attacks were jailed for weeks before they were charged, according to Justice Department documents released recently.

More Nation News

Gov. Mark R. Warner (D) reaffirmed his support for a Northern Virginia referendum on higher taxes for transportation funding.

More Metro News

More Business

More than two months before Enron Corp. publicly disclosed its problems, an internal whistleblower warned the firm's chairman that the company might "implode in a wave of accounting scandals."

...
The Redskins will introduce Steve Spurrier to Washington today after signing him to a deal worth nearly $25 million.

The press has jumped on the Enron story with Whitewater-like intensity, but the coverage has an almost schizophrenic quality.

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TOP STORIES--
.....'Nervous' employee warned Enron CEO
.....Second wave of Afghan detainees comes ashore in Cuba

WORLD NEWS--
.....India, Pakistan urged to back off
.....Mugabe in 'fair' polls pledge
.....Colombia, FARC agree to pull back from the brink

U.S. NEWS--
.....'Nervous' employee warned Enron CEO
.....Bush: 'I feel great' after fainting episode
.....Second wave of Afghan detainees lands in Cuba

BUSINESS from CNNmoney--
.....Wall St. awaits retail data, Intel results
.....'Nervous' employee warned Enron CEO
.....European markets decline

Sports from CNN/SI--
.....Kobe explodes for 56 as Lakers rout Grizzlies
.....Buccaneers fire Dungy after six seasons
.....Bonds gets five-year, $90 deal from Giants

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.....POLITICS from AllPolitics
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.....ENTERTAINMENT
.....Get involved with Chat and Message boards http://www.cnn.com/COMMUNITY

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TOP STORIES
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> 'NERVOUS' EMPLOYEE WARNED ENRON CEO

An Enron employee warned the company's top executive about potential accounting problems that look "to the layman on the street that we are hiding losses," congressional investigators said Monday.
SECOND WAVE OF AFGHAN DETAINNEES COMES ASHORE IN CUBA

A military cargo plane carrying a second group of Afghan war detainees arrived Monday at the heavily guarded U.S. Naval Base at Guantanamo Bay, Cuba, boosting the number of Taliban and al Qaeda prisoners there from 20 to 50.

WORLD NEWS

INDIA, PAKISTAN URGED TO BACK OFF

U.S. Secretary of State Colin Powell has urged India and Pakistan to pull their troops back from their mutual border to reduce the possibility of conflict between the nuclear neighbors.

MUGABE IN 'FAIR' POLLS PLEDGE

Elections in Zimbabwe will be "free and fair," President Robert Mugabe has pledged amid growing international concern over the March polls.

COLOMBIA, FARC AGREE TO PULL BACK FROM THE BRINK

The Colombian government and guerrillas reached a surprise, eleventh-hour agreement Monday to resume peace talks, ending the threat that three years of negotiations would come to an end Monday night.

MORE WORLD STORIES AT HTTP://WWW.CNN.COM/WORLD

U.S. NEWS

'NERVOUS' EMPLOYEE WARNED ENRON CEO

An Enron employee warned the company's top executive about potential accounting problems that look "to the layman on the street that we are hiding losses," congressional investigators said Monday.

BUSH: 'I FEEL GREAT' AFTER FAINTING EPISODE

President Bush -- scraped and bruised after a fainting spell -- extolled motherhood on Monday as another symbol of American patriotism, and gave the John Deere workers he addressed a lighthearted lesson to chew on.

SECOND WAVE OF AFGHAN DETAINNEES LANDS IN CUBA
A military cargo plane carrying a second group of Afghan war detainees arrived Monday at the heavily guarded U.S. Naval Base at Guantanamo Bay, Cuba, boosting the number of Taliban and al Qaeda prisoners there from 20 to 50.


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BUSINESS from CNNmoney
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> WALL ST. AWAITS RETAIL DATA, INTEL RESULTS

A government report on December retail sales, expected to show a big drop in auto sales, will give U.S. investors something to consider before trading begins Tuesday as they await quarterly results from Intel, eBay and other technology companies.


> 'NERVOUS' EMPLOYEE WARNED ENRON CEO

An Enron employee warned the company's top executive about potential accounting problems that look "to the layman on the street that we are hiding losses," congressional investigators said Monday.


> EUROPEAN MARKETS DECLINE

European bourses edged lower in choppy trade on Tuesday, led by technology stocks after Corning issued a profit warning.

http://www.cnn.com/money/2002/01/15/international/markets_europe/

More Business stories at http://CNNmoney.com

For market numbers see http://CNNmoney.com/markets

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Sports from CNN/SI
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> KOBE EXPLODES FOR 56 AS LAKERS ROUT GRIZZLIES

Kobe Bryant made certain the two-time defending NBA champion Los Angeles Lakers wouldn't miss suspended star Shaquille O'Neal, scoring a career-high 56 points as the Lakers routed the Memphis Grizzlies 120-81.


> BUCCANEERS FIRE DUNGY AFTER SIX SEASONS

The Tony Dungy era is over in Tampa Bay.


> BONDS GETS FIVE-YEAR, $90 DEAL FROM GIANTS

Barry Bonds knew he'd stay with San Francisco the day he reported to spring training last February.

POLITICS from AllPolitics

> BUSH GIVES PRESCRIPTION TO CURE ECONOMIC ILLS

Robust national security, a good public school system, free trade, a domestic energy policy and an economic stimulus package that includes tax relief are key factors to help jump-start the U.S. economy and create jobs, President Bush said Monday.

> 'NERVOUS' EMPLOYEE WARNED ENRON CEO

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> VENTURA MULLING SECOND TERM IN POLITICAL RING

Gov. Jesse Ventura said Monday that he probably will seek re-election to Minnesota's top office in November.

> U.S. SURGEON GENERAL TO JOIN ATLANTA COLLEGE

U.S. Surgeon General David Satcher has accepted a job as the head of a new national health care center at his alma mater Morehouse College in Atlanta, an official at the school said Monday.

SCI-TECH

> STUDY: GROWTH OF 'GREENHOUSE EMISSIONS' SLOWING

The growth of so-called "greenhouse gas emissions" in the atmosphere continues, but a new report funded by NASA says the growth rate peaked in 1980, and has slowed ever since.

> SCOOTER MAY HIT BUMP IN JAPAN

A self-balancing scooter billed as heralding a revolution in the way people travel could run into an obstacle in Japan, where a robotics professor wants recognition for inventing a similar machine 15 years ago.

> NEW NET DOT-NAME SUFFIX SET TO DEBUT

Internet users looking to give friends and relatives an easy-to-remember e-mail
or Web site address can now turn to their own name. "Name," the first
Internet address suffix created exclusively for individuals, makes it debut
Tuesday. Some 60,000 addresses with the suffix will be activated by Global Name
Registry, a London-based company administering .name. Currently, people with
personal Web sites tend to use ".org," which is often associated with nonprofit
groups.


> NOKIA SUBSIDIARY TO SELL JEWELLED CELL PHONES

Getting tired of seeing colleagues with exactly the same mobile phone as you?
Don't panic, if you have deep pockets you can soon get a really exclusive
handset.


... What's new in high-tech? See http://www.cnn.com/TECH/index.html#tomtod

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HEALTH
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> ASPIRIN CAN CUT HEART RISK FOR THE HEALTHY

Healthy adults with even a small risk of a heart attack and no history of
cardiovascular disease could benefit from taking aspirin daily, the U.S.
Preventive Health Services Task Force said Monday. But the task force also
warned that serious side effects are possible, and said some people might be
better off taking so-called baby aspirin than regular aspirin. It strongly
encouraged doctors to discuss with patients the benefits and dangers of aspirin
use in healthy adults.


> STUDY LINKS HEAD INJURY, DEPRESSION

Concussions and other head injuries in early adulthood may significantly raise
the risk of depression decades later, a study of World War II veterans found.


> SANJAY GUPTA: FAINTING A COMMON PROBLEM

What could have caused President Bush to collapse Sunday while eating pretzels
and watching a football game at the White House?


> OFFICIALS STUDY NEXT STEPS AGAINST BIOTERROR

In warehouses hidden across the nation are tons of pills for anthrax and
radiation and vaccine for smallpox -- but the nation's anti-terrorism stockpile
is far from complete.


... More Health stories at http://www.cnn.com/HEALTH

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ENTERTAINMENT
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> SUNDANCE: SCREENING SEPTEMBER 11

34
In a special presentation at Sundance Film Festival 2002, five filmmakers bear
witness to and reflect on the World Trade Center attacks.


> DIRECTOR TED DEMME, DEAD AT 39

Ted Demme, a film and television director whose credits include the film "Blow,"
died after playing basketball. He was 38.


> ADAM ANT CHARGED IN LONDON SCUFFLE

Eighties pop star Adam Ant faces assault and weapons charges after a scuffle in
a London pub, police say.


> BURNS' TWAIN: 'ON ALL CYLINDERS'

"I have never let my schooling interfere with my education," said Mark
Twain. And PBS viewers have a chance to do something similar -- learning about
Twain without hunkering down in a classroom -- when Ken Burns' new four-hour
documentary on Samuel Clemens opens Monday at 8 p.m. EST. Mark Twain, Burns
says, "is essentially American history running on all cylinders." And his
study of the writer is, he says, a tale of two men. Clemens suffered enormous
personal tragedy while Twain was the wildly popular author.


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008000000000366
Nichols, Robert

From: Washington Whispers [usnews.com_Newsletters@clickaction.net]
Sent: Tuesday, January 15, 2002 7:02 AM
To: Rob Nichols
Subject: Safe food, a new type of ship, and sexy anchors


In This Issue

<http://www.spe.sony.com/movies/blackhawkdwn/>

CONTROVERSY (Sound bytes)

"They act like there's some pilfering records or some cattle scam or some fired travel aides or some blue dress."
Mary Matalin, a Bush aide, on efforts to link the White House to the Enron crisis

"Not out there stealing other people's widows."
Stephen Ambrose, beleaguered historian

Check out for the latest sound bytes.

BERET (Whisper)

The war in Afghanistan may have done something hundreds of admirals couldn't: prove the need for a new type of ship. That's because one of the wows in the war has been the success of basing Army Green Berets and their special operations helicopters on the USS Kitty Hawk aircraft carrier. "We think we're going to have to do this again," a senior Navy official tells us.

Find out why the Navy and Green Berets loved it, plus

DON'T EAT THAT

'OSAMA' BURGER (Whisper)

Everyone who's taken up President Bush's post-September 11 call to get out, beware when eating at those upscale restaurants. Somebody who should know, former Agriculture Secretary Dan Glickman, has a little advice: Exclusive eateries commonly undercook food that needs lots of heat to kill germs.

36
safely and avoid terror-tainted food.

______________________ JUST A LITTLE _____________________________

SEXY? (Weekly poll)

Was CNN right in declaring anchor Paula Zahn sexy, or is there a better choice? Your pick:

- CNN's Paula Zahn
- Fox's Brigitte Quinn
- ABC's Connie Chung
- NBC's Jane Pauley
- CBS's Lesley Stahl

______________________ GET OUT AND _____________________________

CAMPAIGN! (Historical Whispers)

Jan. 11, 1982: A memo circulating in the White House on the 1982 congressional campaign calls for Vice President George Bush and each cabinet officer to commit 10 to 15 days to speech-making. What about Reagan? He would make television spots on behalf of candidates or bring them to the White House to be photographed with the President. Read more Whispers from the U.S. News archives.

______________________ PAUL'S PICKS _____________________________

(Best of the Web)

Apply to be a White House Fellow

Poking fun at the White House and Enron

Washington Whispers. from Paul Bedard, editor of

<http://www.usnewsproducts.com/gen-edprod.cgi>

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______________________ 37 _____________________________

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Bush Fine After Fainting Spell

Heading off on a tour through the Midwest, Bush joked Monday about a fainting spell Sunday night that by morning's light sounds a bit bizarre. The cause was a pretzel that had gone down the wrong way, the White House said.

More Political News

- Bush Aide Knows of Enron's Plan
- Bush Pushes for Expanded Trade
- Democrats Split on Enron Probe
- Enron, Now It's Newsworthy
- New Politics Helped Redefine Threat
- Interior's Silence Questioned
- Enron's Hired Spokesmen
- Enron's Newsmaker

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To subscribe to the print edition of The Washington Post newspaper, click here.
Two Bush Cabinet officials defended their contacts with the chairman of bankrupt energy trader Enron on Sunday, while a leading Democrat, Sen. Joseph Lieberman, vowed to conduct a "very aggressive, very comprehensive and very fair" investigation into the Enron matter.

Commerce Secretary Don Evans and Treasury Secretary Paul O'Neill received calls from Enron's chairman and CEO Kenneth Lay last fall as the once high-flying company was heading toward collapse.

Evans said that in the October 29 phone call, Lay told him the company's credit rating was being reviewed by Moody's, a rating service.


Bush on fainting episode: 'Chew your food'

President Bush -- scraped and bruised after a fainting spell -- extolled motherhood on Monday as another symbol of American patriotism, and gave the John Deere workers he addressed a lighthearted lesson to chew on.


Bush gives prescription to cure economic ills

Robust national security, a good public school system, free trade, a domestic energy policy and an economic stimulus package that includes tax relief are key factors to help jump-start the U.S. economy and create jobs, President Bush said Monday.

In a brief but lively address, Bush spoke to workers at a John Deere heavy equipment plant in East Moline -- his first stop in a two-day trip focusing on economic issues.


Bush, Democrats call for budget agreement

In a rare moment of agreement over money matters, Democrats and President Bush called Saturday for an end to partisan bickering over the budget, which both said should concentrate on security and economic issues.


Warner inaugurated as Virginia governor

Mark Warner was inaugurated Saturday as governor of Virginia, putting Democrats back in control of the executive branch
after eight years of Republican rule.

In his inaugural address, Warner vowed to work with legislators to solve the state's budget problems.

Warner, who built a multi-million dollar empire by selling the novel idea of cellular telephones 20 years ago, spent almost $5 million of his money on his campaign.


<http://www.cnn.com/EMAIL/images/list/dotline.gif>

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For Immediate Release
Monday, Jan. 14, 2002

Grassley Explores New Protections for Retirement Plan Participants

WASHINGTON - Sen. Chuck Grassley, ranking member of the Committee on Finance, is pursuing whether Congress should tighten up protections for retirement plan participants in light of Enron's collapse.

"Millions of Americans have hundreds of billions of dollars invested in employer-sponsored retirement plans," Grassley said. "These plans receive favored treatment under the federal tax code. The Committee on Finance has the primary responsibility, under its jurisdiction, for making sure retirement plans comply with the tax code and other laws. Our committee also has the responsibility to fix any weaknesses that might leave retirement plan participants in trouble if their employer goes under."

Grassley said the details of the Enron retirement plans are still forthcoming. However, he said, some areas already are emerging as targets for scrutiny. Specific areas Grassley is looking into are:

Company stock. Under current rules, a company can restrict a retirement plan participant from selling the match received in company stock through an employee stock ownership plan. (Enron employees' company stock matches were restricted.) Grassley is researching whether employees should be able to change this investment choice prior to an arbitrary age.

Mandated purchases of company stock. Current law allows a plan sponsor to compel employees to purchase up to 10 percent of employer stock as a condition of participating in a 401(k) plan. Grassley said he thinks this rule should be eliminated.

Fiduciary rules. These rules ensure that companies properly invest and handle retirement plan money, including spending the money for the exclusive benefit of their employees. Retirement plans are tax-favored vehicles, authorized under the Internal Revenue Code. Grassley said he wants to learn whether Enron officials violated their fiduciary duties and in general, whether Congress should change the existing rules.

Black-outs. A "black-out" or "lockdown" occurs when a plan is shut down for a period of time to allow, for example, change to another plan administrator. Enron had such a "black-out," though the length of time is disputed. Grassley said he wants to get the facts on this event because it may coincide with the decline in the company's stock value.

Mandated diversification of stocks in retirement plans. Some legislation has been introduced that mandates employees hold no more than a certain percentage of stock in their 401(k) plan. Diversification in one part of the plan should indicate that all investments should be mandated. Grassley said he has an open mind, but thinks mandates are not desirable nor particularly feasible.

Grassley said he is pursuing these ideas with experts from outside groups and agencies such as the Treasury Department, the Labor Department and the Pension Benefit Guaranty Corporation.

"The tax code rewards on retirement plans, for good reason," Grassley said. "Tax breaks encourage employers to set up retirement plans and employees to take
part in those plans. If employers find it easy to break the rules, then Congress has to re-write the rule book. Otherwise, employees counting on a secure retirement might be left out in cold."

In addition to the retirement plan track, Grassley said he is part of an effort to look into whether Enron used certain tax vehicles that might have masked the company's financial condition.

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Roll Call Daily

January 14, 2002

For today's complete news, please log onto http://www.rollcalldaily.com

KENNEDY TO CALL FOR STOPPING BUSH TAX CUT IN ITS TRACKS
Raising the political stakes in the sizzling debate over the federal budget, Sen. Edward Kennedy (D-Mass.) will deliver a speech Wednesday calling for a halt to President Bush's $1.3 trillion tax cut.
http://www.rollcalldaily.com/rollcalldaily/1_75/news1/432-1.html

KERREY, RUDMAN URGE SACRIFICE AND PAYROLL TAX INCREASES IN TROUBLED BUDGET TIMES
Citing President Bush's overwhelming popularity and the nation's recession, the Concord Coalition on Monday urged the President to ask Americans to sacrifice new spending in order to keep intact Social Security and Medicare benefits.
http://www.rollcalldaily.com/rollcalldaily/1_75/news2/430-1.html

TODAY'S SPIN BY CHRIS BLACK: IS SCHIEFFER THE HANDSOMEST SUNDAY TALK SHOW HOST OF ALL?
It was all Enron all the time on the Sunday Talks this week, with members of the administration claiming utter ignorance of any inside knowledge as President Bush's biggest contributor slid into bankruptcy.
http://www.rollcalldaily.com/rollcalldaily/1_75/spin/428-1.html

HEARD ON THE HILL:
http://www.rollcalldaily.com/rollcalldaily/1_75/hoh/429-1.html

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January 14, 2002

QUOTE OF THE DAY
"Companies come and go. It's part of the genius of capitalism."
P. O'NEILL, Treasury secretary on the collapse of Enron.

NATIONAL
States Face Hard Choices on Medicaid Cuts
Medicaid, the insurance program for 44 million low-income people, is in a fiscal crisis, forcing state legislatures to look for ways to cut benefits and reduce payments.

Under the Counter, Grocer Provided Immigrant Workers
In the largest immigrant-smuggling case against an American corporation, a man pleaded guilty last week to supplying Tyson Food with more than 2,000 illegal workers.

Bush Recovers After Fainting at White House
President Bush fainted briefly on Sunday after choking on a pretzel, according to the White House physician. Mr. Bush quickly recovered and is doing well.

MORE NATIONAL NEWS

INTERNATIONAL
India Welcomes Pakistani Steps, but Stays Alert
**todaysheadlines**:
The Indian government on Sunday welcomed the commitment by Pakistan's military ruler not to allow his country to be used as a base for terrorism.

**Colombian Rebels Quitting Safe Havens as Peace Talks Fail**
<http://www.nytimes.com/2002/01/14/international/americas/14COLO.html?todaysheadlines>  
Colombian rebels announced on Sunday that they would withdraw from five towns the government handed over as a safe haven for peace talks.

**Kabul Takes Steps Toward Disarming Afghan Population**
Starting Monday, people in Kabul whose jobs require them to carry guns will also have to carry government identification cards.

**MORE INTERNATIONAL NEWS**

**BUSINESS**

**A Bubble That Enron Insiders and Outsiders Didn't Want to Pop**
What the world is now awakening to is that Enron was not much of a company, but its executives made sure that it was one hell of a stock.

**At Andersen's Helm, a Winner of Battles Who Faces a War**
Joseph F. Berardino, the head of the accounting giant Arthur Anderson, faces a crisis that threatens his career, his firm and perhaps even the accounting profession.

**Deal Likely for Raytheon Unit**
L-3 Communications plans to announce that it has agreed to acquire a military equipment subsidiary of Raytheon for $1.13 billion in cash, beating out bigger rivals.

**MORE BUSINESS NEWS**

**TECHNOLOGY**

**Signs of a Rebound Appear in the High-Tech Heartland**
The nation's high-technology heartland is in its deepest recession in recent memory, but some longtimers believe that the region is poised for a revival.

**Consultant May Decide Hewlett Deal**
The next arena in the fight for the future of Hewlett-Packard is an unlikely one -- the offices a proxy voting consultant.

**Hiding Sensitive Data Can Be Tough in a Digital Age**
The issue of the destruction and possible retrieval of electronic data burst back into the news last week.

**MORE TECHNOLOGY NEWS**

**POLITICS**

**Seeking Edge on Bush, Democrats May Advance Dates of Primaries**
The Democratic Party is expected to approve an overhaul of the presidential primary schedule that would make the 2004 primaries even earlier than in the past.

**Bush Recovers After Fainting at White House**
President Bush fainted briefly on Sunday after choking on a pretzel, according to the White House physician. Mr. Bush quickly recovered and is doing well.

**Lawyers Said to Back Compensation Plan to Polish Image**
The debate over the actions of trial lawyers since Sept. 11 provides a glimpse of what forces shape policy for one of the most powerful lobbying groups in the country.


SPORTS

The Ravens' defense played as advertised and stifled the Miami Dolphins. The surprise was that Baltimore's running game shared the spotlight.

The Washington Redskins fired Coach Marty Schottenheimer and could hire Steve Spurrier as soon as Monday. Also, Bill Parcells could replace Tony Dungy in Tampa Bay.

Kuerten Loses in Australia; Agassi and Serena Williams Withdraw <http://www.nytimes.com/2002/01/14/sports/tennis/14TENN.html?todayshheadlines>
Gustavo Kuerten lost at the Australian Open on Monday, but the big news was the withdrawal of Andre Agassi and Serena Williams.


ARTS

After two failed shows centered around former "Seinfeld" stars, can NBC find success with "Watching Ellie," starring Julia Louis-Dreyfus?

There's a maddening collision between Mark Twain's ironic sensibility and Ken Burns's familiar, sentimental style in this documentary about the writer.

Negotiating the Darkness, Fortified by Poets' Strength <http://www.nytimes.com/2002/01/14/books/14KARR.html?todayshheadlines>
The events of Sept. 11 nailed home my convictions that lyric poetry dispenses more relief during catastrophic times than perhaps any art form.


NY REGION

Commissioner Raymond W. Kelly is preparing to ask the Legislature to allow New York police officers some retirement benefits while still on the job.

A federal grand jury is investigating allegations that some of the city's tax assessors routinely reduced property tax bills in the 1990's in return for bribes.

After Sept. 11 Losses, Then a Fire, a New Jersey Church Worships On <http://www.nytimes.com/2002/01/14/nyregion/14RIDG.html?todayshheadlines>
Ridgewood, a village about 30 miles from New York City, has seen a great deal of symbolic rain lately, beginning with the deaths of 12 residents in the Sept. 11 attacks.


OP-ED

57
By BOB HERBERT
Not only were Enron employees deliberately left in the dark, but Enron had many of them locked into rules that prohibited them from selling their stakes in the company.

By WILLIAM SAFIRE
The scandal I see in the Enron debacle is nonpolitical; it's professional.

By WILLIAM T. POUND
Legislatures in 39 states will begin their regular sessions this month facing fiscal challenges unseen in at least a decade.


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> REPORT: AUDITOR TOLD EMPLOYEES TO DESTROY ENRON DOCUMENTS

Auditing firm Arthur Andersen instructed its employees in a memo to destroy most of their material relating to Enron just days before the energy trading company went bankrupt, according to a report in the latest edition of Time.
magazine.


> AL QAEDA SHOWN PRACTICING ASSASSINATIONS ON TAPE

Al Qaeda militants practiced carrying out a mass assassination of world leaders and an attack on a motorcade, according to a video obtained in Afghanistan and broadcast on Australian television.


Watch the day's top stories with CNN's Quickcast. This constantly updated Web exclusive newscast and more video from CNN are only available with RealOne. Click here for more information http://www.cnn.com/quickcast/text

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WORLD NEWS
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> INDIA REPORTS KASHMIR ATTACK

The Indian military is reporting a new militant attack in Kashmir, despite Islamabad's new pledge to root out terrorism.


> COLOMBIAN REBELS' PEACE OFFER REJECTED

Peace efforts in war-torn Colombia were on the verge of collapse Sunday, one day after President Andres Pastrana issued his second ultimatum this week to the country's largest rebel group.


> AL QAEDA SHOWN PRACTICING ASSASSINATIONS ON TAPE

Al Qaeda militants practiced carrying out a mass assassination of world leaders and an attack on a motorcade, according to a video obtained in Afghanistan and broadcast on Australian television.


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U.S. NEWS
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> REPORT: AUDITOR TOLD EMPLOYEES TO DESTROY ENRON DOCUMENTS

Days before bankrupt energy trader Enron publicly disclosed its financial problems, employees of its auditing firm, Arthur Andersen, were instructed to destroy most of their Enron-related material, according to Time magazine.


> BUSH FAINTS AT WHITE HOUSE; QUICKLY RECOVERS

President Bush fainted briefly in the White House residence Sunday after choking on a pretzel while watching a National Football League playoff game on television, White House physician Dr. Richard Tubb said.

Homeland Security Director Tom Ridge said Sunday that the United States is safer and more vigilant than it was more than four months ago when terrorists attacked the World Trade Center and Pentagon.


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BUSINESS from CNNmoney
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> WALL ST. TO EYE CORPORATE REPORTS, GREENSPAN

U.S. investors will be getting ready for corporate results this week and possibly revisiting Federal Reserve Chairman Alan Greenspan's mixed assessment of the economy as a new trading week begins Monday.

... http://www.cnn.com/money/2002/01/14/markets/stockwatch/

> REPORT: AUDITOR TOLD EMPLOYEES TO DESTROY ENRON DOCUMENTS

Auditing firm Arthur Andersen instructed its employees in a memo to destroy most of their material relating to Enron just days before the energy trading company went bankrupt, according to a report in the latest edition of Time magazine.

... http://www.cnn.com/2002/LAW/01/14/enron/index.html

> ACCOUNTING FRAUD ON THE RISE

The number of fraud cases investigated by the Securities and Exchange Commission jumped 41 percent in the last three years, according to agency data, resulting in tens of millions of dollars in fines to settle the charges.

... http://www.cnn.com/money/2002/01/11/companies/acct_scandals/

... More Business stories at http://CNNmoney.com

... For market numbers see http://CNNmoney.com/markets

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Sports from CNN/SI
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> RAVENS BEGIN TITLE DEFENSE WITH 20-3 WIN OVER DOLPHINS

Bruising defense, a grinding ground game and one pivotal pass helped Baltimore beat Miami 20-3 in a wild-card playoff game Sunday.


> FAVRE KEEPS LAMBEAU STREAK INTACT WITH 25-15 WIN VS. 49ERS

The Green Bay Packers heeded Brett Favre's call to open up the passing game, scoring 19 points in the second half of a 25-15 victory against San Francisco in the wild-card playoffs Sunday.


> SCHOTTENHEIMER ERA ENDS AS SNYDER TURNS TO SPURRIER

After a long weekend of negotiations and deliberations, the Washington Redskins moved closer Sunday night to naming former University of Florida head coach
Steve Spurrier as their head coach by firing Marty Schottenheimer.


More Sports stories at http://CNNSI.com
For scores see http://CNNSI.com/scoreboards

POLITICS from AllPolitics

> BUSH CABINET MEMBERS DEFEND ENRON CONTACTS

Two Bush Cabinet officials Sunday defended their contacts with the chairman of bankrupt energy trader Enron, while a leading Democrat, Sen. Joseph Lieberman, vowed to conduct a "very aggressive, very comprehensive and very fair" investigation into the Enron matter.


> BUSH FAINTS AT WHITE HOUSE, QUICKLY RECOVERS

President Bush fainted for a brief time Sunday at the White House while eating a pretzel and watching a professional football game on television, the White House said.


> BUSH, DEMOCRATS CALL FOR AGREEMENT ON BUDGET

In a rare moment of agreement over money matters, Democrats and President Bush called on Saturday for an end to partisan bickering over the budget, which both said should concentrate on security and economic issues.


> FORMER SECRETARY OF STATE CYRUS VANCE DIES AT 84

Cyrus R. Vance, who resigned as President Jimmy Carter’s Secretary of State over an ill-fated attempt to save American hostages from Iran, has died. He was 84.


Commentary & cartoons at http://www.cnn.com/ALLPOLITICS/analysis/

SCI-TECH

> 'DONUT' VIRUS SET TO POKE HOLES IN .NET

A new virus that's the first to target Microsoft's .Net platform for building and deploying Web services has emerged, posing an early risk for the build-out of the next-generation Internet, according to an antivirus vendor.


WILL FANS WANT THEIR MTV PC?

MTV Networks, the company that put a pop radio station into your television, now plans to put both into a PC that carries its world-famous logo. The pioneer of music-oriented TV is looking to tempt media-hungry technophiles with a line of PCs and complementary products set for release early this
year. Targeting 18-to-24-year-olds, MTV is looking to let that gadget-happy
demographic watch TV, play DVDs, listen to music and browse the Internet, all
on one device. The company, a unit of Viacom International, also expects to
launch a line of products centered around video-game play, according to a
statement.


> CES CONCLUSIONS: MOXI'S MOXIE

How does one sum up the 2002 Consumer Electronics Show in Las Vegas? Hype --
and hope. Whether the economy is up or down, hyperbole will always run
unchecked at technology trade shows. Companies will tell reporters that their
product is the Next New Thing.


> XBOX PRICING SET FOR JAPANESE DEBUT: $263

Microsoft says it has set a Japan price for its Xbox video game console at
34,800 yen ($263), firing up competition in a market dominated by Sony's
PlayStation 2.


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HEALTH

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> GENE SHOWS WHO'S 'GOT MILK'

A single genetic mutation allows people to tolerate milk after they leave
babyhood, and it is virtually the same in people of Asian, European and African
descent, researchers reported. Finding the tiny change in the genetic code
should allow scientists an easy test for lactose intolerance -- a painful
digestive condition -- and also offers insights into how some groups of people
evolved a milk-drinking culture, the team of United States and Finnish
researchers said. People who have lactose intolerance -- most of the people in
the world -- cannot digest large amounts of lactose, the main sugar found in
dairy products.


> 'WTC COUGH' NAGS FIREFIGHTERS

Many firefighters who raced to save victims of the September 11 World Trade
Center attack are facing their own health problems because of the contaminated
air at the disaster site. Some have asthma. Others have troubles ranging from
a persistent cough to diminished lung capacity that can interfere with their
physically demanding jobs. A few hundred are on medical leave or working light
cut because of respiratory illness.


> ANTHRAX SYMPTOMS PUZZLE DOCTORS

Doctors say they're intrigued and baffled by the case of a postal inspector who
worked at an anthrax-contaminated office in Washington, was admitted to a
hospital with symptoms of the inhaled form of the disease, but never tested
positive for the bacterium.


63
> STUDY DETAILS TREATMENT OF TERROR INJURIES

Fewer than 800 people were treated at the hospitals nearest the World Trade Center over the two days following the September 11 attack, a new study shows.


.... More Health stories at http://www.cnn.com/HEALTH

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ENTERTAINMENT
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> SUNDANCE SPAS TAKE CARE OF STARS

It's hard to be glamorous in snow boots and ski hats, but as moviestars got down to the business of promotion at the Sundance Film Festival here on Saturday, several companies geared up to keep the stars sparkling in the dry mountain air.


> REVIEW: MOVING 'I AM SAM' SAVED BY PENN

"I Am Sam" is heartbreaking, uplifting, brilliantly acted, and profoundly moving. The fact that the story is utterly implausible has to be set aside. Fortunately for the movie, Sean Penn -- once again proving he's one of America's finest actors -- stars in the title role, and his performance makes the film.

.... http://www.cnn.com/2002/SHOWBIZ/Movies/01/10/review.i.am.sam/index.html

> 'TODAY' IS GOLDEN

The first theme song for the "Today" show was "Sentimental Journey," maybe an odd choice for a news and information program. But from its inception, "Today" broke many of television's rules -- and invented plenty more. On Monday, a half-century after its dawning on January 14, 1952, "Today" takes a sentimental journey in earnest, looking back at a few of its 13,000 yesterdays.


> FOX, ABC DOING BATTLE OVER SIMILAR GAME SHOW

ABC and Fox are in a behind-the-scenes battle over two similar game shows that may ultimately prove more entertaining than the programs themselves. Fox announced Friday it was rushing its game, "The Chamber," on the air Sunday night, with a head-spinning two days' notice, just to beat ABC, which had scheduled "The Chair" for Tuesday.


.... More Entertainment stories at http://www.cnn.com/ENTERTAINMENT

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Today's ...

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- Markets [http://letters.washingtonpost.com/YORH06152691DAC33977]
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- Get the complete roundup of Post coverage of America's fight against terrorism, including background, graphics, multimedia and more. Turn to the America at War [http://letters.washingtonpost.com/YORH06152699DAC33977] special report
- Get perspective from The Post on the latest events, as well as insightful commentary from many of the nation's columnists and opinion leaders. Delve into Editorials & Opinion [http://letters.washingtonpost.com/YORH06152698DAC33977]

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Shopping/Classifieds

- Government Jobs [http://letters.washingtonpost.com/YORH06152687DAC33977]
- More From Marketplace [http://letters.washingtonpost.com/YORH06152681DAC33977]

Sunday, January 13, 2002

Politics

- Economic Growth, Political Posture [http://letters.washingtonpost.com/YORH06152682DAC33977]

Enron's bankruptcy has gone from major economic debacle to full-fledged political skirmish between the White House and Capitol Hill.

spacer [http://a188.g.akamailtech.net/f/188/920/1d/www.washingtonpost.com/wpsrv/globalnav/images/spacer.gif]
World

Few efforts in the Afghan war were more risky than those of unarmed Afghan civilian spotters to pinpoint the location of Taliban fighters.

Nation

Secret Service agent Waled Shater rebuts American Airlines' contention he was thrown off a plane for acting suspiciously.

Metro

Mark R. Warner was sworn in Saturday as Virginia's 69th governor.

Business

The U.S. government has ordered food with hemp off store shelves, though manufacturers insist their products lack the hallucinogen found in marijuana.
Injuries and illness left the Capitals without seven of their regular players Saturday night but a solid team effort resulted in a 1-0 win over Florida.

More Sports News

More Style News

Va. Gov. Mark Warner’s high-profile supporters are interested in good government without favors, perks, appointments or tax breaks.

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TOP STORIES--
......First night in Cuba 'peaceful' for war detainees
......Bodies of 5 Marines recovered from Pakistan crash

WORLD NEWS--
......India awaits action
......Colombian rebels' peace offer rejected
......China steps up pollution war

U.S. NEWS--
......Waxman wants explanation from Enron chief
......Detainees spend first full day in Cuba
......Bush, Democrats call for agreement on budget

BUSINESS from CNNmoney--
......Wall Street awaits the opening of earnings season
......Accounting fraud on the rise
......Court denies Valdez rehearing

Sports from CNN/SI--
......Rice spurs Raiders in 30-24 wild-card win vs. Jets
......UCLA knocks off No. 1 Kansas 87-77
......Xwan wins sixth U.S. skating title

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TOP STORIES
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> FIRST NIGHT IN CUBA 'PEACEFUL' FOR WAR DETAINES

Twenty Afghan war detainees spent a "calm and peaceful" first night in a temporary detention center -- 6-by-8 chain-link cells on the U.S. naval base at Guantanamo Bay, Cuba, the head of security for the detention center said

70
Saturday.


> BODIES OF 5 MARINES RECOVERED FROM PAKISTAN CRASH

Investigators have recovered six of seven bodies of U.S. Marines killed Wednesday when their KC-130 military refueling plane crashed in western Pakistan, U.S. military officials in Kandahar, Afghanistan, said Saturday.


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WORLD NEWS
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> INDIA AWAITS ACTION

Welcoming Pakistan President Pervez Musharraf's pledge to crack down on religious extremists, India says it will judge its neighbor's actions before it begins a military de-escalation or resumes dialogue. The statement marks the first Indian reaction to Musharraf's address on Saturday in which he announced a ban on five militant Islamic groups, including two blamed for the attack on the Indian Parliament that killed 14 people.


> COLOMBIAN REBELS' PEACE OFFER REJECTED

Colombian President Andres Pastrana emphatically rejected a 14-point proposal from the FARC rebel group early Sunday, dismissing it as inadequate and saying he will not sit down for peace talks until the rebels make a formal statement favoring peace.


> CHINA STEPS UP POLLUTION WAR

China has launched a massive 700 billion yuan ($84 billion) 5-year environmental protection plan to combat a worsening pollution problem.


.... More World stories at http://www.cnn.com/WORLD

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U.S. NEWS
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> WAXMAN WANTS EXPLANATION FROM ENRON CHIEF

The ranking Democrat on the House Government Committee wants the head of energy giant Enron to explain his actions leading up to the company's collapse. Rep. Henry Waxman, California, is investigating Enron and has asked chairman and chief executive officer Kenneth Lay to explain two e-mails messages sent last year to employees that predicted the company's stock would rise, even as the company slid towards bankruptcy.


> DETAINEES SPEND FIRST FULL DAY IN CUBA

71
The head of the new U.S. detention center at Guantanamo Bay, Cuba, said Saturday that his troops had the security situation "well in hand" as the first group of al Qaeda and Taliban prisoners spent their first full day at the compound.


> BUSH, DEMOCRATS CALL FOR AGREEMENT ON BUDGET

In a rare moment of agreement over money matters, Democrats and President Bush called on Saturday for an end to partisan bickering over the budget, which both said should concentrate on security and economic issues.


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BUSINESS from CNNmoney
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> WALL STREET AWAITS THE OPENING OF EARNINGS SEASON

After a gloomy week that included a lukewarm assessment of the health of the U.S. economy by Federal Reserve Chairman Alan Greenspan, investors on Wall Street will look to corporate earnings for relief this week.


> ACCOUNTING FRAUD ON THE RISE

The number of fraud cases investigated by the Securities and Exchange Commission jumped 41 percent in the last three years, according to agency data, resulting in tens of millions of dollars in fines to settle the charges.


> COURT DENIES VALDEZ REHEARING

A federal appeals court denied a motion to rehear the 1989 Exxon Valdez oil spill case, and the case will return to Alaska for a reduction of the $5 billion punitive damages award imposed on Exxon in 1994.


..... More Business stories at http://CNNmoney.com

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Sports from CNN/SI
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> RICE SPURS RAIDERS IN 38-24 WILD-CARD WIN VS. JETS

Jerry Rice showed the Oakland Raiders it's never too late to turn back the clock -- on a matchless career or on a troubled season.


> UCLA KNOCKS OFF NO. 1 KANSAS 87-77

Knocked down by crosstown rival Southern California two days earlier, the always unpredictable UCLA Bruins picked themselves up by beating top-ranked Kansas 87-77 Saturday.
KWAN WINS SIXTH U.S. SKATING TITLE

This one was not for the doubters. It wasn't for the audience or even the judges. Michelle Kwan's sixth national title was all about satisfying someone else.

More Sports stories at http://CNNSI.com

For scores see http://CNNSI.com/scoreboards

POLITICS from AllPolitics

BUSH, DEMOCRATS CALL FOR AGREEMENT ON BUDGET

In a rare moment of agreement over money matters, Democrats and President Bush called on Saturday for an end to partisan bickering over the budget, which both said should concentrate on security and economic issues.

FORMER SEC. OF STATE CYRUS VANCE DIES AT 84

Cyrus R. Vance, who resigned as President Jimmy Carter’s Secretary of State over an ill-fated attempt to save American hostages from Iran, has died. He was 84.

WAXMAN WANTS EXPLANATION OF ENRON E-MAIL

A Democratic congressman investigating the collapse of Enron Corp. demanded Saturday that the company's chairman explain two e-mail messages to employees that talked up the company's prospects, even as it was sliding toward bankruptcy.

WARNER INAUGURATED AS VIRGINIA GOVERNOR

Mark Warner was inaugurated Saturday as governor of Virginia, putting Democrats back in control of the executive branch after eight years of Republican rule.


Commentary & cartoons at http://www.cnn.com/ALLPOLITICS/analysis/

SCI-TECH

CIA PROSPECTS FOR SILICON VALLEY GOLD

"Our mission is to go after technologies that are going to get to market anyway," says Gilman Louie, In-Q-Tel's chief. "We want to get there ahead of time. We want to get there early." And he's getting there early on behalf of the CIA. The agency launched this nonprofit venture capital arm, In-Q-Tel, three years ago. Since September 11, the unit's mission of investing in up-and-coming technologies has become more urgent. Fortunately for In-Q-Tel's

73
40 employees in Menlo Park and Arlington, Virginia, hundreds of tech companies have come calling.

... http://www.cnn.com/2002/TECH/industry/01/12/silicon.snoops.ap/index.html

> CES CONCLUSIONS: MOXI'S MOXIE

How does one sum up the 2002 Consumer Electronics Show in Las Vegas? Hype -- and hope. Whether the economy is up or down, hyperbole will always run unchecked at technology trade shows. Companies will tell reporters that their product is the Next New Thing.


> GENETICS EXHIBIT OPENS IN CHICAGO

Visitors to a new genetics exhibit can explore the mysteries of DNA, witness a virtual human embryo in action and gaze at cloned mice, mutant flies and hatching chicks.


> LAWSUIT DARKENS TiVO-REPLAYTV RIVALRY

Although industry experts widely herald them as the future of television viewing, the personal digital video recorders that carry the TiVo and ReplayTV labels have yet to catch on with the nation's channel surfers.

... http://www.cnn.com/2002/TECH/industry/01/12/replaytv.vs.tivo.ap/index.html


... What's new in high-tech? See http://www.cnn.com/TECH/index.html#tomtod

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HEALTH

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> ANTHRAX SYMPTOMS PUZZLE DOCTORS

Doctors say they're intrigued and baffled by the case of a postal inspector who worked at an anthrax-contaminated office here, was admitted to a hospital with symptoms of the inhaled form of the disease, but never tested positive for the bacterium. As a postal inspector, the patient was responsible for removing air filters in the part of the Brentwood Post Office that was contaminated with anthrax. Two other employees who worked at that office died of inhalation anthrax and another two were diagnosed with the disease.

... http://www.cnn.com/2002/HEALTH/01/12/anthrax.mystery/index.html

> STUDY DETAILS TREATMENT OF TERROR INJURIES

Fewer than 800 people were treated at the hospitals nearest the World Trade Center over the two days following the September 11 attack, a new study shows.


> RESEARCH TO TEST HIV TREATMENT STRATEGIES

A U.S. study of 6,000 HIV patients is under way to settle which strategy works best against AIDS -- hitting the virus early and hard with powerful drugs or waiting until the immune system is damaged, government-funded researchers said.


> FEN-PhEN SETTLEMENT BECOMES FINAL
A $3.75 billion settlement for thousands of people who took the recalled fen-phen diet drug combination is final because no one challenged it by last week's deadline, drug maker American Home Products said.


.... More Health stories at http://www.cnn.com/HEALTH

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ENTERTAINMENT
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> MARTHA PLIMPTON: NO 'GOONIE' GIRL

Young people who want to pursue an acting career often must decide whether they aspire to become movie stars or actors. For Martha Plimpton, it was a Hobson's choice.


> CRITICS' CHOICE: LUHRMANN, HOWARD

In their annual Critics' Choice Awards, members of the Broadcast Film Critics Association have tapped Baz Luhrmann, seen above on the set of "Moulin Rouge," and Ron Howard of "A Beautiful Mind" for best direction. Similarly, Enya and Paul McCartney share an award, this one for best song -- his in "Vanilla Sky" and hers in "The Lord of the Rings: The Fellowship of the Ring." The association's seventh annual round of honors were presented on Friday night at a gala event in Beverly Hills hosted by late-night television host Bill Maher.


> PAVAROTTI MAKES EMOTIONAL RETURN IN LONDON

Tenor Luciano Pavarotti made an emotional return to London's Royal Opera House, dedicating the rare performance to his mother who died in Italy the day before. The singer's personal tragedy added drama to Friday's eagerly awaited performance amid speculation that the four-night run could be his last outing at an opera house he sees as his spiritual home.


> 'STORYTELLING': SOLONDZ AT SUNDANCE

In 1996 New Jersey native Todd Solondz took home the Sundance Film Festival Grand Jury prize for his subversive feature "Welcome to the Dollhouse." The film introduced audiences to the determined, heartbreaking outsider Dawn Wiener and Solondz' itchy brand of black comedy. Screening in the Premieres section of the 2002 Sundance Film Festival, Solondz' latest effort, "Storytelling," is being billed as a film about race, sex, and the power of celebrity. The writer/director describes it more pointedly as "two stories of exploitation."


.... More Entertainment stories at http://www.cnn.com/ENTERTAINMENT

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January 13, 2002

QUOTE OF THE DAY
"We will take strict action against any Pakistani who is involved in terrorism inside the country or abroad."

NATIONAL

Months into an expanded war on bioterrorism, the government is still making available hundreds of documents that tell how to turn germs into deadly weapons.


Military investigators have recovered the bodies of five of the seven marines killed when their plane crashed in Pakistan this week.


The Department of Transportation wants security directors at large airports to make up to $150,000 a year and to have advanced degrees.


The most comprehensive Real Estate listings site in town
NYTimes.com/realestate combines The New York Times Classified ads with listings from nearly every broker in the city-
more searchable New York listings than you'll find anywhere else. Most listings feature: neighborhood maps, photos, floor-
plans and virtual tours.


INTERNATIONAL
Pakistani Leader Pledges to Bar Any Groups Linked to Terror
Gen. Pervez Musharraf pledged that his country would not be used as a base for terrorism of any kind and announced a broad ban on militant groups.

**United States Should Join Peacekeepers, Biden Says**

The chairman of the Senate Foreign Relations Committee said on Saturday that the United States should take part in a multinational military force to restore order to Afghanistan.

**U.S. Holding British Subject in Detention at Cuba Base**

The United States has notified Britain that a British subject is one of the 20 detainees from Afghanistan being held at the Naval Base at Guantánamo Bay, Cuba.

**More International News**

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**Business**

**Before Debacle, Enron Insiders Cashed in $1.1 Billion in Shares**

Some shareholders and lawmakers are focusing not on the money lost in Enron's collapse but on insiders who made millions selling shares at the top of the market.

**A Tattered Andersen Fights for Its Future**

Besides Enron itself, no company has been more seriously wounded by its collapse than Arthur Andersen & Company, one of the world's largest accounting firms.

**For Women, to Sow Is Rare, to Fall Is Human**

As Hewlett-Packard's Carleton S. Fiorina battles to complete a merger with Compaq Computer, her success or failure could be viewed as a poignant symbol of women in the corporate world.

**More Business News**

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**Technology**

**Faces and Tickers and Blarbs, Oh My!**

Anyone who tries to listen to a news anchor while reading the various tickers all over the screen may come away thinking that bin Laden looks elegant at 35, while Julia Roberts remains at large.

**Put Away the Slide Projector**

Photo-development services can post vacation photos on a Web site and let you edit them.

**Federal Judge Deals Setback to Microsoft in Private Suits**

Microsoft suffered a setback in its recent campaign to resolve its legal problems, when a federal judge rejected a proposed settlement of more than 100 private class-action suits against the company.

**More Technology News**

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**Politics**

**Cyrus R. Vance, a Confidant to Presidents, Is Dead at 84**

Cyrus R. Vance, who after two decades in public service was appointed secretary of state, died Saturday afternoon in New York. He was 84.

**Before Debacle, Enron Insiders Cashed in $1.1 Billion in Shares**

Some shareholders and lawmakers are focusing not on the money lost in Enron's collapse but on insiders who made millions selling shares at the top of the market.
President Bush will ask Congress to base future increases in aid to poor countries on evidence that the aid is actually bringing progress in such areas as education, trade and the environment.


SPORTS
The Jets could not keep up with the Raiders' old guys, Jerry Rice and Tim Brown, in Saturday night's loss in Oakland.

Eighty-eight players in the 1996 draft were plucked before Terrell Owens, who does not like being ignored.

Donovan McNabb led the Philadelphia Eagles to a win over the Buccaneers that might have cost Tampa Bay Coach Tony Dungy his job.


ARTS
Minimalism, of all improbable art movements of the last 50 years, has become the unofficial language of memorial art.

"Ecco Porco," a nearly four-hour comic spectacle, is both a portrait of the Mabou Mines theater group, and a retrospective for Lee Breuer, one of the company's founders.

A new CD collection of old '78s and '75s evokes the faded glory of a subgenre of country music: truck driving songs.


NY REGION
In the Pit, Dark Relics and Last Obstacles <http://www.nytimes.com/2002/01/13/nyregion/13SITE.html?todaysheadlines>
With no buildings remaining above street level at ground zero, the army of laborers have moved underground, where they face more complicated and dangerous tasks.

Gov. George E. Pataki's health care plan is seen as good politics and bad policy in an election year.

As Yonkers gets a chance to move past a bitter desegregation case, witnesses are remembering years of division and stagnation.


OP-ED
'Will & Will,' 24/7 <http://www.nytimes.com/2002/01/13/opinion/13DOWD.html?todaysheadlines>
By MAUREEN DOWD
The proliferation of kiddecentric cable channels has allowed parents and kids to avoid each other completely.
The Talk of Kabul

By THOMAS L. FRIEDMAN

With half of Afghanistan in the same shape as ground zero, we might as well be doing nation-building on the moon.

Will Bush Bring the Party With Him?

By ANDREW KOHUT

The question is not so much whether the president's ratings will falter this year but the larger political significance of those ratings.

MORE OP-ED NEWS
STATEMENT OF MICHELE DAVIS:

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

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

Rubin said he thought that was a reasonable position.

Fisher made no such call.
thanks Rob

-----Original Message-----
From: Robert.Nichols@do.treas.gov [mailto:Robert.Nichols@do.treas.gov]
Sent: Thursday, January 10, 2002 4:28 PM
To: Wheelock, Robert S.
Subject: RE: Secretary on FoxNews "Your World with Cavuto" at 4:00p Today

we will contact you to discuss

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

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

any chance that the Secretary would be available tomorrow to talk
1) Enron
2) Terrorist Financing
3) Economy, taxes, budget

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

Thanks

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

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

The Secretary will appear in an interview on FoxNewsCH "Your World
with Cavuto" at 4:00p today. Topics of discussion will be the economy and
terrorist financing.
President Calls for Review of Pension Regulations and Corporate Disclosure Rules

For Immediate Release
Office of the Press Secretary
January 10, 2002

President Bush called for a review of pension regulations and corporate disclosure rules, remarks by the President in meeting with his economic team. The Oval Office, 9:42 a.m. EST

THE PRESIDENT: Thank you all for coming. I met with my economic security team last week to talk about ways to create jobs. We're meeting again with the components of the team to talk about one part of economic security, and that's pension security. One of the things we're deeply concerned about is that there have been a wave of bankruptcies that have caused many workers to lose their pensions, and that's deeply troubling to me. And so I've asked the Secretary of Treasury, Secretary of Labor and Secretary of Commerce to convene a working group to analyze pensions, rules and regulations, to look into the effects of the current law on hard-working Americans, and to come up with recommendations how to reform the system to make sure that people are not exposed to losing their life savings as a result of a bankruptcy, for example. As well, Secretary of Treasury, along with the SEC, the Fed, and the CFTC, are going to convene a working group to analyze corporate disclosure rules and regulations. In light of the most recent bankruptcy, Enron, there needs to be a full review of disclosure rules, to make sure that the American stockholder, or any stockholder, is protected. And so, I think this is an important part of, obviously, other investigations that are ongoing. The Justice Department announced and informed us late yesterday that they're in the process of investigating aspects of the Enron bankruptcy. The administration is deeply concerned about its effects on the economy. We're also deeply concerned about its effects on the lives of our citizenry. I'll be glad to answer a few questions.
Eleven and Counting

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White House Steps Up Pressure On Senate Democrats For Stimulus Package Deal.

Euro gains as U.S. dollar slips against yen

The New York Times
December 14, 2001

Eleven and Counting

By PAUL KRUGMAN

mbarrassing but true: Just one month ago the James A. Baker III Institute presented Alan Greenspan with its
Enron Prize. I’m not suggesting any impropriety; it was just another indication of how deeply the failed energy
company was enmeshed with our ruling elite.

And yet Mr. Greenspan also finds himself in Chapter 11. That is, the Fed has now cut interest rates 11 times this
year, and has yet to see any results. What’s going on?

One answer is that something has gone wrong with the monetary "transmission mechanism," the drive train that
normally links the Fed’s actions with the real economy. And one of the people who stripped the Fed’s gears is
Mr. Greenspan himself.

The Fed’s direct power over the economy is actually more limited than is widely appreciated. People often say
that the Fed controls interest rates, but what it actually controls is only an interest rate, the rate in the overnight
federal funds market. And this interest rate is, in itself, of very little economic importance.

Normally, however, a fall in the federal funds rate indirectly affects financial variables that do matter; it leads to
higher stock prices, a weaker dollar and - above all - lower long-term interest rates. Goldman Sachs economists
have incorporated these variables into a "financial conditions index" that, they show, has historically done a
very good job of predicting future economic performance.

Based on past experience, you would have expected the Fed’s dramatic rate cuts since January to lower the
Goldman Sachs index by about five points - enough to produce a roaring 2002. In fact, however, the index has
fallen only about half a point, largely because long-term interest rates have not fallen at all. The Fed, in other
words, is getting almost no bang for its bucks. Why?

Part of the explanation is self-defeating optimism. Bond traders continue to believe, despite mounting evidence
to the contrary, that Mr. Greenspan is a magician - that he will soon conjure up another dramatic boom, and will
then raise interest rates to cool a red-hot economy. Ironically, this very belief helps keep long-term rates high,
and thus ensures that no such boom seems imminent.

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And then there's the federal budget. Just months ago we were dazzled with projections of huge federal surpluses; there was enough money, the Bush administration insisted, to have a big tax cut, increase spending and still pay off the federal debt. But on Tuesday Paul O'Neill quietly asked Congress to raise the federal government's debt ceiling - something he had previously said would not be necessary until 2008 at the earliest.

Has the sudden return of federal deficits had an impact on long-term interest rates? Of course it has. Just a few months ago everyone expected the federal government to pay off its debt, drastically reducing the supply of bonds; now it turns out that it will actually be borrowing money. Inevitably this depresses bond prices, which is the same as raising long-term interest rates. So the rapid deterioration of federal finances is part of Mr. Greenspan's problem. (Has the negative impact of the tax cut on the economy via its effect on interest rates outweighed the positive effect on consumer spending? Yes, on any reasonable calculation.)

Mr. Greenspan, then, finds himself with much less ability to move the economy than anyone expected. And it's partly his own fault. After all, he did much to cultivate the mystique that now turns out to be a handicap. And let's not forget that he intervened decisively on behalf of large tax cuts back in January, when he urged Congress to prevent what he then saw as a great risk: that surpluses would be too large, and that the federal debt would be paid off too quickly.

It might be helpful if Mr. Greenspan would now say something to dampen self-defeating belief in a sudden economic turnaround. It would be even more helpful if he would concede, however indirectly, that he gave Congress bad advice last January; that might prepare the ground for an eventual return to fiscal responsibility. But the Fed chairman, who was quite willing to intervene in fiscal politics when that was helpful to the Bush administration, has gone oddly silent on the subject now that those surplus projections turn out to have been bad science fiction.

Maybe Mr. Greenspan deserved that Enron Prize after all.

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The Washington Post
IN THE LOOP
Stand by Me
By Al Kamen

Friday, December 14, 2001; Page A43
Hill folks, starting Wednesday afternoon, kept hearing odd outbursts and shouting coming from various House
and Senate offices. They wondered what it could be.
headlined: "Norwood Demands Nation's Leaders Stand By Their Word on Patient's Rights."
Both parties in Congress as well as the White House, he said, were "committed to passing a real patient's rights
bill before we go home.... I feel it's prudent to remind them of their promise, and point out every possible
avenue for them to honor their word."
Now, the last time we checked back in the summer, Norwood and a key group lawmakers were working
together to fashion a compromise bill. The bipartisan group included Reps. Greg Ganske (R-Iowa), John D.
Dingell (D-Mich.) and Marion Berry (D-Ark.) and Sens. John McCain (R-Ariz.), Edward M. Kennedy (D-
Mass.) and John Edwards (D-N.C.).
Some of them still remember Norwood saying something like this as he went off to a meeting with President
Bush: "I promise, I give you my word, I will never make a deal without coming back to you."
Alas, as we now know, Norwood did cut a private deal with Bush, infuriating the others.
So that shouting? Just the reactions of some of those lawmakers when they saw Norwood's "demand" that
people keep their word.
"If Charlie had kept his word in the first place," Dingell said, "we would already have a patient's bill of rights."
Norwood spokesman John Stone disagrees. The bill they wanted might have passed Congress, he said, but it
would have been vetoed. "On that point, Charlie and the others thought differently."
Norwood's folks, who say he only promised not to cut a deal on behalf of the group, were not surprised by the
reaction. "When we put that [release] out," Stone said, "we thought we'd ruffle some feathers." But now, he
said, "let's get a bill passed."

Dear Anon: Prove It

Note to that Loop Fan who forwarded some excellent comments by Treasury Secretary Paul H. O'Neill: Very
glad "the quotes are accurate," as you say, but need to know how you know this before we can print them. Don't
need to use your name or identify you in any way. Please e-mail to kamaen@washpost.com. Thanks.

Osama Bin or Dust Bin

The American media will doubtless give plenty of air time, probably through the weekend, to endless replayings
of the latest Osama bin Laden video, now that the administration has released it.
And the Voice of America will also allow its listeners overseas to hear the terrorist's words, despite somewhat
contrary instructions Wednesday in a special memo from VOA director Robert R. Reilly.
In the memo on how to handle "interviews with members of terrorist organizations," Reilly cited congressional
language that "the VOA will not air interviews with any official from nations that sponsor terrorism or any
representative or member of terrorist organizations...."
This was not happily received by some staffers who think of the VOA as a legitimate news-gathering operation,
rather than a government tool.
But Reilly yesterday told a staff meeting that it would be fine to air things like the latest from bin Laden so long
as reporters didn't give such people soapboxes to simply spew their venom. Guess that means that poem Osama
recited won't be in the broadcasts.

One Card Short of a Hand

The Export-Import Bank, which gives loans to companies exporting overseas, always seems to have trouble
getting a quorum. It virtually shut down a couple years ago and now the five-member board is once again
having trouble. There are three members, but word is Chairman John E. Robson has been ill, so the bank hasn't
been able to act on big projects.
There are two nominees pending at the Senate -- Texas banker Eduardo Aguirre Jr. and former Trade and
Development Agency director J. Joseph Grandmaison -- but they've not been confirmed.
Rapt in the Flag

A simmering flag flap at the Justice Department annex at Sixth and D Streets NW is coming to a happy ending. Lawyers in the rented office building, home to folks from the enviro, civil rights and anti-terror operations, started lobbying for a flag immediately after Sept. 11.

Sources tell our colleague Marc Fisher that the lawyers were first told by lower-ranking officials that it couldn't be done for security reasons. So they checked with the head of security. He told them, a source said, that "if we flew the flag it would make us a potential target."

The lawyers protested. "There are far more people sacrificing far more," one of them said, "and to not be able to have that sign of solidarity is really frustrating."

So some of them went out and got a flag; the building already had a pole. But the flag they bought was too small and kept getting wrapped around the pole and some wires, a department spokeswoman said. So someone had to come out with a cherry-picker and unravel the mess.

But word is the department is now getting one the right size so it won't get tangled. Old Glory is expected to be flying proudly perhaps by the end of next week. Meanwhile, some folks wonder, how about some prominent displays of pictures of Bush and Vice President Cheney?

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The Washington Post
Economic Portents Are Hazy
Job Market, Retail Sales Point to Different Futures
By John M. Berry
Washington Post Staff Writer
Friday, December 14, 2001; Page E01

As recessions play out, economic indicators often become confusing and swing erratically from one direction to another.

Retail sales plunged by a record amount last month, following a record gain in October and a severe drop in September, the Commerce Department reported yesterday.

Meanwhile, the job market's deterioration appears to be slowing, according to other figures released by the Labor Department.

And while economists debate whether the recession is nearing an end or hanging on for a while, some business executives are becoming less gloomy. Treasury Secretary Paul H. O'Neill said Wednesday, "There are a lot more people sticking their heads up and saying they are seeing a glimmer of sunshine," said O'Neill, who, as former chairman of Alcoa, maintains many contacts with business executives.

The sales report, however, was not sunny. Retail sales fell 3.7 percent in November, reversing more than half the extraordinary 6.4 percent gain in October. The October jump was due to a huge increase in motor vehicle sales triggered by automakers' offers of no-interest financing and other incentives. A decline had been expected because auto sales couldn't continue at their record pace.

Nevertheless, non-auto sales also fell 0.5 percent last month, though most of that drop was due to a 6.3 percent decline in spending at gasoline stations because of sharply falling prices at the pump.

The weakness in retail sales "was broad-based," said economist Gerald D. Cohen at Merrill Lynch & Co., "with auto sales plunging 11.9 percent, miscellaneous retail sales falling 2.3 percent and catalogue sales down 1.1 percent in November. . . . Excluding autos and gasoline, retail sales eked out a 0.1 percent gain."

A far brighter piece of economic news came from the Labor Department, which reported a fall in the number of people filing initial claims for unemployment benefits, to 394,000 in the week ended last Saturday, from 480,000 the week before. That whopping 86,000 plunge left initial claims at their lowest level in three months.

"If jobless claims remain at that level, it would signal the recession is nearing an end," Cohen said. "However, we don't think that is yet the case and expect the recession will linger through the winter."

Federal Reserve officials indicated Tuesday that they share concerns about a lingering recession by cutting short-term interest rates for the 11th time this year. At the same time, in explaining why they trimmed their target for overnight interest rates to 1.75 percent -- the lowest in 40 years -- they noted that the "weakness in demand shows signs of abating, but those signs are preliminary and tentative."

Minutes of the previous Fed policymaking session, on Nov. 6, were released yesterday. They contained no hint that any of the officials were seeing even tentative signs then that the economy's downward slide might be easing.

Take initial claims for jobless benefits, for instance. Claims had spiked as high as 535,000 in the week ended Sept. 29 as firms laid off workers in the wake of the Sept. 11 terrorist attacks. They remained close to the 500,000-per-week level prior to the November Fed meeting.

Later last month, the number of new claims began to decline generally, interrupted by some weekly increases. Last week's 86,000 decline lowered the much less volatile four-week moving average for claims to 450,000, well below the level of six or eight weeks ago.

In addition, there were signs that some of those without jobs were finding new employers. The total number of benefit recipients rose to almost 4 million by the middle of last month before falling to 3.62 million late last month and rising modestly to 3.66 million in the week ended Dec. 1. Meanwhile, the so-called insured unemployment rate -- the share of workers covered by unemployment insurance who have lost their jobs -- fell to 2.8 percent from arcenct high of 3.1 percent.

"Taken at face value, the lower level of initial claims indicates that the wave of new claims precipitated by the events of September 11 have abated," said economist Ken Kim at Stone & McCarthy, a financial markets research firm. "Whether this momentum toward a lower level of claims can build is still a question mark, but at least it's a start toward an improvement in labor market conditions and the economy as a whole."

Cohen said his economic forecast assumes that continuing layoffs will cause consumer spending to "soften further in coming months." However, because of the strong sales in October, consumer spending for the final three months of the year is likely to be up at a 2.5 percent annual rate, after adjustment for inflation, Cohen said.

But a lot of the merchandise being bought is coming out of stocks of unsold goods -- that has certainly been the case with automobile dealers. Since production is not keeping up with sales, the forecast predicts the overall economy will contract at a 1 percent annual rate in the October-December period.
Another report released yesterday by the Labor Department showed that inflation is not a problem. Producer prices for finished goods declined 0.6 percent last month following a very large 1.6 percent drop in October, the department said. Both declines were primarily the result of energy prices moving down -- by 7.7 percent in October and another 3.8 percent last month.

The department's index measures changes in the prices producers charge when they first sell a completed item. In many cases these are the same as wholesale prices, but in some instances they are not.

Over the past two months, producer prices for gasoline have plunged by nearly a third -- by 21.2 percent in October and another 10.3 percent last month. Home heating oil prices are off nearly as much and residential natural gas prices, which dipped 2.6 percent last month, have declined for 10 months in a row.

Excluding volatile food and energy prices, the remainder of the index for finished goods prices rose 0.2 percent last month after falling 0.5 percent in October.

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Focus on Bankruptcy Reform
Enron Failure Spurs Bid to Clarify Treatment of Derivatives
By Kathleen Day
Washington Post Staff Writer
Friday, December 14, 2001; Page E03

Enron Corp.'s financial meltdown has rekindled interest in an obscure item in the bankruptcy legislation now stalled in Congress that would let companies, in the event of insolvency, quickly settle a host of complex financial contracts known as derivatives.

At stake are the value of tens of billions of dollars of contracts -- no one seems to know the exact amount -- that Enron has with hundreds of trading partners, from giant banks such as J.P. Morgan Chase & Co. and Citigroup to energy companies such as El Paso Corp. These traders want to be sure of their right to match up losses and gains on these contracts so they can come up with one overall amount owed to them, not wait in line for repayment on each contract like regular creditors.

Even more important, in the eyes of federal financial regulators such as Federal Reserve Chairman Alan Greenspan and Securities and Exchange Commission Chairman Harvey Pitt, is the health of the U.S. financial system. Regulators worry that the financial system could be thrown into chaos if the legal certainty of being able to settle these complex contracts during a bankruptcy were called into question.

Greenspan met yesterday with House Financial Services Committee Chairman Michael G. Oxley, (R-Ohio) and House Judiciary Committee Chairman F. James Sensenbrenner Jr. (R-Wis.) to discuss the possibility of clearing up the matter by passing legislation this year separate from the bankruptcy bill.

When Enron filed for Chapter 11 bankruptcy protection Dec. 2, its derivatives trading partners matched up their gains and losses on their outstanding contracts. Creditors worry that Enron may try to challenge some of those "netting" arrangements because bankruptcy law does not explicitly allow for such netting in the case of the new kinds of derivatives that Enron and others have created since bankruptcy laws were last revised in the 1980s. Regulators have worried about the issue for years. Those fears were heightened three years ago, when Long-Term Capital Management, a giant hedge fund that relied heavily on derivatives, nearly collapsed.

Greenspan, Pitt, Treasury Secretary Paul H. O'Neill and other bank regulators on Oct. 31 sent a letter to House Speaker J. Dennis Hastert (R-Ill.) emphasizing the importance of passing a netting measure, even if lawmakers couldn't agree on a more comprehensive bankruptcy reform package.

The issue was highlighted yesterday when several Enron creditors asked the bankruptcy court to appoint someone to oversee the netting agreements with Enron. A lawyer familiar with the talks said that some creditors worry Enron may challenge some netting agreements to try to reduce the amount of money it owes.

The lawyer pointed out that Enron has not indicated "in any way" it might mount such a challenge, but noted that creditors still worry because billions of dollars are at stake and the possibility of a challenge still exists. So far the Enron bankruptcy has not disrupted the derivatives trading market. Lawyers for creditors said, however, that disputes over final netting amounts could arise. At least a few wonder if Enron gave any of its largest creditors, such as J.P. Morgan, preferential netting treatment to secure additional loans from the bank.

A J.P. Morgan spokesman declined to comment. Enron spokesmen did not return calls.

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Treasury Secretary Paul O'Neill met with several members of the financial services industry Thursday morning to discuss pending legislation and the declining economy, industry sources said.

According to the sources, Mr. O'Neill, who attended along with Peter R. Fisher, the under secretary for domestic finance, and Sheila Bair, the assistant secretary for financial institutions, stressed the importance of passing the economic stimulus package before Congress adjourns for the year. Mr. O'Neill reportedly said that the next two days would be critical to its chances of passage.

The group of industry representatives also talked about efforts to pass terrorism insurance legislation, the sources said. Mr. O'Neill appeared hopeful that a Senate bill would be passed soon, but many of the representatives were concerned about the cost of complying with new anti-laundering regulations, though they expressed support for the administration's efforts.

Mr. O'Neill also reportedly discussed the general state of the economy. The group briefly touched on Enron, and he commented that its collapse raised many complicated issues that would need to be looked at, the sources said.

The participants included Marc Lackeritz, the president of the Securities Industry Association; Diane Casey, the president of America's Community Bankers; Kenneth Guenther, the president of the Independent Community Bankers of America; Roger Levy, the senior vice president for Citigroup Inc.; Cory N. Strupp, the chief lobbyist for J.P. Morgan Chase & Co.; Steve Bartlett, the president of the Financial Services Roundtable.
A Big Stick: The U.S. Won't Take 'No' for an Answer At Paris Steel Summit

Bid to Cut Global Capacity Comes With the Threat Of Major Boost in Tariffs

'Stop Me Before I Kill Again'
By Robert Guy Matthews
Staff Reporter of The Wall Street Journal

On Monday, key officials from the world's top steel-producing countries will gather at a summit in Paris to deliver the following answer to President Bush's proposal that they cut steel production: No. Nyet. Non.

Their expected refusal will set the stage for a nasty confrontation, pitting the U.S. and the clout of the world's biggest steel importer against the exporting interests of the European Union, Russia, Japan and Brazil. The timing, too, is less than ideal. These nations make up a large part of the international coalition Washington has coaxed together to support its campaign against terrorism.

But then it also is crunch time for the domestic steel industry. Twenty-eight steel companies have filed for bankruptcy protection since 1997, including the nation's third- and fourth-largest. In an extraordinary bid to salvage the industry, last week USX-U.S. Steel Group proposed buying its troubled competitors Bethlehem Steel Corp., National Steel Corp. and Wheeling-Pittsburgh Corp., if the government would pick up a $13 billion tab for retiree costs.

President Bush is in effect telling the global industry to become a kind of cartel or kiss the U.S. market goodbye. The U.S. International Trade Commission last week recommended that President Bush tack on additional tariffs ranging from 5% to 40% for key steel products. President Bush could threaten next week to leave the doors of the U.S. market open only a very costly crack if the world's steelmakers don't agree to cuts -- cuts that could wipe out several foreign steel companies. Hit especially hard: steelmakers in Russia, Brazil, Japan, and South Korea, which rely heavily on exports to the U.S.

A champion of free markets, President Bush is pushing protectionism on behalf of an industry that has diminished in size and importance in the past 20 years as more global forces have made their way into the U.S. market, taking advantage of steel's bloated cost structure. Yet, even as the work force is at its lowest level in decades and the number of steel mills has greatly diminished, steel continues to play a huge role in the industrial base of the country, providing parts for cars, washing machines and homes. Moreover, the travails of the steel industry affect the tax base of communities and states, and the health of industries that consume steel and supply steelmakers.

Mr. Bush says a healthy steel industry also is vital for national security, although some question that point. And steel could be crucial for the president's political career. The industry remains big in swing states such as Pennsylvania, Ohio and West Virginia, where a good portion of 600,000 retired steelworkers live. West Virginia, in particular, could be key to the 2004 presidential election. Mr. Bush scored a surprise win there last year, and he has since taken pains to address the concerns of the steel industry.

Countries around the world have similar concerns. They also don't want to lay off their own workers so that the world's steel industry can eliminate capacity. And it could cost millions of dollars to make sure that shuttered steel mills don't become environmental hazards.

EU Trade Commissioner Pascal Lamy, speaking to the U.K. Steel Association Thursday in London, said the U.S. was essentially trying to place the entire burden on other countries. Mr. Lamy warned against conducting "international negotiations with a gun to the head and a policy best summarized as 'stop me before I kill again.'" The trade commissioner vowed to take the U.S. before the World Trade Organization if it carries through on the
tariff threat.

Clearly, the stakes, as well as tempers, are high. Each of the countries is adamant about protecting its own jobs and industries, and each will present its argument as to why others should make the cuts. And that's where the real fight is going to be: on the question of which countries are going to bear the burden.

It probably won't be the EU, Japan and the U.S., but rather Russia, Brazil and Korea. Russia and Ukraine are expected to shoulder most of the cuts because their producers are much weaker and not as well connected to the World Trade Organization and produce far more than they need. Russia and Ukraine produce 13% of the world's steel but consume only 5%. By contrast, China, the world's top producer, uses most of its output domestically.

A global steel cartel along the lines President Bush is demanding could reshape the economies of every major industrial nation. If history offers any guide, the results might mirror that of the global aluminum industry, which agreed in the 1990s to cut production. In that case, the governments of the U.S., European Union, Norway, Australia, Russia and Canada, the world's primary aluminum makers, first agreed to a two-year limited production cut ranging as high as two million tons. And while less than one million tons was taken out of the world market, the move had the desired effect: Prices did jump, as much as 20 cents a pound, from 56 cents a pound.

Aluminum has been largely profitable since, benefiting those countries and their producers who agreed to cut production voluntarily, through the cost of lost jobs within the industry and higher prices for consumers from aerospace to beverage makers. President Bush's Treasury secretary, Paul O'Neill, was a key organizer of the aluminum effort when he was chief executive of Alcoa Inc.

In September, the Bush administration convened a steel summit in Paris and essentially told the world it needed to cut steel production. All the countries agreed in principle. Last year, the $240 billion world steel industry churned out 847 million tons of steel, about 40 million tons more than users could consume, continuing a trend that has depressed the world's steel prices. The trend benefits steel users, such as auto makers and construction companies. But is destroying steel producers.

One reason for the billowing production is that governments, including the U.S., continue to support even marginal steel production through emergency loans and other subsidies. Moreover, demand has continued to grow and each company and country figures it should be the one supplying that growing demand. Smaller countries, too, have found that they can make lots of money and improve the standard of living of their people by exporting to richer ones.

Since the September meeting, President Bush has sent representatives around the world to get them to come up with a response, identifying where production cuts could be made.

The problem is that all the countries, including the U.S., say they have already made cuts and can't or won't make more. Domestic steel producers say they have already cut 20% of capacity and can afford no more. "We have done our part," trumpeted Grant Aldonas, undersecretary of commerce for international trade and chief steel negotiator at the upcoming Paris summit; he was speaking at a steelworker rally outside Pittsburgh Monday. "We have adjusted and done what's needed to be done. No one can tell me we have not borne our fair share and more. The acid test will come next week when we take that message to some people who do not want to hear it."

Foreign steel producers and their governments say they have little sympathy for the U.S. industry, saying its woes reflect poor management and outdated labor practices. "The U.S. steel industry needs to put its own house in order," said the EU's Mr. Lamy. "This should not be done at the expense of those who have already done so."

Because steel is a basic industry, countries are reluctant to rely on imports. That argument has taken on added urgency since Sept. 11. The administration, steel producers and the United Steelworkers of America have passionately argued that the U.S. is at war and needs a healthy steel industry to support that effort.

In fact, last year less than 1% of steel production went into American tanks and military ships. War tools generally require lighter metals such as aluminum or composites of specialized metals, such as titanium, which
aren't directly tied to the proposed cuts in capacity. The Bush administration argues that while steel doesn't go directly into tanks, it's needed to build trucks, bridges, buildings and essentially maintain the nation's infrastructure, more vulnerable than ever since Sept. 11.

Mr. Bush's push to eliminate steel capacity has yet to address the environmental and employment issues. It also fails to provide guidance as to who becomes the world's steel policeman, ensuring that the countries that agree to cut production stick to their agreement. This is where it becomes sticky. Legally, steel companies can't get together and limit capacity. That would break antitrust laws. To get around that, Mr. Bush, strictly speaking, is negotiating with the governments to agree to urge their steel industries to cut back on production.

Steelmakers in Europe have already gone through tough restructurings, resulting in fewer, bigger companies. Two-thirds of Europe's annual production, about 176 million tons, comes from six companies, while two-thirds of production in the U.S., about 110 million tons, comes from 12 companies.

France's Usinor SA. Luxembourg's Arbed SA and Spain's Aceralia are completing a $3 billion merger to become the world's largest steelmaker. to be renamed Arcelor. In 1999, Thyssen AG merged with Fried. Krupp AG Hoesch-Krupp to form ThyssenKrupp AG. Also in 1999, Hoogevens of the Netherlands merged with British Steel to form Corus PLC. Since then, Corus has cut 10,000 jobs. The company this year has announced 6,000 layoffs -- about 12% of the work force -- because of the downturn in steel. Corus also announced a 20% cut in its production this year.

While not big exporters to the U.S., EU countries have a lot to lose if the U.S. enacts severe trade restrictions. Foreign steel that wasn't sold in the U.S. probably would be diverted to Europe and would flood the EU with cheap imports. Prices would plummet and steelmakers' losses would deepen just as the industry is trying to rebuild. Imports have already started their shift into Europe. In 1998, Europe was a net exporter of steel. Last year, it became a net importer. From 1995 to 2000, steel capacity fell 6.8%.

High-level talks in Seoul concluded at the end of November with South Korean trade officials saying they have already cut capacity, about five million tons, since 1997. Though they agreed to lower output more, they gave no specific figures. "We are in a position to offer cooperation, not responsible for making drastic cuts," said Choi Hyuck, deputy minister for the Ministry of Foreign Affairs and Trade, at a news conference at the end of November. "Since it is the United States that is having many problems in the steel industry, we believe the country should take the lead in the reduction movement, thus becoming a model for the rest of the world."

Even before next week's meeting, foreign steel producers are trying to work out special deals for themselves. Steel producer OAO Severstal, the largest Russian exporter to the U.S., says that it would cut capacity if Mr. Bush "is ready to negotiate existing limitations placed on Russian steel imported into the U.S.," said Alexander Tumanov, sales manager for Severstal. In Brazil, options are being guarded. "This is like a poker game and no one wants to open his hand," says Jose Armando de F. Campos, chief executive officer of Brazilian steelmaker Companhia Siderurgica de Tubarao, or CST.

India says that although it won't cut capacity, it also won't increase it. Japan, which rejected outright President Bush's mandate of a country-by-country steel-cut tally, has put on the table a "nonbinding target" of eliminating 20 million tons of capacity within three years, according to Japan's Ministry of Economy, Trade and Industry. The cut would leave Japan with 125 million tons of capacity, but the country expects to already be selling far less steel anyway (just under 100 million tons next year) because of the weak market.

Peter Marcus, chief analyst at World Steel Dynamics, says that Mr. Bush's cut to a more manageable 800 million tons doesn't go far enough. He says that production cuts of 30 million to 40 million tons will eliminate the excess capacity and get the number down to 800 million, but the plan fails to take into account huge steel inventories that need to be worked off. "From my point of view, production should drop to 750 million tons," he says.

He doubts that the steel industry, even with the threat of import restrictions by Mr. Bush, would drop to those levels so quickly. In fact, some steelmakers may increase production. Analysts predict that South Korea's Pohang Iron & Steel Co., the second-largest steelmaker in the world, will increase production by nearly 2% next year.
Paul Hofheinz in Brussels contributed to this article.

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Countries of Steel
Top 10 steel-producing countries, in millions of metric tons

<table>
<thead>
<tr>
<th>Country</th>
<th>Metric Tons</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>127.2</td>
</tr>
<tr>
<td>Japan</td>
<td>106.4</td>
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<tr>
<td>U.S.</td>
<td>101.5</td>
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<td>Russia</td>
<td>59.1</td>
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<tr>
<td>Germany</td>
<td>46.4</td>
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<tr>
<td>South Korea</td>
<td>43.1</td>
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<tr>
<td>Ukraine</td>
<td>31.4</td>
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<tr>
<td>Brazil</td>
<td>27.9</td>
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<td>India</td>
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<td>Italy</td>
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Source: World Steel Dynamics

Menu
Treasury to Reverse Clinton-Era Rules On Research Credits
By Tom Herman
Staff Reporter of The Wall Street Journal

Reversing a Clinton administration position, the Treasury Department soon will propose sweeping revisions to rules governing tax credits for business research, making it easier for many companies to shave their tax bills.

At issue is how to interpret complex requirements for a credit that already saves U.S. companies billions of dollars. A congressional staffer estimated earlier this year that permanent extension of the credit, which now is scheduled to expire in mid-2004, would cost the Treasury about $47 billion through 2011.

Treasury officials say the proposed new rules would replace a heavily criticized regulation issued by the Clinton administration in early January, less than three weeks before President Bush was sworn in. The National Association of Manufacturers and other business groups assailed that regulation as being too restrictive in defining what types of research qualify for the credit. Critics also said the Clinton Treasury rules included overly burdensome documentation requirements.

Treasury Secretary Paul O'Neill quickly froze the previous regulation and promised a fresh look at the subject. Among the changes in the new regulation, which could be proposed as early as today, is the elimination of an unpopular provision, known as the "discovery test," that business leaders say represents a major obstacle to taking advantage of the credit.

The Clinton Treasury regulation required that "qualified" research must be undertaken to "obtain knowledge that exceeds, expands or refines the common knowledge of skilled professionals in a particular field of science or engineering." Critics say it was an unworkable rule that led to major, time-consuming disputes with Internal Revenue Service agents and wasn't even intended by Congress. A Treasury official says this test has been "the single greatest source of controversy" between businesses and the IRS in figuring out what type of research qualifies for the credit.

"We need to use every tool available to encourage growth, investment and job creation in our economy," Mr. O'Neill said late yesterday. "The elimination of the discovery test will make it easier for businesses to qualify for the credit in the course of developing new products."

Treasury and IRS officials say more than a quarter of the audit resources at the IRS's large and midsized business division have gone into examining claims for the research and experimentation credit.

Another change that will be proposed would ease record-keeping burdens, a Treasury official says. Under the Clinton rule, businesses had to "prepare and retain written documentation before or during the early stages of the research project," according to the proposed new regulation, which will change those requirements.

Treasury and IRS officials "recognize that the research credit presents a particular burden for taxpayers" because of such requirements, according to the proposal. They also make the IRS's job difficult.

The proposed new rules generally would be effective for tax years ending on or after their publication date in the Federal Register. But the proposal also says the IRS "generally will not challenge return positions consistent with the proposed regulations." Thus, businesses can rely on the proposed new rules until final regulations are published.
The proposed rules include examples of which types of research would and wouldn't qualify.

The Bush administration proposal says the Treasury and IRS have decided that the Clinton Treasury's definition of qualified research "does not fully address Congress's concerns regarding the importance of research activities to the U.S. economy."

A public hearing on the subject is scheduled for March 27, at IRS headquarters in downtown Washington.
Politics & Policy

Tech Firms Are in Position to Benefit Most From Stimulus
By Shailagh Murray and John D. McKinnon
Staff Reporters of The Wall Street Journal

WASHINGTON -- The $100 billion stimulus bill has sparked an intramural battle among corporate lobbyists over who will get the biggest piece of the tax-cut action.

For the moment, high-tech companies appear to be winning that battle. The Information Technology Industry Council -- with members such as Intel Corp. and Dell Computer Corp. -- has won the backing of President Bush and top Democratic and Republican legislators for its pet idea of "accelerated depreciation."

The goal is to jump-start stalled demand for computers and other capital equipment by allowing customers to write off more of the cost up front.

The chief lobbyist for the high-tech group is Ralph Hellmann, who until Friday, Oct. 26 was a top aide to House Speaker Dennis Hastert. After taking the weekend off, he started working on Monday, Oct. 29 for the group.

Mr. Hellmann's apparent success may come at the expense of the National Association of Manufacturers and stalwarts such as General Motors Corp. and General Electric Co., who seem to be losing a once-promising bid to repeal the corporate alternative minimum tax. That tax is aimed at preventing companies from avoiding taxes by building up credits and deductions, and generally requires them to pay a minimum of 20% of their profits in federal taxes.

The stimulus bill passed by the House in October provided $25 billion in relief from the minimum tax next year. But it also included a refund of AMT credits that companies have piled up since the tax was enacted 15 years ago. The proposal came under criticism as a bailout for big business, and AMT repeal is being scaled back, and may end up being worth as little as $4 billion.

Other companies and trade groups are madly scrambling to insert their own ideas before the White House and Congress seal the deal. With negotiators now making progress on the specifics, the House hopes to vote on a final bill as early as Tuesday.

Eli Lilly & Co.'s Chief Executive Sidney Taurel met with Senate Majority Leader Tom Daschle and Treasury Secretary Paul O'Neill during a November Washington visit, to press for a proposal allowing multinationals to repatriate more money from overseas subsidiaries. It would bring in an estimated $135 billion to the U.S. economy next year, while raising money for the government in the short run, and cost only about $4 billion over 10 years. At House Majority Leader Dick Armey's Christmas party, a lobbyist for the Telecommunications Industry Association buttonholed the Texas Republican to press for a high-speed Internet-access tax credit.

Mining companies have persuaded Utah Republican Sen. Orrin Hatch to back legislation allowing them to write off losses from the early 1990s. Insurance company AIG wants to be able to write off domestic losses even if foreign earnings make the overall company profitable -- a change from current practice requiring a company to lose money overall to qualify for such a break.

Will any of these be in the bill? No one knows for sure, but all are ripe for last-minute inclusion, depending on how the deal's main pieces fall into place. Stimulus negotiators spent yesterday hashing out details of health coverage for jobless workers, while also fighting to keep their favorite tax provisions alive. For instance, House Ways and Means Chairman Bill Thomas -- the lead backer of AMT repeal among negotiators -- floated the
possibility of sidelining the acceleration of individual income rate cuts, which Democrats loathe, and keeping AMT repeal intact. But that angered other Republicans, who prefer the rate cuts.

Leading negotiators say the package's contents won't likely be known until the horse-trading stops in the final hours.

"They all have ultimately some degree of stimulus to them," Ways and Means Chairman Bill Thomas says of most of the measures on the table. "The problem is, there's not enough honey in the pot."

The current feeding frenzy among corporate tax lobbyists resumes a scramble that began at the beginning of the year when President Bush introduced his $1.7 trillion tax cut, the first such major bill to move in 20 years. Preferring a package aimed at individuals, Mr. Bush persuaded his corporate backers to stand down, suggesting they would get a piece of the next big tax cut to move. Businesses dutifully withdrew their demands and strongly endorsed the spring tax bill largely made up of income-tax cuts and estate-tax repeal.

Then came Sept. 11 and its economic fallout. A bipartisan consensus quickly emerged that a new stimulus bill of tax cuts and spending increases for the unemployed was needed.

Businesses saw their chance.

From the get-go, the two biggest items on the corporate wish list have been speeded-up depreciation and relief from the alternative minimum tax. While many companies would benefit from both provisions, they would work through the economy in different ways. The faster depreciation plan would make capital equipment, and particularly computers, cheaper for companies, and would ideally encourage them to buy more -- or at least stop canceling orders.

Repealing the alternative minimum tax, on the other hand, is a cherished goal of many manufacturers, particularly those that invest a lot in heavy equipment, such as mining companies and automakers. It wouldn't directly spur demand for their goods, but it would give them, in some cases, billions of dollars in cash.

For depreciation backers, the goal has been to get a three-year, 30% bonus. That means a company buying, say, a personal computer, could write off 30% of the computer's value in the first year of the purchase above and beyond what is allowed under current law. Backers want the credit to apply to purchases made for the next three years. Both the White House and House Republicans bought on quickly to that plan, but Democrats countered with a one-year, 10% bonus.

That is when Mr. Hellmann, the veteran-Speaker's-aide-turned-lobbyist, went to work. His first calls in his new job were to the offices of Mr. Daschle and Senate Finance Chairman Max Baucus, to press high-tech's case for 50%.

The aides assured Mr. Hellmann everything was negotiable. Mr. Hellmann then circulated to fellow lobbyists a list of Senate Democrats he thought likely to sign on. The list included tech-belt Senators Barbara Boxer and Dianne Feinstein of California and Maria Cantwell of Washington; moderates John Breaux of Louisiana and Ben Nelson of Nebraska; and vulnerable 2002 candidates, including Max Cleland of Georgia and Tim Johnson of South Dakota. The vulnerable Democrats appeared in bold on the list.

The campaign had an impact. Shortly after Thanksgiving, Mr. Daschle began to single out depreciation as a top priority, even noting it in a Senate floor speech. "The high-tech community said that is one of the most important issues for them," the South Dakotan said. "That will be a priority for us."

Mr. Hellmann must strike a delicate balance, since many of the companies in his group also would benefit from the repeal of the alternative minimum tax. International Business Machines Corp., for instance, is a member of his coalition, and would have gained $1.4 billion from the House-passed version. Two other coalition members, Corning Inc. and Intel, are eagerly seeking the high-speed telephone-line credit.

"We're for those provisions and we always say that," Mr. Hellmann says. "But when I go up to the Hill, I say, 'if you only do one thing, do accelerated depreciation.'" he adds, calling AMT and broadband relief "priorities 2a and 2b."
In the meantime, backers of AMT repeal may be suffering from their earlier victories. The backlash against that giveaway even made some major beneficiaries squeamish. GE Chairman Jeffrey Immelt, for one, didn’t mention his company’s $671 million in AMT credits during a recent phone conversation with Sen. Baucus, the Finance chairman. Instead, Mr. Immelt opined that he thought the recovery, when it came, would be demand-led.

He told Mr. Baucus, "'It's all about consumers,'" recalls the senator, who notes that the sentiment is shared by most of the CEOs he has consulted. As for narrower perks like the AMT credits, Mr. Baucus said, "I think the companies feel guilty even talking about it."
DJ Greenspan, Oxley Meet; Enron Woes Push Netting Bill

Dow Jones International News Service via Dow Jones

By Dawn Kopecki

OF DOW JONES NEWSWIRES

WASHINGTON (Dow Jones)--Federal Reserve Chairman Alan Greenspan met Thursday with key House lawmakers to discuss this year's prospects of passing legislation that clarifies corporate bankruptcy laws by allowing companies to quickly settle outstanding derivatives contracts in the event of an insolvency.

The once-obscure financial issue has gained new prominence and urgency on Capitol Hill as federal investigators sift through the mess left behind by the Chapter 11 bankruptcy filing of energy giant Enron Corp. (ENE).

The measure allows institutions to quickly close outstanding derivatives contracts with bankrupt trading partners by netting all the losses and gains of individual contracts into one deal.

House Financial Services Chairman Michael Oxley, R-Ohio, invited Greenspan to meet with House Judiciary Chairman James Sensenbrenner, R-Wis., after Oxley held a bruising hearing Wednesday on financial improprieties leading to Enron’s demise.

Complicated, off-balance sheet transactions were the company's undoing. Its stock collapsed after a Nov. 8 announcement that the firm had overstated its net income over four years by $569 million.

Creditors are now lining up to collect on the approximately $40 billion in debt owed by Enron.

Of that, roughly $22 billion is on the balance sheet in the form of bank debt, commodity-transaction financing, bonds and other public securities. The remainder is made up of roughly $7 billion in bonds and bank debt linked to other assets in special partnerships, as well as an additional $10.7 billion in "project finance," a term that typically refers to money lent to build power plants or oil refineries.

"Enron underscores the importance of it," said Peggy Peterson, spokeswoman for the House Financial Services Committee of the issue. "The other factor is the recessionary economic climate, the netting provisions would lower market risk."

Pressure to pass the measure was already building since the Sept. 11 terrorist attacks shut down U.S. financial markets and destroyed the Manhattan offices of many Wall Street brokerage houses.

"Congress should not fail to enact netting legislation this year," Greenspan and Treasury Secretary Paul O'Neill wrote House lawmakers a few weeks after the attacks. "Further delays would unnecessarily place the financial system at greater risk."

Lawmakers are now questioning whether the legislation, which is also attached to a broader bankruptcy bill in both chambers, could be applied to Enron's bankruptcy case if the bill passes this year. Federal securities officials said it was unclear whether they could apply new contract netting laws retroactively.
Still, Peterson said that Oxley hopes to get the bill passed by next week, before Congress finishes its work for 2001.

-By Dawn Kopecki, Dow Jones Newswires; 202-862-6637; Dawn.Kopecki@dowjones.com
(Judith Burns contributed to this story.)

(END) Dow Jones Newswires 13-12-01

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:TICKER: ENE

Menu
The Bulletin's Frontrunner

December 13, 2001

SECTION: Washington News

LENGTH: 1688 words

HEADLINE: White House Steps Up Pressure On Senate Democrats For Stimulus Package Deal.

BODY:
Reuters (12/12, Smith) reported the White House "on Wednesday stepped up pressure on Senate Democrats to strike a deal on a stimulus package that President Bush says is needed to lift the U.S. economy out of recession." White House spokesman Ari Fleischer said a "majority of U.S. senators supported a new proposal of tax cuts for businesses and individuals and aid for the unemployed that the president had put forward. He said that if the Democratic-controlled Senate 'had the will' to bring it up for a vote, it would pass." Fleischer said, "There is a bipartisan majority of senators who support the proposal the president has made. The logjam is in the Senate leadership, which needs to schedule a vote rather than obstruct the bipartisan majority of the Senate." The AP (12/12, Anderson) reported the Bush Administration "and Democrats groped for an elusive compromise Wednesday on economic stimulus legislation that would grant health and jobless benefits for victims of the recession and speed up income tax cuts for middle-income Americans." With the White House "willing to meet some Democratic demands on unemployment, sources said Senate Majority Leader Tom Daschle had opened the door, slightly, to the Republican demand for accelerating income tax cuts." White House spokesman Ari Fleischer said, "The president just cannot imagine that the Senate would leave town without addressing both those important priorities." The AP added Daschle "said earlier Wednesday it would be 'almost impossible' for rank-and-file Democrats to support earlier effective dates for any of the income tax cuts scheduled to go into effect in 2004 and 2006. Yet several sources said Daschle offered in a late-afternoon meeting on Capitol Hill with Treasury Secretary Paul O'Neill to reduce the 27 percent rate to 26 percent." The AP added, "Republicans continued Wednesday to hammer Democrats as obstructionists. The Republican National Committee put out documents quoting Democrats as taking credit for blocking the GOP agenda in Congress and urging that people put pressure on Democratic senators such as Max Cleland of Georgia."

The Wall Street Journal (12/13, Murray, McKinnon) reports, "Trying to push talks on the economic-stimulus package to the finish line, Senate Majority Leader Tom Daschle signaled he would try to sell to Democrats an immediate cut in individual tax rates if Republicans agree to meet Democratic demands for unemployment aid." The offer, which "would accelerate a planned one-percentage-point cut in the 27% individual income-tax rate," was "floated during a breakfast meeting at the White House." The Journal adds, "In return for the rate cut, Mr. Daschle wants Republicans to expand unemployment benefits, especially to cover temporary and part-time workers, and to commit more funds to help jobless workers buy health coverage."

The Washington Post (12/13, A2, Kessler) reports, "The battle over the $100 billion economic stimulus package has come down to two critical issues: the administration's demand that part of President Bush's tax cut be speeded up and the Democrats' insistence on providing substantial benefits to the unemployed. As of last night, it was unclear who would blink first. There were signs, however, that a stimulus deal could be reached in a classic Washington tradition -- splitting the difference." Administration officials, "having recruited the support of three Democratic centrists for immediately reducing the 27 percent tax rate to 25 percent, asserted yesterday that they would not accept a stimulus bill without a reduction in rates." The Post adds, "A senior Treasury official told reporters that the White House has offered "the middle ground on rate reduction" and that there was little room for movement." But Daschle "dismissed the latest White House offer as not much more than a rehash of previous proposals."

The New York Times (12/13, Stevenson) reports, "Negotiations about an economic recovery package hinged today on President Bush's insistence that any plan include a cut in personal income tax rates, a provision that Congressional Democratic leaders said would be hard for their members to accept." He Times adds, "Both parties said all issues were on the table as the administration and Congressional leaders made one last push to reach a deal on an economic stimulus bill before the House and Senate go home for Christmas." Bush "tried to
put pressure on the Democratic majority leader in the Senate, Tom Daschle of South Dakota, by negotiating with at least three moderate Democrats and a group of centrist Republicans on a compromise proposal set out by the administration on Tuesday."

Lott Says Chances Of Deal 50/50.

On CNN (12/12), Larry King interviewed Senate Minority Leader Trent Lott, who said President Bush's concessions on the stimulus package was a "very strong gesture by the President that he is willing to consider different options and make changes and reduce some of the things he'd like to have and move up in others. It's called a negotiated process, a negotiating process that leads to a compromise. But here's the point. The President says the economy in America needs a boost. We need to do it. He says to Congress, you know, quit finding a way not to do this. Come together, work with me and do it now. Christmas is coming down the road here very soon, and delay is denial. Delay in getting people their unemployment and the health insurance coverage they need while they're unemployed is denial... So the President's doing all he can. I have been meeting today with the Speaker in the House and with Tom Daschle in the Senate and I'm urging everybody to find a way to say yes, and I do think we've made progress. We were fighting this battle, frankly, on a 100-yard field. I think now it's between the 40s, and it would be good for America if we did this, and that's why the President has shown movement." Asked if he thought a stimulus package would be passed before Christmas, Lott said, "I think it's a close call, 50/50, but I believe there will be a deal tomorrow."

Payroll Tax Holiday Proposal Gains Support In Congress.

The Minneapolis Star Tribune (12/13, Hotakainen, McKenzie) reports, "As leaders in Congress try to negotiate a long-stalled plan to stimulate the nation's economy, one idea is suddenly gaining favor: a one-month payroll tax holiday for workers who earn less than $80,400 a year. While Republicans insist on speeding up tax-rate cuts, Senate Majority Leader Tom Daschle suggested Tuesday that Congress instead approve the $43 billion tax holiday, which was first proposed by Sen. Pete Domenici, R-N.M. Sen. Mark Dayton 'endorsed the plan, with some reservations. 'There are better ideas, but it's much better targeted toward working Americans than the rate reductions at the top,' he said."


USA Today (12/13, Keen) reports, "The White House is pressuring Senate Democrats to pass stalled legislation in a possible preview of President Bush's 2002 political strategy. The chief target for their complaints about delays on Bush's domestic agenda is Majority Leader Tom Daschle, D-S.D." Adviser Karen Hughes "complained that Daschle hasn't scheduled votes on three priorities: Bush's tax cuts meant to stimulate the economy, a bill that would give the president more authority to negotiate trade deals and an energy plan to expand production and provide incentives to develop renewable sources... Hughes is not the first administration official to criticize Daschle. On Sunday, Vice President Cheney called him 'an obstructionist' and said he's trying to 'artificially erect barriers to Senate action.'"

Hunt Says GOP Is Angry Because Daschle Is Effective.

Albert Hunt writes in the Wall Street Journal (12/13), "Republicans, desperate for a demon since Bill Clinton left town, are targeting Tom Daschle. Implicit in the Daschle attacks is that not going along with a Bush domestic agenda is unpatriotic in a time of war. Sixty years ago, when there was a declared war and sacrifice was being asked of Americas, Senate GOP Leader Robert Taft declared: 'Criticism in a time of war is essential to the maintenance of any kind of democratic government.' The great Ohio conservative continued to assail President Roosevelt's domestic policies through much of World War II and was one of the few politicians with the courage to speak out against the internment of Japanese-Americans. Tom Daschle's real sin, in the eyes of his increasingly venomous Republican critics, is that he's effective. He shrewdly -- and correctly -- cooperated with the White House in the national security and anti-terrorism initiatives post-Sept. 11. Now he wants to draw lines and delineate differences on domestic issues. That may drive Republicans crazy. But he's doing precisely what Mr. Republican, Bob Taft, called for 60 years ago."

More Commentary.

The Florida Times Union (12/13) writes in an editorial, "Only one out of 10 Americans does not think George W. Bush is doing well at job No. 1 -- defending the United States." The Times Union continues, "We cannot
disagree with the majority. Nor would we argue with the 76 percent of Americans who now agree the right man was elected last year." The Times Union adds, "However, the president has two areas of responsibility. One is foreign policy. The other is domestic policy." The Times Union notes, "Still, it would be nice to see a little more of the kind of success on Capitol Hill that Bush is having in the mountains of Afghanistan. Tom Daschle may be less of a threat than Osama bin Laden, but he is wielding a little too much clout for conservatives to feel comfortable. No matter how many times chads are counted, Daschle didn't make it to the White House." The Times Union concludes, "Bush may not be able to give his full attention to domestic matters while he is waging war against a treacherous and dangerous enemy. But surely there are those in Congress and the administration who can provide a little more support for their president's agenda."
Euro gains as U.S. dollar slips against yen

Dow Jones

NEW YORK - The euro rallied against the U.S. dollar and yen yesterday, as worsening sentiment and technical factors combined to pressure the dollar, and a report of U.S. tolerance for a weaker yen sparked a selloff in the Japanese currency.

The euro's rise to 113.61, an eight-month high, helped keep the U.S. dollar from advancing.

In late-afternoon trading, yen selling reversed after the U.S. Treasury Department countered the report from Medley Global Advisors, an influential New York-based consultancy, that cites support from unnamed U.S. officials for Japanese monetary expansion and even the purchase of foreign bonds by the Bank of Japan. Treasury responded that the report didn't reflect the department's position and that Paul O'Neill, Treasury Secretary, is the administration's sole spokesman on currency matters.

When markets first heard of the Medley report's contents yesterday, the U.S. dollar hit an eight-month high at 126.58, just short of the high for 2001 at about 126.80. After Treasury's response, the U.S. dollar fell to around 125.74, then began moving back towards 126.

Late in New York, the euro was at US89.80 cents, up from US89.48 cents earlier in London and from US89.25 cents late Tuesday in New York. The dollar was at 125.94, up from 125.80 earlier in London but down from 126.15 late Tuesday in New York.

Against the Swiss franc, the dollar was at 1.6425 Swiss francs, down from 1.6540 francs Tuesday in New York.

World tensions rose a notch on news of a U.S. Air Force bomber that went down over the Indian Ocean and of another terrorist attack on Israelis. These reports, as well as the uncertainty cast by the Federal Reserve's economic assessment Tuesday, contributed to nervous trading in the foreign exchange market, analysts said.

Markets interpreted the Fed's 25 basis-point interest rate cut and accompanying statement as 'the beginning of the end of the easing process, despite continued signs of broad weakness in the economy,' said Ashraf Laidi, chief currency analyst at MG Financial in New York.

The Canadian dollar gained more than one quarter of a U.S. cent, closing at US63.82 cents from US63.56 cents on Tuesday. The U.S. dollar closed at $1.5668 from $1.5733.

THE DOLLAR:

Net

Currency Close Previous chg
C $1 = US cents 63.8244 63.5607 +0.2637
US$ 1 = C$ 1.5668 1.5733 -0.0065
euro 1 = C$ 1.4070 1.4040 +0.0030
British pound 1 = C$ 2.2666 2.2633 +0.0033
Japanese yen 1 = C$ 0.01240 0.01250 -0.00010
German mark 1 = C$ 0.7194 0.7179 +0.0015
52W 52W Yr over yr
Currency high low net chg
C$ 1 = US cents 66.9568 62.3675 -1.5992
US$ 1 = C$ 1.6034 1.4935 +0.0383
euro 1 = C$ 1.4587 1.2657 +0.0623
British pound 1 = C$ 2.3400 2.0844 +0.0519
Japanese yen 1 = C$ 0.01360 0.01200 -0.00130
German mark 1 = C$ 0.7768 0.6470 +0.0319

GRAPHIC: Chart/Graph: THE DOLLAR: C$ in US cents close: (See print copy, pg IN1, for complete chart/graph.). Chart/Graph: THE DOLLAR: C$ IN U.S. CENTS CLOSE: Last week, this week: (See print copy, pg. IN1, for complete chart/graph.). Table: THE DOLLAR: Currency, Close, Previous, Net chg., 52W high, 52W low, Year over year net chg.: (Table ran on pg. IN1.): (Online)
Law Enforcement Nabs Ring Of Software Pirates Group Stole
FEDS TARGET HIGH-TECH PIRATES IN BIG SWEEP
DJ US Tsy's Dam Sees Little Risk Of Contagion From Argentina
Yen is swayed by policy speculation
Passengers uneasy with pat-downs Air travelers dread searches
G7 offers no cash for Argentina, wants end to peso/dollar peg

Investor's Business Daily

December 13, 2001

SECTION: A; Pg. 11

LENGTH: 551 words

HEADLINE: Law Enforcement Nabs Ring Of Software Pirates Group Stole, Distributed
Goods Such piracy costs industry $12 billion each year, say software group officials

BYLINE: By THE ASSOCIATED PRESS, Investor's Daily

DATELINE: WASHINGTON

BODY:
Authorities in 27 U.S. cities and five countries have seized computers and arrested five people in a long-running undercover operation into an international software piracy ring. U.S. officials said the suspects stole and distributed all types of media, including Microsoft Windows operating systems, computer games and high-quality copies of new movies like "Harry Potter" and "Monsters, Inc." The software industry says it loses an estimated $12 billion per year due to piracy. "Software piracy undermines the stability of the burgeoning e-commerce industry, and it is a direct threat to innovative companies that help strengthen the U.S. economy," Deputy Treasury Secretary Kenneth Dam said. The investigation, dubbed "Operation Buccaneer," has gone on since December 2000, officials said. It has targeted 62 people in Australia, Finland, England, Norway and the U.S. The agents said they have leads in 20 other countries. Investigators served 56 search warrants, starting Tuesday morning, and expect to grab 130 computers filled with illegal copies of computer software, music and movies. "This is not a sport," Commerce Undersecretary Phil Bond said. "This is a serious crime. These people should do some hard time." While no one has been arrested in the U.S., officials said police in England have five people in custody. Some in the U.S. are cooperating with police, agents said. The suspects include corporate executives, employees and students of major universities such Duke and Purdue, technology company employees and some government workers, the agents said. They alleged that some of the most critical members are insiders who steal products from their own companies and hand them over to the pirates. "Our targets are not your stereotypical teen-age hacker," Customs Service Assistant Commissioner John Varrone said. All will face federal copyright infringement charges, officials said. Customs agent Allan Doody said each computer has one to two terabytes of stolen software. A terabyte is equal to a thousand gigabytes. A printed directory on just one computer would span 4,200 pages. In Operation Buccaneer, officials targeted one of the oldest pirate rings - known as "warez" groups - called "DrinkOrDie." Founded in Moscow in 1993, DrinkOrDie became famous among software hackers for claiming it released a copy of Microsoft Windows 95 operating system two weeks before Microsoft began selling it. "They are a notorious, elite Internet pirate organization," said Bob Kruger of the Business Software Alliance, an industry trade group. "I doubt there's much that's out there that people want that (DrinkOrDie) can't provide." DrinkOrDie has two leaders, one in the U.S. and another in Australia, officials said. There are 1,500 warez members nationwide, officials estimate, and eight to 10 major groups. Doody called ForceKill, one of the alleged members of DrinkOrDie, "one of the premier software crackers in the world." The highly organized process of eliminating copy-protection schemes, compressing and distributing software takes no more than three days to complete with most products. "There is currently nothing that the software industry has done in terms of copy protecting their programs that has not been defeated by DrinkOrDie," Doody said.
December 13, 2001 Thursday, METRO

SECTION: MONEY; Pg. C5

LENGTH: 542 words

HEADLINE: FEDS TARGET HIGH-TECH PIRATES IN BIG SWEEP

BYLINE: Frank James, Washington Bureau

BODY:
WASHINGTON -- In what was called the biggest crackdown yet on the theft and Internet distribution of intellectual property, federal officials said they had conducted numerous criminal searches, seizing dozens of computers in 21 U.S. cities, including Orlando and Cocoa Beach, and five foreign countries.

Justice and Treasury Department officials said they had not made any arrests or filed charges resulting from three investigations. Their targets included corporate executives, computer network administrators, students at some of the nation's most prestigious universities and workers at large technology companies. Officials said that theft of intellectual property, including computer software and even the Harry Potter movie, is a growing problem and that those being investigated could face prison time.

"This is something we are very much involved with," said Steve Cole, spokesman for the U.S. Attorneys Office that includes Orlando. "But it's too early to reveal any names because we are still investigating," he said Wednesday.

The Justice and Treasury officials said the losses related to the actions announced Tuesday exceeded $1 billion.

Officials said the high-tech pirates apparently defeated the special computer code software manufacturers use to protect their digital products such as applications software and DVDs, then placed the products on the Internet for illegal distribution. In a few instances, the pirates placed on the Internet first-run movies that had only recently opened in theaters. Last month, the suspected thieves obtained copies of Harry Potter and the Sorcerer's Stone and Behind Enemy Lines. The movies likely were secretly recorded with digital video recorders, perhaps through accomplices in theater projection rooms, then placed on the Internet.

"Though software piracy is a crime that cannot be seen with the naked eye, the costs are enormous to both industry and consumers," said Kenneth Dam, deputy treasury secretary.

The software industry estimates its annual losses from such theft at more than $12 billion, with $3.6 billion of that coming from lost sales in the United States and Canada.

In discussing their investigations, federal officials described a shadowy subculture of computer savants with nicknames such as "Forcekill" and "Dezzy" who revel in breaking the encryption that protects software and DVDs.

While some of those involved may have benefited financially, many participated simply for the thrill of breaking codes.

The individuals belonged to what are called "WAREZ" groups in which each member must contribute in some way, either by providing pilfered software, cracking security codes or distributing the software or entertainment once the protective code has been rendered ineffective.

Federal officials, who referred to these groups as "gangs," said the organizations were responsible for 95 percent of the pirated software-distribution Web sites on the Internet and 60 percent of the pirated high-end software.

Justice Department officials said they hadn't decided on the charges for those found to be part of WAREZ. 
groups and thought to be engaged in illegal activity. Violations under the conspiracy and copyright statutes each carry a five-year sentence.

COLUMN: Inside Money

LOAD-DATE: December 13, 2001

Menu
-----Original Message-----
From: Jonathan.Nicholson@reuters.com <Jonathan.Nicholson@reuters.com>
To: Robert.Nichols@do.treas.gov <Robert.Nichols@do.treas.gov>
Sent: Mon Jan 14 09:11:58 2002
Subject: If It's Monday.....And What Happened This Wkend?

Rob,

Looking for a briefing time today (Enron, WTO, etc).....Also, what happened with weekend appearances? We received no heads-up....Thanks...

Rgds,

JN

PS: Hope you had a relaxing weekend....

Visit our Internet site at http://www.reuters.com

Any views expressed in this message are those of the individual sender, except where the sender specifically states them to be the views of Reuters Ltd.
Here is the statement -- it is everything that Michele said on Friday.

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

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

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

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

LATER STATEMENT

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

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

Rubin said he thought that was a reasonable position.

Fisher made no such call.

Marie Strickler
Public Affairs
202-622-2920
Michelled,

I have attached the Charlie Rose Show transcript as you requested. Thanks.

Sharon,
Please find the transcript you requested attached. Let me know if you need anything else.

Shelley
January 15, 2002

CHARLIE ROSE, Host: Welcome to the broadcast. Tonight the secretary of the treasury, PAUL O'NEILL, in an hour conversation about Enron, the economy, the stimulus program, Argentina and other issues.

PAUL O'NEILL, Secretary of the Treasury: I don't see how anyone can resist the notion that it's our duty and our responsibility to create the conditions to that life can be fulfilling and meaningful for every human being.

And it doesn't stop at the water's edge. It's something we should work on in a broader sense. For sure, we need to work on it inside the United States, make it a reality here. But we have-- we have an obligation, I think, and an opportunity to-- to make our time a time that matters and not just a time of saying grace over the institutions as we found them.

CHARLIE ROSE: PAUL O'NEILL for the hour -- coming up.

Treasury Secretary Says Relaying Calls to Bush Unneeded

CHARLIE ROSE: Secretary of the Treasury PAUL O'NEILL is here. With the terrorist attacks of September 11th, he had to rewrite his department's agenda on top of dealing with an already faltering economy. This fall, he was responsible for successfully reopening the stock market, as well as tracking down terrorist funds.

On the domestic front, the collapse of energy giant Enron has dominated headlines in the last several weeks. Recently, it was disclosed that Enron executives contacted O'Neill, among other cabinet members, before the company went bankrupt. There are now five congressional investigations into the fall of Enron, in addition to the SEC and Justice Department inquiries.

I am pleased to have PAUL O'NEILL back at this table for a conversation about these and other issues.

Welcome back.

PAUL O'NEILL, Secretary of the Treasury: Thank you.

CHARLIE ROSE: Enron. Having time to think about it, give me a sense of what you might have done differently, even though you know more now and events have happened now than when you got a call-- that I assume you get lots of calls from people who represent economic forces.

PAUL O'NEILL: Yeah.

CHARLIE ROSE: What's your attitude about those kinds of calls, and specifically Enron?

PAUL O'NEILL: Well, let me answer first the first question you posed. What would I have done differently? My answer is nothing. You know, I think-- I've watched lots of-- of events in my life, and you know, I think, in the best of circumstances, your instincts take over and you do the right thing or you do the wrong thing, depending on what your instincts are. I think our instincts were-- were right, and our instincts--

CHARLIE ROSE: Our instincts were to do what?

PAUL O'NEILL: Our instincts were to discharge our responsibility, the duties of our office. And I think I have a responsibility to know what's going on in the world and to provide leadership to the things that are within my portfolio at the Treasury Department [unintelligible] government. I think it's a perfectly natural thing to take telephone calls from people who are calling you, especially that have significant positions or represent significant organizations around the world. Seems to me that's a perfectly natural thing.

CHARLIE ROSE: Would it be unnatural not to--

PAUL O'NEILL: Absolutely.

CHARLIE ROSE: --because they represent an economic potential that could cause grievous damage to the American economy because of some information they have?
PAUL O'NEILL: Absolutely. And as I-- and in retrospect, would I have done anything differently? No. I took a phone call from Ken Lay. He told me nothing new, really, but that he thought our technical people ought to talk to make sure that they weren't, in what was happening to them, going to cause ripples or problems in the U.S. or the world capital markets.

And you know, I turned to the guy that I hired to come, because of his expertise in these subjects, and asked him to be in touch with their technical people. You know, I think that's the right thing to have done.

CHARLIE ROSE: And the conclusion was we shouldn't do anything.

PAUL O'NEILL: Right.

CHARLIE ROSE: You know, they have no recommendation that we should act on.

PAUL O'NEILL: There was no evidence that what was going on with their company was having consequences for the broader capital markets. That was my only interest in the subject.

CHARLIE ROSE: Should you have notified the president because of the size of the company, because of its involvement, other people, and said, especially the vice president, because he'd had some meetings and he knew the principals involved well?

PAUL O'NEILL: Again, I'm- you know, I-- the last part of what you're saying about the vice president knew about energy and the president should know about this-- you know, I'm just not wired that way. It didn't seem to me that there was anything for the president to do. I made a decision. I didn't need the president to-- I didn't think I needed to check with the president. "Do you want me to intervene, Mr. President, even though I don't think it's a good idea?" I didn't need that engagement, so it never occurred to me--

CHARLIE ROSE: To inform.

PAUL O'NEILL: --to inform the president or--

CHARLIE ROSE: Card or the president or--

PAUL O'NEILL: I mean, as I've said, I have dozens of phone calls every day with presidents of countries and prime ministers and finance ministers, and it's very, very infrequent-- as a matter of fact, I can't remember a case where I had a phone call in the almost 12 months I've been there now where I made it a point to go tell the president that this phone call came and I've decided to do this or that. I just don't do that.

CHARLIE ROSE: Was it appropriation for Robert Rubin to call?

PAUL O'NEILL: Let me say this about the Rubin phone call. First of all, I didn't really know about it until I saw it in the media as I was driving to Pittsburgh late on Friday afternoon, that Bob had called. I think this. I think Bob is a great guy. I think he did a wonderful job when he was secretary of the treasury. I think he's an outstanding American. And it's for Bob to decide whether or not he should have called. You know, I've also said--

CHARLIE ROSE: He also represents-- is an executive-- chairman of the executive committee at Citigroup--

PAUL O'NEILL: Right.

CHARLIE ROSE: --which has a huge loan out to Enron.

PAUL O'NEILL: Apparently, they--

CHARLIE ROSE: That makes it commerce not anything else.

PAUL O'NEILL: Yeah. Apparently, all of that is true. I'll tell you what I've said about this. When I left Washington in 1977, after I'd been there for 15 years, I made a deliberate decision to go into an industrial company, International Paper, because I had watched people come and go through Washington, many of them who came, even if they're stopping in an administration or in the Congress, stayed around and then contacted people that they used to work with for a living. And I made a deliberate decision that when I left Washington, I was done with it. And so when I left, I really left.

Would I have made the call? No.

CHARLIE ROSE: Right.

PAUL O'NEILL: But you leave it up to him to make the decision.

PAUL O'NEILL: Of course. I-- you know, I-- again--

CHARLIE ROSE: But there is implied--

PAUL O'NEILL: I--

CHARLIE ROSE: There's an implied criticism in saying that. Rubin--
PAUL O'NEILL: Well, I don't mean to--
CHARLIE ROSE: You would not have done that.
PAUL O'NEILL: I don't-- no. I think, you know, each of us has to make our own choices and decisions. I have the greatest respect for Bob Rubin.

I'll tell you a little story about Bob Rubin that I think bears on this. He did call me maybe six weeks or so ago, after I'd gotten some of my famous media. He said, "You know, Paul, I hope you're not taking this too seriously because you will not really have arrived until you have the experience I had, which was they were out to impeach me when I was secretary of the treasury. Nobody's talking about impeaching you, so don't let this get you down."

And I think it conveys a sense of what a great American this person is. He didn't need to call me. But he reached out to me because he could probably tell sometimes it's not so easy to take all the criticism you get.

So I think people need to take Bob Rubin in the totality. This is a great American. He's done great service for his country, and the fact that he made a phone call is something that I'm sure he processed in his own judgment, decided it was something he should do.

CHARLIE ROSE: OK. Let me-- I want to come to the criticism in a moment, but let me just stay with the Enron because today's New York Times-- "Enron's chairman received warning about accounting. A senior Enron executive explicitly warned the company's chairman in August that several years of improper accounting practice threatened to bring down the company, congressional investigators said today."

I mean, the more you read about this, the more you seem to get-- the impression is they knew more earlier, which makes it even more-- even more difficult to-- to accept some actions, whether it's selling stock, whether it's what information should have been provided or not.

PAUL O'NEILL: As this thing unfolds, you're right, at least as it's reported in the media, it doesn't look good. I tell you what I think as a fundamental proposition. If it turns out on investigation and analysis that people in the company or advisers to the company broke the law, they ought to go to jail.

CHARLIE ROSE: And that includes the accounting firm. That includes the people at the company.

PAUL O'NEILL: People who broke the law should be brought to justice.

CHARLIE ROSE: What laws might have been broken here?

PAUL O'NEILL: Well, I don't know. I think we don't really know, you know? And I keep saying I really believe this in the strongest way. First you need to do analysis, and then you do prescription. You don't start racing off to judgments. I think we've seen-- you know, at least in my adult life, we've seen premature judgments. I don't think we should be guilty of that. This is a serious case. I think we should learn some lessons.

You know, whether people are guilty of breaking the law or not, the direction the president has given me to go work on seeing if there are lessons that we should generalize about protections that we need to provide to individual employees and to investors, I think is an absolutely imperative thing that we do. Capitalism, in the way we practice it in the United States, depends on a sense that people have that they can believe what they're told, that they have all the information that should be made available to them to take judgments about investments and--

CHARLIE ROSE: That the numbers they say are credible, that they have not unfairly used their information--

PAUL O'NEILL: Right.

CHARLIE ROSE: --for benefit to themselves, that would be illegal under the laws, all of that.

PAUL O'NEILL: The critical thing to our system that everything be available to everyone simultaneously and it be believable and credible. And the president's directed me to go work on those two topics for the benefit of individuals-- in this case, apparently, lots of people have lost their life's savings. We need to see if there's something wrong with the way 401(k) plans work, for example.

CHARLIE ROSE: If a company has too much of its own stock in a 401(k) plan.

PAUL O'NEILL: We need to look at those issues, and we will do it, and we will do it quickly.

CHARLIE ROSE: Well, there's going to be a commission already. The president suggested a commission to investigate that very thing.

PAUL O'NEILL: Exactly.
CHARLIE ROSE: Yeah. Once-- you made a statement about capitalism. I mean, we-- it is the economic system that we believe in in America--

PAUL O'NEILL: Right.

CHARLIE ROSE: --the free market system. But you said, and other people have said this, companies come and companies go. Many companies don't have a life more than two, three years. Many-- some 20 and 30. But those that have a long life-- immediately people said, and I'm thinking about Senator Lieberman specifically, that was cold-hearted and insensitive because it seemed that you didn't take note of the human toll among those people who worked for Enron who all of a sudden did not only not-- no longer had a job, they had had their savings wiped out.

PAUL O'NEILL: Well, I saw that comment and, you know, what I thought to myself-- I'm glad I have an opportunity to say it to you and to your audience. You know, I guess I'd like to be taken in my totality. You know, I would like for those who choose to criticize what I say to look at the fact that whatever else they were doing with their life in the last 13 years before I joined the government again, I created-- from a company that had 47,000 employees, I created the best of its kind organization in the world with 145,000 people, the safest corporation in the world, where people could believe that the values meant something, that it wasn't talk and it wasn't cheering, it was the real stuff of our life, every one of us. You know, so when people say I'm cold-blooded, they should go look at what I've accomplished in terms of creating real opportunity for people, where people felt a sense of joy in going to work.

And perhaps, you know, when I'm asked a question like I was the other day and I say companies come and companies go, I should be asked for time to extend and define my remarks to say "And if you want to find somebody who cares about people, follow me around for a while." You know, for those who don't understand it, the reason I've invested a good part of this first year on the job at Treasury and working on the international financial institutions-- because I've been out there. I know what it's like to see children born in the dust in Africa with no prospects for their life, no prospect of having meaning in their life.

And part of the reason I came back to Washington is because I don't believe it has to be that way, and I believe with ideas and determination can make a difference. I'll try to do that, Charlie.

CHARLIE ROSE: OK, I want to come back to that, and I don't mean to say I'm going to come back to everything, but because-- do you feel like those ideas are not part of the currency of the conversation, the ideas of change that you-- that impelled-- that was an incentive for you come back to Washington, that that's not part of the conversation, the part of the-- it gets lost?

PAUL O'NEILL: It's the most important part of the conversation, as far as I'm concerned.

CHARLIE ROSE: But do you believe it's gotten lost, whatever ideas you have about change--

PAUL O'NEILL: Well, it's--

CHARLIE ROSE: --because of the imperative of the daily news day and because of stimulus legislation or dealing with Enron or all those other things that have more, in the judgment of people, immediacy?

PAUL O'NEILL: Well, I don't know. I think you have to keep chipping away and-- you know, if you build a building, you start by the first course of bricks, and then you build the second course. And important change takes time.

CHARLIE ROSE: Yeah.

PAUL O'NEILL: And it's not all one straight line of positives. People come along and knock bricks out of your layers of bricks, and you've got to put them back. But I think we'll make progress over time and as we have an opportunity to communicate. I think the ideas that we in the Bush administration are working on have such traveling power. I don't see how anyone can resist the notion that it's our duty and our responsibility to create the conditions to that life can be fulfilling and meaningful for every human being.

And it doesn't stop at the water's edge. It's something we should work on in a broader sense. For sure, we need to work on it inside the United States, make it a reality here. But we have-- we have an obligation, I think, and an opportunity to-- to make our time a time that matters and not just a time of saying grace over the institutions as we found them.

CHARLIE ROSE: OK, but let me-- while we talk about change-- your eloquent sense of what you felt you brought to the corporate enterprise that you led-- doesn't that belief-- isn't this, and what
more and more we learn about it, an insult to the kind of corporation you believe in, if you look at it on face value?

PAUL O'NEILL: Well, I'd like-- I would-- I would-- you know, it'd be great if everyone had the same expectations and played by the same rules and didn't skate close to the edge of-- of what's admissible or what's legal. But you know, life isn't set that way. And I think we're always going to have cases where people do things that don't meet general approval and maybe even are illegal. And we need to do-- we need to deal with those.

But I think we need to be careful that we keep our eye on the shining star. You know, I think it's really easy to be dragged down by the events of the day, but you know, I haven't seen many leaders that create what I think are-- are real, powerful steps forward by dwelling on the negative.

You know, Ronald Reagan and his notion of the house on the hill-- you know, it-- it's a-- it's a metaphor that I think people relate to. You know, no matter what people's circumstance, I think they want to do better. They want to aspire to more, and leadership is about releasing that positive energy. It's not about dwelling on the negative.

CHARLIE ROSE: All right, but I want to dwell on the negative for one second before I move to these other issues.

PAUL O'NEILL: All right.

CHARLIE ROSE: What-- in your judgment, what, at heart, is wrong in the Enron case, as far as you know? What, at heart, is wrong there?

PAUL O'NEILL: Well, you know, I don't like to be judgmental without more facts. But I'll tell you one thing that I think--

CHARLIE ROSE: Well, you know a lot more than most people.

PAUL O'NEILL: One of the things I think is at play here was the business that they evolved into is the most enormously complicated business. And I think, frankly, that our rules and our laws have not kept up with the speed of evolution of ideas about what's called "derivatives." You know, these subjects are so--

CHARLIE ROSE: Right. Right.

PAUL O'NEILL: --daunting. Most people-- when you say "derivatives," most people's eyes glaze over and they say, "God, I'm going to switch the channel."

CHARLIE ROSE: Right.

PAUL O'NEILL: "Charlie's going to talk about that. I don't know what it's all about."

CHARLIE ROSE: Right. I hear that all the time!

PAUL O'NEILL: But in truth, you know, this is four, five levels deep of abstraction that involves foreign exchange between countries and product switches between places in the world. And I-- it looks to me, frankly, like it got away from them.

CHARLIE ROSE: What got away from them?

PAUL O'NEILL: Managing this complex array of interactions of products and financial transactions and the rest. It looks to me like it got away from them.

CHARLIE ROSE: It got away from them, in that sort of they didn't know what was-- the right hand didn't know what the left hand was doing?

PAUL O'NEILL: Well, in a-- that sounds like how could that possibly happen.

CHARLIE ROSE: Yeah.

PAUL O'NEILL: But if you're dealing in tens of billions of dollars of these things, believe me, balancing your books on a full basis every day, do that you're sure that you-- you've really hedged rather than speculated is not so easy.

When I was in my previous incarnation, I spent a couple of hours every Monday morning on the phone with people in 36 different countries to make sure that I could explain to my board what we were doing with our billions of dollars worth of transactions.

CHARLIE ROSE: Yeah. And exactly how much debt did we have?

PAUL O'NEILL: Exactly.

CHARLIE ROSE: Yeah. Now, you should-- it should also be said that it wasn't just Enron that draws some criticism here. It is also media and reporters who report on business and people who-- on Wall Street who looked at the numbers and did not demand enough in terms of saying, you know, "What's the right hand doing vis-a-vis the left? And what do these numbers mean?"
And the numbers were so complex, as you say, that a lot of people didn't seem to know what was going on.

**PAUL O'NEILL:** Well, I think--

**CHARLIE ROSE:** Not just--

**PAUL O'NEILL:** You touch on another important point, and it's the disclosure issue.

You know, over the years we've developed these conventions that companies report to the public and to their shareholders on a quarterly basis and on an annual basis. With the speed of what's going on in the world now, some of us have been talking about, you know, well, what lessons did we learn?

Organizations like this, perhaps they ought to mark to market on a basis that doesn't have anything to do with the calendar but on a basis that's reassuring to investors and shareholders that they're on top of it every day. Now how do we translate that into practice? I don't know yet, but it's the kind of thing I think we need to look at.

We need to modernize our laws and rules and regulations so they're operating at a hundred revolutions per minute instead of 10 revolutions per minute; so that they're in counter with what's happening in the real world. And I think in this case, I think it's fair to say it may be that our rules and regulation laws have gotten behind practices out there, in addition to the fact that it may have taken some steps that won't past muster when they're held up against what the law requires.

**CHARLIE ROSE:** That may very well be. But as you said, and if that's true, then they ought to go to jail.

**PAUL O'NEILL:** Exactly.

**CHARLIE ROSE:** Whoever they may be, but it ought to be a judicial process that determines that.

**PAUL O'NEILL:** Precisely.

**CHARLIE ROSE:** The other thing, though, I mean, you can't just go around saying, well, gee, I mean, it got away from me. You expect people in these positions of responsibility, within the bounds to know, as you say.

**PAUL O'NEILL:** That's a fair expectation.

**CHARLIE ROSE:** All right. Let me move to this question of the economic stimulus, which is another thing that's preoccupied you. You were the point person on the economic stimulus. I happened to, without--run into a United States senator in the last 24 hours. And I said, "Tell me what happened." He happened to be a Democrat, and he said to me what happened was that the House Republican leadership created a bill that simply would not ever be acceptable to a Democratic Senate. That's what happened. And negotiations could not take it beyond that.

You tell me what happened.

**PAUL O'NEILL:** Well, I think it's important--it's interesting that he didn't tell you--that's kind of first chapter. He didn't tell you the second chapter. The second chapter is the House subsequently may pass another bill which was fundamentally agreed to by the centerist coalition in the Senate. So it will pass the House and was--and what the centerist coalition in the Senate was fronting for--that they said would get us the votes that we needed to pass the bill. And then it got stuck in the Senate.

Now, may I tell you my view of what happened? We got down to one remaining issue to pass the stimulus bill. At least I thought we were, and I was working on that premise as I discussed what we should do about the health provision that Senator Bachus is the chairman of--

**CHARLIE ROSE:** The Finance Committee.

**PAUL O'NEILL:** The Senate Finance Committee. And we were very close to finally solving this health care, health issue, health insurance issue. I called Senator Daschle and said to him, "I think the chairman of the committee and I can push this over the top. But before we do it, I need to know from you will that do it?" And he said, "Well, we're not going to be able to agree to the centerist coalition position on tax--on advancing the tax credits. And we can't agree to the centerist coalition and what the House passed on accelerated expenses."

And he went down the list and basically reopened the whole thing. Now why he did that, I don't know.

**CHARLIE ROSE:** Well, you must have some indication. I mean, do you believe he did it because he--
PAUL O'NEILL: I'm not going to draw conclusions. I think it would be great for you to get Senator Daschle on and ask him when the coalition that put together something that was agreed and the House had passed the centerist coalition and everyone -- at least I think most everyone -- thought that Bachus' law was supposed to solve the health issue. I think we were all there except, apparently, Senator Daschle. And I felt like he changed his position after we were at the point where we could have had a stimulus bill.

CHARLIE ROSE: Because of economics? Or because of politics?

PAUL O'NEILL: I don't know. I honestly don't know. I really don't know.

CHARLIE ROSE: But it would seem to be in your interest to know. It would be in your interest to know if you want to change his mind or influence him.

PAUL O'NEILL: Well, you know, I'm very hopeful of this. I'm an eternal optimist, I suppose. I'm hoping that the members went home and they heard from their constituents, except -- especially those whose unemployment insurance ran out during the Christmas season, that they instructed their senators when you get back to Washington, pass the stimulus bill so that, as the president said, we can provide an additional 13 weeks of unemployment insurance to people.

You know, what we didn't have -- it's just so right. I don't understand why we had this labored disagreement about what to do.

What we said is Americans ought to be treated as Americans. If you got laid off after September 11th, we, the people of the United States, ought to give you 50 percent of the cost of your continuation of health insurance without regarding where you live or what state, what city, whatever, no matter what your political connections. We ought to give you money.

And what they were saying on the other side is, "No, no, no. We shouldn't do that." For the 50 percent of the people who were attached to an employer who had a so-called Cobra plan, we ought to give the employer 75 percent of the premium. And for the 50 percent of the people who weren't covered by Cobra plans, we're going to create a new entitlement program under the low income Medicaid program and we'll ask the 50 states to enact -- enable legislation so the rest of you can be taken care of.

The equity of what we proposed was so glaringly better than what was on the other side, I -- for the life of me, I still don't understand why they wouldn't agree to it. But, you know, as they come back I'm hopeful they will have heard from constituents and we'll be able to do this in a hurry. We need to do this.

CHARLIE ROSE: They also believe that you need to take another look at the tax cuts.

PAUL O'NEILL: Right.

CHARLIE ROSE: They genuinely believe that the surplus has disappeared.

PAUL O'NEILL: They think we should raise taxes.

CHARLIE ROSE: Well, they're saying you should not take the tax cuts. For example, they will say there are major corporations that you're giving tax cuts who do not need tax cuts as an incentive to make investments, and that that is not necessary.

PAUL O'NEILL: I think that's -- that's not quite right. I think they're -- if you can find someone who would say we shouldn't do accelerated expensing in either house of the Congress, they haven't stood up and said that. And that's where a very large part of the stimulus bill that was agreed by the centerist coalition passed by the House. That's where, plain and simple, like $40 billion of the $75- or $80 billion would go to that accelerated depreciation provision. Everyone agrees we should do that.

And in the centerist coalition bill, the piece you are talking about, the so-called accelerated minimum tax, would cost a billion dollars out of $75- or $80 billion. That's why I was so surprised when I had this phone call from Senator Daschle which said we're not going to be able to do that, because all those things that had been identified by some as egregious, over reaches and giving too much money to be companies, they all were eliminated by the centerist coalition, you know. And it's still not understandable to me why we couldn't push it over the top. And I hope we're going to be able to do that in the next few weeks.

CHARLIE ROSE: In his famous speech now, a speech that he made a week or so ago, Senator Daschle made a point to talk about his own belief that the tax cuts were contributing to the erosion in the surplus. Do you agree with that?

PAUL O'NEILL: Well, there's no doubt. You know, if we had not passed the tax reduction act in May and signed into law in June--
CHARLIE ROSE: Affecting government revenues.

PAUL O'NEILL: Affecting government revenue. The revenue would have been higher this year by $40 billion, probably, out of $300 billion that was in the initial estimates of what the surplus was going to be.

This is a really important point – the reason that the surplus has become so small, maybe even non-existent this year, is 75 percent because the economy slowed down in a way that no one anticipated. And it was slowing down, not to this degree.

And the other explanation is the $60 billion the Congress appropriated to deal with the immediate aftermath of New York City for September 11th, for New York City's needs and to provide money for the war activity in Afghanistan.

You know, I don't find any member of Congress who has any regrets about the $60 billion worth of additional spending for those purposes. And there are no--

CHARLIE ROSE: Are you including the airline stuff in there? The $20 billion, plus the $20- to airlines?

PAUL O'NEILL: Yeah. I'm not finding any member of Congress who seems to have a regret about that. And, you know, when the economy slowed down, revenue slowed down. But all the economists I know, none of them say when the economy slows down you should raise taxes. You know, we don't think we ought to be raising the tax on the American people.

CHARLIE ROSE: But is eliminating a tax cut raising taxes in your definition?

PAUL O'NEILL: Well, it is if people have already made decisions in anticipation of tax cuts that are going to come. And I'll tell you when they are going to come. The ones he's talking about are going to come in 2005. And they're going to come in the form of additional assistance families with children. That's where the money is going to go.

And, again, the reason we haven't seen people stand up and say we want to take all of those things back is because they were meritorious. Even with the tax reduction, it could have been made. We're looking over this next 10 year period to add a surplus of someplace in the range of a trillion to more than a trillion dollars.

And having said that, I have to say something else to you. A year ago at this time we were looking at a 10-year surplus of $5.6 trillion; $1.3- of it, arguably, has now been devoted to giving people's money back to them. You need to remember where the money comes from. It comes— comes from the Americans. And the tax cut would give $1.3- of the $5.6- back to the people.

Now the important point here is--

CHARLIE ROSE: What about the other -- $5.6- minus $1.3- is $4.3-.

PAUL O'NEILL: Right.

CHARLIE ROSE: What's happened to the $4.3-?

PAUL O'NEILL: Well, it's evaporated in the estimation process which I think makes the important point I wanted to make. Anybody who believes that you can predict with accuracy what the numbers are going to be 10 years from now has never done anything very important involving the breadth of our society.

You know, the idea that we work in 10-year increments is a convention that's around. It's a trapping convention in the world-- in a way, because we've got to live this year and next year and '04 and '05. And we need to be taking into account circumstances as they are. And circumstances right now do not in any way suggest that we should be raising taxes or making prejudicial decisions about tax relief for Americans who sent the money in after all, anyway, for 2005 and saying to people we're not going to give you what we told you last year we were going to give you.

CHARLIE ROSE: The president said he will not change that; over his dead body it will be changed.

PAUL O'NEILL: He uses very colorful language, yeah.

CHARLIE ROSE: Do you agree with him when he makes those kinds of statements?

PAUL O'NEILL: I think the president is doing a great job of communicating with the American people. If you look at his standing with the people, the people are now seeing something that those of us who have the privilege to be close to him have seen. This is a person of many real great dimensions. He's shown the people, I think, his sincerity and his simplicity of expression.
really connect with the American people. So, yeah, I believe in the president. I believe in what he's doing and saying.

CHARLIE ROSE: You have said in the fact of criticism about you, that you have a constituency of one, essentially. I think you've said two, but I assume one is what you meant.

PAUL O'NEILL: The president and the vice president are important constituents.

CHARLIE ROSE: The president is essentially the person who appointed you.

PAUL O'NEILL: Right.

CHARLIE ROSE: Who selected you. Has he given you any advice or words of encouragement as to how to stand up against the kind of criticism that you're getting in terms of editorial comments and other things about performance in the job? What does he say?

PAUL O'NEILL: You know, I haven't done this now for quite a while, but early on when I was getting hounded for what has been characterized as bluntness of expression, I asked him, you know, "Am I causing you problems?" And he always chuckled and said no.

But I'll tell you, you know, we don't even really talk about it much. But when you see these kinds of things, I can tell he pays attention to it because he goes out of his way to wrap his arm around me and have me stand next to him on all kinds of public events in a way to make a subtle point -- "this is my guy." So--

CHARLIE ROSE: So there's no doubt in your mind at this moment, as we speak, that you have the 100 percent support and confidence of the president who selected you?

PAUL O'NEILL: Yeah, that's right.

CHARLIE ROSE: And until that changes, you intend to be the secretary of the treasury? Or it may not ever change, but the point is--

PAUL O'NEILL: I'm going to help the president implement the things that he has talked to the American people about. I think they're really important things, about family values and a long, deep level of prosperity for all our people, and fulfilling our obligations around the world and help to make this a safer place for ourselves and for people everywhere.

CHARLIE ROSE: What do you think the criticism is about?

PAUL O'NEILL: Which criticism?

CHARLIE ROSE: Well, just take the-- I mean, it all goes to the same thing. It's a questioning of stewardship. Whether it's the Wall Street Journal or whether it is the Financial Times or whether it's the economy, I mean, I could read you a series of quotes which I'm sure you are familiar with. It goes to the same thing in terms of stewardship of the economy and the department. I mean, is- - what is it about in your judgment. Is it simply the way Washington works? Or is it more? Does it come from a lack of understanding what you are doing and trying to do?

PAUL O'NEILL: No, no, no. I absolutely deny that. What I'm doing--

CHARLIE ROSE: You failed to communicate in the most effective way what it is that you stand for, intend to do and believe you are doing.

PAUL O'NEILL: You know, as a stylistic thing and as a habit of thought, you know, when things are not going well my first instinct is to take the responsibility and say I must be doing something wrong. And so that's my instinct about all of this, that I must be doing something wrong.

And at the same time, have I-- I've been an observer and a player in Washington and lots of big league things over the last 40 years. You know, I've made a deliberate decision not to be a dissembler and not to take the easy road and say the expected thing because I don't-- it's hard to find leaders who inspire people with lushe and with dissembling talk. I think if you want people to follow you, you have to communicate a sense of a dream that people can buy into. And most people don't buy into that cotton candy dream that's a bunch of gauzy stuff that sounds like what politicians and others have been saying for centuries. Most people are just weary of all that and I don't want to do that.

CHARLIE ROSE: OK. But then tell me what dream you want them to buy into.

PAUL O'NEILL: Well--

CHARLIE ROSE: What's the dream of PAUL O'NEILL?

PAUL O'NEILL: Well, there are a couple of different dreams. And it's not up to me to have the fully encompassing-type dreams because that's what presidents are elected for. But I think within his dream--

CHARLIE ROSE: He elected-- he chose you to be the steward of the economy.
PAUL O'NEILL: Within his dream for a better world, you know, there are lots of things that I see that we can do, we're working on very hard.

You know, I believe that the world can perform at remarkably better levels than what we've experienced or demonstrated so far. And, you know, this is not some theory. This is from personal experience that if you can provide leadership and consistency and continuity and help people believe that life doesn't have to be the way they found it, then it's remarkable what you can do.

And I think, you know, aside from a company of 150,000 people, it's possible to achieve that same kind of thing for people in a broader sense.

CHARLIE ROSE: Two hundred and fifty million people?

PAUL O'NEILL: Two hundred and fifty or a billion, if you will.

One of the things that I have found in my experience, people around the world have some characteristics in common. And I've distilled into three things because I think this is-- this is always true.

Every person that's old enough to think has as a -- something they want, they want to be treated with dignity and respect every day. That's the beginning.

Secondly, they want to have an opportunity to make a contribution with what they do with their life, so that their life has some meaning, everywhere, every person that I've ever encountered.

And thirdly, they want someone else to notice.

You know, and this is true without regard to educational attainment or the color of your skin or anything else, the level of income you have. Every human being that I've ever touched or encountered wants these things.

And we who have leadership responsibility, I think, have a responsibility to deliver those things. And as we do, we will create higher levels of economic attainment and the realization of a -- of people's brain power and maturation of their understandings, of connections that make life worth living.

CHARLIE ROSE: Does government have a powerful role in achieving that?

PAUL O'NEILL: Absolutely.

CHARLIE ROSE: Creating a sense of respect for the dignity of another person?

PAUL O'NEILL: Absolutely.

CHARLIE ROSE: Creating a sense of leaving a respect for their sense of wanting to make a difference, and three, to be recognized for their--

PAUL O'NEILL: I think--

CHARLIE ROSE: --talent?

PAUL O'NEILL: I think we do. The government has a responsibility. Because government is really -- at least as we practice it -- ideally is an expression of the will of the people, if not something -- it should not be something different and apart and separate from the people. "Of the people," to me, has real content and real meaning.

And I think the individual people aspire to these things, and their expression of their totality should be working to create those things with stability, with a sense of certainty that we are a country of law and not of men and the vagaries of will of individual people who may be malefactors.

People need constantly, they -- constancy. They need a sense that they can rely on the rules to be followed--

CHARLIE ROSE: But you're speaking--

PAUL O'NEILL: --[unintelligible]--

CHARLIE ROSE: --right to the kinds of values that are jumping off the front page in this story.

PAUL O'NEILL: You got it, you got it. And what it says to me is, where we have--

CHARLIE ROSE: And no one should be more--

PAUL O'NEILL: --individual--

CHARLIE ROSE: --angry about that than you, because it goes to the heart of what you just said eloquently.

PAUL O'NEILL: We agree with you. You know, where--

CHARLIE ROSE: You don't--
PAUL O'NEILL: --where we have cases that violate these basic principles of our society, as I said earlier, if people did these things willfully--
CHARLIE ROSE: Right.
PAUL O'NEILL: --and violated a law, they ought to go to jail.
CHARLIE ROSE: Let me move to three but before five things. This is where judgment comes in. Bob Rubin, you mentioned, in the previous administration thought it was necessary to bail out Mexico. PAUL O'NEILL doesn't think it's important, necessary, to bail out Argentina because he thinks -- I may be putting words in your mouth -- it's pouring money into a situation where it won't make any difference, and therefore it has no consequence. Right?
PAUL O'NEILL: No, not quite.
CHARLIE ROSE: OK, [unreadable].
PAUL O'NEILL: I think, I think -- you know, when [unreadable]--
CHARLIE ROSE: Or it's up to the IMF or someone else.
PAUL O'NEILL: No, no, no, no. When -- let me start with what you said about Bob. I think when Bob and the Clinton administration provided money to Mexico, they did it in a way that most people don't understand.
CHARLIE ROSE: It was a loan, and a -- yes, yes.
PAUL O'NEILL: Not only was it a loan, it was fully collateralized by the oil of Mexico. It was not a risky loan, it--
CHARLIE ROSE: And Argentina has nothing to collateralize it.
PAUL O'NEILL: They don't have anything left to collateralize. But there's a different important point with regard to Argentina, I think. Argentina got, I think, $40 billion from the Clinton administration and the IMF, through the IMF, in the last months of the Clinton administration. And in April of 2001, after we were here, they had burned through all of that.
And the question came to the IMF again, We need help.
CHARLIE ROSE: Yes.
PAUL O'NEILL: And as part of the IMF managing board, we said, All right, they need to do some things in order to be worthy of more money, but, OK. By August they'd burned through all of that.
And we reluctantly went along with the notion of the IMF that they should be given one more chance. It's not as though Argentina showed up for the first time with a crisis condition, and the question was put--
CHARLIE ROSE: You had already begun to walk down that road.
PAUL O'NEILL: This is a long process of--
CHARLIE ROSE: But you do have a different philosophy than the Clinton administration did, didn't you, don't you?
PAUL O'NEILL: Well, I think so, in this sense. I believe the International Monetary Fund, the World Bank, and all the multilateral development things have been and are and need to be important to the world economic development process. And I was frankly very concerned with what happened in the decade of the '90s, where it seemed to me these organizations got off the path and became instruments of centralizing bad decisions by governments, who, in effect, pointed to their international friends--
CHARLIE ROSE: Yes, right, right.
PAUL O'NEILL: --and neighbors. I don't think that's an appropriate thing to do. I tell you what, I believe Argentina's an important country. We care a lot about Argentina. The president--
CHARLIE ROSE: Yes, at one time--
PAUL O'NEILL: --[unreadable]--
CHARLIE ROSE: --we thought it was a triumph of the free market.
PAUL O'NEILL: Well, you know, the president said to me the other day, you know, "Paul, we've been working on this, the concept of friendly amigo. And we need to work with Argentina and give them all the technical advice and assistance we're able to muster from ourselves and from other nations around the world, help them get their footing straight, so that we can give them, and through the IMF we can suggest to the IMF a structure, a program that will lift the lives of Argentinians."
You know, and as we do this, we need to change our sense of what's passable. You know, in this elaborate process over the last 50 years of trying to help other nations, we in the world, in the privileged world, have adopted some ideas that are just bad ideas. The idea that it's
OK for a developing country to have an interest rate of 18 or 20 percent is a terrible idea, because basically it says they're not credit worthy.

CHARLIE ROSE: All right, all right. Let me move, only because of time, to, since you mentioned interest rates.--

PAUL O'NEILL: All right.

CHARLIE ROSE: --there's -- it is conventional wisdom that beyond the president, your two closest friends in Washington are Dick Cheney and the chairman of the Federal Reserve, Alan Greenspan. Do you believe -- Greenspan has said the following things. He thinks that the recession -- help me make sure -- I don't want to misquote him -- the recession may be coming to an end, but there is risk ahead. Do you believe that we will and should have a further reduction in interest rates as -- to encourage this economy?

PAUL O'NEILL: I'm glad you asked me so I can say I never practice monetary policy. I think Alan Greenspan is a great guy, he's done a great job for the Fed. I must say, I think he's done a great job for the country. He's 75 years old now. He doesn't need this. But he's still there. No one works harder than Alan. No one, I think, has a better grasp of the details, underpinnings, of the economy than Alan Greenspan.

And he will make good judgment about whether we need another shot of interest rate reduction or not. On the other hand, you know, it would be nice to see that we're picking up. I think we are picking up. And that Alan's next task will be to decide when he should raise interest rates, not lower them.

CHARLIE ROSE: OK. And what, so that the -- OK. [unintelligible] -- without having an impact on inflation or in -- that kind of -- right?

PAUL O'NEILL: Right, right.

CHARLIE ROSE: He -- it is said that you're -- that you two talk a lot, and that at the level of in -- frequency of the contacts even increased. Has he been someone you talk to about where you think the economy's headed? I mean, does he--

PAUL O'NEILL: Yes, sure. We say--

CHARLIE ROSE: --[unintelligible]--

PAUL O'NEILL: --that's a--

CHARLIE ROSE: What's the nature--

PAUL O'NEILL: --[unintelligible]--

CHARLIE ROSE: --of this relationship?

PAUL O'NEILL: Well, we talk to each other a lot. You know, he was the--

CHARLIE ROSE: Four or five times a day or?

PAUL O'NEILL: No, no, no, no, no. You know, we talk to each other when there's real value. You know, this is not, you know, pick -- I don't have anything else to do, I think I'll call up Alan--

CHARLIE ROSE: Talk to Alan, right.

PAUL O'NEILL: --you know--

CHARLIE ROSE: Have Alan do it.

PAUL O'NEILL: And he--

CHARLIE ROSE: You seen some good movies, or--

PAUL O'NEILL: Yeah, right.

CHARLIE ROSE: --[unintelligible]?--

PAUL O'NEILL: No, we don't do that. But for example, yesterday afternoon he came to my office because the newly appointed finance minister of Afghanistan had asked to see me, and I asked Alan to come along, so that we could talk to him together about his financial -- his ideas about finance in Afghanistan. And we'd be able to interact and hear the same things at the same time about how he intends to go forward.

So we do things like that. We have a regular scheduled hour and a half or two hours once a week where we have breakfast and talk about everything that's topical at the moment.

CHARLIE ROSE: It is said about you that you look particularly at commodities as an indicator of how economies are performing in various places around the world. True?

PAUL O'NEILL: Yes, you know, I've actually expressed it by saying I'm interested in what's going on on the ground. You know, I'm interested in seeing what's going on with aluminum and steel and tin and lead, because they're all ingredients that show up in finished-good products.

CHARLIE ROSE: Yes.
PAUL O'NEILL: And if things are terrible there, it's either a consequence of overinvestment, therefore too much capacity--

CHARLIE ROSE: Right.

PAUL O'NEILL: --or a weakness in the economy. And for example, right now the kind of thing that I look at is to see in the aluminum market, for example, what's happening to volumes of scrap material and prices of scrap material. Because that's an early indication that there's going to be demand placed on the virgin material manufacturing, because the scrap is drying up, it's all being consumed by the market.

You know, so you spend enough time -- maybe I've spent too much time -- understanding how materials flow through the economy to final demand in the form of a new car in your driveway, it helps you to understand the ebb and flow of the economy. And as our economies become more complicated because component parts for cars, for example, are coming from places all over the world, you need to understand how the countries are related, how their exchange rates vary, what kind of investments are being made.

And as you put those pieces together, it gives you kind of a fingertip sensitivity to where things are going.

CHARLIE ROSE: So what does it tell you at this moment?

PAUL O'NEILL: Evidence is mixed, but it's mixed on the positive side.

CHARLIE ROSE: What does that mean?

PAUL O'NEILL: It means that we're crawling out of this slow period. The information this morning on retail sales was really quite encouraging. It was fully 1 percentage point better than what all of the -- what all the gurus thought. I love it when the gurus are wrong, especially when they're wrong on the downside. You know, it's really a period where I hope we're going to see quite a bit of that, where the gurus are wrong.

Because, you know, people who do this for a living tend to miss the change points. They're right as long as we're moving in one direction on a continuous basis. So that means when you're going down, it doesn't take a genius to say, We're going to keep going down. They always miss the inflection--

CHARLIE ROSE: But timing, or the--

PAUL O'NEILL: --point, or--

CHARLIE ROSE: --inflection points in timing, is always the most difficult.

PAUL O'NEILL: That's right, and almost no one gets the inflection points right. It's probably one of things that I've done to Treasury is to stop relying on data that's three months old or six months old. And I've got my economic staff working on collecting real-time information, or something that's--

CHARLIE ROSE: Yes.

PAUL O'NEILL: --close to real time as possible--

CHARLIE ROSE: Well, that's one of the important advantages of technology today, you have access to information that is yes -- that is this morning's information.

PAUL O'NEILL: That's right. You have to be careful, though, as you're working with real-time information that you don't delude yourself about what the longer-term trends are. So it takes some judgment to interpret real-time information.

CHARLIE ROSE: Is it your information, is it your feeling, that most of the sort of -- If inventory, if inventory access will cause an economic decline, that that inventory has been depleted and that now you will begin to see a demand and therefore companies will have to start manufacturing more, you know, and use more and hire more in order to meet that demand?

PAUL O'NEILL: Exactly--

CHARLIE ROSE: That's where you think it is.

PAUL O'NEILL: Yes, you know, I can't find anyone that I've talked to in the last couple of months who doesn't say, There are no inventories in the whole supply chain. They're just drawn down to nothing, which means if there's an increase in final demand, there's going to be a very big spurt all through the supply chain as the supply chain tries to replenish itself.

CHARLIE ROSE: And I assume your theory is, your theory of economics is that, and if in fact, consumers have some kind of tax cut and money in their hands, that they will feed that demand, consumer demand, as well as corporate demand.

PAUL O'NEILL: Absolutely.
CHARLIE ROSE: Two quick questions. Do you believe that the effort to shut down funding for al-Qaeda and other terrorist organizations is having an impact?

PAUL O'NEILL: Yes.

CHARLIE ROSE: And what's the evidence of that?

PAUL O'NEILL: The answer is yes. The evidence is secret and I can't tell you. But we're causing them real problems, and we're determined to make their problems worse and worse and worse.

CHARLIE ROSE: Well, but how do you know that? I'm trying to ask, I guess, is, how do you know that? I mean, it -- the -- because, because they're what?

PAUL O'NEILL: They're having trouble paying their people.

CHARLIE ROSE: Ahh.

PAUL O'NEILL: They're having trouble getting the money through the systems that they used to use so that they can buy material and pay salaries. And we're going to keep tightening the screws, not just for al-Qaeda but for all the terrorist organizations around the world.

You know, we -- I would say people have talked about the first stage of the war in Afghanistan. We're in the first stage of the war against terrorist finance. And we're going to prosecute it. And we're spending lots of time and energy in perfecting the tools to do that job. We're making progress.

CHARLIE ROSE: OK, but, but, but what, and I'm, I realize there are certain things you can't tell me. But what you mean by that is, we know where the flow of funds has been, and we know who's involved in it, and who initiated it, where it stops along the way, and how we can stop it before it reaches certain points.

PAUL O'NEILL: Well--

CHARLIE ROSE: Is that what it is, or [unintelligible]--

PAUL O'NEILL: No, I think we--

CHARLIE ROSE: [unintelligible]--

PAUL O'NEILL: I -- you're too complete in your description. We've found some of the loose threads here and begun to connect them, and we've shut down the people we were clearly able--

CHARLIE ROSE: Whether it's a foundation--

PAUL O'NEILL: --to identify--

CHARLIE ROSE: --here or whatever it might be.

PAUL O'NEILL: --have -- But I don't think we're done by a long shot. We need to keep pursuing every thread that we can find that connects people and organizations that wear a humanitarian face that are the enemy of civilization. We're going to do that. We're going to do it all over the world.

And we're going to be successful.

CHARLIE ROSE: What is your best hope, hope, based on the indicators you look at, for economic growth in the second half of this year?

PAUL O'NEILL: You know, I don't want to be -- I -- one of the things I've learned, you know, I'm not supposed to forecast, or I have to be careful, this is not a forecast, not--

My belief is that we've put in place the conditions that will, in a reasonable -- reasonably short period of time restore the U.S. economy to a real rate of growth, in the 3 to 3.5 percent range.

CHARLIE ROSE: Yes.

PAUL O'NEILL: Which is what we need to do. Again, if we're going to do all the things that we should do and want to do, our economy has to be an engine of growth for ourselves and for the rest of the world. We need to get Japan to do the same. We need to get Europe to do the same.

So that we can both take care of raising the living standards in the U.S. and Japan and Europe, but the three largest economic centers of responsibility in the world can help the rest of the world to reduce the number of people who are trying to live on less than a dollar a day. There are more than a billion. We should not -- we should reduce that number to nothingness.

CHARLIE ROSE: We should find it unacceptable.

PAUL O'NEILL: Right.

CHARLIE ROSE: PAUL O'NEILL, secretary of the Treasury of the United States, thank you very much for coming.

PAUL O'NEILL: My pleasure.
CHARLIE ROSE: Pleasure to have you here.
P A U L O ' N E I L L : Thank you.
CHARLIE ROSE: Thank you for joining us for this hour. We'll see you next time.
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That's it other than what the Secretary said on TV yesterday.

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

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

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

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

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

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

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

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

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

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

Rubin said he thought that was a reasonable position.

Fisher made no such call.
Thank you!

-----Original Message------
From: Davis, Michele
Sent: Monday, January 14, 2002 9:40 AM
To: Alvarado, Carmen
Subject: Statements from Friday

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Fisher made no such call.
The Secretary is making these remarks at 12:30, so please get them to the press room as soon as possible. thanks no need for an embargo
Remarks as Prepared to
U.S. SAVINGS BONDS VOLUNTEER COMMITTEE
Thursday, January 17

Thank you Richard, and thank you for hosting this year’s luncheon and meeting of the U.S. Savings Bonds Volunteer Committee. Before I make the formal presentations we have for you, I’d like to thank you, your 2001 committee and Banco Popular for helping make last year a tremendous year for the savings bond program.

Richard, as private sector CEOs you and I always looked at the bottom line to let the numbers tell the story. So, let’s take a quick look at the numbers you and your committee posted. Bond sales in fiscal year 2001, totaled $6.6 billion -- up an impressive 30 percent from a year earlier. Your efforts to encourage Americans to take a look at the value of our newest savings bond, the inflation-indexed I Bond also made their mark. For the first time, I Bonds accounted for more than half of all bond sales.

I know that this success was the result of your personal commitment, not only as chair, but also as a member of the committee over several years to encourage Americans to plan for and save for their future. Your efforts to reach out to the Hispanic community with this important message are particularly gratifying. This dovetails with your efforts to reach out to the under-served and un-banked to bring them into the financial mainstream.

So, it is with great pleasure that I present you with Treasury’s Gold Medal of Merit as a token of our appreciation. I’d also like to present this special Citation that commemorates our thanks for your service.

As I ask Vance Coffman to join me at the podium, I’d like to remind you that his and Lockheed-Martin’s support over the years are hard to beat. Vance is no stranger to the committee having headed up the savings bond effort among his colleagues in the Aerospace industry. And in doing so he demonstrated his and his company’s leadership by consistently earning the program’s highest honors for participation. So as I present you with this certificate appointing you Chair of the 2002 U.S. Savings Bonds Volunteer Committee, I want to thank you in advance for the energy and leadership you and your team will bring to our effort this year.

What you, the Savings Bond Volunteers, do is a crucial part of educating Americans of every age and background on the importance of retirement savings. In the broader context of saving, I’d like to make a few comments on the security of the nation’s retirement system. The pension system has evolved in recent years into one that increasingly emphasizes two of the country’s quintessential values, personal responsibility and freedom of choice. This evolution provides workers much greater opportunity than ever before to build wealth and save for their own retirement but also imposes a greater degree of individual responsibility in doing so.
Defined contribution plans, commonly known as 401(k) plans, give individual workers their own account in which they can build wealth and save for retirement. Participants are allowed, within limits set in the tax code, to choose the level of their plan contributions. The tax relief plan signed into law last summer increased the amount individuals can put into IRAs and 401(k)s, because the President is very committed to expanding every American’s ownership and control of their retirement nest eggs.

Your 401(k) is a nest egg you own, and you decide how to invest your contributions, choosing among a set of investment options offered by their employer. In many plans, participants are also free to invest their employer’s matching contributions as they see fit. This freedom to choose among investments allows employees to choose the tradeoff between risk and return with which they are most comfortable.

Working Americans value that sense of ownership and control—especially the knowledge that no one can take your nest egg away from you. That peace of mind depends on public confidence that retirement plans operate fairly and openly. The rapid collapse of the Enron Corporation and the effect of the decline in its stock price on its employees’ retirement funds may have diminished that confidence. One feature of Enron’s 401(k) plan is that the company’s matching contribution was made in the form of company stock. Many employees may also have invested substantial portions of their own contributions in Enron stock as well, based on their understanding of the company’s financial condition and future prospects. When the company’s stock became virtually worthless, employee’s life savings dissolved.

The experience of Enron employees is unsettling to the millions of Americans whose life savings are in their 401(k) plans. Working Americans save to buy a home, to pay for their children’s education, and to retire in comfort. The President is very concerned that people lost much of their retirement savings through no fault of their own.

The Justice Department is pursuing a criminal investigation. The Department of Labor and the Securities and Exchange Commission are also conducting separate investigations for potential violations of their regulations.

If anyone at Enron broke the rules, they will be punished. At the same time, we need to look at the policy issues presented by the Enron case. We need to determine whether the rules that apply to 401(k) plans, pensions, and other types of retirement plans are adequate to ensure that individuals do not lose control over the life savings they own. We also need to review whether accurate information is available so that individuals can make wise saving and investment decisions.

Last week the President directed me, Secretary Chao of the Labor Department and Secretary Evans of the Commerce Department to convene a working group to analyze pension rules and to develop recommendations to strengthen retirement security. This review will focus on the issues of fair play in the market and the balance between consumer choice and firms’ interests in offering defined contribution plans.
A working group of senior staff has already met twice and Secretaries Chao and Evans and I will hold our second meeting later today. The working group is looking at a broad range of issues, including the rules governing diversification, temporary lock out, and the availability of information to employees. We must ensure that the rules enhance opportunities for individuals to invest in our economy and ensure that their ownership of their life savings is protected. We want to enhance, not limit, choices individuals can make in planning for their retirement security. At the same time, we want to preserve and enhance employers' incentives to offer retirement options that will help their employees build an economically successful future. For individuals to make the best possible decisions, they must know that the rules prevent anyone from taking those decisions away from them. We are committed to delivering to the President recommendations that promote the retirement security of working Americans.

We are also pursuing new methods of making the full range of Treasury securities more widely available, because Treasury securities are a valuable tool for every American seeking financial security. We offer the safest, most liquid, securities in the world to fill investor needs across the whole spectrum of portfolios, from the individual investor who has $50 to invest, to the largest asset managers and other firms who invest billions of dollars in managing their portfolios.

The Internet now gives us the technological wherewithal to create the broadest possible primary market for Treasury securities that imagination and effort will allow.

The Bureau of Public Debt already has some of this in place. Their website offers investors the opportunity to get information on and buy both savings bonds and marketable bills and notes directly from the Treasury. Creating and continually enhancing this direct link to Treasury products will let our customers move seamlessly along the whole continuum of the securities we offer as their investment needs evolve.

Enhancing and protecting retirement security for all Americans is one of President Bush's priorities, and one of my top agenda items for this year. I'm eager to expand the availability of savings tools to all Americans, and to ensure that working American's ownership of their retirement nest eggs is protected.

--30--
Transcript of AS Michele Davis press briefing on Enron
1/11/02

MD: Several of you have called about Peter Fisher’s interaction with Enron and I’d like to just get it out to all of you at once instead of making a bunch of phone calls.

Following Ken Lay’s call to the Secretary, the President of Enron called Under Secretary Fisher.

Q: What’s his name?

MD: It’s Whaley…none of us know how to spell that.

Q: This is October, right?

MD: Yes.

Under Secretary Fisher spoke with the President of Enron six or eight times in late October and early November. The calls were informational. The Under Secretary’s job is to monitor capital markets and monitor the effect of any major economic development on the capital markets. In that role, he is in contact with people in the markets every day to be aware of their concerns.

Everybody got that?

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

Do I need to repeat any of that?

Q: Did he tell the President of Enron, ‘Look, I’m not going to make any calls’?

MD: It was…he inferred that’s what he was being asked. There wasn’t a question to answer.

Q: Fleischer, yesterday, Michele, had said that Fisher concluded …basically O’Neill asked him to do a comparison, since Lay had asked him about LTCM. Did he in fact do any type of comparison between LTCM and Enron?

MD: Under Secretary Fisher monitored market reaction and saw no concerns about…spillover effects on the market.

Q: So, was there a study done, per se? So there wasn’t a study done. It was basically just daily monitoring, contacts with people in the markets on a daily basis rather than a comprehensive study?

MD: Right.
Q: OK, so there’s no direct compare and contrast on LTCM and Enron? That’s what Fleischer had indicated.

MD: You’d have to show me Ari’s remarks. I don’t know why….I don’t want to respond to Ari’s remarks without knowing exactly what he said on that, but I don’t think…

Q: Well, he said that O’Neill has asked Fisher, since O’Neill was concerned about Lay’s request, to go ahead and look at whether this posed the same kind of risk that LTCM did.

MD: The Secretary passed along the contents, the information, from Ken Lay’s call, to Under Secretary Fisher, and asked him to look into it.

Q: And he continues to conclude that there’s no similarity to LTCM ?

MD: There’s no…

Q: Do you have times on those calls?

MD: Just late October, early November.

Q: What about calls from Lay to [inaudible]?

MD: I gave you those yesterday.

Q: [inaudible]

MD: Oh no, I’m sorry, I just have the dates.

Q: What I said, I’m just reading the transcript, was that the Secretary asked Fisher to see whether, the description I remember was “apt”; to see whether a comparison between Long-Term Capital Management and Enron was “apt”, and the conclusion that Peter Fisher reached...

MD: Under Secretary Fisher saw no spillover effects that raised concerns.

Q: But there was no look at comparison with Long-Term Capital…

MD: He saw no spillover effects that raised concerns.

Q: What did O’Neill tell Lay, in the call?

MD: Thanks for the information.

Q: Did he say, you know, “you should be talking to the Justice Department or the SEC”? 

MD: He took the information and [that was it].
Q: And who did Fisher relay his conclusions to? Just the Secretary or was there information that was given over to the White House?

MD: No, just the Secretary.

Q: Michele, is there anything else Fisher is doing right now, or has he pretty much concluded that no LTCM-like comparison and the information has been passed on...

MD: There have been no spillover effects.

Q: I know you said this, but O'Neill told Whaley to call Fisher?

MD: No. What the Secretary said yesterday was that when Ken Lay called him, Ken Lay passed along his concerns and offered to make the information available from his technical people to our technical people.

Q: That was what my question was about. The Secretary then took what information Ken Lay gave to him and...

MD: All he said to him was, ‘[I’ll make] my technical people available to your technical people.’
For Immediate Release  
Thursday, Jan. 17, 2002  

Grassley: Enron News Underscores Need for Tax Shelter Legislation  

WASHINGTON - Sen. Chuck Grassley, ranking member of the Committee on Finance, today said revelations that Enron might have used tax-haven subsidiaries to avoid taxes and hide its financial debts underscore the need for tax shelter legislation.

For several months, Grassley has been the lead Republican in a bipartisan effort to draft legislation that would help the Internal Revenue Service identify tax shelters and police the illegal use of these vehicles. He and his colleagues have not yet introduced their bill.

Grassley said he is part of a Finance Committee effort to review whether Enron used certain tax vehicles that might have masked the company's financial condition.

"It was a shock to read that Enron may have used nearly 900 tax-haven subsidiaries to avoid taxes and hide its financial debts," Grassley said. "We need to know more about Enron's activities in these haven countries, but even with what we know right now, this is one more example of why Congress should act on tax shelter legislation. This legislation would force disclosure of tax shelters so that the IRS can better police them. We also need to fully assess the role that offshore tax havens may play in facilitating tax shelters. I'm a tax cutter, but if there's one thing I can't stand, it's a tax cheat. When one person or company fails to pay their share of taxes, it falls on everybody else to pick up the slack. So you can be sure that I'll pursue this issue when Congress comes back in session."

Grassley also is preparing legislation that would tighten up protections for retirement plan participants in light of Enron's collapse. He hopes to introduce a bill in the next few weeks.

-30-
Bradshaw, Tara

From: Bradshaw, Tara
Sent: Friday, January 18, 2002 1:07 PM
To: 'mdavis@kcstar.com'

For Immediate Release
Office of the Press Secretary
January 10, 2002

President Calls for Review of Pension Regulations and Corporate Disclosure Rules
REMARKS BY THE PRESIDENT IN MEETING WITH HIS ECONOMIC TEAM

The Oval Office

9:42 A.M. EST

THE PRESIDENT: Thank you all for coming. I met with my economic security team last week to talk about ways to create jobs. We're meeting again with the components of the team to talk about one part of economic security, and that's pension security.

One of the things we're deeply concerned about is that there have been a wave of bankruptcies that have caused many workers to lose their pensions, and that's deeply troubling to me. And so I've asked the Secretary of Treasury, Secretary of Labor and Secretary of Commerce to convene a working group to analyze pensions, rules and regulations, to look into the effects of the current law on hard-working Americans, and to come up with recommendations how to reform the system to make sure that people are not exposed to losing their life savings as a result of a bankruptcy, for example.

As well, Secretary of Treasury, along with the SEC, the Fed, and the CFTC, are going to convene a working group to analyze corporate disclosure rules and regulations. In light of the most recent bankruptcy, Enron, there needs to be a full review of disclosure rules, to make sure that the American stockholder, or any stockholder, is protected.

And so, I think this is an important part of, obviously, other investigations that are ongoing. The Justice Department announced and informed us late yesterday that they're in the process of investigating aspects of the Enron bankruptcy. The administration is deeply concerned about its effects on the economy. We're also deeply concerned about its effects on the lives of our citizenry.

I'll be glad to answer a few questions.

Q When was the last time you talked to either Mr. Lay or any other Enron official, about the -- about anything? And did discussions involve the financial problems of the company?

THE PRESIDENT: I have never discussed, with Mr. Lay, the financial problems of the company. The last time that I saw Mr. Lay was at my mother's fundraising event to -- for literacy, in Houston. That would have been last spring. I do know that Mr. Lay came to the White House in -- early in my administration, along with, I think 20 other business leaders, to discuss the state of the economy. It was just kind of a general discussion. I have not met with him personally.

Q -- to inoculate and your administration politically from the fallout?

THE PRESIDENT: Well, first of all, Ken Lay is a supporter. And I got to know Ken Lay when he was the head of the -- what they call the Governor's Business Council in Texas. He was a supporter of Ann Richards in my run in 1994. And she had named him the head of the Governor's Business Council. And I decided to leave him in place, just for the sake of continuity. And that's when I first got to know Ken, and worked with Ken, and he supported my candidacy.

This is -- what anybody's going to find, if -- is that this administration will fully investigate issues such as the Enron bankruptcy, to make sure we can learn from the past, and make sure that workers are
protected.

Q Mr. President, does it appear that Iran is flexing its muscles in Western Afghanistan, and does that threaten the U.S. war on terrorism in that region?

THE PRESIDENT: Well, first of all, Iran must be a contributor in the war against terror; that our nation and our fight against terror will uphold the doctrine, either you're with us or against us; and any nation that thwarts our ability to rout terror out where it exists will be held to account, one way or the other.

I hope -- we had some positive signals early -- early in this war from the Iranians. We would hope that they would continue to be a positive force in helping us bring people to justice. We would hope, for example, they wouldn't allow al Qaeda murderers to hide in their country. We would hope that if that be the case, if someone tries to flee into Iran, that they would hand them over to us, that they're a part of -- if they're a part of the coalition, then they need to be an active part of the coalition.

In terms of Afghanistan, we are -- we would like to work with the Iranians, as well as other neighboring countries, to bring a stable interim government to stabilize the interim government. And to the extent that they're involved, we would hope that they would participate, if they are trying -- if they in any way, shape, or form try to destabilize the government, the coalition will be -- we'll deal with them, in diplomatic ways, initially. And we would like very much for them to be active participants in a stable Afghanistan. It's to their advantage, by the way, that Afghanistan be stable.

Q Mr. President, based on the evidence the Israeli delegation presented at the State Department yesterday, about this arms shipment, do you believe that it's time for the United States to either break or suspend relations with Mr. Arafat and the Palestinian Authority?

THE PRESIDENT: John, I think it's very important for our administration to remain engaged with both parties. Obviously, I want to make sure that the evidence is definitive. But I'm, like many, beginning to suspect that those arms were headed in the wrong -- to promote terror. And terror will never enable us to achieve peace in the Middle East. So long as there's terrorists trying to disrupt the peace process, there won't be peace.

I do believe that, once the evidence is in, that those responsible need to be held to account. On the other hand, I also believe that our country must stay engaged in the process. I intend to ask Zinni to go back to the region at the appropriate time, to keep pushing for a dialogue, to keep pushing for the process to go forward.

Mr. Arafat must renounce terror, must reject those who would disrupt the peace process through terror, and must work hard to get to the peace table. It seems like it's up to him to make these decisions.

Q But has he been less that truthful in speaking to Secretary Powell, General Zinni and others, in saying he had nothing to do with this and no knowledge of it?

THE PRESIDENT: We will find out the facts, John. But he is -- you asked a question, should we basically disengage? And the answer is no, we won't disengage from the Middle East. We will stay involved in the Middle East peace process or trying to get to the peace process. And it starts with making the region more secure.

Mr. Arafat must renounce terror, and must reject those in the region that would disrupt the peace process by the use of terrorist means.

Q What can you do about pensioners -- what can you do about pensioners now? Isn't that horse already out of the barn at Enron?

THE PRESIDENT: Our group is meeting, and they will bring recommendations here. They'll look at -- fully investigate what went on. My concern, of course, is for the shareholders of Enron. But my -- I have great concern for the stories -- for those I read about in the stories who put their life savings aside, and for whatever reason, based upon some rule or regulation, got trapped in this awful bankruptcy and have lost life savings.
And one of the things this group is going to do is take a good hard look at it.

Thank you all.

END 9:50 A.M. EST

Return to this article at:
</news/releases/2002/01/20020110-1.html>
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Thank you all.

END 9:50 A.M. EST
f.y.i.

-----Original Message-----
From: Press_Office@finance-rep.senate.gov
[mailto:Press_Office@finance-rep.senate.gov]
Sent: Monday, January 14, 2002 5:18 PM
To: Jill_Gerber@finance-rep.senate.gov
Subject: Enron, retirement plan rules

For Immediate Release
Monday, Jan. 14, 2002

Grassley Explores New Protections for Retirement Plan Participants

WASHINGTON - Sen. Chuck Grassley, ranking member of the Committee on Finance, is pursuing whether Congress should tighten up protections for retirement plan participants in light of Enron's collapse.

"Millions of Americans have hundreds of billions of dollars invested in employer-sponsored retirement plans," Grassley said. "These plans receive favored treatment under the federal tax code. The Committee on Finance has the primary responsibility, under its jurisdiction, for making sure retirement plans comply with the tax code and other laws. Our committee also has the responsibility to fix any weaknesses that might leave retirement plan participants in trouble if their employer goes under."

Grassley said the details of the Enron retirement plans are still forthcoming. However, he said, some areas already are emerging as targets for scrutiny. Specific areas Grassley is looking into are:

Company stock. Under current rules, a company can restrict a retirement plan participant from selling the match received in company stock through an employee stock ownership plan. (Enron employees' company stock matches were restricted.) Grassley is researching whether employees should be able to change this investment choice prior to an arbitrary age.

Mandated purchases of company stock. Current law allows a plan sponsor to compel employees to purchase up to 10 percent of employer stock as a condition of participating in a 401(k) plan. Grassley said he thinks this rule should be eliminated.

Fiduciary rules. These rules ensure that companies properly invest and handle retirement plan money, including spending the money for the exclusive benefit of their employees. Retirement plans are tax-favored vehicles, authorized under the Internal Revenue Code. Grassley said he wants to learn whether Enron officials violated their fiduciary duties and in general, whether Congress should change the existing rules.

Black-outs. A "black-out" or "lockdown" occurs when a plan is shut down for a period of time to allow, for example, change to another plan administrator. Enron had such a "black-out," though the length of time is disputed. Grassley said he wants to get the facts on this event because it may
coincide with the decline in the company's stock value.

Mandated diversification of stocks in retirement plans. Some legislation has been introduced that mandates employees hold no more than a certain percentage of stock in their 401(k) plan. Diversification in one part of the plan should indicate that all investments should be mandated. Grassley said he has an open mind, but thinks mandates are not desirable nor particularly feasible.

Grassley said he is pursuing these ideas with experts from outside groups and agencies such as the Treasury Department, the Labor Department and the Pension Benefit Guaranty Corporation.

"The tax code smiles on retirement plans, for good reason," Grassley said. "Tax breaks encourage employers to set up retirement plans and employees to take part in those plans. If employers find it easy to break the rules, then Congress has to re-write the rule book. Otherwise, employees counting on a secure retirement might be left out in cold."

In addition to the retirement plan track, Grassley said he is part of an effort to look into whether Enron used certain tax vehicles that might have masked the company's financial condition.

-30-
Bradshaw, Tara

From: The New York Times Direct [nytdirect@nytimes.com]
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QUOTE OF THE DAY
"Reassurance is good. Cash is better."
AHMAD FAWZ, of the United Nations, on American support for Afghanistan.

NATIONAL
U.S. Hunts 5 Men Seen on Tape, Saying They May Plan Attack
The Justice Department released photos and video excerpts of five suspected Al Qaeda members on Thursday who were taped offering "martyrdom messages."

MORE NATIONAL NEWS

"A floor lamp that spreads sunshine all over a room"
The HappyEyes (TM) Floor Lamp brings the benefits of natural daylight indoors for glare-free lighting that's perfect for a variety of indoor activities.

BUSINESS
S.E.C. Leader Says Auditing Industry Can't Police Itself
The head of the Securities and Exchange Commission proposed Thursday that the accounting industry should be policed by a group dominated by outside experts.

MORE BUSINESS NEWS

POLITICS
Congress Rebuffed on Energy Documents
The White House refused to turn over documents demanded by Congress as part of an inquiry into workings of the administration's energy task force.

MORE POLITICS NEWS

OP-ED
A System Corrupted
By PAUL KRUGMAN
The Enron debacle is not just the story of a company that failed; it is the story of a system that failed.

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QUOTE OF THE DAY
"All I can say is, it's about time."
DR. JON OPSAHL, after former members of the Symbionese Liberation Army were charged with murder for a 1975 bank robbery in which his mother was shot to death.

NATIONAL
Video Shows Terrorism Suspects Wanted by U.S.
The Justice Department today released photos and video excerpts of five suspected Al Qaeda members.

MORE NATIONAL NEWS

Natural de-icer means you'll have to shovel less this winter
All-natural grain juices dissolve away snow, prevent snow from adhering for 10-14 days! Perfect for clearing driveways, walks and protecting plants.

BUSINESS
Auditor Received Warning on Enron Five Months Ago
Arthur Andersen knew in mid-August of a senior Enron employee's concerns about improprieties in the energy company's accounting practices.

MORE BUSINESS NEWS

POLITICS
Opening of Senate Office Delayed
The opening of an anthrax-contaminated Hart Senate office building was delayed once again today.

MORE POLITICS NEWS

OP-ED
Enron and the Gramms
By BOB HERBERT
When Senator Phil Gramm and his wife Wendy danced, it was most often to Enron's tune.

MORE OP-ED NEWS

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The Associated Press

01/16/2002

IRS To Examine 50,000 Tax Returns

By CURT ANDERSON

AP Tax Writer

WASHINGTON (AP) -- Aiming to target its audits better, the IRS intends a special random check this year of about 50,000 individual tax returns but will subject fewer people to the intense, face-to-face questioning that drew heavy criticism in the past.

IRS Commissioner Charles Rossotti said Wednesday the goal is to collect an up-to-date snapshot of the taxpaying public so that audits get better results. Almost a quarter of Internal Revenue Service audits now done turn out to have been unnecessary; the new information could reduce the number of no-change audits by 15,000 a year.

"We don't want to audit somebody who doesn't need to be audited," Rossotti told reporters. "We have an opportunity to reduce the burden on the honest taxpayer."

The project, officially called the National Research Program, was last done in 1988. When IRS officials tried a repeat in 1994, it was withdrawn in a hail of criticism from Congress and elsewhere as far too burdensome on taxpayers.

Those past efforts required each selected taxpayer -- in 1988, it was 54,000 -- to undergo a rigid, time-consuming, line-by-line audit of the tax return, even down to bringing birth certificates to prove the identities of their children. A taxpayer's accountant or lawyer wasn't allowed to participate.

This time, officials promise it will be different. Rossotti said about 2,000
taxpayers will face line-by-line examinations that will be less detailed than in the past. The biggest group, about 30,000 taxpayers, will undergo a more limited in-person audit, but those will be less intrusive than in the past and can be attended by a professional tax preparer.

An additional 9,000 taxpayers can expect a correspondence audit through the mail, with the remaining 8,000 likely to have no contact at all from the IRS. The study is intended to reflect the纳税 population as a whole, with a more detailed look at taxpayers earning above $100,000 a year compared with previous years.

The audits are expected to begin in the fall on individual returns from the 2001 tax year, for which returns are due April 15. Rossotti said the program will not increase the overall number of IRS audits and will not require an increase in the agency's budget.

Taxpayers audited under the project will be told why they were chosen.

In 2000, the IRS conducted 618,000 audits of individual returns, representing less than one-half of 1 percent of the total tax returns filed and less than half the number of the year before.

A projected 132 million individual tax returns will be filed this year, and IRS officials say reversal of the enforcement slide is essential to ensure compliance with the law.

"There are, unfortunately, people who cheat on their taxes," Rossotti said.

Treasury Secretary Paul O'Neill, who approved the program, said information gleaned will "put us back on the right track" in targeting who is complying and who isn't. The IRS estimated the "tax gap" -- the difference between all federal taxes owed and those paid -- at $278 billion for the 1998 tax year.

"While we have a general sense of the tax gap, and we know that compliance is uneven, we don't have the necessary information to know how big the problem is or how to fix it," O'Neill said in a statement.

In addition, the project enables the IRS to find areas in the tax law that consistently give people trouble. Forms and instructions can be improved, and sometimes Congress will change tax law to eliminate problems.

This year's project will involve only individual Form 1040 tax returns. Future projects will focus on other taxes, such as those paid by corporations, small businesses and the self-employed.

2. US IRS Eyeing Tax-Audit Study Involving 50,000 Taxpayers * Dow Jones Newswires

**Dow Jones Newswires**

January 16, 2002

US IRS Eyeing Tax-Audit Study Involving 50,000 Taxpayers
IN THE NEWS: 1/17/02
By JENNIFER CORBETT DOOREN
OF DOW JONES NEWSWIRES

WASHINGTON -- The U.S. Internal Revenue Service is proposing a
tax-audit study that would involve 50,000 taxpayers beginning this fall.

IRS Commissioner Charles Rossotti said Wednesday the proposal is
designed to update and improve IRS auditing techniques so the agency
can better focus its resources on auditing people who don't pay their taxes.

"It's very important when you do auditing that we aren't bothering the
people who are paying their taxes," he said. "You need information to
make the best judgment about who to audit."

To get updated information, the IRS plans to conduct a random sample of
50,000 taxpayers from all income groups to determine whether people are
complying with the tax code.

The last time the IRS conducted such a study was in 1988. The agency
tried to conduct another study in 1994 but it was shot down by lawmakers
on Capitol Hill who deemed it too expensive and intrusive. In 1988 54,000
taxpayers had to sit down with the IRS and go through a line-by-line audit
and show documentation for each line. A similar method was proposed in
1994.

Rossotti said the new proposal is much less intrusive. About 8,000 of the
taxpayers in the group of 50,000 won't even know they are being audited.
The IRS will simply audit their return with information it already has, such
as matching their reported income with information filed by their
employers.

Another 9,000 audits will be conducted by mail. About 30,000 audits will
be of "limited" scope where only a part of the return will be audited.
Taxpayers can send a third party in their place to meet with the IRS.
Rossotti said 2,000 people will be subject to a line-by-line audit but it
won't necessarily require the taxpayer to produce documentation for each
line.

Rossotti said he met with congressional staff from the House and Senate
tax-writing committees earlier Wednesday and will be discussing the
proposal with lawmakers during the next few months.

Treasury Secretary Paul O'Neill signed off on the plan, saying "The
problem is that currently we have no up-to-date data on who is and is not
paying their fair share, and why."

"The IRS is simply auditing too many of the law-abiders and not enough of
the people who avoid paying taxes because they lack the basic information
to make informed audit decisions," O'Neill said.

Indeed, Rossotti said the "no change" rate from annual audits has increased
during the past several years to about 25%. That means that 25% of all
01/18/2002
returns that were audited were correct.

The 50,000 audits that will be apart of the study won’t increase the overall amount of audits conducted by the IRS, a figure that has been dropping in recent years. In fiscal year 2000 about 618,000 individual taxpayer audits were completed, which is down from 1.9 million in 1995.

-By Jennifer Corbett Dooren


The New York Times

January 17, 2002, Thursday, Late Edition - Final

SECTION: Section C; Page 4; Column 3; Business/Financial Desk

LENGTH: 318 words

HEADLINE: I.R.S. Plans Random Audits, But It Promises to Be Gentle

BYLINE: AP

DATELINE: WASHINGTON, Jan. 16

BODY:

In an effort to do a better job of conducting audits, the Internal Revenue Service plans a random check of about 50,000 individual tax returns this year but will subject fewer people to the intense face-to-face questioning that drew heavy criticism in the past.

Charles O. Rossotti, the I.R.S. commissioner, said today that the goal was to collect an up-to-date snapshot of the taxpaying public so that audits could get better results. Almost a quarter of audits turn out to have been unnecessary; the new information could reduce the number of no-change audits by 15,000 a year. "We don't want to audit somebody who doesn't need to be audited," Mr. Rossotti said.

The project, called the National Research Program, was last done in 1988. When I.R.S. officials tried to repeat it in 1994, it was withdrawn in a hail of criticism as far too burdensome on taxpayers.

Past efforts required each selected taxpayer -- 54,000 were chosen in 1988 -- to undergo a rigid line-by-line audit, requiring even birth certificates to prove the identities of any children. A taxpayer's accountant or lawyer was not allowed to participate.

Officials promise that this time will be different. About 2,000 taxpayers will face examinations that will be line by line but less detailed than in the past, Mr. Rossotti said. About 30,000 taxpayers will undergo a more limited in-person audit, but those will be less intrusive and professional tax preparers will be allowed to attend.

An additional 9,000 taxpayers can expect an audit through the mail. And the rest of the 50,000 chosen in the random check are expected to have no contact at all from the I.R.S. The study is intended to reflect the taxpaying population, with a more detailed look at taxpayers earning above $100,000 a year compared with previous years. The audits are expected to begin in the fall on individual returns from the 2001 tax year.

GRAPHIC: Photo: Charles O. Rossotti, the I.R.S. commissioner, seeks an up-to-date snapshot of the taxpaying public. (Stephen Crowley/The New York Times)

01/18/2002
4. IRS targets 50,000 for special data-gathering audits * USA TODAY

USA TODAY

January 17, 2002, Thursday, FIRST EDITION

SECTION: MONEY; Pg. 5B

LENGTH: 411 words

HEADLINE: IRS targets 50,000 for special data-gathering audits

BYLINE: Thomas A. Fogarty

DATELINE: WASHINGTON

BODY:
WASHINGTON -- Almost 50,000 taxpayers will be audited this year to determine how much the government is losing to cheating and mistakes.

The effort also is expected to help the IRS make sure future audits target taxpayers most likely to be illegally avoiding taxes or underpaying. Targets of the new IRS program, benignly called the National Research Project, will be notified beginning next fall. Announced Wednesday by IRS Commissioner Charles Rossotti, the IRS proposal is designed to sidestep fierce public and congressional criticism that doomed a similar effort in 1995. The new plan calls for IRS "to get the information with the smallest possible burden to the taxpayer," Rossotti says.

The 1995 proposal was intended to update a 1988 study in which 54,000 taxpayers were subjected to what became widely known as "the audit from hell." In those superaudits, the IRS demanded documentation for every line of the tax return. Married filers were compelled to produce marriage certificates. Claims of dependents had to be substantiated by birth certificates.

The IRS then planned a comparable deep dive into the private lives of about 150,000 taxpayers starting in December 1995. Congress preempted by cutting IRS financing amid allegations of potential privacy violations. Rosso}

01/18/2002

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Treasury Secretary Paul O'Neill endorsed the IRS plan, saying it addresses the problems with the 1995 plan. "This will allow the IRS to gather the necessary tax fairness data without excessively burdening taxpayers," O'Neill says.

5. IRS Again Plans Random Audits; Program, Dropped in '90s, Designed to Measure Compliance * The Washington Post

The Washington Post

January 17, 2002, Thursday, Final Edition

SECTION: FINANCIAL; Pg. E01

LENGTH: 545 words

HEADLINE: IRS Again Plans Random Audits; Program, Dropped in '90s, Designed to Measure Compliance

BYLINE: Neil Irwin, Washington Post Staff Writer

BODY:

The Internal Revenue Service plans to reinstate a limited version of a controversial research program in which thousands of randomly selected tax returns were audited intensively to try to measure overall compliance with the law.

The IRS audits hundreds of thousands of taxpayers each year -- 618,000 in 2000 -- because of errors it spots or unusual entries on returns. Many of the audits are done by mail, but 251,000 were conducted in person in 2000. To better spot which taxpayers are most likely to have broken the rules or made mistakes on their returns, the IRS used to pick 54,000 taxpayers at random across all income levels and examine their returns excruciatingly closely -- a process opponents of the program called "audits from hell." The Taxpayer Compliance Measurement Program was scrapped in 1988 under pressure from Congress, as was an attempt to reinstate it in 1994.

Now, the IRS plans a narrower program that is intended to obtain the same data while inconveniencing those selected for study less severely. Instead of requiring 54,000 taxpayers to meet with an IRS agent and provide documentation for each line on their returns, the new National Research Program would give a similar, though more flexible, line-by-line audit to 2,000 randomly selected taxpayers.

Thirty thousand other taxpayers would receive more or less standard audits under the program, and 17,000 would be audited by mail or have their returns scrutinized without being contacted at all.

IRS officials said yesterday that the goal is to audit fewer innocent people; nearly a fourth of taxpayers audited for their 1998 returns were found not to have broken rules or made mistakes on their returns. The new program is designed to help the agency set guidelines on whose returns should be audited so that more audits capture tax scofflaws.

"The less information you have, the more people you audit who you shouldn't have," Commissioner of Internal Revenue Charles O. Rossotti said yesterday. He estimated that the research program will keep 15,000 innocent taxpayers a year from being audited.

The decision to go forward with the program is not yet final, Rossotti said, and the IRS will consider
comments from outside groups and members of Congress before committing to it. The research would begin this fall at the earliest.

The plan was endorsed by Treasury Secretary Paul H. O'Neill, who said in a prepared statement yesterday: "The IRS is simply auditing too many of the law-abiders . . . That only hurts the honest taxpayers and helps the cheats, and that's backwards. The NRP will help put us back on the right track."

Robert S. McIntyre, director of Citizens for Tax Justice, which favors strict enforcement, said the research plans were desirable but probably will not go far enough to give the IRS sufficient data to know whom to audit.

"I'm sure they need to do a lot more, but they're frightened by the tax cheaters' lobby in Congress," said McIntyre, referring to groups that criticize the IRS as too invasive in enforcing tax rules.

The IRS expects no new funding for the research program, Rossotti said. The audits conducted in the new study will reduce by that number the quantity of audits conducted for other reasons.

6. Tax Compliance: IRS UNVEILS NEW, LESS BURDENSOME SYSTEM FOR ASSESSING COMPLIANCE, TARGETING AUDITS * BNA

The Bureau of National Affairs, Inc.,
Daily Tax Report

January 17, 2002, Thursday

12 DTR GG-1 (2002)

LENGTH: 1192 words

SECTION: LEAD TAX REPORT

TITLE: Tax Compliance: IRS UNVEILS NEW, LESS BURDENSOME SYSTEM FOR ASSESSING COMPLIANCE, TARGETING AUDITS

AUTHOR: By Alison Bennett

TEXT:
The Internal Revenue Service Jan. 16 proposed a new, less intrusive system of measuring taxpayer compliance to replace the widely criticized audit program it axed in 1994.

The new project, called the National Research Program (NRP), is an attempt to "make the administration of the tax system as fair as possible," Commissioner of Internal Revenue Charles O. Rossotti told reporters at a briefing.

Updated compliance information would help IRS target its audit resources where they are most needed, he said.

"This project will help all taxpayers by giving the agency timely, accurate information about tax compliance," he said. The information will allow IRS to replace outdated audit formulas and develop new ways to combat tax cheating, according to Rossotti.

Initially, the program would involve random audits or other checks of about 50,000 individual taxpayers, with
possible expansion to corporations and employers over time, Rossotti said. It is intended to measure filing, payment, and reporting compliance, with a key focus on underreporting.

Working With Congress.

While the new compliance system is still in proposed form, Rossotti said IRS is working closely with the tax committees in Congress to develop a final plan that could be implemented as early as the fall of 2002.

He stressed IRS is trying to gather information that would help target its audits in areas where compliance problems are most likely to exist, while minimizing burdens on taxpayers.

The agency has not had reliable information to make those decisions since 1988, when the last audit was done under the Taxpayer Compliance Measurement Program (TCMP). That program was finally withdrawn in 1994, under fire for its intensive, line-by-line audits requiring minute documentation.

"If you had a $10 deduction for postage because you had a business in your home, we would ask for the canceled check to the post office," Rossotti said. "We don't think we need to do that any more."

Rossotti said the new system could eliminate as many as 15,000 unnecessary audits annually. He stressed the compliance measurement approach will be "very different than in the past."

According to an IRS news release (IR-2002-05) and fact sheet (FS-2002-07), the individual taxpayers making up the first stage of the project will be chosen at random within each of about 30 audit classes.

Flexible System.

Unlike TCMP, which required burdensome face-to-face audits for all taxpayers in the sample, however, the new system calls for four different types of examinations. None have documentation requirements as stringent as those under the old approach, Rossotti said.

Of 50,000 taxpayers in the sample, just 2,000 would undergo line-by-line audits, with a requirement for "reasonable" substantiation. The majority of filers, about 30,000, would be selected for "limited scope" face-to-face audits, expected to be no more intrusive than ordinary exams, the commissioner said.

About 9,000 taxpayers in the sample would be contacted for correspondence audits, while IRS would do compliance checks on another 8,000 taxpayers that would involve no contact at all.

The more flexible approach will be made possible by an effort to "put much of the burden on IRS to do our own research before we go taking information from the taxpayer," Rossotti told reporters.

The IRS commissioner said that new statistical techniques allow the agency to "calibrate" the accuracy of the less intensive audits and checks using the information obtained from the smaller sample of line-by-line exams.

"We've been working hard on coming up with a creative new approach that will get us the information we need and only the information we need," he said.

High-Income Taxpayers Studied.

Mark Mazur, the agency's new director of research, analysis, and statistics of income, said the sample will be evenly split across all income levels, with even distribution of the types of examinations across these income levels as well.

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He noted, however, that IRS's operating divisions dealing with wage and investment taxpayers, small businesses, and the self-employed are seeking more detailed information on high-income taxpayers.

Both Mazur and Rossotti stressed IRS does not plan to single out high-income individuals for more intensive audit focus, but may construct its sample categories in such a way that additional information can be obtained for certain types of taxpayers.

"We're not anticipating more audits being done or shifting the distribution," Mazur said.

No New Spending.

In fact, Rossotti said, IRS plans to conduct this program within its normal compliance efforts. No additional audits will be conducted outside of the total IRS planned to do anyway, and no additional resources will be committed, he told reporters.

"This is a way of using resources to make the rest of the resources more efficient," Rossotti said. Treasury Secretary Paul O'Neill Jan. 16 said he supports the new initiative. "Tracking taxpayer compliance is a cornerstone of a fair tax system," he said. "This new approach will allow the IRS to gather the necessary tax fairness data without excessively burdening taxpayers."

Rossotti said an increasing number of audits resulting in no tax change is a signal the agency is wasting precious -- and shrinking -- exam resources. "We're auditing the wrong people," he said.

The commissioner said despite the decline in audits that actually catch noncompliant taxpayers, there is ample evidence that wrongdoing exists. "There is plenty of reason to believe that some people aren't paying what they owe," he said.

Rossotti said he does not expect this program to increase the agency's audit rate, but hopes it eventually will make the examination process more productive. "We have to have enough activity to find people that are not paying what they should," he said.

Practitioner Reaction.

Tax practitioners Jan. 16 said they support the idea of IRS having updated compliance information to improve its audit process, but reserved judgment until more details become available.

Richard Lipton, chairman of the American Bar Association Section of Taxation, said his organization has "consistently supported the concept of IRS having the knowledge it needs to enforce the tax laws," but said it is too soon to take a position on the new measurement plan.

"It's clear the service is trying to find an audit technique that will be less burdensome than TCMP," he said. "The idea of a compromise is something that we support."

Timothy McCormally, executive director of Tax Executives Institute Inc., expressed similar views.

"The IRS needs to get more information so it can be smarter about what it audits," McCormally told BNA. "From that perspective, it makes a lot of sense."

Texts of IR-2002-05 and FS-2002-07 are in Section L.

Text of an O'Neill statement is in BNA TaxCore.

7. IRS VETS NEW COMPLIANCE MEASUREMENT PROPOSAL. * Tax Notes Today

01/18/2002

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Tax Notes Today

JANUARY 17, 2002 THURSDAY

DEPARTMENT: News, Commentary, and Analysis; News Stories

CITE: 2002 TNT 12-2

LENGTH: 1057 words

HEADLINE: #2 2002 TNT 12-2 IRS VETS NEW COMPLIANCE MEASUREMENT PROPOSAL.

(Release Date: JANUARY 16, 2002) (Doc 2002-1364 (3 original pages))

AUTHOR: Hamilton, Amy
Tax Analysts

IRS Commissioner Charles O. Rossotti on January 16 met with staff for congressional taxwriting committees to describe the agency's latest proposal for measuring taxpayer compliance. The IRS claims its newly proposed National Research Program, which has been in the works since the 1994 "audits from hell" public relations fiasco, would be far less intrusive and burdensome on taxpayers than the discontinued Taxpayer Compliance Measurement Program. "It also would help us be more precise in auditing people who should be audited," said Rossotti.

Congress is not in session and staff declined to speculate on how lawmakers would react to the proposal when they return. However, "It's important for the IRS to have updated taxpayer information so that it can better target its resources," said Senate Finance Committee ranking member Charles E. Grassley, R-Iowa, on January 16. "I'll monitor the IRS's implementation of this program closely to ensure that the agency strikes the proper balance between taxpayers' rights and its informational needs."

Treasury Secretary Paul H. O'Neill on January 16 gave the IRS approval to move forward by making the proposal public and seeking comment. Though no legislative action is required for the IRS to carry out the proposed compliance measurement audits, Rossotti said IRS officials plan to spend the next several months meeting with lawmakers to discuss the plan. Ideally, the IRS would like to start pulling tax year 2001 individual income returns by fall for audit, he said.

"The last audits really did have all sorts of epithets applied to them," Rossotti told reporters at a technical briefing on the proposal. In 1988, the last time the IRS conducted a compliance measurement program, 54,000 taxpayers were required to participate in face-to-face audits in which the IRS required line-by-line substantiation through documentation. That is, if a taxpayer claimed a $10 postage deduction for business in home, the IRS required the taxpayer to substantiate that claim through the canceled $10 check.

Rossotti said one of the basic ideas behind the new approach is to put as much of the burden on the IRS as possible to do the research before approaching taxpayers under audit in the program. That is, Rossotti said, the IRS first would make maximum use of the data it already has to substantiate as many claims on returns under audit as possible. "Eighty percent of income is reported from third parties anyway," he said.

After verifying as much data as possible, the IRS will be able to determine "what we need to talk about with the taxpayer," Rossotti said. Taxpayers would not be required to attend any face-to-face audits but instead could have their representative take care of the business, Rossotti said. Also, the IRS would require no more than the same ordinary, reasonable substantiation that it requires in any regular audit. National Research Program audits should take about the same amount of time as regular audits, he said; past compliance measurement

01/18/2002

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audits took two to three times as long as regular audits.

Mark Mazur, the IRS's director of research, analysis, and statistics of income, said that under the program the IRS would randomly select a maximum of 50,000 taxpayers for audit. The taxpayers selected for audit under the National Research Program would come from the universe of 600,000 to 800,000 individuals the IRS already audits each year. Put another way, the IRS would spend no more resources than already budgeted and would not require a pool of taxpayers to be audited on top of the IRS's regular workload.

Further, the randomly selected 50,000 individuals would represent taxpayers from every income level. This breakdown would include several different subdivisions of taxpayers under audit making more than $100,000 per year.

The IRS expects it would be able to adequately verify information on 8,000 taxpayers selected for the program. That is, none of these taxpayers would even be contacted by the IRS. Another 9,000 taxpayers would require some limited form of contact from the IRS to substantiate something on the return, Rossotti said, but these contacts would be the same as those under ordinary correspondence audits.

The IRS estimates that 30,000 taxpayers would require limited in-person audits under the National Research Program. That is, after the IRS has completed its initial research, it will clearly define what issues it has with the return instead of conducting line-by-line audits. The resulting limited scope audits would be no more intrusive than ordinary audits, Rossotti said.

There would be a pool of 2,000 taxpayers who would undergo line-by-line audits that require reasonable substantiation. This sample would be used to calibrate the accuracy of the rest of the program. That is, this pool of 2,000 taxpayers would represent taxpayers at all income levels who would undergo line-by-line audits so that the IRS could determine the accuracy of the limited scope audits conducted on the majority of taxpayers in the program.

There is no up-to-date data on which taxpayers are and which are not paying their fair share of taxes and why, O'Neill said in a prepared statement. "While we have a general sense of the tax gap, and we know that compliance is uneven, we don't have the necessary information to know how big the problem is or how to fix it," O'Neill said. "As a result, right now, when the IRS chooses which taxpayers to audit, too many law-abiding taxpayers are subjected to audits for the wrong reasons, when they've done absolutely nothing wrong."

It has been nearly 15 years since the IRS was last able to measure taxpayer compliance. O'Neill said that because the IRS lacks the basic information to make informed decisions about whom and what activities to target for audit, the IRS currently audits too many law-abiding taxpayers and not enough cheaters.

According to Rossotti, nearly 25 percent of all IRS audits result in no changes -- a sign that the IRS is ineffectively targeting the right taxpayers for audits. Not only would the proposed approach help the IRS build better compliance programs and more effectively catch tax cheats, Rossotti said, it would help reduce audits of taxpayers who filed an accurate return by at least 15,000 tax returns a year.

8. IRS Plans Intensive Auditing; Taxes: Compliance program will examine 49,000 taxpayers to ferret out cheating * Los Angeles Times

Los Angeles Times

January 17, 2002 Thursday Home Edition

SECTION: Part A; Part 1; Page 1; Financial Desk

01/18/2002

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HEADLINE: THE NATION;

IRS Plans Intensive Auditing; Taxes: Compliance program will examine 49,000 taxpayers to ferret out cheating.

BYLINE: KATHY M. KRISTOF, TIMES STAFF WRITER

The Internal Revenue Service, worried that tax cheating is on the rise, wants to bring back a version of the "super audits" that were so dreaded and controversial that they were all but eliminated by the agency.

The IRS said Wednesday that it plans to audit 49,000 taxpayers selected at random under its revamped taxpayer compliance program--dubbed the National Research Program--beginning this fall.

However, the agency said the program will not be as wide-ranging as its proposed 1995 plan to subject 153,000 Americans to detailed, line-by-line audits.

Only 2,000 taxpayers will be targeted for line-by-line audits, the IRS said. About 47,000 returns examined under the proposed project will be checked by a combination of computerized data matching, taxpayer correspondence and more directed audits that focus on only a few select issues, the IRS said. "The process is substantially less intrusive on taxpayers, but it will help us catch tax cheating and improve tax administration," said IRS Commissioner Charles Rossotti. "We have found new ways to use existing information to measure tax compliance."

IRS critics were quick to denounce the new audit program.

"I think this is insidious," said Robert Schriebman, a tax attorney in Rolling Hills Estates who was a key witness in the IRS oversight hearings in the mid-1990s.

"It is very frightening. It's not the 2,000 potential audits. It's 'Where does it stop?' People might think, 'There are millions of tax returns, who cares about 2,000?' But what is it going to be next year?"

Treasury Secretary Paul H. O'Neill said detailed tax exams are necessary to ferret out tax cheating. The old super audit program, known as the Taxpayer Compliance Measurement Program, was widely feared by taxpayers. But those audits resulted in a wealth of data that helped the IRS pinpoint where audits were needed.

For example, the old compliance audit program revealed that taxpayers were frequently claiming tax deductions for nonexistent dependents. The IRS subsequently decided in the late 1980s to ask taxpayers to include a Social Security number for each child claimed as a dependent. The next year, the number of dependents claimed dropped by 7 million.

The last taxpayer compliance audits were conducted in 1988 and the data used to target tax returns for "routine" audits are hopelessly out of date, government officials said. As a result, the IRS is increasingly auditing taxpayers who have done nothing wrong.

"The IRS is simply auditing too many of the law-abiders and not enough of the people who avoid paying taxes because [the agency] lacks the basic information to make informed audit decisions," O'Neill said in a prepared statement. "That only hurts the honest taxpayers and helps the cheats, and that's backward."

The IRS estimates that the new compliance audit program will eliminate about 15,000 so-called no change audits annually. Those are cases in which the IRS audits returns only to find that the taxpayer meticulously

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obeyed the law.

Officials also hope the program will slow the growth of tax cheating. The IRS estimates that the tax gap—which includes the amount owed by non-filers and those who under-report income—soared to $278 billion in 1998. A 0.1% improvement in compliance would generate $1 billion in tax revenue, the agency said.

The IRS is seeking input on the new compliance program from Congress and tax preparer groups, IRS spokesman Terry Lemons said. If the response is favorable, the program could launch in October.

The IRS brewed up a storm of controversy on Capitol Hill in the mid-1990s when it last tried to launch a round of intensive compliance audits. Congressional leaders compared the program with the Inquisition and the IRS later dropped the idea, citing budget cutbacks.

Iowa Sen. Charles Grassley, the top Republican on the Senate Finance Committee and former member of a commission that restructured the IRS in 1998, said Wednesday that the agency needs to be mindful of taxpayer rights.

"I'll monitor the IRS' implementation of this program closely to ensure that the agency strikes the proper balance between taxpayers' rights and its informational needs," the senator told Bloomberg News.

Under the new compliance proposal, 8,000 returns would be checked solely through computerized matching programs, requiring no contact with the taxpayer. An additional 9,000 would involve the exchange of correspondence between the IRS and the taxpayer, the agency said. About 30,000 would involve sit-down meetings with auditors, but would not feature line-by-line scrutiny or require voluminous documentation.

Only 2,000 of the compliance audits would be so-called calibration audits requiring the selected taxpayers to document each line of each return, the agency said. Even in those cases, the agency plans to require less documentation, Lemons said.

"We are taking a more common-sense approach," he said. "We aren't going to require that you come up with the receipt for the $20 in postage that you claimed as business expenses. We see these as being much more comparable to a regular audit."

Tax preparers say that change is pivotal because the old tax compliance audits were so onerous that they were often referred to as "audits from hell."

Preparers also hated the old audits because the randomly selected taxpayers often had done nothing suspicious—they were simply unlucky. But they still had to endure examinations that took twice as much time as an ordinary audit and often cost thousands of dollars when taxpayers had to hire accountants to represent them.

"If you claimed a dependent, we would require you to show their birth certificate," said Gary Iskowitz, a Century City certified public accountant who previously ran the IRS' audit division in Baltimore. "It was a nightmare if you were selected."

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Times staff writer Liz Pulliam Weston contributed to this report.

9. IRS to reduce in-person audits * The Washington Times

The Washington Times

01/18/2002
IRS to reduce in-person audits

ASSOCIATED PRESS

The IRS will check a random sample this year of 50,000 individual tax returns but will subject fewer people to the intense, face-to-face questioning that drew heavy criticism in the past.

IRS Commissioner Charles Rossotti said yesterday the goal is to collect an up-to-date snapshot of the taxpaying public so that audits get better results. Currently, almost a quarter of Internal Revenue Service audits turn out to be unnecessary; the new information could reduce the number of no-change audits by 15,000 a year.

"We don't want to audit somebody who doesn't need to be audited," Mr. Rossotti told reporters. "We have an opportunity to reduce the burden on the honest taxpayer."

The project, officially called the National Research Program, was last done in 1988. When IRS officials tried a repeat in 1994, it was withdrawn in a hail of criticism from Congress and elsewhere as far too burdensome on taxpayers.

Those efforts required each selected taxpayer - in 1988, it was 54,000 - to undergo a rigid, time-consuming, line-by-line audit of the tax return, even down to bringing birth certificates to prove the identities of their children. A taxpayer's accountant or lawyer wasn't allowed to participate.

This time, officials promise it will be different. Mr. Rossotti said about 2,000 taxpayers will face line-by-line examinations that will be less detailed than in the past. The biggest group, about 30,000 taxpayers, will undergo a more limited in-person audit, but those will be less intrusive than in the past and can be attended by a professional tax preparer.

An additional 9,000 taxpayers can expect a correspondence audit through the mail, with the remaining 8,000 likely to have no contact at all from the IRS. The study is intended to reflect the taxpaying population as a whole, with a more detailed look at taxpayers earning above $100,000 a year compared with previous years.

The audits are expected to begin in the fall on individual returns from the 2001 tax year, for which returns are due April 15. Mr. Rossotti said the program will not increase the overall number of IRS audits and will not require an increase in the agency's budget.
Taxpayers audited under the project will be told why they were chosen.

In 2000, the IRS conducted 618,000 audits of individual returns, representing less than one-half of 1 percent of the total tax returns filed and less than half the number of the previous year.

A projected 132 million individual tax returns will be filed this year, and IRS officials say reversal of the enforcement slide is essential to ensure compliance with the law.

"There are, unfortunately, people who cheat on their taxes," Mr. Rossotti said.

Treasury Secretary Paul H. O'Neill, who approved the program, said information gleaned will "put us back on the right track" in targeting who is complying and who isn't. The IRS estimated the "tax gap" - the difference between all federal taxes owed and those paid - at $278 billion for the 1998 tax year.

"While we have a general sense of the tax gap, and we know that compliance is uneven, we don't have the necessary information to know how big the problem is or how to fix it," Mr. O'Neill said in a statement.

In addition, the project enables the IRS to find areas in the tax law that consistently give people trouble. Forms and instructions can be improved, and sometimes Congress will change tax law to eliminate problems.

10. **Enron Faces Congressional Tax Probe**

**Associated Press**

January 16, 2002

SECTION: FINANCIAL NEWS

HEADLINE: **Enron Faces Congressional Tax Probe**

BYLINE: CURT ANDERSON; AP Tax Writer

DATELINE: WASHINGTON

Enron Corp., which led a lobbying campaign to repeal a corporate tax as it neared collapse, will undergo scrutiny in Congress of its own tax returns to determine if shelters or other practices may have concealed its financial condition.

Repeal of the alternative minimum tax sought by Enron was included by President Bush in an economic stimulus package and passed by the House, which added a provision that would have given Enron a $254 million infusion of cash. The package ultimately failed.

Now, Senate Finance Committee investigators are "interested in whether Enron has been complying with
federal tax laws" said the panel's spokesman, Mike Siegel. Whether Enron used any shelters viewed by the Internal Revenue Service as set up mainly to avoid paying taxes is one key point. Sen. Charles Grassley of Iowa, the top committee Republican, said the issue is "whether Enron used certain tax vehicles that might have masked the company's financial condition."

Enron, the Houston-based energy conglomerate, faces investigations from a growing list of congressional committees, the Justice Department and the Securities and Exchange Commission following its collapse late last year in the nation's biggest corporate bankruptcy. The Finance Committee is one of two congressional panels with access to Enron's tax records.

Even as its failure loomed last fall, Enron maintained a high-profile lobbying effort on a variety of tax issues. Enron led the AMT Coalition for Economic Growth, a business group dedicated to repeal of the corporate alternative minimum tax, which is intended to guarantee that companies pay at least a minimal amount of income taxes.

Bush also pushed for repeal in his economic stimulus package, arguing that the provision hits corporations hardest in down years.

The administration disclosed Tuesday that Enron Chairman Kenneth Lay telephoned Mitch Daniels, director of the White House Office of Management and Budget, in early October to discuss prospects for passage of the stimulus measure.

The two had a general conversation about the legislation and discussed the overall outlook for the economy, said OMB spokeswoman Amy Call. Repeal of the alternative minimum tax was not addressed, she said.

Enron stood to gain handsomely from language added to the stimulus package by Rep. Bill Thomas, R-Calif., chairman of the House Ways and Means Committee. Under the original House-passed bill, billions of dollars in alternative minimum tax credits built up over past years by dozens of corporations would have been immediately redeemed - handing Enron a $254 million infusion of cash.

Several corporate lobbyists say Enron was focused on prospective repeal of the tax, not the immediate refund of past credits. Thomas endured fierce criticism from Democrats for proposing the refunds, which he contended would enable struggling corporations to hire more people or boost investments. Other companies, including IBM and General Motors, would have gotten much larger refunds than Enron.

David Wyss, chief economist at Standard & Poor's Co. in New York, said in any event the money would have done little to help Enron overcome its sinking credit rating and sliding stock price.

"Maybe they could have staved off bankruptcy for another month," Wyss said. "But it would not have solved their problem."

Senate Democrats blocked the Republican stimulus package. A second version, again passed by the House and endorsed by Bush, did not include the alternative minimum tax repeal or the immediate refund.

Enron sought numerous other tax breaks from Congress, according to lobbyist disclosure records. Among them was a five-year extension of a tax credit for electricity generated by wind; Enron is a major producer of wind-generated power.

An Enron affiliate, Enron Wind, provided a sample letter on its Internet site that people could send to members of Congress advocating extension of the credit.

Like the stimulus package, however, extension of the wind credit failed to clear Congress and expired on Dec. 31. Lawmakers of both parties say it will be renewed for at least another year and probably made retroactive to the beginning of 2002.

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Enron would also have benefited from provisions of a House-passed energy bill involving oil and gas transmission lines, including tax breaks for certain transmission transactions. Those items would have helped the bottom lines of many other companies, too - and the bill also languished in the Senate.

11. ENRON'S COLLAPSE: THE HAVENS; Enron Avoided Income Taxes In 4 of 5 Years * The New York Times

The New York Times

January 17, 2002, Thursday, Late Edition - Final

SECTION: Section A; Page 1; Column 5; Business/Financial Desk

LENGTH: 1265 words

HEADLINE: ENRON'S COLLAPSE: THE HAVENS; Enron Avoided Income Taxes In 4 of 5 Years

BYLINE: By DAVID CAY JOHNSTON

BODY:
Enron paid no income taxes in four of the last five years, using almost 900 subsidiaries in tax-haven countries and other techniques, an analysis of its financial reports to shareholders shows. It was also eligible for $382 million in tax refunds.

The company used strategies common among businesses to avoid taxes. It also used some unusual methods, among them the creation of 881 subsidiaries abroad, including 692 in the Cayman Islands, 119 in the Turks and Caicos, 43 in Mauritius and 8 in Bermuda. Two Enron subsidiaries have been accused by a group of insurers of engaging in sham transactions in a tax haven, according to papers in federal bankruptcy court in New York.

Enron is by no means alone in not paying income taxes. A small but growing percentage of large companies pay no income taxes, a study by Citizens for Tax Justice showed in October 2000. The study of half the Fortune 500 companies found that 24 owed no tax in 1998, up from 13 in 1997 and 16 in 1996.

While it is common for American companies to create subsidiaries in tax havens abroad, Enron had far more than most other companies, tax experts said.

Dynegy, a Houston competitor of Enron in the energy trading business, said yesterday that it had no subsidiaries in tax havens. In disclosure reports, Chevron lists three subsidiaries in tax havens and Exxon Mobil lists six.

The tax-haven subsidiaries enabled Enron to create partnerships to eliminate taxes using techniques that came under attack from the Treasury Department and the Internal Revenue Service during the Clinton administration.

The basic technique involves having profits go to a partner not subject to American taxes, like a bank in a tax-haven country. The partner, after taking its fee, then returns the profits in a form that is recognized as not taxable by American law.

Enron avoided taxes for another big reason: deductions for stock options. When executives exercise stock options the company takes a deduction on its corporate income tax return equal to the profit realized by the executive, even though it is not required to show an expense on its profit-and-loss statement to shareholders. The benefits to the company can be great, particularly if a soaring stock price leads to the exercise of large

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numbers of options. That was true at Enron when its shares were soaring in 1998 through 2000.

It is not clear from Enron's financial reports how much the tax-haven operations reduced the company's taxes. But Enron did disclose that deductions for stock options alone turned what would have been a tax bill of $112 million in 2000 into a refund of $278 million.

Indeed, the company paid taxes in only one of the years from 1996 to 2000, while the government paid the company hundreds of millions of dollars in refunds.

The analysis of Enron's tax payments was performed by Citizens for Tax Justice, an organization that is backed by labor unions. But its calculations are widely accepted by groups with different views, like the conservative Heritage Foundation.

Mark Palmer, an Enron spokesman, said yesterday that he was unable to comment on the tax issues.

If shareholders had read just the large print in Enron's financial reports, they might have come away thinking the company did pay income taxes. The reports say the company paid hundreds of millions of dollars in corporate income taxes over the last five years. But company financial reports often disclose numbers different from what the companies actually pay because of such matters as when income is recognized and when expenses are deducted. So only in the fine print -- the footnotes -- of Enron's reports does it become clear that no tax was due.

Tax experts said corporations create offshore subsidiaries in tax havens for many legitimate reasons, including keeping profits earned overseas from being taxed in the United States, avoiding American regulation and insulating foreign business partners from American tax law.

These havens are also attractive because they do not require companies to disclose anything about their financial dealings.

"Their efforts to escape regulation and the tax issues are chicken-and-egg," said a former senior Treasury official who fought what he viewed as abusive corporate tax shelters, including one used by Enron, in the Clinton administration. He insisted on not being identified.

The official said Enron wanted to engage in trading far beyond what its financial resources would allow under the rules of regulators, from the Oregon Public Utilities Commission to the federal Commodity Futures Trading Commission.

Another way Enron reduced taxes was through a technique that allowed it to deduct interest payments to partners of subsidiaries. The Clinton administration unsuccessfully sought legislation to block that.

Enron used these and other techniques to eliminate taxes in other countries, several tax experts said.

"The object was to not pay taxes in any country where it operated," said one international tax lawyer who insisted he not be identified because he has worked on Enron matters.

"You certainly do not want to pay U.S. taxes on income earned in another country," he said. The lawyer was critical of Chevron and Exxon Mobil for not following Enron's example to avoid taxes, saying, "It is neither illegal nor unethical."

Donald C. Alexander, a former Internal Revenue Service commissioner, said that "partnerships are frequently used for the purpose of eliminating tax."

"You need a tax-exempt partner and so long as you can pass a fairly low threshold of substance it will work."

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Enron has been a major lobbyist for exemptions from taxes and from oversight by regulatory authorities, spending $3.5 million in 1999 and 2000 alone on lobbying.

The chairman of the American Bar Association tax section, Richard Lipton, said the creation of hundreds of subsidiaries showed that Enron sought to "spread legal liability and reduce the possibility that if one partnership goes bad it will not infect any others." He said this would give comfort to other partners, like banks, dealing with Enron.

Mr. Lipton, a partnership specialist with the McDermott Will & Emery law firm in Chicago, said the existence of so many subsidiaries "raises only an eyebrow, not an alarm, but any allegation of shams raised by an insurance company is a red flag."

Just such an accusation is raised in filings by the Continental Casualty Company and other insurers in Enron's bankruptcy proceedings in New York. The insurers do not want to pay on bonds guaranteeing a deal involving Enron and two tax-haven companies. The insurers have refused to pay because they think the deal may be a sham, they say in their court papers.

In a court filing the insurers argued that the companies and Enron "may never have entered into any contracts with any end users" that were part of the deal and instead may have improperly diverted the money. The insurers had no comment.

Ronald A. Pearlman, a Georgetown University tax law professor, said it was likely that Enron wanted a new subsidiary for each of its many partnerships, but added that "the I.R.S. should be looking at these transactions."

Lee Sheppard, a New York lawyer who writes critiques for Tax Notes magazine, said that "tax havens are also bank secrecy havens." She said that given earlier disclosures about Enron executives' engaging in partnership deals with their employer, "it may be that they were down there for the bank secrecy and were just hiding things from shareholders, insurance companies and partners, not just the I.R.S."  http://www.nytimes.com

GRAPHIC: Chart: "Tax Havens . . .
By creating nearly 900 subsidiaries in tax havens like the Cayman Islands, Enron wiped out any American income taxes and reduced taxes on its overseas operations in India, Hungary and other countries.

Enron subsidiaries incorporated in each location as of Dec. 31, 2000.

Cayman Islands: 692
Turks and Caicos Islands: 119
Mauritius: 43
Bermuda: 8
Barbados: 6
Puerto Rico: 4
Hong Kong: 2
Panama: 2
Aruba: 1
British Virgin Islands: 1
Guam: 1
Guernsey: 1
Singapore: 1

"... And Refunds"
In addition, Enron made extensive use of stock options, which are not reported to shareholders as an expense, but are deducted on corporate income tax returns. In all, the company was due $382 million of income tax

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refunds from 1996 to 2000.

TAX REFUNDS
'96: $3
'98: $13
'99: $105
'00: $278

TAX PAYMENT
'97: $17
(Sources: Company reports filed with the Securities and Exchange Commission tax havens; Citizens for Tax Justice calculations from data in Enron reports)(pg. C8)

12. MANY DEFINITIONS NEED HASHING OUT IN NEW RESEARCH REGS * Tax Notes Today

Tax Notes Today

JANUARY 17, 2002 THURSDAY

DEPARTMENT: News, Commentary, and Analysis; News Stories

CITE: 2002 TNT 12-5

LENGTH: 1345 words

HEADLINE: #5 2002 TNT 12-5 MANY DEFINITIONS NEED HASHING OUT IN NEW RESEARCH REGS. (Section 41 -- Research Credit) (Release Date: JANUARY 16, 2002) (Doc 2002-1361 (3 original pages))

AUTHOR: Stratton, Sheryl
Tax Analysts

Although the new proposed research credit rules were well-received when they were issued last month, they still raise several questions and concerns for companies. Government officials solicited more comments during a January 16 Internet/teleconference symposium sponsored by the Tax Council Policy Institute and PricewaterhouseCoopers LLP.

Background

After delaying the controversial final regs issued by the Clinton administration, Treasury and the IRS under the Bush administration issued new proposed regulations under section 41 in December 2001. (For the full text of REG-112991-01, Doc 2001-31709 (14 original pages), 2001 TNT 251-35, or H&D, Dec. 28, 2000, p. 3097.) The new regs pleased practitioners because they propose eliminating the unpopular discovery test and documentation requirements that were included in final regulations (T.D. 8930) issued in January 2001. (For a summary of T.D. 8930, see Tax Notes, Jan. 1, 2001, p. 49; for the full text, see Doc 2001-286 (74 original pages), 2000 TNT 250-3, or H&D, Dec. 28, 2000, p. 3097.)

At the beginning of the symposium, moderator James Shanahan Jr., PricewaterhouseCoopers, noted the absence of Dave Bernard, a technical specialist on the research and experimental credit regulations in the Large and Mid-Size Business Division of the IRS. A career employee who was involved in the development of the research credit regs, Bernard died in December of wounds suffered in the attacks on the World Trade Center. (For information on the funds set up in his memory, see Doc 2001-31179 (1 original page) or 2001 TNT 244-2.)

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Shanahan next provided an overview of the "long and tortured history" of the research credit regs, which have undergone major iterations in the last two years. Practitioners have been positive about the latest version, issued in December. The newly proposed rules jettison the separate discovery test, eliminate the special recordkeeping requirement, elaborate on the process of experimentation requirement, and provide more guidance on the application of the rules to internal use software.

The comment period is open until March 6, according to Shanahan, and a public hearing is scheduled for March 27. Treasury's Christopher J. Ohmes, a tax specialist in the Tax Legislative Counsel's office, said the government welcomes comments, especially "about things we didn't cover."

Qualified Research

About the "technological in nature" test, Leslie Finlow, a branch chief in the IRS office of associate chief counsel (passthroughs & special industries), said practitioners could look at examples under section 174 for help in identifying activities satisfying the requirement.

It is important to note, according to Shanahan, that the government believes the "process of experimentation" test is more stringent than the requirements for research and development in the experimental or laboratory sense under section 174.

The new regs make clear that satisfying the process of experimentation test depends on the taxpayer's ability to show that the capability and method of achieving a desired result and the proper design are "readily discernible and applicable" at the beginning of the research activities, Shanahan said. The rule raises questions among practitioners and clients about what readily discernible and applicable means, he said.

The changes to the language were intended to "follow closely the legislative history to the 1986 Act," Ohmes explained. The idea was to clarify the language in the prior rules, and Treasury is interested in hearing how to describe activities and clarify by examples.

The Service's Finlow acknowledged that the government does not have definitions for "readily discernible" and "applicable," but it would welcome alternative examples and additional factors. Many of the definitions will evolve out of industry applications, she said, and the IRS is anxious to develop specific guidelines.

Internal Use Software

The government panelists were uncomfortable with questions about their being constrained by legislative history concerning the definition under internal use software.

About the carveouts -- in particular, the one for software for use in an activity that constitutes qualified research -- "we did have and do have concern about our authority to make" some changes, Ohmes said. "We recognize that investments in internal use software have been helpful in productivity increases in the economy and have a direct effect on growth." But the government is concerned that the legislative history in 1999 does not give enough authority to write rules that might conflict with Congress's intent in enacting the 1986 legislation, he said.

Ohmes was interested in hearing more about the problems described by Richard Weiss, tax director at Verizon Communications, in distinguishing between customer service and customer interface software. "We didn't view the customer service carveout as creating problems," he said. More emphasis has been placed on what noncomputer services are, said Finlow.

Weiss asked if the government had considered that the retroactive effective date for the internal use software rules may create disparity in treatment among taxpayers. If there are disparities, Ohmes said, "we would like to hear about them." He seemed troubled by Weiss's claim that the definition under the "innovative" test includes

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billing software that would not have been included under prior rules.

Excluded Activities

Panelist Roger D. Wheeler, tax director at General Motors Corp., expressed concern over the rules that exclude activities involving adaptation of an existing business component. There is uncertainty about whether the taxpayer would be considered the customer when a supplier of a component part makes changes to suit the corporation's needs, he said.

Ohnes said that he hadn't considered the exclusion as depending on who the customer is, but that the rule would instead address the type of activity. Finlow said she would look at the contractual relationship between the manufacturer and supplier and keep the customer "out of the picture."

Gross Receipts

Wheeler also asked about the "exceedingly expansive" definition of gross receipts that carried over from the final regs. It would seem to include interest, dividends, rents, and subpart F income, he said. And with lease and sales income, the definition could result in double counting, he said. Ohnes said they were trying to keep a broad definition of gross receipts in accordance with the 1999 legislative history, but told Wheeler to submit his comments for consideration.

Audit Considerations

John Monaco, PwC's managing director, said that the training video put together by the LMSB on the new regs makes clear that much will depend on companies' use of the right words in their documentation and that many of the terms used in the rules are subjective. He also said that in the process of experimentation requirement and internal use software rules, there are no definitions and the examples are not very helpful, which may create audit problems. He advised that corporations consider getting prefilling agreements to resolve recordkeeping requirement issues and said the IRS has shown a willingness to do more in its accelerated issue resolution program.

Ohnes and Finlow reiterated their request for comments that include examples -- especially in the internal use software area, where examples are a useful way to delineate application of rules. The IRS would like to consider any definitions for the restrictive terms that practitioners can suggest.

Regarding effective date issues, Ohnes said, use illustrations to track through the ambiguities and flaws in the language of the current rules.

13. Corporate Pension Games * Los Angeles Times

Los Angeles Times

January 17, 2002

EDITORIAL

Corporate Pension Games

Every day brings new revelations of corporate malfeasance at Enron. As congressional and Justice Department investigations proceed, new scandals will emerge and reforms will be debated. But one of the worst abuses is...
already clear: the loss of an estimated $1 billion in Enron employee pension benefits.

President Bush has asked the Treasury Department to study reforms of the voluntary tax-free pension savings plans known as 401(k)s, but it doesn't take a finance genius to see that immediate action is needed to protect employees' retirements. The issue is all the more crucial because fewer and fewer employers offer traditional pensions, which provide set monthly payments after retirement.

Enron is hardly a unique case when it comes to pension benefits. At Lucent Technologies, for example, employees who saw the value of their pension savings virtually erased say they too were the victims of over-optimistic earnings projections and unclear accounting practices. There was another, separate problem at Enron, an oddly timed "lockdown" during a changeover of plan administrators. The net effect was to prevent employees from selling company-matched stock right after corporate chieftains dumped theirs. Such behavior is not what Congress had in mind when it first authorized 401(k) plans in 1974. They were supposed to encourage workers to save for the future, not destroy their assets.

It would be easy to say that this is just tough luck for investors who put too much of their tax-deferred pension funds into company stock. Bush's top economic advisor, Lawrence B. Lindsey, has called the collapse of Enron a "triumph for capitalism"—ultimately only the fittest survive. But survival of capitalism itself depends on investors being confident that the system is not rigged. That includes employee-investors, whose 401(k) and similar funds constitute Americans' most popular retirement programs.

The federal government needs to develop for 401(k)s and similar plans the kind of regular scrutiny that mutual funds receive. Employees, who are usually on their own in choosing 401(k) options, need investment advice from independent advisors. They need investment education. If a company like Enron is cooking the books, however, even the savviest investor may be doomed, especially if forbidden to sell company stock.

This is why perhaps the most important proposed changes are those in a bill by Sens. Barbara Boxer (D-Calif.) and Jon Corzine (D-N.J.). The measure would cap employer stock contribution matches at 20% and limit to 90 days the period in which an employer may force investors to hold on to company stock. Currently, employers can force retention of company stock for decades.

Employers have no legal obligation to provide 401(k) plans. If reform goes too far, then employers may simply decline to match employee contributions, with stocks or anything else. Also, it is possible that the 20% provision is too stringent from employees' perspective. But the need to encourage diversification is clear; the 90-days provision would allow employees to invest sooner in a variety of stocks.

Protecting employees and making it attractive for companies to provide matching benefits will require compromise. But as the Enron case shows, Congress must act.

14. BUSH SIGNS BILL TO SIMPLIFY REPORTING REQUIREMENTS FOR HIGHER EDUCATION EXPENSES * Tax Notes Today
Tax Notes Today

JANUARY 17, 2002 THURSDAY

DEPARTMENT: News, Commentary, and Analysis; News Stories

CITE: 2002 TNT 12-3

LENGTH: 316 words

HEADLINE: #3 2002 TNT 12-3 BUSH SIGNS BILL TO SIMPLIFY REPORTING REQUIREMENTS FOR HIGHER EDUCATION EXPENSES. (Section 6050S -- College Tuition Info. Returns) (Release Date: JANUARY 16, 2002) (Doc 2002-1366 (1 original page))

AUTHOR: Stokeld, Fred
Tax Analysts

President Bush on January 16 signed into law H.R. 3346, which will simplify the reporting requirements for education credits for eligible higher education institutions.

H.R. 3346, introduced by Rep. Donald A. Manzullo, R-Ill., addresses provisions of the Taxpayer Relief Act of 1997 that require colleges and universities to report annually to the IRS on Form 1098-T information on their students, including name, address, social security number, attendance status, program level, a campus contact, and the amount of qualified tuition and student aid. The section 6050S requirements were included to help the Service do enforcement for taxpayers claiming the HOPE or lifetime learning credits, which were established by the same bill.

The new law repeals the rule requiring the reporting of the social security number of a person claiming a credit on behalf of a student. It also allows schools to report either aggregate amounts of qualified tuition and expenses paid by or on behalf of the student or amounts billed to the student. Also, the bill clarifies that schools are to report adjustments to amounts reported in prior years, rather than all refunds and reimbursements to students.

The House unanimously passed the bill on December 4, and the Senate approved the measure December 20. The IRS, which issued proposed regs (REG-105316-98) on the reporting requirements in 2000, is expected to issue new proposed regs to reflect the changes soon.

A Manzullo aide said the Joint Committee on Taxation had scored the bill as having a "negligible" revenue cost.

15. Kennedy seeks to stop parts of tax cut * USA TODAY

USA TODAY

January 17, 2002, Thursday, FIRST EDITION

SECTION: NEWS; Pg. 6A

LENGTH: 340 words

HEADLINE: Kennedy seeks to stop parts of tax cut
WASHINGTON -- The blustery debate over the future of President Bush's $1.35 trillion tax cut intensified Wednesday when Sen. Edward Kennedy proposed to postpone some future rate reductions and maintain the estate tax indefinitely.

For weeks, leading Democrats have blamed Bush's tax cut for the evaporation of budget surpluses, but they have refused to call for its repeal. Kennedy, D-Mass., was the first to outline a specific proposal to reverse the tax cut. Just as Bush has invoked the Sept. 11 attacks to defend his "economic security" policies, Kennedy framed his plan as a response to terror. He listed national programs that have been jeopardized by the re-emergence of federal budget deficits.

"The doubts that many of us had before the nation was attacked about the affordability of those tax cuts have become certainties in the wake of Sept. 11," he said in a speech at the National Press Club.

Republicans pounced immediately. They labeled the proposal a tax increase, though it would not reverse any of the tax reductions already in effect. Treasury Secretary Paul O'Neill said the way to restore the nation's fiscal health and budget surpluses is to pull the country out of recession. The tax cut would help do that, he said.

Kennedy's proposal would reduce the 10-year, $1.35 trillion tax cut by $300 billion. Under the plan, tax reductions planned in 2004 and 2006 for couples now earning more than $112,850 would be postponed indefinitely.

Bush's tax cut gradually lowers rates at which inheritances are taxed while increasing the amount of the estate exempt from all taxation and eliminating the estate tax altogether for 2010. Kennedy would increase the exemption to $4 million but keep the current rates.

Kennedy's plan would retain tax cuts for lower-income workers, educational costs and retirement savings. Democratic leaders, including Senate Majority Leader Tom Daschle, refused to endorse the plan. Party leaders say the budget deficits are Bush's fault and he should outline remedies first.


The Washington Post

January 17, 2002, Thursday, Final Edition

SECTION: A SECTION; Pg. A04

LENGTH: 1030 words

HEADLINE: Kennedy Urges Deferral of Some Tax Cuts; Use Savings for Education and Health Care, Senator Says; GOP Fires Back

BYLINE: Mike Allen and Helen Dewar, Washington Post Staff Writers

BODY:

01/18/2002
Sen. Edward M. Kennedy (Mass.) called yesterday for postponing $350 billion in scheduled tax cuts for Americans making more than $130,000 a year, becoming the most senior Democrat to propose a rollback of the tax cut that was the signature accomplishment of President Bush's first year.

Kennedy's speech prompted gleeful attacks from the nation's Republican machine as both parties jockeyed to set markers for an issue that could shape the next two elections. White House press secretary Ari Fleischer said the leadership of the Democratic Party "aches in its bones to raise taxes."

Much of the $1.35 trillion, 10-year tax cut Congress passed in May is staggered to kick in between now and 2010, with many of the biggest benefits loaded on the end. Kennedy, in an address at the National Press Club, said the nation "can and should postpone a portion of the future tax cuts that overwhelmingly benefit the wealthiest taxpayers" and use the money on other priorities, such as education and health care. "Whatever the merits or demerits of the last year's tax bill, it was enacted in what now seems a very different and distant time," Kennedy said. "Today, for the sake of our country, we must transcend the old boundaries of debate. We must think anew and act responsibly." Kennedy said families making less than $130,000 a year and filing joint returns would not be affected. "No taxpayers would pay a higher tax rate than they pay now," he said.

Daniel J. Mitchell, a tax specialist at the Heritage Foundation, said Republicans were salivating after the speech. "I can't open my e-mail without finding 10 messages saying, 'Let's exploit this -- Kennedy's giving us just the opening we need,' " he said.

Bush contends that canceling a scheduled tax cut is equivalent to a tax increase. Democrats dispute that, but Bush levels the charge regularly and with relish. "I think raising taxes in the midst of a recession is wrong economic policy -- it would be a huge mistake," he said shortly after Kennedy spoke. "I'm confident that the American people agree with me as well."

Yesterday's fracas offered a preview of the parties' messages for the congressional elections this fall. Democrats will raise questions about Bush's stewardship by blaming the tax cut for the return of federal budget deficits. Bush is using Democratic skepticism about the tax cut as a populist applause line, and Republicans around the country plan to run as the guardians of voters' pocketbooks.

The administration began issuing responses even before Kennedy spoke. The Treasury Department put out a release headed, "Preserving Tax Relief Protects American Families and Workers." A Commerce Department release blared, "High-tech Industry to Bush Economic Team: Stay the Course on Tax Cuts, Economic Security!"

Grover Norquist, president of Americans for Tax Reform, said Kennedy had pushed his party into "the killing fields for Democratic politicians."

"If the 2002 election is about raising taxes, we will have a Republican Senate," Norquist said.

Republicans hope to capitalize on what they say are Democratic divisions on taxes. Jim Wilkinson, a White House communications official, said Democrats "are divided into at least three separate camps when it comes to tax increases: The Senate Democrats who want to raise taxes; the 12 Senate Democrats who voted for the tax relief; and the Senate Democrats who want to attack tax cuts yet refuse to call for their repeal."

Senate Majority Leader Thomas A. Daschle (D-S.D.) said in a speech Jan. 4 that the tax cut "probably made the recession worse." But he did not call for repealing future phases of it. Democratic strategists scoffed at the notion that positions taken by Daschle and Kennedy will create serious new divisions that can be exploited by Republicans.

Kennedy often takes positions to the left of other Democrats, and one party strategist said Daschle "has tried to establish a consensus position that refocuses on economic issues without alienating the people who reflect the
whole range of views within our party."

Geoff Garin, a Democratic pollster, said Kennedy's speech "makes Daschle's position the new middle ground."

Most Senate Democrats voted against Bush's tax cut, but the 12 who supported it included virtually all of the moderate Democrats who are up for reelection this fall in GOP-leaning states, including Daschle's own South Dakota colleague, Sen. Tim Johnson.

Democrats who voted for the tax cut say taxes are not a front-burner issue, at least for now, as their campaigns get underway. And Jim Jordan, executive director of the Democratic Senatorial Campaign Committee, indicated how his party will try to frame the debate. "Polls show that if you propose delaying a tax cut for the richest 1 percent of Americans in order to shore up Social Security, provide a prescription drug benefit and strengthen national security, the public is strongly in favor of it," Jordan said.

Kennedy proposed retaining the estate tax (which Republicans call the "death tax") for estates worth more than $4 million, which Kennedy said includes less than 1 percent of all estates. His office said that would save $130 billion over 10 years. He also wants to postpone the marginal rate cuts scheduled to take place in 2004 and 2006 for the 31 percent, 36 percent and 39.6 percent tax brackets. His office said that would save $220 billion over 10 years.

In his speech, an annual event in which Kennedy lays out priorities for the year, the senator said the doubts "that many of us had before the nation was attacked about the affordability of those tax cuts have become certainties in the wake of September 11th."

"The spirit of this new time is placing major new demands on our national resources," he said. "We cannot meet them while making all of the planned future tax cuts, unless we raid Social Security and Medicare, and cut health and education and other vital goals. To me, that is not only unacceptable; it is a violation of the fundamental pledges that both parties gave in the 2000 campaign."

Staff writer Glenn Kessler contributed to this report.
17. Pensions too rich for IRS; Payouts to high county officials must be reduced to meet rules *
Milwaukee Journal Sentinel

Milwaukee Journal Sentinel

January 16, 2002 Wednesday FINAL EDITION

SECTION: NEWS; Pg. 01A

LENGTH: 2178 words

HEADLINE: Pensions too rich for IRS; Payouts to high county officials must be reduced to meet rules

BYLINE: AVRUM D. LANK AND STEVE SCHULTZE of the Journal Sentinel staff

BODY:
The Milwaukee County pension formula is too rich for federal regulations, meaning that large lump-sum payouts for some high officials will have to be scaled back or the plan could lose its tax exemption, the Journal Sentinel has learned.

The pension formula was changed in November 2000 to sweeten payouts for non-union employees and

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elected officials. Most county union employees were given the upgrade last February.

Under the sweeteners, County Executive F. Thomas Ament would be eligible for a lump sum of $2.3 million if he retires in 2008, plus an annual pension of $136,800, according to Journal Sentinel calculations using county data.

After learning of the regulations, the Journal Sentinel on Tuesday asked Joan Gucciardi, an independent actuary in Wauwatosa, for estimates of Ament's pension under the federal limits. Gucciardi said rough calculations found Ament could still collect the $2.3 million lump sum, with no monthly pension, in 2008, or a $1,150,000 lump sum with an $81,000 annual pension in 2004 and stay within the limits.

When county officials were asked to comment on Gucciardi's figures, Ament returned the calls.

"I was recently informed that federal law may limit the maximum (lump sum) and annual pension," he said of limits, which are contained in Section 415 of the Internal Revenue Code and have been on the books for years.

Because of the limits, Ament said he is only eligible for a lump sum of about $558,000 and annual pension of $102,000 were he to retire at the end of his present term and a lump sum of $641,000 and an annual pension of $109,000 were he to be re-elected and retire at the end of his next term in 2008.

Special study

Ament said his figures came from a special study by the county's actuary that was completed only this week.

County Corporation Counsel Robert Ott said the study was commissioned in response to the Journal Sentinel's calculations, which were published Jan. 6. Other reports of the numbers had been circulating in the courthouse since October.

Before making its original calculations, the Journal Sentinel asked County Human Resources Director Gary Dobbert to figure payouts under the county's sweetened system. He declined, saying he was confident the paper could do so itself.

According to the paper's figures, Dobbert is eligible for a lump sum of $760,000 and an annual pension of $69,600 in 2008.

County figures show Dobbert's lump sum increasing to $826,000 with the monthly pension staying about the same.

Ott, 59, and Thomas Mollan, 55, Ament's chief of staff, both would qualify for lump sums of more than $1 million in 2008 using both the county's and Journal Sentinel's numbers.

Under federal limits, Dobbert's lump sum in 2008 would be $826,000 and an annual pension of $69,000. In 2008, Ott would be limited to $1.1 million and an annual pension of about $62,000.

Ament, 64, said he was unsure why the county's calculations came out that way, but said it might be because both men are younger than he.

Ament said Tuesday he still intends to run for re-election in 2004. He reiterated that when he does retire, he does not intend to take a lump sum under any circumstances. He first made the statement after the Journal Sentinel's publication of his possible $2.3 million payout.

Recall effort continues

01/18/2002
Two leaders of a group seeking to oust Ament from office over the pension issue said that even if the Internal Revenue Service were to trim Ament's payout, that wouldn't change their plans.

"Let's face it, he's looking for a way to get out of it," said Bryan Olen of Cudahy, a leader of the Ament recall effort.

"We don't trust Tom Ament anymore."

Said Joe Klucarich of Brown Deer, another recall leader: "We are moving forward."

Ott, in an interview, said the county pension plan must be in conformity with IRS rules, meaning limitations on big payouts probably would stand. Federal rules supersede local ordinances, he noted.

He said the IRS stance helps disprove the claim by some Ament detractors that he, Ott, Dobbert and others hatched the pension improvements as a way to fatten their own retirement nest eggs.

"Had we wanted Ament to get the big money, something could have been put into the plan that would have been in conformity" with IRS rules, Ott said. The IRS rules mean Ament's pension "is capped and there's nothing anybody can do about it."

County Supervisor Lynne DeBruin said Ament's administration should have researched the IRS limitation issue before seeking County Board approval for the pension changes.

"This should have been done before," she said. She said Ament hadn't shared his new information on pension payout limits with the County Board.

If true, "that would be good political news for the county executive's office," she said.

DeBruin said Dobbert and Jac Amerell, secretary of the county Pension Board, assured county supervisors the pension sweeteners would pass IRS muster when they were first under consideration more than a year ago.

Amerell said he had met with outside lawyers about Section 415 last month.

Limits affect funds

The limits apply to both public and private pension funds that pay out a fixed benefit to retirees. They are designed to stop private companies from being able to put too much money in their pension funds because the payments are tax-deductible. When private firms violate those limits, they can lose the tax deduction.

The county does not pay taxes. However, were its plan to violate the Section 415 limits, employees would have to pay taxes on money contributed on their behalf.

Last year, the IRS reviewed the county's plan as amended with the sweeteners and said that it complied with all regulations.

However, only the form of the plan was reviewed, not its actual operation or payouts, said Steven D. Huff, an attorney with Reinhart Boerner Van Duren who represented the county Pension Board in the matter.

The IRS did not specifically look at the effect of the sweeteners on 415 limits, he added.

Eric Smith, an IRS spokesman in St. Paul, Minn., said that had the county violated the limits, the IRS would have tried to find a way to get it in compliance.
"Our real interest is trying to work with employers or plan sponsors to keep this qualified status," he said.

Carol Calhoun, a lawyer in Washington, D.C., who specializes in public pension plans, said it is rare for the IRS to remove a plan's tax exemption.

Ament said that all payouts so far under the sweetened plan have been reviewed, and none violated the Section 415 limits.

Another part of Section 415, Subsection M, allows public employers to enter into supplemental arrangements with workers to increase their pension above the usual limits, said Catherine F. Conway, an attorney with von Briesen Purcell & Roper.

Ament and Huff said the county has entered into no such arrangements.

MILWAUKEE COUNTY FEDERAL CAPS MAY REDUCE PENSIONS

Milwaukee County's pension formula exceeds federal guidelines. Under the plan, elected and non-elected county officials and employees can choose to take a monthly pension or a monthly pension in combination with a lump-sum payout.


The Washington Post

January 17, 2002, Thursday, Final Edition

SECTION: FINANCIAL; Pg. E03; THE COLOR OF MONEY MICHELLE SINGLETARY

LENGTH: 956 words

HEADLINE: Your Employer May Not Be Your Best Bet for Financial Advice

BYLINE: Michelle Singletary

BODY:

The Enron bankruptcy scandal has done one thing for sure. It has heightened the debate about who should advise workers on how they invest money in their 401(k) plans. It could even possibly change the law.

Currently, the Employee Retirement Income Security Act prohibits mutual funds, banks and insurance companies from providing investment advice to workers in retirement plans that such firms administer. In other words, the company that runs your 401(k) plan cannot give you anything more than the most generic advice about how to invest in the offerings of that plan. Employers, however, can make arrangements for employees to get investment advice -- it just has to come from an independent third party. According to various surveys, 16 percent to 22 percent of companies already provide investment advice to their employees.

Financial companies running 401(k) plans want to offer planning advice to employees. After all, financial planning is one more revenue stream for them. The financial service companies say they have our best interests at heart. They claim they are worried that we will make big mistakes, like the many Enron employees who overloaded their retirement plans with company stock -- only to see it become almost worthless after Enron filed for bankruptcy protection.

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"Employees are hungry for investment advice regarding their 401(k) plans," says ING Aetna Financial Services, a provider of retirement-planning products and employee-benefits services.

The company contends that, in a survey it sponsored, more than 75 percent of the 546 full-time employees it polled would take advantage of retirement-planning advice if their employers provided it.

So, for example, in addition to providing generic information about asset allocation or the importance of diversification, the 401(k) plan providers could advise employees on how much and what percentage of their money should go into a particular investment.

That scenario concerns some consumer advocates.

"There is great potential for a conflict of interest," said John Hotz, deputy director of the Washington-based Pension Rights Center.

What's to stop a 401(k) plan administrator from steering employees into investments with higher fees, which the plan administrator would receive? Hotz asked. What's to stop a company from recommending that employees invest in a poorly performing fund just to boost that fund's assets?

When the potential for profit is so great, so, too, is the potential for impropriety.

Last year, First Union Corp. agreed to pay $26 million to settle two class-action suits that accused it of mishandling its company-sponsored 401(k) plan. One of the suits alleged that the banking company limited employees to its own mediocre mutual funds and charged improper fees. First Union denied any wrongdoing. The company said it settled to avoid a costly legal battle.

So what kind of safeguards can we expect if the law is changed?

A bill by Rep. John A. Boehner (R-Ohio) would lift the restrictions under current law and allow employers and 401(k) plan providers to offer specific advice as long as they gave full disclosure of fees and any conflicts of interest.

"That's not enough," Hotz said. "There is no amount of notice that cures the taint."

Jamie Delaplane, vice president at the American Benefits Council, which represents the interests of employers, says the key is to structure the legislation to avoid any conflicts of interest.

"We ask a lot of 401(k) investors in the system," Delaplane said. "We give them lots of choices but also lots of responsibility. They need to be well educated and well advised."

Delaplane is absolutely right. Workers are placing their money in investments about which they have only a scant understanding. Surveys commissioned by financial firms and consumer advocacy groups show that many workers participating in 401(k) plans have just a basic knowledge of the various investment options, are extremely optimistic about the possible returns on those options and often fail to diversify to meet their retirement goals.

The fact is, many employees do need investment advice. But the question is, who is best equipped to give it?

Delaplane says businesses want to be able to use the companies administering their retirement plans because it's just easier. It would be a one-stop shop of investment services.

That may be true. But, frankly, I think the bill introduced by Sen. Jeff Bingaman (D-N.M.) and Sen. Susan Collins (R-Maine) will serve employees better. Unlike Boehner's bill, their bill would not lift the restrictions on 01/18/2002
financial companies offering 401(k) participants advice on their own funds. Neither bill would hold employers liable for the actions of the qualified investment advisers. Many employers have opted not to provide such services because the employers are concerned about being sued if investments go bad.

If employers truly want to provide avenues of advice for their employees, they can do that now. They can hire an independent company to provide advice at arm's length. They could give employees a certain amount of money each year to go out and hire their own financial planners.

We should learn from Enron. There were supposed to be safeguards in place. There were disclosure requirements. And yet all these measures seem to have failed. In the end, can we really trust companies always to act in our own best interests? I don't think so.

While Michelle Singletary welcomes comments and column ideas, she cannot offer specific personal financial advice. Readers can write to her at The Washington Post, 1150 15th St. NW, Washington, D.C. 20071, or by e-mail at singletarym@washpost.com.

19. Take a step towards better sleep at night * Financial Times

Financial Times (London)

January 17, 2002

Take a step towards better sleep at night

If an adviser has put you in a tax scheme that leaves you a tad uncomfortable, now is the time to come clean. As part of an effort to identify abusive tax shelters and their promoters, the IRS is offering taxpayers a temporary reprieve from what is delicately termed an "accuracy-related" penalty.

If you report your participation in such schemes to the IRS before April 23 - or before the date the IRS comes to you, whichever comes first - you can bypass the penalty: 20 per cent of the underpayment of tax.

You will still owe whatever tax is due on the transaction, plus interest. But if you step forward and take the initiative, says attorney Stephan Leimberg, it is like buying "penalty insurance".

You do not have to confess to wrongdoing, as Mr Leimberg says: "You do not have to put your hands up and surrender". But you must provide the facts of the transaction along with the names and addresses of the promoters who got you involved.

How do you know that your promised shelter is in fact a confidence game? That it is unethical if not blatantly illegal? A scheme may well be on the edge if it is based on flashy promises and appears too good to be true.

For example, you might be shown the "benefits" of acquiring two debt instruments with values expected to change significantly at about the same time in opposite directions. The interest rate on one may double while the other falls to zero, thereby generating a tax loss. Such an artificial tax loss will be disallowed if the IRS picks it up on your tax return.

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Another tax gimmick the IRS hopes to flush out with this amnesty involves "captive insurance companies". Many promoters are suggesting these to doctors, promising the company can be funded with tax-deductible dollars that can then be taken out at retirement and taxed as long-term capital gains rather than ordinary income. This, says Michel Nelson, head of trust services for Iowa Savings Bank, is "one of those too-good-to-be-true".

Then there are multiple-party transactions in which one party realises rental income while another reports the deductions related to that income. There are other deals where a taxpayer purports to lease property, then purports to immediately sublease it back to the lessor. And there are contingent instalment sales of securities by partnerships structured to accelerate and allocate income to a tax-exempt entity or foreign citizen, with losses allocated to someone else.

Still another variation on the theme includes pension and insurance benefits tilted towards professionals while shortchanging their employees. One version of this, Mr Leimberg explains, involves setting up a "union" with rules allowing participants to buy more insurance under special rules. The union is a fiction but the promoters say there is no need to worry.

In fact, worrying may be wise since the IRS has been actively attacking tax shelters for several years. This may be a good time to come forward "if you entered into the transaction with misgivings in the first place and are having severe second thoughts," says attorney Bruce Kayle, of Milbank Tweed in New York.

Stepping forward now may make it possible to sleep at night in the future.

But bear in mind that the amnesty does not apply to fraud. Engage in what the IRS terms an "abusive" tax shelter and you can still be subject to fraud penalties of up to 75 per cent of the underpayment of tax attributable to the fraud. That is along with the tax itself, of course, and interest on the unpaid tax. You may also be subject to criminal action with fines of up to Dollars 250,000 and/or up to five years in prison for each offence.

The IRS means business. In fiscal 2001 alone, the criminal investigation division of the IRS launched 79 criminal investigations into promoters and their clients. There were 32 indictments and 34 convictions, with an average prison term of more than five years.

The problem with abusive trusts is that people who sign up are convinced that they are acting within the law. But you can be pretty sure of stepping outside the law if you fall for a trust that promises to eliminate income and self-employment tax, suggests that personal expenses paid by a trust somehow become deductible or promises depreciation deductions on your home and furniture.

None of these things is true.

The tax shelters targeted by the current amnesty program are not as clearly abusive. They may be categorised as super-aggressive tax planning designed to take advantage of some technical tax rule. They may not quite be fraud. They may

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not be entirely illegal.

Instead, they are just on the edge of legitimacy, allowing the promoters to defend their interpretation of the law vigorously. But the IRS is paying attention.

Check in with your tax adviser before you fall for a promoter's outrageous promises.


Mississippi Business Journal
Jackson, MS

Volume 24, Number 3
January 14, 2002-January 20, 2002

Restructured IRS rolls out improvements for 2002
IRS encouraging taxpayers to e-file
Kelly Ingebretsen <<OLE_Obj...>> MBJ Staff Writer
With 92 filing days left until the April 15th deadline, the newly restructured IRS has beefed up e-filing and added some new and improved services and credits for 2002 - efforts appreciated by many local CPAs.

Although there are still plenty of skeptics, Houston CPA Tom Byrne gives the IRS credit for the changes being made to make tax filing easier and to make the agency more customer friendly.

"Kinder, gentler was a bit optimistic, but it's been a tough row to hoe," said Byrne of the IRS' streamlining efforts. "It's almost mind-boggling to see how they do it."

No doubt that the IRS faces a mammoth task in the coming months. The agency is now mailing out more than 40 million tax packages and 23 million computer-filing brochures. Once that's done, agents must be ready to process about 132 million individual returns.

In the meantime, the IRS has improved its Web site, added more hours and manpower to hotline numbers and improved electronic transmission of returns, known as e-filing.

The IRS' goal is to have 80% of tax returns filed electronically by 2007 in an effort to save time and money spent on paper returns. Last year, 40 million people used e-file, up nearly 14% from the year before. This year, the IRS expects 45 million filers will use the service, still a long way from the 132 million total returns expected in 2002.

To make e-filing more appealing in 2002, the IRS added 29 more forms and schedules so that almost every taxpayer can use the system. Taxpayers create their own PIN (Personal Identification Number) and e-file a paperless return using a CPA or their own tax preparation software. The IRS claims that e-filing delivers refunds in half the time of paper tax returns, and that when combined with direct deposit, using e-file delivers refunds in as few as 10 days.

"We are working hard to improve and expand service to taxpayers," said IRS Commissioner Charles O. Rossotti in a statement from the IRS. "We want to take as much of the headache out of tax time as possible. E-filing is better than ever, and I highly recommend that taxpayers and practitioners try it."

Florence CPA Christine Hogg is a huge supporter of e-file.
"If they (clients) don't want to e-file, they don't need to come to me," said Hogg. "My clients love it. They don't have to mail anything to the IRS. I never have anything come back from the IRS saying they didn't get this"

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schedule or that. If it's e-filed, they got it."

As a CPA in business for herself, e-filing also saves Hogg money in time, ink and paper, and from having to hire help during the busy tax season.

"All I have to do is print one copy for the client and back it up on disk. It honestly saves me from having to hire one person. You can't hire one person just to work during the tax season," she said.

Still, many CPAs say that sending a tax return via Internet to the IRS will take a while to catch on. Only about 10% of Brandon CPA Sandy Barlow's clients e-filed last year, and he doesn't expect a rush to do so this year. Barlow believes the IRS' goal to eliminate paper returns is a good one, but for now, the people interested in e-filing tend to be those who expect money back.

"There's not a lot of incentive if you owe money," said Barlow, president of Barlow, Walker & Hill, P.A. Byrne agrees. "People who know they're going to get a big refund want to use it, but long-term clients don't have any interest in it. They don't have a problem signing the form."

Dial HELP
Another improvement in the reorganized IRS is the new toll-free hotline for tax practitioners, called the Practitioner Priority Service. In the past, the old tax practitioner hotline was not toll-free and not centralized - practitioners had different numbers to call depending on where they were located. With the agency reorganization, however, the IRS streamlined this service to make it easier for practitioners to get an answer in a reasonable amount of time.

Byrne said the hotline has undergone a dramatic change in the last few years, and is perhaps one of the IRS' biggest improvements in the reorganization. In the past, using the hotline was difficult, and simple questions could take months to answer, he said.

"Resolving what could have been a simple issue was a nightmare," said Byrne, who is president of The Byrne CPA Firm, P.A. "Now, many times you can talk to someone and get an answer with that phone call, where it used to take months and months. Key people can access everything, and they have enough authority to find the problem and solve it."

The new Practitioner Priority number is 866-860-4259. The hotline is open weekdays from 7:30 a.m. to 5:30 p.m.
For individual filers, the IRS has improved the taxpayer hotline with more hours and manpower. Taxpayers can call Monday - Friday, 7 a.m. - 10 p.m. and on selected Saturdays, Sundays and holidays. The number is 800-829-1040.

"With the phone service we noticed there were times when taxpayers called more often, so we structured the hours to be available when they are calling," said IRS spokesperson Emma Moore. "As we get to the end of filing season, we'll be adding more manpower and more hours."

Still another improvement is the IRS Web site, which was restructured to make it more user friendly. John Johnson, controller for Total Office Solutions in Flowood, uses the site to download forms and has been pleased with the Web site's upkeep and progress.

"The IRS is continually updating it and upgrading it and adding more forms," said Johnson. Web site visitors can also find out the latest tax law changes, read answers to the most frequently-asked questions and see tax tables and rate schedules, among other services.

The Web site address is www.irs.gov.
21. IRS hopes more will opt to e-file * Gloucester County Times
01/18/2002

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Gloucester County Times (Daily)-Woodbury NJ

January 16, 2002

IRS hopes more will opt to e-file
By DENISE JEWELL
Staff Writer

As tax season begins, the Internal Revenue Service is encouraging more people to file their returns electronically as a faster, easier way to pay their taxes.

By e-filing their returns, people can get their refunds in as little as 10 days and can file their New Jersey and federal forms together.

Greg Semanick, a spokesman for the IRS's Springfield office, said more than 900,000 people in New Jersey e-filed their returns through an authorized provider, their own computer, or over the phone last year.

Taxpayers can file returns electronically through a tax preparer who is registered with the IRS to electronically submit returns. They can also get software that allows them to send in their returns from their home computer.

Although not all forms can be electronically submitted, Semanick said 55 tax forms have been added in the last two years to the list that can be e-filed.

"Almost every taxpayer can now use electronic filing," Semanick said. Taxpayers filing basic federal returns can file over the telephone. The IRS mails telefile forms to anyone who is eligible to use that system.

Unlike those who send in a paper return, people who file their taxes electronically receive a confirmation that it was received within 48 hours.

"It's safe and secure; that's based on the fact that you select your own PIN number," Semanick said. "We have not had any breach of security with the e-filing system yet."

The IRS began piloting its electronic filing program in 1986 and allowed some forms to be filed in New Jersey starting in 1990. This year, Semanick said, the IRS hopes to have over 1 million residents of New Jersey file their forms electronically.

Semanick also said there are several important facts people should know who are filing their 2001 tax returns. An IRS statement pointed out the following changes:

n Tax Rate Reductions - The tax rates above 15 percent are lower by one-half percentage point, reflecting a rate reduction that took effect July 1. The rates are 27.5 percent, 30.5 percent, 35.5 percent and 39.1 percent for 2001.

n Tax Refunds - Remember those tax refunds that were sent out last August? People who did not receive the maximum amount may still qualify to receive it when they file their 2001 tax return. A worksheet in the tax return instructions will help taxpayers determine whether they qualify for the credit. Those who did receive the maximum amount do not need to show that refund on their 2001 return.

n Child Tax Credit - The maximum credit amount rises to $600 per qualifying child, a $100 increase from the previous year.

n Problem Solving - A new feature on the 1040 form allows a taxpayer to designate a family member, friend or 01/18/2002
tax professional to talk directly to the IRS about any tax return processing questions.

Semanick encourages people to contact the IRS with their questions.

"There's is a mass of information on our Web site," Semanick said. "If someone doesn't have a computer and they can't get into it, they can call our toll-free number for assistance."

22. E-filing speeds refunds * The Daily Record

The Daily Record (Daily)-Parsippany NJ

January 16, 2002

E-filing speeds refunds
By Internal Revenue Service, Special to the Daily Record

Are you one of the almost 100 million taxpayers who will receive a refund this year?

The IRS says that requesting direct deposit and filing your tax return electronically (e-filing) will put that money in your pocket faster and easier.

Every year, more taxpayers find out how safe and easy it is to have their tax refund deposited directly into their checking or savings account. This option is available for both e-filers and paper return filers.

When you file electronically, your refund will be issued within three weeks, about half the time it would take if you filed a paper return. If you also choose direct deposit, you might receive your refund in as few as 10 days.

Last year, more than 40 million taxpayers electronically filed their tax return. People who e-file find it the fastest and easiest way to do their taxes.

The electronic filing program checks for errors or missing information, increasing the accuracy of your return and reducing the need for correspondence with the IRS to clarify errors or omissions.

Once your return is accepted for processing, you will receive a confirmation from the IRS.

And you can usually file a state tax return at the same time you electronically file your federal tax return.

Finally, with electronic filing, you can file your return early but wait to pay any balance due by the tax deadline of April 15, 2002.

You might want to reduce the size your refund and put more money in your paycheck throughout the year. You and your employer can refigure your federal income tax withholding, allowing the correct amount to be deducted.

For information on e-filing, check the IRS Web site at www.irs.gov.

You will also find a withholding calculator and worksheet, along with Form W-4, on the Web site.

Or you may get Form W-4 from your employer or by calling the IRS toll free at 1-800-TAX-FORM (1-800-829-3676).

01/18/2002
Internal Revenue Service can be reached at (800) 829-1040.

23. Senior Centers To Offer Help With Tax Forms * Hartford Courant

Hartford Courant

January 16, 2002

Senior Centers To Offer Help With Tax Forms

MIDDLETOWN - Free assistance with federal and state income taxes for older and retired people in Middletown and surrounding towns will be provided Feb. 1 to April 15 through the AARP Tax-Aide program.

For more information, call the following senior centers: Middletown, 860-344-3513; Cromwell, 860-632-3447; Portland, 860-342-6760; Middlefield, 860-349-7121. Volunteers trained by the Internal Revenue Service will be available at the centers.

Please bring last year's income tax returns, the packets of forms sent by the IRS and the state Department of Revenue Services and records of your 2001 income and deductions.

Tax assistance will also be provided for individuals who are homebound or in convalescent homes. For more information, call 860-347-2244 or 346-2387.

24. FIXIT shares income tax tips from the IRS * Jersey Journal (Daily)

Jersey Journal (Daily)-Jersey City

January 15, 2002

FIXIT shares income tax tips from the IRS
Soroya Pottinger

Tax season is here, and FIXIT has important information to share from the Internal Revenue Service.

According to Greg Semanick of the IRS, one way to save money is by itemizing your legitimate deductions.

"Generally, to take advantage of deductions you must be planning to itemize rather than using the standard deduction. Also, just because you spend the money doesn't always mean you can deduct it," says Semanick.

The first step in tax planning is to look at your previous return, and then consider the expenses that you have incurred for the year you are filing. Ask yourself the following questions:

Are your records in order? If not now is a great time to start,

Did you itemize in the previous year? If so, have your expenses stayed pretty much the same? If the answer is yes, then you will probably want to itemize again.

If you did not previously itemize, have your expenses changed? Perhaps you will want to itemize, or perhaps not. It may not be a pleasant thought but it might be a good idea to do a quick practice return using the previous year's tax package and your current tax expenses.

The second step is to consider the following general pointers to maximize deductions and minimize taxable income. Here are a few suggestions:

01/18/2002
Take advantage of education tax credits - study the rules for the Hope Scholarship Credit of the Lifetime Learning Credit.

Take full advantage of deferred income options such as IRAs, 401k, and various saving plans that reduce your adjusted gross income.

Consider whether it is time to give up on stock that has lost money.

The third step is to look before you leap-do the research to make certain that the actions you are about to take make sense for your financial circumstances.

Plan wisely and do some up-front research - download the relevant IRS publications that may be helpful.

The IRS has a publication on nearly every tax topic you can imagine. Often, these free publications are the place to start your last minute tax planning. These publications are available on the IRS Web site at www.irs.gov.

You can order tax forms and publications through the mail by calling (800) TAX-FORM, and you can get answers and advice about tax issues by calling (800) TAX-1040.


Las Vegas Review-Journal

January 16, 2002

Tax withholding relief expires for tip-earning casino workers
By TONY BATT
STEPHENS WASHINGTON BUREAU

WASHINGTON -- Across-the-board tax withholding reductions on tips collected by Nevada casino workers after Sept. 11 expired at the end of the year but some relief is still available for laid-off employees, according to industry and government officials.

Following the terrorist attacks on the World Trade Center and the Pentagon, the Internal Revenue Service agreed to reduce tax withholding on tips for casino workers by 50 percent through the end of October.

The attacks triggered a severe economic downturn in Southern Nevada, resulting in the loss of one of every 20 casino jobs in the Las Vegas area in the first six weeks after Sept. 11.

As business picked up, the IRS increased the withholding on taxes on tips for November and December to 75 percent of the rate prior to Sept. 11. The rates vary according to casino jobs.

On Jan. 1, tax withholding rates on tips returned to pre-Sept. 11 levels, officials said.

"There is no further across-the-board (tax) relief. Everybody should be back at 100 percent of tip rates as of Jan.1 unless they argue for more reduction on a property-by-property basis," said Betty Wilson, vice president of taxes for MGM Mirage.

Nevada casinos sought an extension of the blanket relief for taxes on tips, but the IRS rejected the proposal, Wilson said.

01/18/2002
Bill Brunson, an IRS regional spokesman in Phoenix, said the agency has offered to review withholding on tips for Nevada casinos before and after Sept. 11. For example, a casino could show how much tip revenue was collected in November 2001 as opposed to November 2000.

"We would be willing to work that out with them, but so far there have been no takers," Brunson said.

Compiling data on tips on a monthly basis would be a complex and time-consuming endeavor, Wilson said.

D. Taylor, Nevada director of Hotel Employees and Restaurant Employees International, criticized the IRS for not extending the comprehensive tax reduction on tips.

"Mandalay Bay is talking about a loss this quarter. They (the IRS) want to pretend everything is back to normal," Taylor said.

The IRS is offering to temporarily suspend the collection of back taxes owed by casino workers who lost their jobs in the wake of Sept. 11, Brunson said. These unemployed workers would not have to pay their back taxes for six months after Sept. 11, or to about mid-March.

"I would say less than 50 people have come in to talk to us about this," Brunson said.

Meanwhile, industry and IRS officials plan to continue negotiations this year on how much in taxes should be withheld from workers' paychecks to account for tip income.

The negotiations began last year after Nevada casinos and the state's congressional delegation bitterly complained a new IRS proposal could triple the amount of taxes withheld.

IRS and industry officials will resume negotiations in March although an exact date still has not been set, Wilson said.

On Friday, the U.S. Supreme Court agreed to consider a case on how much flexibility the IRS has in calculating taxes that businesses owe from employees' tips.

Nevada casino employees are not expected to be directly impacted by the case because they negotiated their own tip reporting pact with the IRS in 1991.

26. Ex-president of P.I.E. pleads guilty in thefts * The Plain Dealer

The Plain Dealer

January 16, 2002 Wednesday, Final / All

SECTION: BUSINESS; Pg. C1

LENGTH: 489 words

HEADLINE: Ex-president of P.I.E. pleads guilty in thefts

BYLINE: John Caniglia, Plain Dealer Reporter

BODY: Larry E. Rogers, the former president of the failed P.I.E. Insurance Co., admitted yesterday that he stole more than $6.8 million from the company to buy a pig farm in Tennessee and pay off gambling debts.

01/18/2002
Rogers, 63, pleaded guilty in federal court to charges of conspiracy, insurance fraud and tax evasion. P.I.E. was once one of the largest medical malpractice insurers in the nation.

The former Waite Hill resident could get nearly four years in prison and pay as much as $600,000 in fines when U.S. Judge Solomon Oliver Jr. sentences Rogers next month. Oliver also could force Rogers to repay as much as $13 million to the Ohio Insurance Department, which is liquidating the company. The charges, filed by prosecutors last month, allege that the theft and Rogers' corporate spending helped sink the insurer in 1998. The company's collapse left doctors in nine states without insurance and with more than 4,000 pending malpractice claims. Patients who might have collected millions of dollars have been forced to settle for far less.

Rogers admitted that he took $6.8 million from the company, without its approval, in 1997 as his buyout. The money went toward his gambling debts, for a loan on a home in Hilton Head, S.C., and for the pig farm in Tennessee for his son-in-law, prosecutors said.

In addition to admitting the thefts, Rogers told Oliver that as president of P.I.E. he, his employees and his family improperly gave campaign contributions to candidates for state and federal offices by claiming they were business expenses. Prosecutors outlined more than $1.5 million in contributions.

But assistant U.S. Attorney James V. Moroney yesterday estimated that Rogers had spent more than $6 million of the company's money on the campaigns through various loans, kickbacks, reimbursements and wire transfers. Federal authorities said the candidates had not known the contributions were illegal and had done nothing wrong.

Moroney said Rogers should pay back that money, too. But defense attorney Philip S. Kushner said Rogers should not have to because he used the money to benefit the business, which Rogers helped start in 1975. Oliver will decide the issue at sentencing Feb. 26.

In the tax charge, Rogers reported to the Internal Revenue Service that he earned $1.8 million in 1996 but failed to disclose an additional $1.5 million in income.

Rogers is scheduled to go to trial on bribery-related charges next week in Franklin County Common Pleas Court. He is accused of bribing David Randall, former deputy director of the Ohio Insurance Department, who pleaded guilty to bribery and was sentenced to 75 days in jail and five years' probation in 1998.

Rogers told Oliver that he has been unemployed since Dec. 15, 1997. "I tried to start an entertainment company, but that didn't work out," Rogers said.

27. Former fugitive pleads guilty in bingo scam * Dayton Daily News

Dayton Daily News

January 16, 2002

Former fugitive pleads guilty in bingo scam
Bingo scam operator faces $1M fine, prison
By Wes Hills
Dayton Daily News

DAYTON, OHIO | A Centerville man who fled to Costa Rica last year while facing charges that he ran a large instant bingo scam through several bogus charities pleaded guilty Tuesday to three felonies.

01/18/2002

[NOTE: CONTINUATION PAGE IS 0080000001045]
For three months after Sept. 11, David Bernard fought against the injuries he sustained when debris from the collapse of the World Trade Center rained down on him as he walked to a business meeting.

Bernard, who lived in the Boston suburb of Chelmsford and came to New York several times a year for his work with the Internal Revenue Service, was one of a small group of people who lived through the terrorist attacks.

But the damage done to his 58-year-old body was massive: two punctured lungs, 13 broken ribs, a broken shoulder blade and a severe spinal cord injury. In the time that he spent in the hospital - sometimes on a respirator and only occasionally able to communicate in whispers - he battled one infection after another. His goal was to ultimately move to a rehabilitation center, and his family, who commuted from Boston to be by his side at New York University Hospital, never gave up.

"Honestly, after three months of fighting, I thought he was going to make it," said his wife, Nancy Bernard. "It was such a roller coaster."

But after rallying several times and being moved to Massachusetts General Hospital, David Bernard died Dec. 11, with his family around him.

Bernard, an industry specialist with the IRS, was hit while he was walking to a meeting at 7 World Trade Center. When his family didn't hear from him that night, they called New York hospitals frantically, and after finding him, a relative in New York rushed over to confirm his identity.

"My children came every single weekend to see him. They put their lives on hold," said his wife, who flew to New York and stayed with her husband while living at a nearby hotel. "We got three months more than most people."

She said doctors told her that her husband survived as long as he did because he was in excellent physical shape. He played tennis and was an avid golfer with a 9 handicap. His favorite activity was playing golf with his wife, three children and their spouses because "his family came first to him and this was something the eight of us could do together," his wife said.

"He was easygoing and laid back. He could laugh at himself and had a good sense of humor. We lost a good friend," she said. They met when both attended Northeastern University in Boston. She said they traveled often together and had gone on recent trips to Thailand and the Grand Canyon.

"We had a lot of plans," she said. "But my husband also left me a legacy of love and family." She said the time she had with him after the disaster was precious because it gave her a chance to say goodbye. "I was able to tell him I loved him every day and that's what I have to hang onto."

The funeral was held Dec. 15 at St. Mary's Church in Chelmsford, and burial was at Heart Pond in Chelmsford. In addition to his wife, Bernard's survivors, all from Massachusetts, include two sons, David W. Bernard Jr. of Charlestown and Mark A. Bernard of Brookline; a daughter, Jill E. Ludmar of Brighton; a sister, Fran Kline of Lexington, and a brother, John Bernard, of Pepperell. Ludmar's husband, Dan Ludmar, is originally from Syosset.

4. IRS, Treasury To Revise Intangible Asset Write-Off Rules * Dow Jones Newswires

Dow Jones Newswires

01/18/2002

00800000001030
IRS, Treasury To Revise Intangible Asset Write-Off Rules

By JENNIFER CORBETT DOOREN

OF DOW JONES NEWSWIRES

WASHINGTON -- The Treasury Department and the Internal Revenue Service said Thursday they plan on rewriting current rules about how the costs of acquiring intangible assets may be written off or capitalized.

"Currently the IRS spends a substantial and disproportionate amount of its examination resources resolving capitalization issues," said Mark Weinberger, Treasury Assistant Secretary for Tax Policy. "Recently much of the uncertainty and controversy in the capitalization area has related to expenditures that create or enhance intangible assets."

Capitalization involves how a person or business deducts certain business expenses. The capitalization rules for so-called tangible assets are more clear than those involving intangible assets. For example under capitalization rules for tangible assets, a business that buys a computer cannot deduct the full cost of it that tax year because it is useful for more than one year. The cost of the computer must be amortized or written off over a period of time. If a business buys something with a life of less than a year the cost may be deducted that tax year.

But the rules involving intangible assets such as a license for software or a lease are unclear, which is why the Treasury Department and the IRS are trying to revise them.

Weinberger said revising intangible asset rules is aimed at freeing up both Internal Revenue Service and taxpayer resources.

Treasury said it expects the proposed rule to include a "one-year rule" in which costs to obtain intangible assets would not be capitalized and could be deducted in one tax year. The department also said it would also establish "de minimus" rules under which certain types of costs less than a specified dollar amount would not be capitalized.

The department is seeking comments to help guide it in rewriting the intangible asset capitalization rules. Treasury sent notice to the Federal Register, which is expected to be published in the next few days. Interested parties will then have 60 days to comment from the publication date to comment on the issue.

Weinberger also said the department eventually plans to issue additional guidance on capitalization rules that involve tangible assets.

5. Capitalization: IRS AND TREASURY PROPOSE CAPITALIZING COSTS OF INTANGIBLE ASSETS AND BENEFITS * BNA

01/18/2002
The Bureau of National Affairs, Inc.,
Daily Tax Report

January 18, 2002, Friday
13 DTR GG-1 (2002)

LENGTH: 764 words

SECTION: LEAD TAX REPORT

TITLE: Capitalization: IRS AND TREASURY PROPOSE CAPITALIZING COSTS OF INTANGIBLE ASSETS AND BENEFITS

AUTHOR: By Alison Bennett and Brant Goldwyn

TEXT:
The Treasury Department and Internal Revenue Service said Jan. 17 they intend to issue rules clarifying capitalization treatment of costs incurred in acquiring, creating, or enhancing intangible assets and benefits.

In an advance notice of proposed rulemaking (REG-125638-01), the government outlined specific categories of expenses that taxpayers would be required to capitalize under Internal Revenue Code Section 263(a), including certain acquisitions, market entry payments, prepaid items, and others.

The rules also would include safe harbors and simplifying assumptions, including a "one-year rule" under which expenditures relating to short-lived intangible assets would not be required to be capitalized, "de minimis rules" allowing taxpayers to deduct costs under a specified dollar amount, and an exception for "regular and recurring" expenses in a taxpayer's business, the government said.

"We believe the rules and principles described in this advance notice with respect to intangible assets are a first step to providing clear and administrable rules that will significantly reduce uncertainty and controversy," Treasury Assistant Secretary for Tax Policy Mark Weinberger said in a news release.

"We also hope to issue additional guidance addressing other areas of capitalization, such as costs to repair or improve intangible assets," Weinberger added.

Expenses That Must Be Capitalized.

The advance notice of rulemaking described several categories of expenses that would be required to be capitalized, including:

-- amounts paid to acquire intangible property;
-- amounts paid to create or enhance certain intangible rights or benefits;
-- amounts prepaid for goods, services, or other benefits to be received in the future;
-- certain market entry payments;
-- amounts paid to obtain certain rights (such as trade names, copyrights, or licenses) from a government agency;

01/18/2002
-- amounts paid to modify contract rights or to terminate certain contracts;
-- amounts paid in connection with tangible property owned by another; and
-- defense or perfection of title to intangible property.

Capitalization would not be required for costs of assets that exist for one year or less, the government said, except for costs paid to acquire intangible property from another person.

Transaction Costs.

The proposed rules may require a taxpayer to capitalize certain transaction costs that facilitate the taxpayer's acquisition, creation, or enhancement of intangible assets or benefits, IRS and Treasury said. The rule generally would not apply to employee compensation, fixed overhead costs, and costs under a specified threshold of perhaps $5,000, the government said.

Capitalization may be required for legal fees paid to outside counsel to facilitate an acquisition of the taxpayer's stock, IRS and Treasury said. The government said capitalization also could be required for: costs that facilitate a taxpayer's acquisition, creation, restructuring, or reorganization of a business entity; an asset acquisition under Internal Revenue Code Section 1060; or transactions to raise capital.

To provide some certainty for the treatment of transaction costs, IRS and Treasury said they were considering certain safe harbors that would allow a deduction for all employee compensation, look at whether the transaction was recurring, and follow the financial or regulatory accounting treatment of the transaction costs.

Comments Requested.

IRS requested comments on:

-- other costs of acquiring, creating, or enhancing intangible assets that should be capitalized, and principles that should be used to identify these costs;
-- costs, other under regulatory or tax accounting rules, that merit treatment tied to the capitalized costs;
-- the amortization period or method, or multiple periods and methods, that should apply to the costs;
-- other de minimis rules that might apply, and the method for aggregating expenditures when applying the rules; and

-- distinguishing costs of developed software from costs of acquired software.

IRS said comments should be submitted within 60 days after the advance notice is published in the Federal Register; however, a date of publication for the advanced notice has not been announced.

Texts of the news release and REG-125638-01 are in Section L.

6. Employee Benefits: DEPARTMENTAL TASK FORCE MAY ADVISE BUSH WITHIN DAYS ON PENSION ISSUES, O'NEILL SAYS * BNA

01/18/2002
The Bureau of National Affairs, Inc.,
Daily Tax Report

January 18, 2002, Friday

13 DTR G-6 (2002)

LENGTH: 710 words

SECTION: TAX, BUDGET & ACCOUNTING

TITLE: Employee Benefits: DEPARTMENTAL TASK FORCE MAY ADVISE BUSH WITHIN DAYS ON PENSION ISSUES, O'NEILL SAYS

AUTHOR: By Kurt Ritterpusch and Brett Ferguson

TEXT:
The Treasury, Labor, and Commerce department task force on retirement security may be able to give President Bush advice on "high point" pension issues within the next few days because the Labor Department has been reviewing pension law issues for several months, Treasury Secretary Paul O'Neill said Jan. 17.

"We're at a stage in our committee more advanced than I thought we would be able to be because it turns out that ... the Labor Department had begun a review of standards and regulations and rules related to pensions and [tax code Section] 401(k) plans and [Employee Retirement Income Security Act] plans months ago," O'Neill told reporters during a break in the second task force meeting. "So we find ourselves the beneficiaries of a great deal of valuable staff work that was done over the last several months."

The task force met for the first time Jan. 11. O'Neill predicted Jan. 15 that an expeditious review could be completed in six to eight weeks (11 DTR G-9, 1/16/02).

O'Neill said the formal meetings of the task force have given Treasury staff the opportunity to look at and understand the Labor review and to "spill it into issues for consideration."

He declined to discuss specific issues under consideration or whether the president's budget would increase outlays to Treasury and the Internal Revenue Service in light of the current situation. "At least in my view, the president should always have the privilege of presenting his budget before we upstage him," he said.

Participation Disincentives Are Concern.

In looking at the full range of issues, the task force has been conscious of avoiding disincentives for participation in Section 401(k) and other retirement plans, O'Neill said.

"We don't want to, in the name of tightened security, create a chilling effect of reducing incentives that people have in investing in their retirement security plans," O'Neill said. "We want to make sure there still are 401(k) plans that operate in higher degree of assurance, that individuals are not disenfranchised because we have not done an adequate job of writing the rules and regulations."

Earlier in the day, O'Neill expressed concern that Enron's handling of its employees' 401(k) accounts has undermined consumer confidence in the savings plans and said the Bush administration is committed to rebuilding that confidence.

"Your 401(k) is a nest egg you own, and you decide how to invest your contributions," O'Neill said in aspeech 01/18/2002
to the U.S. Savings Bonds Volunteer Committee. "Working Americans value that sense of ownership and control. The rapid collapse of the Enron Corporation and the effect of the decline in its stock price on its employees' retirement funds may have diminished that confidence."

He told the committee the task force would "focus on the issues of fair play in the market and the balance between consumer choice and firms' interests in offering defined contribution plans."

Achieving that balance may be difficult, however, because many of the nation's largest companies place more than 60 percent of their 401(k) assets in company stock. Of 219 Section 401(k) plans with company stock that were analyzed by BNA subsidiary Institute of Management & Administration (IOMA), 25 had more than 60 percent of their assets wrapped up in company stock. The stock of 14 of those 25 companies was down as of Nov. 30 (11 DTR G-3, 01/16/02).

Better Access to Treasury Products Sought.

The Treasury secretary also told the committee his staff is looking for new methods to make "the full range of Treasury securities more widely available" to individuals saving money in retirement accounts.

"We offer the safest, most liquid, securities in the world to fill investor needs across the whole spectrum of portfolios, from the individual investor who has $ 50 to invest, to the largest asset managers and other firms invest billions of dollars in managing their portfolios," O'Neill said.

He added that both savings bonds and marketable Treasury bills and notes can now be purchased directly on the Bureau of Public Debt's World Wide Web site, making it easier to use such investment vehicles.

7. ENRON INVESTIGATION GENERATES NEW TAX SHELTER, PENSION LEGISLATION * Tax Notes Today

Tax Notes Today

JANUARY 18, 2002 FRIDAY

DEPARTMENT: News, Commentary, and Analysis; News Stories

CITE: 2002 TNT 13-1

LENGTH: 727 words

HEADLINE: #1 2002 TNT 13-1 ENRON INVESTIGATION GENERATES NEW TAX SHELTER, PENSION LEGISLATION. (Release Date: JANUARY 17, 2002) (Doc 2002-1552 (3 original pages))

AUTHOR: Mohr, Patti;
Rojas, Warren
Tax Analysts

The Enron bankruptcy and investigation have prompted House and Senate taxwriters to move legislation to protect workers' employer-sponsored 401(k) plans and to reexamine tax shelter legislation.

Although Congress remains in recess, the Enron collapse has already stirred enough controversy that Hill lawmakers and Washington bureaucrats are making inquiries and looking for legislative and administrative solutions. In addition to the three federal agencies looking into the case, three House committees and seven Senate committees, including the Senate Finance Committee, have scheduled hearings on the many
components of the Enron collapse.

House Ways and Means Committee ranking member Charles B. Rangel, D-N.Y., is drafting legislation that would impose tax penalties on the sale of a company's stocks by executives or board members if the company restricts its employees from trading its stocks in an employer-sponsored section 401(k) plan.

Rangel's bill is designed to give employees of a company the same flexibility in selling company stock that executives and large stockholders have. Rangel said his bill would ensure that workers would not lose their retirement savings because of unregulated company pension rules. Enron placed restrictions on sales of its stock held by employees in 401(k) plans.

"With Enron, executives and corporate board members could unload the stock when they sensed a problem, but the workers were locked in. . . . The top fat cats bailed out with their golden parachutes while the workers were left holding the bag," Rangel said.

Also, Rangel's bill would eliminate tax deductions for interest on debt instruments when the corporation showed the instruments as equity on its books. He said current law allows companies to borrow money with tax-deductible interest while showing the borrowing as an increase in equity when reporting to shareholders.

"Now, Congress should immediately repeal the tax benefits that made Enron's misleading financial structure possible. My bill would do just that," said Rangel.

Rangel said he plans to demand immediate action on his bill to prevent future instances of employees losing their jobs and investments in their company should the company go bankrupt. His spokesman said the legislation "cannot wait until all the hearings and task forces" are completed.

Finance Committee ranking member Charles E. Grassley, R-Iowa, also plans to introduce legislation within the next few weeks to tighten pension plan protections for workers.

Grassley said he is reviewing whether Enron used certain tax vehicles to conceal the company's financial condition. He said emerging questions about whether Enron used corporate tax shelters to hide its debt have only solidified his resolve to introduce legislation exposing abusive tax shelters and offshore tax havens.

"It was a shock to read that Enron may have used nearly 900 tax-haven subsidiaries to avoid taxes and hide its financial debts," Grassley said. "This is one more example of why Congress should act on tax shelter legislation. This legislation would force disclosure of tax shelters so that the IRS can better police them."

Grassley worked with Finance Committee Chair Max Baucus, D-Mont., last year to produce a bipartisan tax shelter bill, but the two have yet to unveil their finished product. Preliminary estimates indicate the bill would raise about $10 billion by closing corporate loopholes, a benefit one taxwriting aide believes may be partly to blame for its delayed debut.

"From what I'm hearing about the budget, we may need offsets," a Grassley spokeswoman said.

The aide said she was unsure whether the bill would have solved any of the problems linked to the Enron collapse because investigators are still piecing together the full scope of Enron's activities, but she also noted that taxwriters would track the situation carefully.

According to the aide, Finance staffers from both Grassley's and Baucus's offices are scheduled to meet with officials from the IRS and Treasury for a briefing on Enron-specific tax issues in the coming weeks. She said taxwriting aides also expect to meet with Treasury in late February on the broader tax shelter issue, which means the Grassley-Baucus bill may not appear until March.

8. New 'Digital Daily' aims to answer taxing questions * The Financial Times
01/18/2002

00800000001036
Financial Times (London)

January 18, 2002, Friday USA Edition 2

SECTION: GLOBAL INVESTING; Pg. 25

LENGTH: 995 words

HEADLINE: New 'Digital Daily' aims to answer taxing questions

BYLINE: By PAUL TAYLOR

DATELINE: NEW YORK

BODY:
According to the Internal Revenue Service's website (www.irs.gov), dubbed "The Digital Daily", there are just 87 days until April 15, the deadline for filing tax returns in the US.

In its current incarnation the IRS site describes itself as "the fastest, easiest tax publication on the planet" - a dubious claim that may be justified when a redesigned site is launched later this month in time for the 2002 tax-filing season.

The existing site, while packed with useful and free information for individuals, small businesses and tax professionals, is confusing and difficult to navigate. The redesign is intended to address these complaints and make it easier to find information. A link on the existing home page provides a preview of the new site, which promises that the redesigned Digital Daily will be "more intuitive and user-friendly". It will also enable the IRS to update and manage the information more efficiently and accurately, the preview claims.

The new home page lives up to the promise, providing both a standard search box and separate "forms and publications finder" query tool, as well as what the IRS describes as "an intention-based" content menu that allows individuals, businesses, charitable organisations and others to go directly to information relevant to them.

The basic content of the website will, however, remain the same. This includes detailed information about recent tax law changes, a huge database of official tax forms that can be downloaded and a link to the IRS "e-file" service that enables taxpayers to file their returns electronically - something as many as 50m individual and business taxpayers are expected to do this year.

Digital Daily now also includes a link to Tax Talk Today (www.taxtalktoday.tv), a free online streamed video discussion about a tax topic - the next one on January 22 will deal with the issue of criminal investigations.

Most people, however, will visit the site to find information that will help them fill out their tax return, or to file it electronically after using a tax professional or one of the many commercially available tax preparation software packages.

The leading tax preparation software packages, Intuit's Quicken TurboTax and H&R Block's TaxCut, offer both on- and off-line versions of their programmes that walk taxpayers through the process of filling in a tax form, provide advice and enable the user to file their return electronically.

H&R Block offers two online versions of TaxCut, a do-it-yourself version that costs Dollars 19.95 and a do-it-yourself "plus" version that costs Dollars 49.90 but provides the added security of having your completed return reviewed by an H&R Block tax professional.

01/18/2002
Similarly, Quicken’s TurboTax for the Web costs Dollars 19.95 now (but Dollars 24.95 after April 1).

Both services offer extensive help for DIY tax filers and, provided your tax affairs are relatively straightforward, provide a secure and low-cost alternative to consulting an accountant.

TurboTax and TaxCut both receive plaudits from reviewers but there are other packages including a number of free online tax preparation packages including TaxAct Online.

TaxAct enables the user to prepare and print your federal tax return for free and if you qualify, you can also file your tax return electronically for no cost as well. Otherwise federal and state e-tax returns cost Dollars 7.95 each.

9. ANOTHER TAXING YEAR * Pittsburgh Post-Gazette

Pittsburgh Post-Gazette

January 17, 2002 Thursday SOONER EDITION

SECTION: BUSINESS, Pg.E-4 FINANCE TIP

LENGTH: 120 words

HEADLINE: ANOTHER TAXING YEAR

BODY:
By now Form 1040 is arriving in the mail. Shortly it will be followed by W-2s, 1099s and all the other paperwork of tax season. If you need help making sense of it all, IRS Taxpayer Assistance Centers will provide face-to-face help for taxpayers. However, individuals planning to visit IRS offices should be prepared to pass through security screening. You may be asked to show current photo identification. The IRS is encouraging taxpayers to call or go online for their tax assistance needs. The IRS toll-free telephone line is (800) TAX-1040 from 7 a.m. to 10 p.m. weekdays and 9 a.m. to 5 p.m. Saturdays, or go to www.irs.gov. Look for "News for You 2002."

10. LEADER OF DRUG RING GETS 10-YEAR TERM * The Columbus Dispatch

The Columbus Dispatch

January 17, 2002 Thursday, Home Final Edition

SECTION: NEWS; Pg. 08C

LENGTH: 154 words

HEADLINE: LEADER OF DRUG RING GETS 10-YEAR TERM

BODY:
The leader of a large marijuana-distribution ring in central Ohio was sentenced yesterday to 10 years in prison.

Allington "Alf" Tittle, 41, received hundreds of pounds of the drug in packages mailed from Los Angeles during a 16-month period that ended in May 1998, according to the Internal Revenue Service. He paid for the

01/18/2002
drugs with 58 wire transfers totaling $105,000, the IRS said. Tittle then distributed the drugs to dealers in central Ohio.

Last year, Tittle, formerly the owner of West Coast Automotive on E. 5th Avenue, pleaded guilty to one count each of conspiracy to launder money and conspiracy to distribute marijuana.

Five West Coast drug suppliers and two Columbus-area dealers linked to his ring also have been convicted.

U.S. District Judge John D. Holschuh, who sentenced Tittle, said the drug dealer faces deportation to his native country of Antigua after his release from prison.

11. No wrist slap, but ... * Copley News Service

Copley News Service

January 17, 2002

No wrist slap, but ...

BYLINE: The San Diego Union-Tribune Copley Editorial Service
California

There is good news and bad news in the 30-year sentence meted out by a federal judge to Everardo Arturo Paez Martinez, the highest-ranking member of the Tijuana-based Arellano Felix drug cartel who is in U.S. custody.

On the good-news side of the ledger, Paez pled guilty as part of a plea bargain to massive drug smuggling - tons of cocaine - for the vicious, violent syndicate. That vindicated the impressive case amassed against him by federal law enforcement agencies, chiefly the Drug Enforcement Administration with assistance from the Internal Revenue Service.

Paez's 30-year sentence, while less than the life term he might have received as a drug kingpin, is still a very considerable punishment. Paez, 35, will likely remain in prison until his late 50s. That should allow him plenty of time to ponder his criminal offenses and the scourge of narco-trafficking he helped inflict on the United States.

Finally, the Paez plea bargain and resulting sentence avoid raising obstacles to further extraditions by Mexico of senior trafficking figures. Paez’s extradition last May was a breakthrough. For the first time, Mexico delivered a purely Mexican citizen drug kingpin to face American justice. U.S. prosecutors hope their handling of the Paez case will encourage more such extraditions, key to taking down Mexico’s narco syndicates.

But it's no secret that the deal approved by U.S. Attorney Patrick K. O'Toole and negotiated by Assistant U.S. Attorney Laura E. Duffy and Narcotics Section Chief Gonzalo P. Curiel is controversial.

Case agents from the Drug Enforcement Administration and the Internal Revenue Service strenuously objected to the arranged sentence. Both agents quite apparently believe strongly that Paez deserved a longer sentence than the
30 years he received and the 22 years which, with good behavior, he will likely serve.

Moreover, Paez obtained his reduced sentence without agreeing to cooperate in any way with U.S. authorities. That's acutely disappointing, most especially to those in law enforcement still battling the Arellanos' cartel.

The Arellano principals, brothers Benjamin and Ramon Arellano Felix, remain at large in Mexico. Their cartel is still supplying an estimated 20 percent of the cocaine smuggled into the United States, plus tons of marijuana, smaller quantities of heroin and increasing amounts of methamphetamines.

Paez surely could have provided a wealth of information on his former employers' criminal empire. Presumably, he could have been a compelling witness against the Arellano brothers, both of whom are wanted on U.S. drug trafficking charges, and other cartel principals under indictment here. Now, that chance may be forfeited permanently.

As he begins two decades behind bars, Paez may yet decide that cooperation offers his best hope of salvaging something of his life. If not, there will always be reason to wonder whether the federal prosecutors in this case could, and should, have driven a harder bargain.

12. In brief: Agents, police raid houses on Porter * El Paso Times

El Paso Times

January 17, 2002

In brief: Agents, police raid houses on Porter

Texas

Federal agents and police officers swarmed over two homes in the 3000 block of Porter Wednesday as part of a regional investigation involving 19 law-enforcement agencies, said Roger Maier, U.S. Customs spokesman. Law officers served 16 sealed search warrants in El Paso, Las Cruces, Amarillo, Odessa and Lubbock.

The investigation involved police, sheriff's deputies, federal law-enforcement agencies including customs and the Drug Enforcement Administration, as well as the Internal Revenue Service and the Social Security Administration. Agents working Wednesday night at 3110 Porter said the case involved fraud, but Maier refused to confirm or deny that.

"The investigators will be following up on information gathered with the search warrants, taking as much time as they deem necessary to complete the investigations," Maier said.


The Associated Press

January 17, 2002

More federal charges added for Detroit businessman

01/18/2002
The government added four federal tax charges and a money laundering charge Thursday against a Detroit businessman already accused of defrauding the city of hundreds of thousands of dollars.

Michael Nickson, 43, owner of Four Star Industries, Inc., which did business with the city, and is facing charges along with three Detroit municipal employees.

Gary Spann, 49; Leroy Barnes, 39; and Alberta Butler, 43, all of Detroit, are charged with collecting money for parts that were never delivered to the Detroit Public Lighting Department and overcharging the city.

The three workers face 10 counts each of mail fraud and one each of conspiracy to commit mail fraud. Butler also is charged with illegally accepting gifts for performing her city job.

On top of the new fraud and money laundering charges, Nickson is charged with 67 counts of evading federal bank reporting rules. He made 67 cash withdrawals totaling $655,400, each of which was just below the $10,000 reporting requirement.

Nickson's lawyer, Phillip Frederick, said his client is being unfairly targeted.

"The U.S. government itself can be a terrorist," he said, declining further comment.

The new indictment supersedes one issued in October against Nickson. The new charges accuse Nickson of filing false tax returns for himself and his company in 1997 and 1998. He failed to report about $1.2 million in personal income.

The money laundering charge stems from Nickson purchasing a home in 1998 titled to a friend.

14. Auditor: Credit disallowed on tax returns * Laredo times

Laredo times

January 17, 2002

Auditor: Credit disallowed on tax returns
BY ROBERT GARCIA
Times city editor
Texas

An Internal Revenue Service auditor testified in federal court Wednesday afternoon that she found no negligence or fraud in at least six of the tax returns the government claims were falsified by local tax return preparers.

The testimony came in the trial of Anthony and Elizabeth Benavides of Benavides and Associates and two of their employees, Veronica Gonzalez and Vidal Guerra.

01/18/2002
Assistant U.S. Attorney Noelle M. DiMarco is presenting the case before U.S. District Judge Keith Ellison.

DiMarco is trying to prove to the jury that the four defendants falsified tax returns for at least 20 of their clients resulting in a 27-count indictment.

The penalties in the case carry up to five years for conspiracy and three years for each of the counts, plus fines of up to $250,000.

The case stands on claims that the taxpayers' earned income credit was disallowed by the government and ordered to be paid back, while the government indicted the tax preparers for allegedly falsifying information on the tax returns to get the credit.

Margaret "Peggy" Alverdi, a 15-year veteran employee of the IRS was the government's witness Wednesday.

Alverdi audited some of the taxpayers' claims and disallowed their earned income credit despite that in some cases, she had found no fraud.

The tax cases were referred to Alverdi by IRS Special Agent Garry Ploetz as part of the Border Preparer Project, an investigation that apparently covers the U.S.-Mexico border.

Gonzalez's attorney Emilio Davila tried to show the jury that Alverdi's ruling to disallow the credit came because she was "preprogrammed" by Ploetz, who was following up on a criminal investigation under the Border Preparer Project.

Alverdi disagreed with the word "preprogrammed."

Davila then asked her if she knew why Gonzalez was indicted on a tax return filed electronically that she didn't prepare.

Alverdi answered, "No, I don't know."
Gonzalez was indicted on seven counts.

During cross-examination by Davila, Alverdi admitted that in three of the claims she had audited no fraud was found and she marked "no" on the form's box.

Davila showed the jury Alverdi's report on which she indicated on the audit she performed on the tax return of Abel Moreno she had placed a question mark instead of indicating "yes or no" in finding negligence or fraud.

In the two audits done for Antonio Hernandez for years 1995 and 1996, she had indicated that no fraud was found.

Alverdi testified she spoke to Hernandez on the telephone and he had explained that he had named his sister as a dependent because their parents had not sent them any support money while they lived with their aunt.
Hernandez was claiming $3,346, which was disallowed by the auditor.

During the cross examination of the witness, Davila managed to get on the record that Hernandez was trying to help his sister, an honor roll student at a local high school.

Earlier in the day, Alverdi was cross-examined by attorney Fausto Sosa, who represents Elizabeth Benavides.

The government expects to present more than 50 witnesses and continue presenting its testimony on Thursday.
The Washington Post

January 18, 2002, Friday, Final Edition

SECTION: METRO; Pg. B02; FEDERAL DIARY STEPHEN BARR

LENGTH: 746 words

HEADLINE: Florida Lawmaker Suggests Another Road to 'Offset' Relief

BYLINE: Stephen Barr

BODY:

A top House Republican has offered a plan to modify the "government pension offset," a provision of Social Security law that reduces benefits for thousands of people who retired or will retire under the Civil Service Retirement System.

Rep. E. Clay Shaw Jr. (R-Fla.), chairman of the House Ways and Means Social Security subcommittee, has proposed revamping the offset formula as part of a bill that would ease the burden on the Social Security system by encouraging younger workers to invest in personal retirement accounts.

Under the offset, a spousal or survivor Social Security benefit is cut by two-thirds of the person's government pension. Shaw's proposal would peg the offset at one-third of an individual's government annuity. Many federal retirees feel the two-thirds offset is too harsh. Some lose their entire Social Security benefit, and others, especially women who held lower-income jobs, can ill afford to have their retirement income reduced, retirees point out.

Officials at the National Association of Retired Federal Employees, which has lobbied for several years to repeal or change the offset, said they were encouraged by Shaw's proposal, which is part of legislation aimed at ensuring the survival of Social Security.

In their view, Shaw's proposal acknowledges retiree complaints that the offset is a serious problem. It also provides another legislative alternative that may stir debate.

Offset bills have been introduced by various members of Congress during the last decade. For instance, Rep. Howard P. McKeon (R-Calif.) has proposed repealing the offset altogether, and Rep. William J. Jefferson (D-La.) and Sen. Barbara A. Mikulski (D-Md.) sponsored legislation that would guarantee a minimum $1,200 combined monthly income before the pension offset could be applied to Social Security spousal benefits.

"If you can go to some kind of markup, or get this fully considered by a committee, you have a range of options to be considered and negotiated with," said Judy Park, NARFE's legislative director.

NARFE estimates that 305,000 beneficiaries are affected by the offset and that the number grows by 15,000 each year.

The offset was enacted in 1977 to end what critics called an unfair advantage for government workers. Before the offset's creation, federal workers could receive a full government pension and a full spousal benefit under Social Security.

01/18/2002
But Social Security, under its "dual-entitlement rule," does not pay full benefits to private-sector workers who earned a retirement benefit and also are eligible for a spousal benefit. The rationale behind the rule is that a person who receives a retirement pension is less dependent on a spouse and not entitled to a full spousal benefit.

Shaw held a hearing on the offset in the summer of 2000, and he signaled last year that he might rethink the formula as part of a comprehensive plan to reshape Social Security.

That comprehensive plan -- the "Social Security Guarantee Plus Plan" -- has now taken shape and includes his proposed change in the offset formula. Shaw's plan would create a voluntary program under which workers would receive a refundable tax credit of 2 percent to 3 percent of their earnings for investment in stocks and bonds. Participating workers would receive a lump-sum payout on retirement, and Social Security would use earnings from the accounts to help pay regular benefits. Ultimately, Social Security's projected cash shortfalls would be eliminated, the Shaw plan promises.

The prospects for Shaw's legislation are unclear. Congress is headed into an election year, which can create political crosswinds for members trying to move Social Security legislation. In addition, President Bush's Social Security commission suggested that Congress take at least a year to discuss options before overhauling the system.

Marlene Kawaguchi, a telecommunications manager at the International Broadcasting Bureau, retired Dec. 31 after more than 37 years of government service.

Miguel Torrado, associate commissioner for personnel at the Social Security Administration, will be the guest on "The Business of Government Hour" at 8 a.m. tomorrow on WJFK radio (106.7 FM).

"The King Holiday, Federal Employees and Community Service" will be the topic for discussion on the Imagene B. Stewart call-in program at 8 a.m. Sunday on WOL radio (1450 AM).
IN THE NEWS: 1/17/02

Barry S. Loehrig, 53, pleaded guilty to conducting an illegal gambling business, money laundering and income tax evasion.

Chief U.S. District Judge Walter H. Rice said he would sentence Loehrig after a presentence investigation. Loehrig faces 30 years in prison and a $1 million fine. He also must pay taxes owed for 1994 through 1997, plus interest and penalties.

Loehrig has agreed to cooperate with investigators, which could reduce his sentence. He also agreed to forfeit $22,669 in cash and checks, two handguns and ammunition.

Prosecutors dismissed 13 other felony counts.

Loehrig fled the country while in plea negotiations and was arrested last November by U.S. marshals on his June 13, 2000, indictment.

The indictment alleges Loehrig financed, managed and supervised the illegal gambling operation from August 1992 to December 1999 and "concealed the true nature, location, source, ownership and control of the proceeds" of instant pull-tab tickets.

Loehrig is also charged with engaging in financial transactions in excess of $10,000 with funds from illegal gambling.

Loehrig’s name surfaced in December 1997, when a state crime task force raided a Miami County bingo hall in the former Bug Inn, near Bradford.

The indictment alleges:

* Loehrig established with the Internal Revenue Service "at least two entities which he falsely purported were charitable, nonprofit organizations" named the Rain Forest Society, later changed to Help the Children, and Stepping Stone, a successor to the Dakota Society.

* Loehrig and other co-conspirators "solicited numerous bars, restaurants, taverns and bowling alleys" in southern Ohio "to participate with him in a scheme to sell the instant tickets" to customers and split the profits.

* Loehrig established checking accounts in at least four Dayton financial institutions to disguise the operation.


The Washington Post

January 17, 2002, Thursday, Final Edition

SECTION: METRO; Pg. B02; FEDERAL DIARY STEPHEN BARR

LENGTH: 731 words

HEADLINE: Study Undercuts Popular Notions About Bureaucrats and Spending

BYLINE: Stephen Barr

BODY:

01/18/2002
Are federal executives biased toward higher government spending?

The answer is no, according to a study published in this month's issue of Public Administration Review, the journal of the American Society for Public Administration.

"Senior executives are less likely than the general public to favor increased spending on the vast majority of government programs, contrary to assumptions about self-interested bureaucratic behavior," concluded Julie Dolan, an assistant professor of political science and public administration at Macalester College in Minnesota.

Her study found that federal executives prefer less spending than the public in almost all broad spending categories. She also found that the spending priorities of Senior Executive Service members -- the government's management elite -- generally follow the preferences of the public. Dolan's study appears to put a dent in popular beliefs that too many government employees have leftist leanings, when compared with the public, and favor ever-increasing budgets as a way to gain greater clout. Those ideas took hold in the 1970s and continue in some quarters today.

Her findings, she said, "suggest senior executives do not inflate government budgets for personal gain."

At the Health and Human Services Department, Dolan said, senior executives preferred less spending than the public on health care, child care and AIDS research -- all areas under HHS control. HHS executives, she said, "rate public schools as more worthy of increased funding" and wanted more spending on food stamps, a program administered by the Agriculture Department.

At the Defense Department, senior executives advocated greater spending for only one program, foreign aid, which is overseen by the State Department.

"We simply cannot conclude that defense administrators inflate their own budgets at the expense of other government programs; rather, they appear to support less government spending on almost all programs," Dolan wrote.

Overall, she said, the views of federal executives tend to mirror those of the public. Both groups ranked public schools, crime and the environment as priorities for higher spending. But there are differences. "While almost half of the general population (47 percent) prefers more Social Security funding, less than 10 percent of SES members do," Dolan found.

Dolan's research was conducted in 1996 and 1997, when the government faced deep budget deficits and political pressure to cut staffing and downsize operations. Her data come from three surveys -- the 1996 American National Election Studies, the 1996 General Social Survey and a 1996-97 survey of federal executives that she developed and conducted.

Her findings suggest that the views of federal executives are shaped by "real fiscal pressures" and a "greater knowledge about current federal spending levels and political realities than the general public."

She acknowledged that her research was not designed to determine whether federal executives favor greater funding for certain parts of programs, even though they believe overall spending could be cut.

Still, Dolan said, her findings "question the assumption that bureaucrats uniformly prefer larger budgets" and "suggest we should revise our theories about self-interested bureaucrats inflating government budgets for their own gain."

President Bush signed legislation yesterday that should lead to improved pay and benefits for employees at the Securities and Exchange Commission.

01/18/2002
In a bill that reduces filing fees paid by industry, Congress included a provision to allow the SEC to provide salaries comparable to those of other federal financial regulators. SEC officials said the agency needed to offer higher pay to help stem turnover among lawyers, accountants and auditors.

When the pay changes take effect will hinge on negotiations between the SEC and the National Treasury Employees Union, which represents about 2,000 workers there, a union spokesman said.

Kathy Troutman, president of the Resume Place, and Ligaya Fernandez and Paul van Rijn, analysts at the Merit Systems Protection Board, will discuss federal job postings and the government's "human capital crisis" at 11 a.m. tomorrow on "FEDtalk," the online radio show, at www.federalnewsradio.com.
Today’s Contents

1. TAX FACTS: IRS Chief Wants to Stop Declining Audit Rate * Dow Jones Newswires

Dow Jones Newswires

January 17, 2002

TAX FACTS: IRS Chief Wants to Stop Declining Audit Rate

By JENNIFER CORBETT DOOREN

Of Dow Jones Newswires

WASHINGTON -- The head of the Internal Revenue Service wants to put a halt to the sharp drop in taxpayer audits.

IRS Commissioner Charles Rossotti says audits are necessary to encourage individuals and businesses to pay their required amount of taxes.

Rossotti made his comments Wednesday during a news conference on the IRS’s plan to conduct special taxpayer audits in order to improve the agency’s overall audit program. Unless lawmakers on Capitol Hill have strong objections, the IRS will likely begin conducting audits on 50,000 taxpayers as part of its "national research program" this fall.

Rossotti hopes the research program will allow the IRS to better target its annual audits to people who are cheating the government rather than folks who pay their fair share of taxes. He says improving annual audits is especially important because fewer of them are being conducted.

In fiscal year 2000 about 618,000 individual taxpayer audits were completed, which is down from 1.9 million in 1995.

While taxpayers would probably love it if the IRS audit rate continued to drop or even go away, Rossotti said audits are “a critical part of administering the tax system.” He says actual audits and the threat of being audited keeps the tax system fair by encouraging people to truthfully report their incomes and deductions in order to pay the required amount of tax.

“At the level it’s (audits) at now it’s very hard to do that,” Rossotti said.

01/18/2002
Ideally, he said, he's like to "slightly increase" the audit rate, but barring that he hopes the declining audit rate will at least stabilize and that the new research program will eventually make the current level of audits "more targeted and more effective."

In the next few years, Rossotti hopes the IRS will be able to extend its tax-audit study to corporations.

IRS Changes Rules for Foreign Taxpayer ID
The Internal Revenue Service has issued regulations effective Thursday that allow casinos and other entities that find themselves needing to pay foreign people unexpected earnings to issue those earnings without first obtaining a taxpayer identification number in limited circumstances.

Current law requires casinos and other payers of earnings to obtain a taxpayer identification number for a foreign person. The IRS has an expedited process for obtaining the taxpayer ID number, but the expedited process cannot be used when IRS offices are closed on weekend or holiday.

Without a taxpayer ID the casino or other entity must withhold a 30% tax on earnings such as gambling winnings. But many countries have tax treaties with the U.S. that exempt gambling earnings and other earnings or apply a different tax rate. If a foreign person who doesn't have a U.S. taxpayer ID number receives gambling earnings on a weekend, they must later file a form with the IRS to obtain a full or partial refund of the 30% tax that is withheld. If a foreigner has a U.S. taxpayer ID the paying entity can withhold the proper amount of tax subject to the tax treaty.

The new regulations allow casinos and other paying entities to pay a foreign person and withhold tax at the rate agreed to by a particular country's tax treaty with the U.S. without first obtaining the taxpayer ID number if it is during a time when the IRS is closed, such as on a weekend. The regulations require the paying entity to obtain a taxpayer ID number the first day the IRS is reopen for business.

House Health Subcommittee Chair Seeks Medicare-Choice Boost
House Ways and Means Health Subcommittee Chairwoman Nancy Johnson, R-Conn., is seeking to boost funding for so-called Medicare-Choice programs by $1.2 billion starting next fiscal year.

This comes after the Centers For Medicare and Medicaid Services announced it could only give private health insurers who participate in the Medicare-Choice program a 2% increase in payments. Johnson noted that health costs rose 11% last year. She says unless Congress approves additional funding for Medicare-Choice, seniors will be in "jeopardy of losing quality health care."

2. IRS moves to renew audits to check compliance * REUTERS

01/18/2002
REUTERS

01/17/2002 13:30

IRS moves to renew audits to check compliance

WASHINGTON, Jan 17 (Reuters) - This fall the U.S. Internal Revenue Service will begin reviewing a "statistically valid" sample of tax returns in an effort to update its information on taxpayer compliance.

The reviews, announced on Wednesday, will include less than 50,000 of the 132 million individual returns filed annually. The new audits, dubbed the National Research Program, will take the place of a previous efforts discontinued in 1988.

"If we can't make sure that everyone pays their fair share, then honest taxpayers get stuck making up the difference. So, tracking taxpayer compliance is a cornerstone of a fair tax system," Treasury Secretary Paul O'Neill said in a statement.

The largest portion of the audits, about 30,000, will deal with only selected portions of returns, not the painstaking "line-by-line" approach used in the past.

Another 9,000 audits will include exchanging correspondence with taxpayers. The IRS said some taxpayers contacted for the audits likely would have heard from the IRS anyway in its routine of matching up information.

"The IRS is working smarter," said IRS Commissioner Charles Rossotti. "We have found new ways to use existing information to measure tax compliance. The process is substantially less intrusive on taxpayers, but will help us catch tax cheating and improve tax administration."

By gathering data on taxpayer compliance, the IRS hopes to shrink the so-called tax gap, the difference between total tax liability and taxes paid voluntarily and on a timely basis. That gap for all taxes, including individual, business, employment and estate levies, was estimated at $278 billion in the 1998 tax year.

In comparison, the budget surplus seen in Fiscal Year 2001 was much smaller, at $127.02 billion.
3. They Had a Chance to Say Goodbye * Newsday

Newsday (New York, NY)

January 18, 2002 Friday ALL EDITIONS

SECTION: NEWS, Pg. A28

LENGTH: 523 words

HEADLINE: They Had a Chance to Say Goodbye

01/18/2002

[NOTE: CONTINUATION PAGE IS 0080000001030]
Bradshaw, Tara

From: The New York Times Direct [nytdirect@nytimes.com]
Sent: Wednesday, January 16, 2002 5:43 PM
To: tara.bradshaw@do.treas.gov
Subject: Today's Headlines Late Edition from NYTimes.com Wednesday, January 16,

QUOTE OF THE DAY
*We may never know why he turned his back on our country and our values, but we
JOHN ASHCROFT, attorney general, on filing criminal charges against John Walker

NATIONAL
3 Killed in Shooting at Virginia Law School
A gunman killed three people and wounded three others today at a law school in the
officials said.

MORE NATIONAL NEWS

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Enjoy Free Shipping during our Winter Clearance Sale - where you can save from 25% - 70% on
men's and women's business and casual clothing. There's never been a better time to save! Click on
button for details.

BUSINESS
Analysis: Questions Keep Coming for Andersen and Enron
The actions Arthur Andersen said the employee it fired yesterday took have left the company open to criminal
investigations even as it tries to reassure the public that its audits can be trusted.

MORE BUSINESS NEWS

POLITICS
Investigators Question Fired Enron Auditor
David Duncan was cooperating with congressional investigators, his attorneys said today.

MORE POLITICS NEWS

OP-ED
Cracks in the Rubble
By THOMAS L. FRIEDMAN
Will the United States show the same resolve in winning the peace in Afghanistan as it did winning the war?

MORE OP-ED NEWS

About This E-Mail
01/17/2002
Bradshaw, Tara

From: The New York Times Direct [nytdirect@nytimes.com]
Sent: Wednesday, January 16, 2002 8:00 AM
To: tara.bradshaw@do.treas.gov
Subject: Today's Headlines from NYTimes.com Wednesday, January 16,

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Past 30 Days

QUOTE OF THE DAY
"We may never know why he turned his back on our country and our values, but we cannot ignore that he did." JOHN ASHCROFT, attorney general, on filing criminal charges against John Walker.

NATIONAL
Justices Limit Reach of Arbitration Law
The Supreme Court ruled that a federal agency may sue an employer for discrimination on an employees behalf even if the worker had waived his right to sue.

MORE NATIONAL NEWS

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Enjoy Free Shipping during our Winter Clearance Sale - where you can save from 25% - 70% on men's and women's business and casual clothing. There's never been a better time to save! Click on button for details.

BUSINESS
Arthur Andersen Fires an Executive for Enron Orders
Arthur Andersen fired its partner in charge of auditing Enron, saying he had ordered the destruction of documents and e-mail after learning that the S.E.C. had begun an investigation.

MORE BUSINESS NEWS

POLITICS
Walker Will Face Terrorism Counts in a Civilian Court
John Walker, the American turned Taliban warrior, was charged in a criminal complaint with conspiring to kill United States citizens and supporting terrorism.

MORE POLITICS NEWS

OP-ED
Cracks in the Rubble
By THOMAS L. FRIEDMAN
Will the United States show the same resolve in winning the peace in Afghanistan as it did winning the war?

MORE OP-ED NEWS

01/17/2002

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Sent: Tuesday, January 15, 2002 5:38 PM
To: tara.bradshaw@do.treas.gov
Subject: Today's Headlines Late Edition from NYTimes.com Tuesday, January 15,

QUOTE OF THE DAY
"You are victims not only of your own actions but of the system which employed you."
JUDGE CHARLES A. DELEHEY, fining two former New Jersey state troopers in a case that started a racial profiling debate.

NATIONAL
Doctors' New Practices Offer Deluxe Service for Deluxe Fee
The move has prompted accusations that the doctors are abandoning lower-income patients to cater to the wealthy.

MORE NATIONAL NEWS

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BUSINESS
Andersen Fires Lead Enron Auditor
Arthur Andersen said today that it is firing its lead Enron auditor as part of the accounting firm's inquiry into the destruction of Enron-related documents.

MORE BUSINESS NEWS

POLITICS
Enron's Chairman Received Warning About Accounting
An Enron executive told the company's chairman in August that improper accounting threatened to bring down the company, Congressional investigators said.

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OP-ED
Crony Capitalism, U.S.A.
By PAUL KRUGMAN
The Bush administration fears, and the press suspects, that the latest revelations in the Enron affair will raise the lid on crony capitalism, American style.
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QUOTE OF THE DAY
"You are victims not only of your own actions but of the system which employed you."
JUDGE CHARLES A. DELEHAYE, fining two former New Jersey state troopers in a case that started a racial profiling debate.

NATIONAL
Doctors' New Practices Offer Deluxe Service for Deluxe Fee
The move has prompted accusations that the doctors are abandoning lower-income patients to cater to the wealthy.

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BUSINESS
Andersen Fires Lead Enron Auditor
Arthur Andersen said today that it is firing its lead Enron auditor as part of the accounting firm's inquiry into the destruction of Enron-related documents.

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POLITICS
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QUOTE OF THE DAY
"Iran must be a contributor in the war against terror. Our nation, in our fight against terrorism, will uphold the doctrine of either you're with us or against us."

PRESIDENT BUSH

NATIONAL
7 Marines From Across U.S.: Profiles From a Fatal Mission
The marines killed on a military tanker plane crash in Afghanistan came from diverse backgrounds, but had a common mission.

MORE NATIONAL NEWS

BUSINESS
Enron Contacted 2 Cabinet Officers Before Collapsing
The White House disclosed Thursday that the chief executive of Enron contacted two Cabinet members weeks before the company's collapse.

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Our Wretched States
By PAUL KRUGMAN
States are facing a fiscal crisis. Unfortunately, the state of the states is the shape of national things to come.

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QUOTE OF THE DAY
"Do we really want to bid for the games in the future? It's a valid question. I believe the money is well spent; it makes a great statement for peace. But is it a good investment?"
MITT ROMNEY, president of the Salt Lake City Olympic organizing committee, on the cost of holding the Games in the United States.

NATIONAL
White House Seeking to Restore Food Stamp Aid for Noncitizens
The Bush administration proposed on Wednesday to restore food stamps to many legal immigrants whose eligibility was restricted by the 1996 welfare law.

MORE NATIONAL NEWS

How to make your car invisible to radar and laser
The Phantom II combines the innovative technology of the Phazer with a radar detector for double protection.

BUSINESS
Justice Dept. to Form Task Force to Investigate Collapse of Enron
The Justice Department plans to form a special task force of prosecutors to conduct an inquiry into the Enron Corporation and its collapse.

MORE BUSINESS NEWS

POLITICS
White House Seeking to Restore Food Stamp Aid for Noncitizens
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MORE POLITICS NEWS

OP-ED
Arafat's Implausible Denials
By WILLIAM SAFIRE
While the United States and Israel have for a decade been deluding themselves with a "peace process," Iran and its Palestinian proxies have been gaining ground in their war process.

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QUOTE OF THE DAY
"The same compassion that caused me to root for the New York Yankees for the first time in 51 years makes me think it would be fun to go to New York and show the presidential flag there."
BILL OWENS, governor of Colorado, on the idea of holding the 2004 Republican convention in the city.

NATIONAL
C.I.A. Names Agent Killed in Fortress
Johnny Michael Spann, 32, was the first American combat death in Afghanistan since the campaign began.

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BUSINESS
Enron Collapses as Suitor Cancels Plans for Merger
Enron, the champion of energy deregulation, imploded after a rival backed out of a deal to buy it and many big trading partners stopped doing business with it.

MORE BUSINESS NEWS

POLITICS
White House Says it Expects at Least 3 Years of Deficits
The expected budget deficits confirmed that the recession and the costs of fighting terrorism had combined to wipe out projected surpluses.

MORE POLITICS NEWS

OP-ED
The Tourism Crisis
By BOB HERBERT
When you think of tourism in New York City, think jobs, jobs, jobs.

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QUOTE OF THE DAY
"Terrorists and invaders, come to ruin our country. I wonder what they are thinking now."
AGHA MUHAMMAD, guarding a caravan of Taliban prisoners, mostly Pakistanis.

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NATIONAL
Ashcroft Offers Accounting of 641 Charged or Held
Attorney General John Ashcroft provided for the first time the names of 93 people charged with crimes arising from the government's investigation of the Sept. 11 attacks.

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BUSINESS

Trying to Restore Confidence in Enron to Salvage a Merger
Enron and Dynegy worked to find ways to bolster confidence in Enron's energy-trading business as the companies' negotiators continued talks on revising the terms of their merger.

MORE BUSINESS NEWS

POLITICS

$38 Billion Tax Hiatus Proposed
Republicans in the Senate said they would support a new idea to free employers and employees from paying Social Security payroll taxes for one month.

MORE POLITICS NEWS

OP-ED

Hunks and Brutes
By MAUREEN DOWD
If the United States can bomb a path to victory for the Northern Alliance, we can lay down some terms for what women can attain in the new Afghanistan.

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01/17/2002
QUOTE OF THE DAY
"All I can say is, it's about time."
DR. JON OPSAHL after former members of the Symbionese Liberation Army were charged with murder for a 1975 bank robbery in which his mother was shot to death.

NATIONAL
Justice Hold Hearing in Case Concerning Patients' Rights
The Supreme Court heard arguments on whether states may require medical reviews of a health maintenance organization's refusal to pay for covered service.

MORE NATIONAL NEWS

Digital Camera memory dilemma solved!
The PalmCam Digital Camera from Panasonic uses breakthrough SuperDisk(TM) technology to store up to 1500 images on one disk!

BUSINESS
Auditor Received Warning on Enron Five Months Ago
Arthur Andersen knew in mid-August of a senior Enron employee's concerns about improprieties in the energy company's accounting practices.

MORE BUSINESS NEWS

POLITICS
White House Says Economics Adviser Saw Little Risk on Enron
The White House said President Bush's top economic adviser concluded that a potential collapse of Enron posed little risk to the American economy.

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OP-ED
Enron and the Gramm
By BOB HERBERT
When Senator Phil Gramm and his wife Wendy danced, it was most often to Enron's tune.

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QUOTE OF THE DAY
"Companies come and go. It's part of the genius of capitalism."
PAUL O'NEILL, treasury secretary, on the collapse of Enron.

NATIONAL
A Jocular Bush Wins Applause on His Trip to U.S. Heartland
President Bush extolled the virtues of American workers and farmers today as he campaigned in the Midwest, not for any candidates but for free trade and tax relief.

MORE NATIONAL NEWS

Natural de-icer means you'll have to shovel less this winter
All-natural grain juices dissolve away snow, prevent snow from adhering for 10-14 days! Perfect for clearing driveways, walks and protecting plants.

BUSINESS
Earnings Worries Send Stocks Lower
Stocks slid today, with the tech-laden Nasdaq below the key 2,000-point level, on worry the market rose too much, too soon in recent months given the uncertainty about corporate profits.

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POLITICS
Seeking Edge on Bush, Democrats May Advance Dates of Primaries
The Democratic Party is expected to approve an overhaul of the presidential primary schedule that would make the 2004 primaries even earlier than in the past.

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OP-ED
Silencing the Alarm
By BOB HERBERT
Not only were Enron employees deliberately left in the dark, but Enron had many of them locked into rules that prohibited them from selling their stakes in the company.

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"Companies come and go. It's part of the genius of capitalism."
Paul O'Neill, treasury secretary, on the collapse of Enron.

NATIONAL
States Face Hard Choices on Medicaid Cuts
Medicaid, the insurance program for 44 million low-income people, is in a fiscal crisis, forcing state legislatures to look for ways to cut benefits and reduce payments.

MORE NATIONAL NEWS

"A floor lamp that spreads sunshine all over a room"
The HappyEyes (TM) Floor Lamp brings the benefits of natural daylight indoors for glare-free lighting that's perfect for a variety of indoor activities.

BUSINESS
A Bubble That Enron Insiders and Outsiders Didn't Want to Pop
What the world is now awakening to is that Enron was not much of a company, but its executives made sure that it was one hell of a stock.

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QUOTE OF THE DAY
"We will take strict action against any Pakistani who is involved in terrorism inside the country or abroad."
President Pervez Musharraf of Pakistan.

NATIONAL
U.S. Selling Papers Showing How to Make Germ Weapons
Months into an expanded war on bioterrorism, the government is still making available hundreds of documents that tell how to turn germs into deadly weapons.

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Before Debacle, Enron Insiders Cashed in $1.1 Billion in Shares
Some shareholders and lawmakers are focusing not on the money lost in Enron's collapse but on insiders who made millions selling shares at the top of the market.

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POLITICS
Cyrus R. Vance, a Confidant to Presidents, Is Dead at 84
Cyrus R. Vance, who after two decades in public service was appointed secretary of state, died Saturday afternoon in New York. He was 84.

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OP-ED
"Will & Will," 24/7
By MAUREEN DOWD
The proliferation of kiddecentric cable channels has allowed parents and kids to avoid each other completely.

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"If we have to go to war, jolly good."
GENERAL S. PADMANABHAN, India's army chief

NATIONAL
Major Death Penalty Appeal Accepted
The Supreme Court agreed to decide a potentially far-reaching challenge to the constitutionality of the death penalty laws in nine states.

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Enron Sought Aid of Treasury Dept. to Get Bank Loans
The president of the Enron Corporation repeatedly called Peter R. Fisher, a senior Treasury Department official, last fall and sought help arranging bank loans.

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Mr. T., Mr. G., and Mr. H.
By BILL KELLER
I'd like to begin the new year by bidding farewell to three men whose departure will raise the median decency of the United States Senate.

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QUOTE OF THE DAY
"If we have to go to war, jolly good."
GENERAL S. PADMANABHAN, India's army chief

NATIONAL
Major Death Penalty Appeal Accepted
The Supreme Court agreed to decide a potentially far-reaching challenge to the constitutionality of the death penalty laws in nine states.

MORE NATIONAL NEWS

BUSINESS
Enron Sought Aid of Treasury Dept. to Get Bank Loans
The president of the Enron Corporation repeatedly called Peter R. Fisher, a senior Treasury Department official, last fall and sought help arranging bank loans.

MORE BUSINESS NEWS

POLITICS
Enron Sought Aid of Treasury Dept. to Get Bank Loans
The president of the Enron Corporation repeatedly called Peter R. Fisher, a senior Treasury Department official, last fall and sought help arranging bank loans.

MORE POLITICS NEWS

OP-ED
Mr. T., Mr. G. and Mr. H.
By BILL KELLER
I'd like to begin the new year by bidding farewell to three men whose departure will raise the median decency of the United States Senate.

01/17/2002
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From: The New York Times Direct [nytdirect@nytimes.com]
Sent: Friday, January 11, 2002 5:42 PM
To: tara.bradshaw@do.treas.gov
Subject: Today's Headlines Late Edition from NYTimes.com Friday, January 11.

QUOTE OF THE DAY
"Iran must be a contributor in the war against terror. Our nation, in our fight against terrorism, will uphold the doctrine of either you're with us or against us."
PRESIDENT BUSH

NATIONAL
Nevada Site Urged for Nuclear Dump
The Energy Dept. said it would recommend Yucca Mountain be used to bury thousands of tons of nuclear waste.

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BUSINESS
Ford Will Slash 15,000 More Jobs in North America to Stem Losses
The Ford Motor Company said today that it would close five plants and cut thousands of jobs in moves the company's chief executive called "painful but necessary."

MORE BUSINESS NEWS

POLITICS
Enron Contacted 2 Cabinet Officers Before Collapsing
The White House disclosed that the chief executive of Enron contacted Cabinet members weeks before the company's collapse.

MORE POLITICS NEWS

OP-ED
Our Wretched States
By PAUL KRUGMAN
States are facing a fiscal crisis. Unfortunately, the state of the states is the shape of national things to come.
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Sent: Thursday, January 10, 2002 5:39 PM
To: tara.bradshaw@do.treas.gov
Subject: Today's Headlines Late Edition from NYTimes.com Thursday, January 10,

QUOTE OF THE DAY
"Do we really want to bid for the games in the future? It's a valid question. I believe the money is well spent; it makes a great statement for peace. But is it a good investment?"
MITT ROMNEY, president of the Salt Lake City Olympic organizing committee, on the cost of holding the Games in the United States.

NATIONAL
Jury Mulls Verdict in Hockey Death
A verdict is possible today in the case of the man charged with manslaughter in the beating death of another father.

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BUSINESS
White House Moves to Contain Political Damage From Enron Turmoil
President Bush directed two government agencies today to study how to protect pension plans from debacles similar to the collapse of the Enron Corporation, which had strong ties to the Bush administration.

MORE BUSINESS NEWS

POLITICS
Enron Chairman Warned Bush Officials on Collapse
Kenneth L. Lay reached out to two Cabinet officers when the energy company was collapsing, the White House said today.

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OP-ED
Arafat's Implausible Denials
By WILLIAM SAFIRE
While the United States and Israel have for a decade been deluding themselves with a "peace process," Iran and its Palestinian proxies have been gaining ground in their war process.

01/17/2002
Bradshaw, Tara

From: The New York Times Direct [nytdirect@nytimes.com]
Sent: Wednesday, January 02, 2002 5:50 PM
To: tara.bradshaw@do.treas.gov
Subject: Today's Headlines Late Edition from NYTimes.com Wednesday, January 2,

QUOTE OF THE DAY
"We will not be able to afford all that we want. We will not even be able to afford everything we currently have."  
MICHAEL R. BLOOMBERG, the new mayor of New York, on the city's fiscal future.

Examine the World of J. R. R. Tolkien - This sponsored feature includes articles from the New York Times archives, slide shows of Tolkien's artwork, multimedia presentations from New Line Cinema, weekly trivia quizzes and more.  Explore Tolkien Today.

NATIONAL
Oct. 14 Trial Set for Suspect Linked to Sept. 11 Attacks
Zacarias Moussaoui pleaded not guilty today to a criminal indictment accusing him of murder, aircraft hijacking and conspiracy.

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BUSINESS
The Outlook for Stocks
With an economic recovery early this year looking more and more likely, the outlook for stocks appears solid, at least in the near term. Still, analysts warn investors not to get too giddy.

MORE BUSINESS NEWS

POLITICS
Senate Democrats to Examine Enron's Ties to White House
Senate Democrats plan to examine the company's high-level connections to the Bush administration as Congress steps up its inquiry.

MORE POLITICS NEWS

OP-ED
Let's Roll
By THOMAS L. FRIEDMAN

01/17/2002
President Bush should use the power of Sept. 11 to make our country stronger, safer and a better global citizen in the world of Sept. 12, beginning with how we use energy.

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