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P1 National Security Classified Information [(a)(1) of the PRA]
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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

Treasury Fast Track Info

FAX TRANSMITTAL SHEET

Date: 7/25/97

Number of Sheets to Follow: 17

TO: Victoria Radd

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 22, 1997

MEMORANDUM FOR SECRETARY RUBIN

THROUGH:	Linda Robertson Assistant Secretary Legislative Affairs & Public Liaison
FROM:	Joyce Carrier Deputy Assistant Secretary for Public Liaison
SUBJECT:	Cabinet Briefing on Fast Track and Climate Change
Date & Time	Wednesday, July 23, 1997 at 4:00pm
Location	Roosevelt Room - White House
PARTICIPANTS:	
Treasury	Secretary Rubin
Others	Administration Cabinet Secretaries
BRIEFING:	Overview
PRESS:	No
CONTACT:	Jim Blount, 622-0507
BACKGROUND:	Tab A: OASIA Briefing material on "Fast Track" Tab B: OASIA Talking Points and Briefing material on "Climate Change"

Cabinet Meeting on
Fast Track and Climate Change

Purpose

Fast Track and Climate Change will be the topics for discussion in tomorrow's Cabinet Meeting at the White House. This is an opportunity for the President to make remarks on two key issues that Treasury will become involved in over the next several months.

Background

Treasury will play a major role in providing economic analysis for these two important issues. We will also take part in getting our message out to the appropriate groups. For your information, your last full Cabinet Meeting was held on May 19th.

Fast Track

Uses of Fast Track

There is general interagency agreement that, at a minimum, the authority should cover a core set of negotiations:

-- An FTA with Chile and the Free Trade Area of the Americas (FTAA);

-- Concluding the negotiations already slated under the WTO (of which there are many, but services and agriculture are the two most important); and

-- New sectoral free trade initiatives. (As an indication of what sectors might be involved in global talks, we will propose talks in APEC on chemicals, telecommunications, medical and energy equipment, as well as oilseeds, while other countries will press for forest products, fish, environmental technologies, beer, spirits, and toys.)

While there is general agreement on the core of fast track, disagreement remains on naming additional parties. At the July 18 NEC meeting, Ambassador Barshefsky continued to press for naming other FTA partners, including Australia, New Zealand and Singapore, but we believe naming these countries will not be a strong selling point with Congress or the American public.

Key Points:

-- Think it's better not to name names beyond Chile and FTAA. That way we don't create enemies and we maintain flexibility to take advantage of emerging opportunities.

  - Sectoral negotiations in Asia are more likely in short to medium term to provide e.g. ITA leverage for broader multilateral arrangements, either within APEC or globally.

  - Naming them creates a foreign policy problem with those excluded and provides a disincentive for them to accommodate us in APEC and elsewhere;

-- Australia, New Zealand, and Singapore present their own particular problems:

  - Picking out Australia and New Zealand will look like Anglo-centrism to the rest of Asia, while Singapore will look like tokenism;

  - The principal export interests of Australia/New Zealand are all import sensitive agricultural items (e.g., milk, sugar, lamb, wine);

  - Singapore offers very little potential economic benefit. Its average tariff on industrial goods is only 5.1 percent. While it is the eighth largest destination for U.S. exports, many of these are shipped onward and would not benefit from the margin of preference of the FTA;

- Other measures of Singapore's economic significance are less enticing--it ranks 37th in GDP and 40th in U.S. goods as a percent of total imports (behind ten other APEC members).

- Rules of origin problems would be paramount with Singapore in ASEAN FTA.

Labor and the Environment

Our sense is that this discussion will center around the tactics of how to approach the issue with Congress. There are basically two substantive issues in terms of our ultimate objective:

-- Do we want a bill that includes labor and environmental language, perhaps the "trade related" language now in the Ways and Means proposal (US negotiating objectives are: "to address those aspects of foreign government policies and practices regarding labor, the environment and ~~othe~~ other matters which are sepcifically related to trade and decrease market opportunities for US exports..."), or

-- Do we want a clean bill with no labor and environmental language.

The tactical issues center around how we introduce our bill and when we move towards the center.

-- Do we start out somewhat left of center, perhaps with a clear statement of intent that we will factor in labor and environmental issues when determining those countries with which we would negotiate FTAs, or indicate our intention to negotiate side agreements where appropriate. Then, once the Congressional center is evident, we accept the view of the majority (presumably a Ways and Means type formulation)?

-- Do we immediately move to the center and take the Ways and Means formulation, which is designed to limit the scope of labor and environmental objectives to be achieved via trade negotiations?

Ambassador Barshefsky reported at the last meeting that Ways and Means staff felt business and the Republicans were not comfortable with parallel executive agreements covering labor and environmental issues, although our sense from a Business Roundtable contact is that there is not strong business opposition to USTR being left free to negotiate such agreements "as appropriate".

What about strong initial position

Recommended Position

How? -- Support initial strong position on labor and environment - not in FTA, but indicate willingness to do side agreements as appropriate.

-- Agree to move gracefully to Ways and Means language as Congressional center emerges.

Cabinet Meeting on Climate Change and Fast Track
Wednesday July 23, 1997 5:15 pm

Talking Points: Climate Change

- On the gradual approach to including the LDCs in the Climate the State Department:
  - -- It does not make economic sense to give money for green developing countries unless they have agreed to targets not be tight.
  - -- Treasury strongly favors bringing the LDCs within the f agreement in Kyoto, even if the LDCs assume only modest
- In staff discussions, Treasury and CEA have suggested differ into the Climate Treaty.
  - -- For example, the Treaty could require non-Annex 1 count emissions paths based on their current GDP per capita.
  - -- Additionally, the Treaty could require all signatories, fossil-fuel subsidies in order to be eligible for emiss

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

BRIEFING

July 21, 1997

MEMORANDUM FOR SECRETARY RUBIN
DEPUTY SECRETARY SUMMERS

FROM: Robert Gillingham RG
Deputy Assistant Secretary (Economic Policy)

Jonathan Gruber JG
Deputy Assistant Secretary (Economic Policy)

William Schuerch WS
Deputy Assistant Secretary (International Development, Debt, and Environment Policy)

SUBJECT: **NEC PRINCIPALS MEETING ON CLIMATE CHANGE**

DATE AND TIME: Tuesday July 22, 1997 at 5:30 pm

LOCATION: Roosevelt Room

PARTICIPANTS:

Treasury
Secretary Rubin
Deputy Secretary Summers

White House
Gene Sperling
Dan Tarullo
Katie McGinty
Other NEC Principals

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Briefing
Tab A Discussion Paper (State Department)
Tab B Additional Background

Briefing

In the early fall, the President will decide whether to make a further U.S. commitment on climate change. In preparation, the NEC has begun a series of cabinet-level meetings for July and August to brief the President's senior economic advisors on the major issues facing the U.S. Government. This week's topic will be **developing country commitments**.

Topics for coming weeks include

- technology
- transition assistance
- international issues
- tax and regulatory approaches

Developing country commitments

Based on current trends, developing-country emissions will exceed developed-country emissions by 2020 (although emissions per capita will still be only 25 percent of those in developed countries). Without commitments by the less-developed countries, no climate-control regime can hope to be effective. Yet developing countries have made no commitments to date, developed countries have been hesitant to ask for any commitments, and without large carrots or large sticks, the LDCs are not likely to find it in their interest to restrict their greenhouse emissions.

Purpose of meeting. We understand the meeting is to be organized around four questions:

1. What additional information do we need to know about the role of developing countries to reach an informed decision?
2. Is our current negotiating stance appropriate?
3. What should our international diplomatic strategy be?
4. What should our domestic political strategy be?

Status of Kyoto negotiations on developing country issues

At the United Nations Special Session on Environment and Development in June, the President said, "We will work with our people and we will bring to the Kyoto conference a strong American commitment to realistic and binding limits that will significantly reduce our emissions of greenhouse gases."

The 1992 Framework Convention on Climate Change (FCCC), to which the United States is a party, did not call for any developing country efforts to stabilize greenhouse gas emissions. Subsequent negotiations led to the 1995 Berlin Mandate, which called for negotiations toward a legally-binding protocol by December 1997. Though not legally binding, the Berlin Mandate established the terms of the Kyoto negotiations and specifically exempts developing countries from any new commitments.

Prepared by Ray Squitieri

Where do the agencies stand?

State Department negotiators believe that LDCs will make no commitments of their own until the industrialized countries have reduced their emissions substantially. Thus, State, EPA, CEQ, and others have pushed for the US to "show leadership" in order to get other nations, especially the LDCs, to act.

In contrast, Treasury and CEA strongly favor bringing the LDCs within the framework of the agreement in Kyoto, even if the LDCs assume only modest commitments now. This makes **Treasury and CEA outliers within the Administration.**

In staff discussions, Treasury and CEA have suggested different ways to bring the LDCs into the Climate Treaty. For example, the Treaty could require non-Annex 1 countries to adopt baseline emissions paths based on their current ability (measured, for example, by GDP per capita) to restrain emissions growth. Only when their per capita income approached the level of developed nations would they be expected to take on the same burden as developed nations. In return for these commitments, LDCs would be eligible for joint implementation (JI) projects, technology transfers, and other "carrots." The State Department thinks that bringing developing countries into the fold is a long-term process; they have proposed an "evolution" plan that would require commitments by LDCs only in 2005. We believe that without an explicit basis for scoring, programs such as JI will be inefficiently focused. Additionally, the Treaty could require all signatories, including LDCs, to eliminate fossil-fuel subsidies in order to be eligible for emissions trading or JI.

The State Department has warned that pushing for a commitment by developing countries will jeopardize a possible agreement at the Conference of the Parties in Kyoto. This may be true, but signing an agreement in Kyoto will do little good if the treaty then goes down to defeat in the Senate. Moreover, introducing the issue now increases the likelihood of serious debate later.

Where do others stand?

The U.S. Senate recently adopted a nonbinding "Sense of the Senate" resolution (the **Byrd Amendment**) stating that the U.S. should not agree to any protocol that mandates "new commitments to limit or reduce greenhouse gas emissions for [industrialized nations] unless the protocol ... also mandates new specific scheduled commitments to limit or reduce greenhouse gas emissions for developing country Parties within the same compliance period." Thus, Senator Byrd is, for obvious reasons, taking an even more conservative position than CEA and Treasury.

Most other governments -- citing the FCCC and the Berlin Mandate -- oppose U.S. efforts to increase developing country commitments. OPEC demands that it be compensated for any losses it might incur under any new targets.

Thus the U.S. could find itself either **walking away from the negotiations** (if we believe the developing country commitments are not adequate), or **signing an agreement that the Senate does not ratify**. In an ideal world, we would re-open the FCCC and the Berlin Mandate to provide for binding developing country commitments, but politically this would be extremely difficult.

Additional Background

State Department paper

The State Department's strategy for strengthening developing country participation contains three elements:

1. Elaboration of existing commitments under the Berlin Mandate -- that is, with no changes to existing agreements. This may be the only one of the three elements achieved at Kyoto.

2. Graduation to the rank of developed country.

3. Evolution of the Climate Treaty, in which all parties, including the LDCs, would have legally binding obligations.

Elaboration of Existing Commitments. The Berlin Mandate allows a modest strengthening of developing country commitments, but not major new requirements, such as binding emissions limits. Last month, State circulated a "U.S. Draft Protocol Framework" to other governments. Europe and the developing countries criticized it because it contained requirements for developing countries to adopt "no regrets" measures (actions that would benefit the climate system, but that might be taken for other economic or environmental reasons) that would not apply to all Parties. In response, State has developed a "Composite of U.S. and E.U. Texts on Article 4.1" that is somewhat weaker on developing countries than State's previous draft protocol, and would apply to all countries. Treasury has asked State to insert stronger language, and to hold the paper until after the NEC principals have had a chance to discuss it.

Graduation and evolution. DOS has proposed establishing a new category, Annex B, for the richest developing countries ("graduation"); in addition, DOS has called for negotiations leading to a new agreement by 2005 which would include legally binding emissions targets for all countries, including the LDCs ("evolution"). Most other countries have objected that graduation and evolution are beyond the scope of the Berlin Mandate.

Comments on State Department approach

It does not make economic sense to give money for greenhouse abatement to developing countries unless they have agreed to targets, although the targets need not be tight.

The most important precursor to participation by developing countries in a comprehensive effort to curtail global warming is the setting of baseline emission paths. Developing countries correctly point to historical emissions by developed countries as the reason why global warming is a problem. Developed countries note in response that developing country emissions will exceed those by developed countries within 30 years. No one expects developing countries to take the same initial steps (*e.g.*, rolling back emissions levels to 1990 levels) as developed countries. That said, developing countries should be able to take advantage of technological breakthroughs pioneered by currently developed countries, so they should not have to follow the same energy

efficiency path. The question remains: what is a reasonable baseline emissions path for developing countries against which their efforts can be judged and appropriately rewarded?

Developing countries would presumably like to establish targets in the form of emissions per capita similar to those of developed countries. These targets would be nonbinding. More reasonable would be to establish baseline emissions paths that permitted emissions in developing countries to grow with, but not as rapidly as, GDP per capita. As GDP per capita approached that in developed countries, the baseline emissions path would blend into a "developed country" baseline, requiring not just growth reductions, but reductions in absolute emissions levels. Some attention has to be paid to the treatment of population growth. By relating the growth in total emissions to growth in GDP per capita, population growth would be severely penalized. On the other hand, setting a baseline in terms of emissions per capita or emissions per GDP incorrectly equates growth in welfareCGDP per capitaCwith growth in population. These two phenomena should not be treated equally.

Even with established baselines, it would be difficult to set rules for joint implementation, technology transfer and grants to developing countries. Without a baseline, there will be no way to judge the effect of JI projects or developing country technology initiatives on global emissions. For that reason, there will be no basis for calibrating what credits should be given to either developed or developing countries (possibly in perpetuity) for these efforts. Establishing baselines will not be easy. On the other hand, it has to be done eventually, and the baselines can be set to hone developing country incentives without requiring actions that are as stringent as those required of developed countries. Furthermore, by addressing the issue sooner rather than later, the political resistance to U. S. participation might be reduced.

Global Environment Facility (GEF) and MDBs

Pushing for stronger developing country commitments following Kyoto could increase pressure on the U.S. to clear our $140 million GEF arrears and to agree to an expanded second replenishment. Also, our arrears weaken our hand in negotiating stronger commitments.

We favor mainstreaming low-carbon technologies into MDB lending, but some agencies and NGOs overestimate how far the U.S. can or should push this. Note also that the World Bank seeks U.S. endorsement as a main financial intermediary for the emissions trading market (possibly worth several billion annually by 2005), with a fund for carbon mitigation projects "jointly implemented" between industrialized countries and LDCs. Treasury has serious concerns about the Bank proposal.

DISCUSSION PAPER: DEVELOPING COUNTRY COMMITMENTS

1. Background

Developed countries are responsible for more than 75% of the increase in greenhouse gas concentrations since the beginning of the Industrial Revolution. In the decades ahead, however, emissions from developing countries are expected to grow sharply. By 2035, developing country emissions are expected to exceed those from the developing world.

Per capita emissions vary widely. Carbon emissions from the United States are roughly 5 tons per person; from the OECD as a whole, roughly 3.5 tons per person; and from developing countries as a whole, roughly 0.5 tons per person.

The Framework Convention on Climate Change, signed at the Rio Earth Summit in 1992, established differentiated levels of commitments for developed and developing countries. It called upon developed countries to take the lead in addressing climate change and to aim to return emissions to 1990 levels by the year 2000. It called upon developing countries to adopt policies and measures to address climate change, but provided no aim for developing countries similar to the year 2000 goal. These differentiated commitments were intended to recognize both the unequal contribution of developed and developing countries to global greenhouse gas concentrations and the unequal capacity of those countries to control emissions.

In 1995, in Berlin, the Parties to the climate treaty agreed to negotiate steps for controlling greenhouse gas emissions beyond the year 2000. The negotiating mandate calls on developed countries to set quantified emissions limits for the medium term (e.g. 2005, 2010 and 2020). In Berlin, the United States argued strongly that developing countries must participate meaningfully in negotiations over next steps. There was little support for the U.S. position on this point, with many Parties noting the failure of most developed countries to take significant steps toward meeting the year 2000 goal. The Berlin Mandate states that there will be no new commitments for developing countries in the current round of negotiation, but that developing countries will be required to advance the implementation of their existing commitments.

2. Kyoto Negotiations: Current Status

This is the most difficult issue in the current round of negotiations. There is a vast gulf between the dialogue abroad (where the U.S. proposal for developing country participation is almost uniformly considered too aggressive) and at home (where more than 60 Senators have signed a resolution insisting on developing country commitments beyond those contemplated in either the U.S. proposal or current negotiating mandate).

A. U.S. Protocol Proposal

In January, 1997, the U.S. submitted a draft protocol proposal. Provisions on developing countries included three elements: (1) calling for the negotiation by 2005 of a new agreement with legally binding emissions targets for all countries, including developing countries, and a graduation mechanism under which Parties would automatically assume additional obligations as their living standards increase (the evolution concept); (2) establishing a new category (Annex B) of commitments for the most advanced developing countries (providing a halfway house between commitments of developing countries and the more extensive obligations of OECD members); and (3) an elaboration of existing commitments (defining what would be meant by continuing to advance the implementation of existing commitments). This final element contained several components, including a requirement to report annually on emissions and actions taken to reduce emissions and take no regrets actions (actions which would benefit the climate system, but which might be taken for other economic or environmental reasons).

B. Reaction Abroad

Support for the U.S. proposal is scant. While the third element is considered within the ambit of the Berlin Mandate by nearly all Parties, most countries have argued that the other two elements (i.e., evolution and Annex B) are beyond its scope. The U.S. has been urged to drop its proposal for a new annex. We have also been urged to drop our proposal for evolution (in favor of a separate agreement at some future date).

The following blocs are active in the negotiations:

European Union. EU support for developing country commitments has been very soft. They have supported U.S. proposals for advancing existing commitments, and have proposed that Mexico and Korea take on stronger commitments (not too far removed in substance from the U.S. Annex B), but are not prepared to accept the U.S. language on Evolution adopted as part of the Kyoto agreement. They do not support joint implementation with developing countries.

Non-EU OECD Members (principally Japan, Canada, Australia). This group of countries broadly supports including developing country obligations under the Kyoto Agreement. Australia and Canada are the most vocal in support of action, while Japan, as host of the December session, is concerned that an aggressive approach would potentially derail the negotiations. As nearly all countries in this bloc have extensive competitive trade outside of the OECD, they are more aggressive in demanding developing country action With the exception of Japan, this group supports joint implementation.

Big Developing Countries (China, India and Brazil). These three countries are the primary drivers of the developing country position and some of the worlds largest emitters (China is second after the U.S., and India is number six). These countries have taken a standard north-south line, arguing that global warming has been caused by the developed world, and calling upon the industrialized countries to pay for the clean-up. They claim that when developing countries have incomes and per capita emissions equal to those of the North, they will then participate in the clean-up effort. In spite of their often strident public rhetoric, these countries (particularly China and Brazil) have shown a willingness to engage on this issue on a bilateral basis. They have active domestic climate change mitigation efforts, and have privately indicated a support for many elements of the U.S. proposal. However, they all oppose joint implementation.

OPEC. Well organized in the climate negotiations, the OPEC countries have been led by Saudi Arabia and Nigeria, and advocate positions designed to slow or block the negotiations. These countries have strongly urged: (1) that developing countries should not have to act now, and (2) that industrialized countries should compensate developing countries that might be affected by any action taken in industrialized countries to reduce emissions (principally noting that reduction in oil revenues should be compensated).

Small Island States. A group of 37 small island states have banded together to create an alliance (AOSIS) that seeks to balance OPECs influence. Largely composed of member countries with low lying territory which will be gradually inundated by climate-associated sea level rise, these countries have pushed an aggressive next steps to combat the problem calling for a 20 percent reduction in industrialized country emissions below 1990 levels by the year 2005. The AOSIS countries have been reluctant to support U.S. calls for developing country action; their proposal omits any mention of any developing country commitments to be undertaken as part of the Kyoto agreement, and they oppose JI.

An agreement in Kyoto that includes the current U.S. developing country position will be extremely difficult to achieve. State Department believes that, at a minimum, this would require U.S. support for a target and timetable perceived by the rest of the world to be serious, an aggressive effort to support replenishment of the Global Environment Facility, and an intensive diplomatic campaign. Even with these elements, an agreement that includes the U.S. developing country position will be very difficult to achieve.

C. <u>Reaction At Home</u>

The domestic dialogue on this issue stands in stark contrast to discussions abroad. Many in the business and labor community are deeply concerned about the trade and competitiveness impacts of differentiated commitments for developing countries under the climate treaty. Particular concern has focused on China and newly industrialized countries, such as Korea.

Last month, Senator Robert Byrd proposed a sense of the Senate resolution opposed to any agreement that does not contain specific scheduled requirements for developing countries during the same compliance period as those for developed countries. The resolution quickly garnered 60 co-sponsors. As drafted, the resolution appears inconsistent with the current negotiating mandate (which does not envision quantified emissions limits for developing countries). During the past several weeks, however, there has been considerable discussion with Senator Byrd and others about the exact meaning of the resolution. Senator Byrd has stated that commitments of developing countries should be based upon their own pace of industrialization. Senator Chaffee has prepared a more moderate resolution that would require developing countries to take on commitments with a 10-year lag behind the commitments of developed countries.

3. Engaging Developing Countries in the Long-Term

Any solution to the problem of climate change requires the participation of developing countries. The long-term issue is how best to engage developing countries in global efforts to address greenhouse gas emissions.

The original vision of the Framework Convention on Climate Change is that developed countries would lead in controlling greenhouse gases, and developing countries would follow. This is similar to the approach in the Montreal Protocol (the 1987 treaty that addresses stratospheric ozone depletion). Under that agreement, developing country obligations generally follow 10 years behind those of developed countries. Developing countries receive financial assistance for their efforts from a multilateral fund.

Under this model, long-term engagement of developing countries depends on action by developed countries to control emissions. However, the Byrd resolution underscores the domestic political difficulties associated with differentiated commitments between developing and developed countries. In addition, any competitiveness or leakage issues would present substantive concerns.

Many developing nations are addressing their own domestic air pollution problems and other environmental threats and in doing so are curbing releases of greenhouse gases. Independent power producers are building many new, cleaner-burning power plants in developing countries, also reducing greenhouse gas emissions relative to traditional technologies. Renewable energy technologies are finding increasing application among the billions of people in the developing world who are off the electricity grid.

Various efforts are underway to encourage developing countries efforts to control greenhouse gas emissions. These include: U.S. bilateral assistance; multilateral assistance through the Global Environment Facility (GEF); calls for reorienting the loan guidelines for the international lending institutions; and work on joint implementation (which would encourage the private sector to undertake projects in developing countries to reduce emissions and claim credit for these reductions against a domestic obligation).

The first of these, announced in the Presidents New York statement at the U.N. Special Session on the Environment, establishes a $1 billion, five-year package to help developing countries plot a climate friendly path to development. The primary component of this initiative will be a five year minimum of at least $150 million per year in bilateral assistance for climate related programs, and the potential to use development credits dedicated to climate friendly investment projects. The initiative will also include a $25 million 5-year interagency program to assist developing countries to meet the terms of the climate treaty. A significant focus in this initiative will be on using credit tools to induce greater U.S. private sector involvement in transferring climate friendly technologies.

Our financial contribution to the GEF was one of the original incentives to developing countries to support the Framework Convention on Climate Change and to take action to mitigate climate change. However, while the U.S. had pledged a contribution of $430 million to the GEF over a three year period, Congressional funding has lagged considerably. FY96 and FY97 contributions were at $35 million rather than $110 million. The reduced U.S. contribution to the GEF will make any subsequent calls for developing country action under the climate treaty much more difficult to sustain.

One of the most significant elements of the U.S. approach to encourage developing country participation is joint implementation (JI). Similar to the concept of emissions trading, JI allows countries to offset emissions at home through projects undertaken elsewhere. However, unlike the situation in emissions trading, under a JI regime, projects could be undertaken in developing countries countries without legally binding emissions budgets. The analytic work performed to date suggests that allowing JI could reduce costs within the U.S. substantially. Developing countries see benefits as well, in the form of technology transfer and private sector investment flows. In spite of the potential benefits, significant opposition among developing countries remains (although support has grown significantly in Latin America). Many developing countries believe that JI could undercut the commitment of developed countries to take the lead in controlling greenhouse gas emissions; some environmentalists are concerned that measuring project-based emissions reductions will be too difficult; and some in the private sector and Congress are concerned that JI will result in significant transfers of wealth overseas.

efficiency path. The question remains: what is a reasonable baseline emissions path for developing countries against which their efforts can be judged and appropriately rewarded?

Developing countries would presumably like to establish targets in the form of emissions per capita similar to those of developed countries. These targets would be nonbinding. More reasonable would be to establish baseline emissions paths that permitted emissions in developing countries to grow with, but not as rapidly as, GDP per capita. As GDP per capita approached that in developed countries, the baseline emissions path would blend into a "developed country" baseline, requiring not just growth reductions, but reductions in absolute emissions levels. Some attention has to be paid to the treatment of population growth. By relating the growth in total emissions to growth in GDP per capita, population growth would be severely penalized. On the other hand, setting a baseline in terms of emissions per capita or emissions per GDP incorrectly equates growth in welfareCGDP per capitaCwith growth in population. These two phenomena should not be treated equally.

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3. Evolution of the Climate Treaty, in which all parties, including the LDCs, would have legally binding obligations.

Elaboration of Existing Commitments. The Berlin Mandate allows a modest strengthening of developing country commitments, but not major new requirements, such as binding emissions limits. Last month, State circulated a "U.S. Draft Protocol Framework" to other governments. Europe and the developing countries criticized it because it contained requirements for developing countries to adopt "no regrets" measures (actions that would benefit the climate system, but that might be taken for other economic or environmental reasons) that would not apply to all Parties. In response, State has developed a "Composite of U.S. and E.U. Texts on Article 4.1" that is somewhat weaker on developing countries than State's previous draft protocol, and would apply to all countries. Treasury has asked State to insert stronger language, and to hold the paper until after the NEC principals have had a chance to discuss it.

Graduation and evolution. DOS has proposed establishing a new category, Annex B, for the richest developing countries ("graduation"); in addition, DOS has called for negotiations leading to a new agreement by 2005 which would include legally binding emissions targets for all countries, including the LDCs ("evolution"). Most other countries have objected that graduation and evolution are beyond the scope of the Berlin Mandate.

Comments on State Department approach

It does not make economic sense to give money for greenhouse abatement to developing countries unless they have agreed to targets, although the targets need not be tight.

The most important precursor to participation by developing countries in a comprehensive effort to curtail global warming is the setting of baseline emission paths. Developing countries correctly point to historical emissions by developed countries as the reason why global warming is a problem. Developed countries note in response that developing country emissions will exceed those by developed countries within 30 years. No one expects developing countries to take the same initial steps (*e.g.*, rolling back emissions levels to 1990 levels) as developed countries. That said, developing countries should be able to take advantage of technological breakthroughs pioneered by currently developed countries, so they should not have to follow the same energy

efficiency path. The question remains: what is a reasonable baseline emissions path for developing countries against which their efforts can be judged and appropriately rewarded?

Developing countries would presumably like to establish targets in the form of emissions per capita similar to those of developed countries. These targets would be nonbinding. More reasonable would be to establish baseline emissions paths that permitted emissions in developing countries to grow with, but not as rapidly as, GDP per capita. As GDP per capita approached that in developed countries, the baseline emissions path would blend into a "developed country" baseline, requiring not just growth reductions, but reductions in absolute emissions levels. Some attention has to be paid to the treatment of population growth. By relating the growth in total emissions to growth in GDP per capita, population growth would be severely penalized. On the other hand, setting a baseline in terms of emissions per capita or emissions per GDP incorrectly equates growth in welfareCGDP per capitaCwith growth in population. These two phenomena should not be treated equally.

Even with established baselines, it would be difficult to set rules for joint implementation, technology transfer and grants to developing countries. Without a baseline, there will be no way to judge the effect of JI projects or developing country technology initiatives on global emissions. For that reason, there will be no basis for calibrating what credits should be given to either developed or developing countries (possibly in perpetuity) for these efforts. Establishing baselines will not be easy. On the other hand, it has to be done eventually, and the baselines can be set to hone developing country incentives without requiring actions that are as stringent as those required of developed countries. Furthermore, by addressing the issue sooner rather than later, the political resistance to U. S. participation might be reduced.

Global Environment Facility (GEF) and MDBs

Pushing for stronger developing country commitments following Kyoto could increase pressure on the U.S. to clear our $140 million GEF arrears and to agree to an expanded second replenishment. Also, our arrears weaken our hand in negotiating stronger commitments.

We favor mainstreaming low-carbon technologies into MDB lending, but some agencies and NGOs overestimate how far the U.S. can or should push this. Note also that the World Bank seeks U.S. endorsement as a main financial intermediary for the emissions trading market (possibly worth several billion annually by 2005), with a fund for carbon mitigation projects "jointly implemented" between industrialized countries and LDCs. Treasury has serious concerns about the Bank proposal.

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Peter O'Keefe 07/25/97 03:20:30 PM

Record Type: Record

To: Victoria Radd/WHO/EOP

cc:

Subject: Attendees list from Treasury meeting

Vicki,

Here is the Treasury list from today's meeting.

Fast Track Briefing

Friday, July 22, 1997

[001]

Names	DOB/	Name	DOB
Ken W. Cole AlliedSignal Inc.		Peter Iovino Ford Motor Company	
Gail Harrison Wexler Group			
Joseph P. O'Neill Public Strategies		Michael S. Berman Duberstein Group, Inc.	
Patricia H. Engman Business Roundtable		.	
Susan M. Walter General Electric Co.		Scott Miller Procter & Gamble	(b)(6)
Lisa B. Barry The Boeing Co.	(b)(6)	William C. Lane Caterpillar	
		Chuck Levy Wilmer, Cutler & Pickering	
Shirley Zebroski General Motors Corp.		James T. Christy TRW, Inc.	
Robert G. Liberatore Chrysler Corporation		Barry K. Rogstad American Business Conference	
Mike Boyd Pfizer, Inc.		Calman J. Cohen Emergency Cmmttee fr Amer. Trade	
Steve Champlin Duberstein Group		Cheryl Brunner Business Liaison - Commerce	(b)(6)

Maxine Champion Nestle	(b)(6)	Carols E. Represas Nestle	(b)(6)