

NLWJC - Kagan

DPC - Box 023 - Folder 007

Environment - New World Mine



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To: Bruce N. Reed
cc: Elena Kagan, Paul J. Weinstein Jr.
Subject: Follow-up on our discussion

FYI only

Bruce,
After we spoke, I talked to TJ and re-emphasized our desire to have a solution on the table that does not require congressional action. He agrees, and is hopeful that his staff will be able to come up with a concept by tomorrow.

If congressional approval is not needed, then the Pay-go requirements won't kick in.

Diane

THE WHITE HOUSE
WASHINGTON

January 22, 1997

MEMORANDUM FOR BRUCE REED

FROM:

DIANE REGAS 

SUBJECT:

New World Mine - Property Exchange
"Principles" Meeting Thursday, January 23, 1997
10:00 Indian Treaty Room

Summary: I suggest that you speak to OMB Director Raines and ask him to put into place a process to review and approve pending and future announcements designed to conserve valuable privately-held resources. Up to now the Administration has been making potentially expensive commitments without a specific plan in place to pay for them. As a result we are committing to significant future spending without any offset. This approach not only causes deficit problems, it also stakes the President's credibility on results without highlighting the need for congressional approval.

Issue: There is a "principals" meeting on Thursday where TJ Glauthier, Katie McGinty and others will discuss whether the federal government should offer future royalties from existing Montana mines to pay for an interest in the New World Mine. In addition, they will discuss whether and how a package of offsets for this spending should be identified. At present there are no other viable options to offering additional federal spending for the New World Mine interests. I would not recommend that you attend the meeting, although if Elena can be there it would be helpful.

Background: On August 12, 1996, the President announced an agreement between the federal government and Crown Butte mining company to halt the development of a huge gold mine above Yellowstone (the New World Mine). The announcement was very well-received across the country. The agreement that was signed that day, and the press coverage, indicated that there would be an exchange of federal assets to prevent the mine from going forward.

As a next step, the agreement provides that by February 12, 1997 the federal government must identify assets worth at least \$ 65 million to trade for interests in the mine. Since August, a working group led by CEQ has been meeting to identify options for a trade in federal assets. Members of the working group agree that the only realistic option for February 12 is to promise future royalties from existing coal mines in Montana, while maintaining an option of coming back with other assets later. In essence, this means offering cash from the federal Treasury to Crown Butte, because the royalties are currently deposited into the general fund. The working group has not identified offsets for this spending.

Governor Racicot of Montana is working on another alternative that will involve new federal leases of coal and timber in Montana (this is known as "the Montana Initiative"). Various Montana interests--including conservation groups--are negotiating over this option. At present it appears that the Montana Initiative may encounter staunch environmental opposition--and it will likely need congressional action. Even if the Montana Initiative turns out to be acceptable, we do not expect it to be ready by February 12.

Other, previously announced commitments raise these same issues. We need to identify \$ 200-300 million worth of property for the Headwaters deal in California very soon. While I am not completely up to date, OMB has told me that identifying real assets to trade is proving as difficult in that case--thus pushing us toward a cash solution. We also have an outstanding promise in Utah to make up for the loss of expected income caused by the creation of the Escalante National Monument.

Recommendation

With regard to the New World Mine, we need to continue to support the Governor's work to come up with an asset trade. At the same time an option that increases federal spending appears to be the only way to keep us on track to fulfill the President's commitment. Given our overall commitment to a balanced budget, I recommend that DPC take the position that offsets need to be identified internally now--before we offer the royalties to Crown Butte. I also recommend that we ask OMB to take the lead in putting together a package of offsets.

Asset trades to protect cherished resources are a popular idea, but the practice is turning out to be very difficult. In the case of the New World Mine, we have reduced our negotiating room with the environmentalists by announcing that we will stop the mine without identifying the specific resources that will be mined or harvested in trade. (In other words, we all ate the dessert, and now we are trying to serve vegetables.) This dynamic causes pressure to spend cash, and increases the pressure to do more of these deals. (There is a mine in Arizona that some environmentalists want us to stop.) If we are going to entertain more resource trades, OMB ought to have more ability to review projects and insist on a rigorous identification of assets before we are publicly committed to preserving a particular resource. I recommend that you raise this issue with Director Raines and ask him to clarify with Cabinet Departments that agreements to conserve natural resources, like this one, need to include offsets or other assets that can be made available to pay for the conservation.

I have spoken to OMB and CEQ staff about this recommendation. CEQ staff agree with my first recommendation that OMB should help identify offsets. OMB staff agree that the Administration needs to identify how to pay for trades before making unequivocal public commitments.

cc: Elena Kagan
Paul Weinstein

need to ID efforts sooner
should prob do this
generally before we get
Pres mt.