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PRESIDENT CLINTON'S \$6 BILLION CLIMATE CHANGE INITIATIVE

"Our overriding environmental challenge tonight is the worldwide problem of climate change, global warming, the gathering crisis that requires worldwide action...We have it in our power to act right here, right now. I propose \$6 billion in tax cuts and research and development to encourage innovation, renewable energy, fuel-efficient cars, energy-efficient homes." President Bill Clinton, State of the Union address, January 27, 1998

A \$6 billion initiative over 5 years to cut greenhouse gas emissions. The Administration is proposing a \$6.3 billion package of tax incentives and research and development investment to stimulate development and use of energy-efficient technologies and clean energy sources. The initiative was announced on October 22, 1997, by the President and builds on U.S. government efforts to encourage voluntary reduction of greenhouse gas emissions.

\$3.6 billion in tax credits. The proposed package contains \$3.6 billion over the next 5 years in tax cuts for energy efficient purchases and renewable energy.

- Tax credits for fuel efficient cars. The tax package includes tax credits of \$3,000 to \$4,000 for consumers who purchase advanced technology, highly fuel efficient vehicles -- expected to total \$660 million over the next five years.
- Tax credits for rooftop solar systems. Another tax provision provides a 15 percent credit (up to \$2,000) for purchases of rooftop solar electricity and hot water systems -- to provide incentives for meeting the Million Solar Roofs goal.
- Other tax credits for energy efficiency. The tax cuts also include a 20 percent credit (subject to a cap) for purchasing energy-efficient building equipment, a \$2,000 credit for purchasing energy-efficient new homes, an extension of the wind and biomass tax credit, and a 10 percent investment credit for the purchase of combined heat and power systems.

\$2.7 billion in new R&D spending. The package also contains \$2.7 billion over the next 5 years in additional research and development spending -- covering the four major carbon-emitting sectors of the economy (buildings, industry, transportation, and electricity), plus carbon removal and sequestration, Federal facilities, and crossing cutting analyses and research. Selected examples of the R&D effort include:

- Partnership for a New Generation of Vehicles (PNGV). PNGV is a government-industry effort to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars. In FY99, the combined proposal for PNGV is \$277 million, up from \$227 million appropriated in FY98. Similar government-industry efforts are proposed to develop cleaner, more efficient diesel engines for both light trucks and heavy trucks.
- Renewable energy. The package includes expanded research partnerships for key renewable technologies such as wind, photovoltaics, geothermal, biomass, and hydropower to accelerate price reductions and improve performance. The FY99 budget proposes a \$100 million increase in DOE for solar and renewable energy R&D -- a 37 percent increase over FY98.

Climate Change Technology Initiative: \$3.6 Billion in Tax Incentives

Last fall, the President announced a nine-point plan to begin addressing climate change, including a five-year, \$5 billion package of tax incentives and research and development spending to spur energy efficiency and help develop low-carbon energy sources. The President's budget proposes a \$6.3 billion initiative over 5 years -- including \$3.6 billion of tax incentives that will encourage energy efficiency and help develop low-carbon energy sources (see Table 1). The initiative covers the four major carbon-emitting sectors of the economy (buildings, industry, transportation, and electricity).

TABLE 1

Tax Incentives	Revenue effect (dollars in billions)
	Total FY1999-2003
Buildings	
Provide tax credit for energy-efficient building equipment	-1.4
Provide tax credit for new energy-efficient homes	-0.2
Provide tax credit for rooftop solar systems	-0.1
Transportation	
Provide tax credits for highly fuel efficient vehicles	-0.7
Equalize tax treatment of parking and transit and vanpool benefits	-0.1
Industry	
Provide tax credit for combined heat and power systems	-0.9
Provide tax credit for certain circuit breaker equipment	*
Provide tax credit for PFC/HFC recycling equipment	*
Electricity	
Extend tax credit for electricity produced from wind and biomass	-0.2
Climate Change Tax Initiative	
Total	-3.6

* Less than -\$50 million.

BUILDINGS

- ***Tax credit for energy-efficient building equipment.*** Improvements in the energy efficiency of both residential and commercial buildings can be obtained through tax credits that encourage the purchase of highly efficient equipment: fuel cells, electric heat pump water heaters, natural gas water heaters, electric heat pumps, natural gas heat pumps, and advanced central air conditioners. The credit would be 20 percent of the cost of the investment, subject to a cap. The credit would generally be available for equipment purchased between January 1, 1999 and December 31, 2003.

- ***Tax credit for new energy-efficient homes.*** The energy efficiency of new homes could be improved through the use of energy efficient building practices and efficient heating and cooling equipment. To encourage the purchase of new highly energy-efficient homes, a tax credit would be provided equal to one percent of the purchase price (up to a maximum credit of \$2,000) of new homes that greatly exceed building standards. The full credit would be available for homes purchased between January 1, 1999 and December 31, 2003. A credit of up to \$1,000 would be available for homes purchased between January 1, 2004 and December 31, 2005.
- ***Tax credit for rooftop solar systems.*** Solar energy systems have the potential to reduce greenhouse gas emissions and energy costs for businesses and individuals. A tax credit equal to 15 percent of the cost of rooftop photovoltaic (PV) systems and solar water heating systems would make these systems more affordable and encourage their purchase. The maximum credit would be \$2,000 for PV systems and \$1,000 for solar water heating systems. The credit would apply to equipment placed in service between January 1, 1999 and December 31, 2003 for solar water heating systems, and December 31, 2005 for rooftop PV systems.

INDUSTRY

- ***Tax credit for combined heat and power (CHP) systems.*** CHP systems use thermal energy that is otherwise wasted in producing electricity by more conventional methods. To encourage and accelerate investment in CHP equipment, a 10 percent tax credit would be provided for investments in CHP systems that meet certain energy efficiency requirements. The credit would apply to property placed in service between January 1, 1999 and December 31, 2003.
- ***Tax credit for replacement of certain circuit breaker equipment.*** Sulfur hexafluoride (SF₆), an extremely harmful greenhouse gas, is used in some large power circuit breakers used in the transmission and distribution of electric power. A 10 percent tax credit would be provided for the purchase of new circuit breakers that replace certain circuit breakers that are prone to leak SF₆. The credit would apply to new equipment placed in service between January 1, 1999 and December 31, 2003.
- ***Tax credit for perfluorocarbon (PFC) and hydrofluorocarbon (HFC) recycling equipment.*** PFCs and HFCs are extremely potent greenhouse gases and are used extensively in the semiconductor manufacturing industry. A 10 percent tax credit would be provided for the purchase of PFC/HFC recycling equipment to recover gases used in the production of semiconductors. The credit would apply to equipment placed in service between January 1, 1999 and December 31, 2003.

TRANSPORTATION

- ***Tax credit for highly fuel efficient vehicles.*** Cars and light trucks (including minivans, sport utilities, and pickups) currently account for 20 percent of greenhouse gas emissions.

Tax credits for highly fuel efficient vehicles will help to move vehicles that are ultra efficient from the laboratory to the highway. Tripling a car's fuel economy reduces its emissions of carbon dioxide by 67 percent; doubling a car's fuel economy reduces its emissions of carbon dioxide by 50 percent.

- ***Credit for vehicles with triple the base fuel economy.*** This credit would be \$4,000 for each vehicle that gets three times the base fuel economy for its class. The \$4,000 credit would be available for purchases of qualifying vehicles beginning January 1, 2003. The credit amount would phase down to \$3,000 in 2007, \$2,000 in 2008, and \$1,000 in 2009, and would phase out in 2010.
 - ***Credit for vehicles with twice the base fuel economy.*** This credit would be \$3,000 for each vehicle that gets twice the base fuel economy for its class. The \$3,000 credit would be available for purchases of qualifying vehicles beginning January 1, 2000. The credit amount would phase down to \$2,000 in 2004, \$1,000 in 2005, and would phase out in 2006.
 - These credits would be available for all qualifying vehicles, including cars, minivans, sport utility vehicles, pickup trucks, and electric vehicles.
 - The Administration looks forward to working with the auto manufacturers and other interested parties on the details of the tax incentives.
- ***Equalize the tax treatment of parking and transit benefits.*** This initiative would equalize the tax treatment of parking benefits and transit and vanpool benefits. To encourage public transportation and vanpools, employers would be allowed to provide tax free transit and vanpool benefits in lieu of compensation, up to the same amount that they can provide for parking beginning January 1, 1999.

ELECTRICITY

- ***Extension of tax credit for electricity produced from wind and biomass.*** To encourage the production of electricity from wind and certain biomass, a 5-year extension is proposed for the present 1.5 cent per kilowatt hour tax credit (adjusted for inflation after 1992). The present credit, which applies to facilities placed in service before July 1, 1999, would be extended for five years.

Climate Change Technology Initiative: \$2.7 Billion in Research and Development

Last fall, the President announced a nine-point plan to begin addressing climate change, including a five-year, \$5 billion package of tax incentives and research and development spending to spur energy efficiency and help develop low-carbon energy sources. The President's budget proposes a \$6.3 billion initiative over 5 years -- including \$2.7 billion in increased R&D spending (see Table 1). For FY 1999, the budget shows \$473 million in increased spending on climate-change related technologies (\$1.292 billion vs. \$819 million in FY 1998) and \$421 million in tax incentives, for a total first-year initiative of \$894 million.

TABLE 1

Direct Programs	Dollars in Millions				
	1997 Actual	1998 Estimate	1999 Proposed	Dollar Change: 1998 to 1999	Total Increase 1999-2003
BY AGENCY					
Energy	657	729	1060	+331	+1,899
Environmental Protection Agency	86	90	205	+115	+677
Housing and Urban Development	--	--	10	+10	+10
Commerce	--	--	7	+7	+38
Agriculture	--	--	10	+10	+86
R&D Program Total	743	819	1,292	+473	+2,710
Climate Change Technology Total	743	819	1,713	+894	+6,345

TABLE 2

Direct Programs	Dollars in Millions		
	1998 Estimate	1999 Proposed	Dollar Change: 1998 to 1999
BY AREA OF EFFORT			
Buildings	146	264	+118
Industry	156	216	+60
Transportation	246	356	+110
Electricity	220	332	+112
Carbon Sequestration and Cross-Cutting Research	0	42	+42
Policy Analysis, Market Incentives	6	26	+20
Program Direction	45	57	+12
Climate Change Technology			
Direct R&D Total	819	1,292	+473

Columns may not add due to rounding.

The principal focus of the initiative is an R&D portfolio that covers the four major carbon-emitting sectors of the economy (buildings, industry, transportation, and electricity), plus carbon removal and sequestration, Federal facilities, and crossing cutting analyses and research. (In Table 2, Federal facilities are included under Buildings.)

BUILDINGS

- ***Partnership for Advanced Technologies in Housing (PATH).*** HUD will lead a team that includes DOE and EPA to work with the building industry to develop, demonstrate, and deploy housing technologies and practices that are inexpensive, highly efficient, and attractive to consumers. This effort will also focus on streamlining Federal, state, and local codes and regulations, education outreach, and creating local markets for PATH housing using pilot sites and demonstrations.
- ***Million Solar Roofs.*** In June of 1997, the President announced an initiative to encourage the installation of one million solar hot water and solar photovoltaic (PV) installations on buildings over the next 10 years. DOE will fund cost-reduction R&D for solar thermal and rooftop PV systems, and will establish partnerships with communities, builders, and other Federal agencies to promote the use of building-mounted solar systems.
- ***Increased R&D.*** In addition to encouraging the deployment of the best available technologies, DOE is also increasing its research on building systems modeling, to help architectural engineers, and on major components such as next-generation heat-pumps, cooling systems, furnaces, and lighting.

INDUSTRY

- ***Partnerships with industry.*** DOE works closely with industry on technology roadmaps and plans to reduce energy consumption and secure early reductions in greenhouse gas emissions. Industries already engaged in this effort include aluminum, steel, glass, paper and forest products, metal casting, and chemicals. These technology roadmaps form the basis for cost-shared R&D with industry teams and consortia.
 - This work will be enhanced within DOE, and complementary efforts will be undertaken by EPA, USDA, and DOC (NIST), which will lead to voluntary greenhouse gas reduction programs within industry.
- ***Advanced power generation.*** R&D will be accelerated on advanced turbines, fuel cells, and other technologies, and new approaches to capturing useful work or heat through several temperature stages (e.g. electric generation, industrial process steam, steam building heat) in factories or commercial buildings will be demonstrated. When commercially accepted, these systems will allow us to capture the waste heat the Nation now throws away.

TRANSPORTATION

- ***Partnership for a New Generation of Vehicles (PNGV).*** A government-industry effort to develop attractive, affordable cars that meet all applicable safety and environmental standards and get up to three times the fuel efficiency of today's cars, or roughly 80 miles per gallon. Five agencies participate in PNGV -- DOE is the largest player, followed by EPA, DOC, NSF, and DOT.
 - The program will lead to "concept cars" in the year 2000 and production prototypes in 2004.
 - This winter, industry and the government have announced the designs that they will pursue -- hybrid vehicles that combine a power source (a piston engine or fuel cell) with battery storage and electric motors.
 - In FY99, the combined request for PNGV-related work in those agencies is \$277 million, up from \$227 million appropriated in FY98.
- ***Partnerships for Light and Heavy Trucks.*** Similar government-industry efforts are proposed to develop cleaner, more efficient diesel engines for both light trucks and heavy trucks.
 - DOE has been engaged in R&D on cleaner, more efficient large truck engines for several years, and that effort will be stepped up in FY99, in coordination with increased work on large diesel engines at EPA and DOD.
 - A government-industry partnership is currently being formed for R&D on smaller diesel engines suitable for light trucks and sport-utility vehicles (SUVs), which are the fastest-growing class of passenger vehicles. A clean, efficient diesel engine could improve the fuel-economy of light trucks and SUVs by 35 percent.
- ***Sustainable Transportation.*** This initiative would promote alternatives to single-occupancy vehicle travel using pilot projects in selected communities modeled after the highly successful approach adopted by the Portland, Oregon metropolitan region.
 - The sustainable transportation programs in EPA and DOE will be coordinated with existing and planned DOT programs. (DOT is not funded within the Climate Change Technology Initiative, however.)

ELECTRICITY

- **Renewable energy.** Expand research partnerships for key renewable technologies such as wind, photovoltaics, geothermal, biomass, and hydropower to accelerate price reductions and improve performance. The same programs will also be supporting increased R&D in hydrogen production and storage and in superconductivity.
 - The FY99 budget proposes a \$100 million increase in DOE for solar and renewable energy R&D -- a 37 percent increase over FY98.
- **Nuclear power-plant life extension.** DOE will initiate an R&D effort addressing the critical technology needs to allow currently-operating nuclear power plants to safely extend their operating lifetimes by 10 to 20 years. Under current NRC licences, approximately 60 gigawatts of electric generating capacity would have to be retired between now and 2015. Providing the technologies necessary to safely operate these plants for another 10 to 20 years will make the transition to other low-carbon energy sources, such as solar and renewable energy, much easier.
- **Innovative coal combustion technologies.** In FY99, DOE will initiate a research program on innovative new approaches to coal combustion that offer the possibility of much lower carbon emissions than existing technologies.

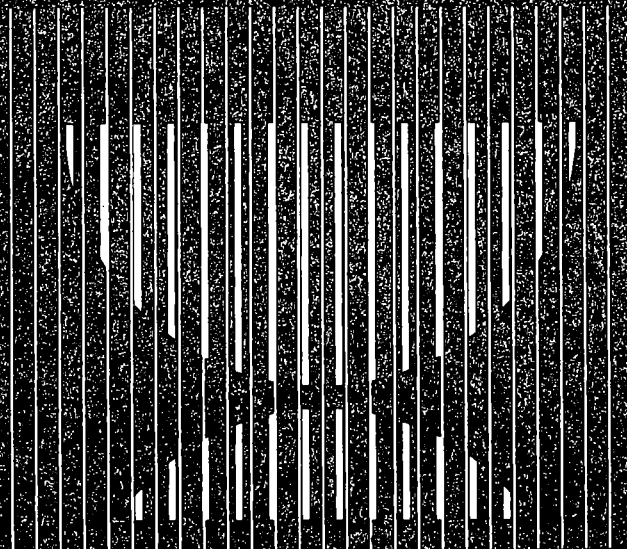
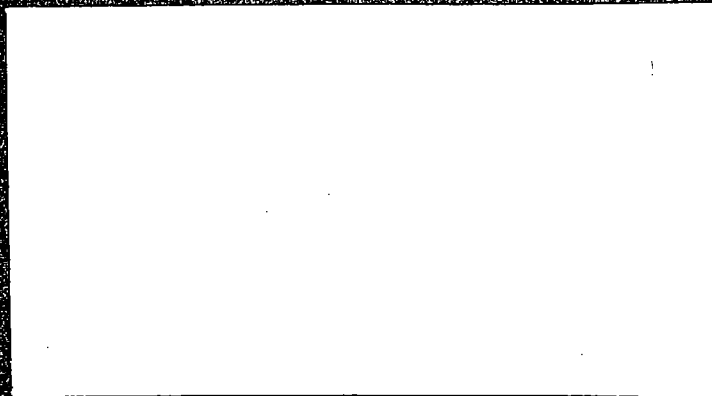
CARBON REMOVAL AND SEQUESTRATION.

- **Sequestration R&D.** Research initiatives are being funded in both basic and applied research to find ways to remove carbon dioxide (CO₂) from combustion gases and sequester (store) the carbon so that it does not enter the atmosphere.
 - DOE's basic science office will engage in biochemical and microbial research.
 - DOE's fossil energy office will conduct an applied sequestration R&D program, jointly managed with the basic science office.
 - USDA will initiate research on enhancing the carbon-sequestering capabilities of agricultural species. NIST will support complementary biotechnology work on plant metabolism and carbon use.

CROSSCUTTING ANALYSIS AND RESEARCH

- ***Emissions credits, incentives, and trading.*** EPA will lead an effort, assisted by DOE, to evaluate options for a domestic trading system and early reduction program in industry. The Federal government will work with stakeholders to understand their views and interests, and to build the institutional capacity needed to implement a carbon emissions credit and trading system.
- ***Program and science assessments.*** DOE will lead efforts to assess the implications of new research results produced by the Global Change Research Program, in order to determine what geographic and technological responses may be appropriate.

CBO MEMORANDUM



CONGRESSIONAL BUDGET OFFICE

CBO

MEMORANDUM

CLIMATE CHANGE AND THE
FEDERAL BUDGET

August 1998



CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515

NOTE

Numbers may not add up to totals because of rounding. All years are fiscal years unless noted otherwise.

PREFACE

This Congressional Budget Office (CBO) memorandum was prepared at the request of the Senate Committee on the Budget to document current U.S. efforts in the area of global climate change and to review current federal spending programs and tax policies that relate to climate change. The memorandum also describes proposals contained in the President's 1999 budget for funding for those programs and several new tax policies. It should be helpful to policymakers as they consider options to respond to international proposals for reducing the threat of climate change. In accordance with CBO's mandate to provide objective and impartial analysis, the memorandum contains no recommendations.

Roger Hitchner, Patrice Gordon, and Lesley Frymier of the Natural Resources and Commerce Division and Pearl Richardson of the Tax Analysis Division prepared this memorandum under the supervision of Jan Paul Acton and Frank Sammartino. Perry Beider, Kim Cawley, Kathy Gramp, David Moore, Diane Lim Rogers, and Natalie Tawil, all of CBO, provided useful comments. Melissa Burman edited the manuscript, and Sherry Snyder proofread it. Angela Z. McCollough and Rae Wiseman prepared the memorandum for publication. Laurie Brown prepared the electronic version for CBO's World Wide Web site (<http://www.cbo.gov>).

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June E. O'Neill
Director

August 1998

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CHAPTER I

CLIMATE CHANGE: THE POLICY CHALLENGE

AND CURRENT PROGRAMS

For over a decade, scientists and policymakers worldwide have debated how human activity affects the global climate and whether anything can or should be done about it. Some people believe that climate change poses a great risk to future generations and call for immediate action that could impose high costs on the economy and society at large. Other people believe that it is not a serious problem and can be dealt with if and when it occurs. Still others believe that the warmer temperatures that coincide with climate change might benefit the economy. Opinions about climate change reflect the uncertainties that surround it: about the science of the phenomenon itself; about the implications for people, economies, and ecosystems; and about the best policy for dealing with it. Further research can help inform policymakers but, as with other highly charged issues, decisions will have to be made before all the facts are in.

Since the mid-1980s, the United States has funded scientific research and monitoring efforts and participated in international negotiations and agreements, all centered around the global climate issue. In 1993, the government developed a set of voluntary programs to cut emissions of carbon dioxide and other greenhouse gases that scientists believe to be at the core of the problem.

But stronger measures would be needed to cut emissions significantly. In December 1997, representatives from the United States and other industrialized countries agreed to the Kyoto Protocol—a treaty with binding targets and timetables for reducing emissions of carbon dioxide and other greenhouse gases.¹ The reductions that the participants agreed to are a modest first step toward a goal of eventually stabilizing atmospheric concentrations of those gases, but some analysts believe that even those preliminary measures will be excessively costly to the U.S. economy.

The Kyoto Protocol requires ratification by the Senate. The Administration is postponing presentation of the Kyoto Protocol to the Senate to get “meaningful participation” from developing countries in the effort to limit emissions—something lacking in the treaty. Climate change is a global problem, and the United States and other industrialized countries will not succeed without global cooperation. Talks with developing countries are ongoing.

1. Kyoto Protocol to the United Nations Framework Convention on Climate Change, FCCC/CP/1997/L.7/Add.1, Conference of Parties, Third Session, Kyoto, December 1-10, 1997 (available at <http://www.unfccc.de/fccc/docs/cop3/07a01.pdf>).

Even if some level of global cooperation is achieved and the treaty is presented to the Senate, the debate on climate change will have just begun. Policymakers face questions for which there are no certain answers: Should current sacrifices be made for uncertain future benefits? Who should pay for reductions in emissions? and What actions could lessen adjustment costs? If the treaty is ratified, future Congresses will have to consider authorizations and appropriations for particular programs to meet the treaty's targets and timetables.

This memorandum reviews current and proposed federal spending programs and tax policies that relate to climate change, their effects on the federal budget, and the Administration's proposals for funding them. Included in that inventory are activities that directly address climate change and those that are associated with climate change through their effects on emissions of carbon dioxide.

Federal regulatory activities could also affect climate change but are not included in this memorandum. The private sector bears most of the cost of regulation, so those figures do not show up in the federal budget; even the expenses of federal agencies to administer and enforce regulations are often offset by collections from the regulated industry and, hence, have little or no net budgetary impact. Although some regulations may affect energy use and emissions of carbon dioxide, none directly address climate change. That could change as policies evolve.

Sooner or later, policymakers will face major decisions on climate policy—particularly whether to limit carbon emissions and how to go about it. Those policy decisions will inevitably affect the budget. Sharply limiting emissions would have large near-term effects on the economy with ensuing consequences for federal revenues and outlays. The choice of a policy instrument could also have a large budgetary effect. Taxes to curtail use of fossil fuels, for example, could generate substantial revenues. The budgetary effects of tradable emissions allowances—a policy option in the Kyoto treaty—would depend on whether permits were distributed or auctioned. Ultimately, policy decisions that may be influenced by budgetary effects will be dominated by the larger question of the effects of policy actions, or of taking no actions, on the U.S. and world economies.

“DIRECT” AND “ASSOCIATED” SPENDING PROGRAMS AND TAX POLICIES

Programs and tax policies reported in this memorandum are divided into two categories, based on whether they are directly related to climate change or just associated with it. The first category includes spending programs and tax policies that are specifically designated by the Administration as climate change programs. The second category comprises programs that may affect climate change even though that may not be their primary purpose. Some of those programs may be intended to cut the use of fossil fuels—a goal shared with activities that are identified as climate

change programs. Others—particularly certain tax policies—may lead to an increase in the use of fossil fuels and thus contribute to carbon emissions, although, again, that is not their purpose.

The direct category comprises spending programs in the U.S. Global Change Research Program (USGCRP), the Climate Change Technology Initiative, and several international programs related to climate change. Budget authority for those programs in 1998 totals \$2.9 billion (see Table 1). The USGCRP, which consists mainly of programs to discern the science and consequences of global change, was funded at about \$1.9 billion in 1998—roughly 65 percent of funding for programs directly related to climate change. The President requested a substantial increase in 1999, to \$3.4 billion, for all climate change programs, mostly for research and development in energy technology.

The Climate Change Technology Initiative also contains proposed changes in tax law. Those changes include several tax credits to encourage the development and adoption of new energy-efficient technologies in transportation, industry, buildings, and electricity. Estimated revenue losses associated with those tax proposals are \$478 million in 1999, rising to nearly \$1.3 billion by 2003. Those policy proposals and tax policies are discussed in more detail in Chapter 2.

The second category of programs are those associated with climate change primarily through their effects on the use of fossil fuels. Table 1 shows spending for a number of such programs, mostly in the areas of transportation, energy conservation, and nuclear energy research and development. Budget authority totals nearly \$1.8 billion in 1998, and the request for 1999 is roughly the same. Those programs are discussed in more detail in Chapter 3.

Various taxes and tax preferences also influence the use of fossil fuels and, consequently, emissions of carbon dioxide. Tax preferences that may discourage the use of fossil fuel include credits, exclusions, and exemptions to encourage energy conservation, the development of alternative fuel supplies or energy-producing technologies, or both. Excise taxes on fossil fuels and activities related to transportation and travel exert a direct effect on energy use by applying upward pressure on prices, which, in turn, reduces demand. The estimated effects on revenues of tax preferences and excise taxes is quite large. But since the effects on climate change are largely incidental to the purposes of the programs and vary greatly by program, the total is not particularly meaningful.

TABLE 1. FEDERAL PROGRAMS DIRECTLY RELATED TO GLOBAL CLIMATE CHANGE OR ASSOCIATED WITH CLIMATE CHANGE (In millions of dollars of budget authority)

	1997	1998	Requested 1999	Change 1998-1999
Spending Programs and Tax Policies Directly Related to Climate Change				
U.S. Global Change Research Program ^a	1,818	1,867	1,864	-3
Climate Change Technology Initiative	744	820	1,292	471
International Programs	<u>206</u>	<u>213</u>	<u>287</u>	<u>74</u>
Total	2,768	2,901	3,442	542
Revenue Effects of CCTI Tax Incentives ^b	n.a.	n.a.	-478	
Spending Programs Associated with Climate Change				
Partnership for a New Generation of Vehicles (Non-CCTI) ^c	99	82	78	-4
Congestion Mitigation and Air Quality Improvement Program	807	1,257	1,260	3
Advanced Transportation Technologies Consortium (Non-CCTI) ^c	16	16	10	-7
Other Transportation Programs	14	14	5	-9
Energy Conservation Assistance Grant Programs	150	155	191	36
Civilian Nuclear Energy R&D Fission (Non-CCTI) ^c	41	7	34	27
Fusion	<u>230</u>	<u>230</u>	<u>228</u>	<u>-1</u>
Total	1,357	1,762	1,806	45
All Programs and Tax Policies				
Total	4,125	4,663	5,248	587

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget; *Budget of the United States Government, Fiscal Year 1999*; U.S. House of Representatives, *Making Appropriations for Energy and Water Development for the Fiscal Year Ending September 30, 1998*, conference report to accompany H.R. 2203, Report 105-271 (September 26, 1997); Department of Energy, *Fiscal Year 1999 Budget Request to Congress: Control Table by Appropriation* (January 30, 1998); Department of Energy, *Fiscal Year 1999 Congressional Budget Request: Science, Technology and Energy for the Future* (February 1998); Department of Housing and Urban Development; Department of the Treasury; Global Environment Facility Secretariat's Office; Department of State; Environmental Protection Agency; and the Agency for International Development.

NOTE: CCTI = Climate Change Technology Initiative; R&D = research and development; n.a. = not available.

- Totals are augmented in 1997 by \$1 million and in 1998 by \$1.6 million—funding for the Department of Energy's research on carbon sequestration. Comparable funding for CCTI is \$743 million in 1997 and \$819 million in 1998.
- Estimates of revenue losses that would result from enactment of CCTI tax incentives.
- Funding for activities in this program that are not included in CCTI in the President's 1999 budget.

CURRENT PROGRAMS AND TAX POLICIES AND THE EMISSION OF GREENHOUSE GASES

The federal government is now spending nearly \$5 billion annually on programs that are either directly related to climate change or associated with climate change through their effects on the use of fossil fuels. In addition, taxes and tax policies that affect the prices, production, or use of fossil fuels can also affect carbon emissions. The directly related programs are helping U.S. researchers and policymakers learn more about climate change, conduct applied technology research and development to improve energy efficiency, promote international actions, and, to a modest extent, cut emissions of greenhouse gases.

Other programs and tax policies that affect the use of fossil fuels may also indirectly affect emissions of carbon dioxide. A Congressional Budget Office (CBO) study prepared in 1990 looked specifically at carbon dioxide emissions and concluded that whether programs and tax policies then in place had a net positive or negative effect on total emissions was unclear. The studies predicted that, whatever the direction of the effect, it would probably be small.² That conclusion still holds. More programs are now designated as climate change programs than in the past. Since most of the funds are spent to learn more about the phenomenon and to improve energy efficiency in the future, the short-term effect is minimal.

2. Congressional Budget Office, *Energy Use and Emissions of Carbon Dioxide: Federal Spending and Credit Programs and Tax Policies* (December 1990).

CHAPTER II
CURRENT AND PROPOSED SPENDING
PROGRAMS AND TAX POLICIES
DIRECTLY LINKED TO CLIMATE CHANGE

Current U.S. policy toward climate change focuses on three areas: scientific research and monitoring to better understand climate change, its implications, and what to do about it; applied technology research and development to reduce energy use or to make future limits on carbon emissions less costly to the economy; and activities to promote international agreements and actions.

Two other categories of climate change activities receive less attention now but could dominate federal action in the future. First are efforts to reduce the emissions of greenhouse gases. Several voluntary federal programs to cut emissions exist, but they fall short of meeting any significant reduction goals such as those in the Kyoto Protocol. Second are activities to adapt to the effects of climate change. Adapting to change, instead of trying to prevent it, requires little current action.

SPENDING PROGRAMS DIRECTLY LINKED TO CLIMATE CHANGE

The U.S. Global Change Research Program, the Climate Change Technology Initiative (CCTI), and a group of international activities are the major federal efforts directly linked to climate change. The USGCRP has been in place since 1989. The CCTI, a new umbrella designation, includes programs formerly in the Climate Change Action Plan and the research and development programs of the Department of Energy (DOE).

The U.S. Global Change Research Program

The U.S. Global Change Research Program is a comprehensive effort to understand the science and consequences of a full range of natural and human-induced changes in the Earth's environment. The four main areas of study are seasonal to interannual climate variability; climatic changes over time; changes in ozone, ultraviolet radiation, and atmospheric chemistry; and changes in land cover and ecosystems. Ten executive departments or agencies conduct or fund that research. Funding for 1998 is almost \$1.9 billion, and the request for 1999 is nearly the same (see Table 2).¹

1. Several Department of Defense (DoD) research activities, totaling \$6.5 million in 1998 (the request for 1999 is \$6.7 million), also support the programs, but funding for DoD programs is not included in the official totals of the USGCRP.

TABLE 2. FUNDING FOR THE U.S. GLOBAL CHANGE RESEARCH PROGRAM
(In millions of dollars of budget authority)

	1997	1998	Requested 1999	Change, 1998-1999
National Aeronautics and Space				
Administration	1,369	1,417	1,372	-45
National Science Foundation	166	167	187	20
Department of Energy	109	108	113	5
Department of Commerce	62	62	71	9
Department of Agriculture	57	58	59	1
Department of the Interior	29	29	29	0
Environmental Protection Agency	14	15	21	6
Smithsonian	7	7	7	0
Department of Health and Human Services	4	4	5	1
Tennessee Valley Authority	<u>1</u>	<u>a</u>	<u>a</u>	<u>n.a.</u>
Total	1,818	1,867	1,864	-3

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget; *Budget of the United States Government, Fiscal Year 1999* (February 1998); and National Science and Technology Council, Committee on Environment and Natural Resources, Subcommittee on Global Change Research, *Our Changing Planet, The FY 1999 U.S. Global Change Research Program* (March 1998).

NOTE: n.a. = not applicable.

a. No funding in that year.

About 40 percent of USGCRP funds go to research scientists studying a broad range of questions. The USGCRP publishes an annual report on research objectives and projects, including information on budgetary resources allocated to projects within agencies or departments.²

The remaining 60 percent of funding supports development of a space-based observation system—a series of satellites and data systems to monitor the Earth's natural systems. The National Aeronautics and Space Administration controls that activity, which accounts for about 80 percent of NASA's funding within the USGCRP—the remainder being scientific research. Most of those hardware development funds are for the Earth Observing System (EOS) program. The first satellite in that program, the EOS AM-1, is scheduled for launch this year to gather various data on land surface, atmosphere, and oceans.

2. National Science and Technology Council, Committee on Environment and Natural Resources, Subcommittee on Global Change Research, *Our Changing Planet, The FY 1999 U.S. Global Change Research Program* (March 1998).

The Climate Change Technology Initiative

The Climate Change Technology Initiative is a group of programs that would receive increased funding for research, development, and deployment of technologies to improve energy efficiency and reduce carbon emissions. The 1999 budget request totals \$1,292 million, an increase of \$471 million over the 1998 level (see Table 3). About \$100 million of the \$471 million would be for new activities. The remainder represents increased funding for existing programs, with some of those being major expansions. The increase over five years from current levels would total \$2.7 billion. The CCTI also includes tax incentives, described below.

The CCTI is led by the Department of Energy and the Environmental Protection Agency (EPA). Those two agencies would receive 98 percent of the requested funding for 1999. The remaining 2 percent would fund activities at the Department of Housing and Urban Development, the Department of Commerce's National Institute of Standards and Technology (NIST), and the Department of Agriculture.

Most CCTI programs also serve other policy goals—for example, enhancing energy security, promoting energy efficiency, and improving air quality. The CCTI consists of the following activities within the Department of Energy:

- o Energy efficiency and conservation activities, including research and development programs, the Federal Energy Management Program, DOE's contribution to the Partnership for a New Generation of Vehicles (a multiagency program to promote high-efficiency vehicles), municipal energy management, and DOE's contribution to the Advanced Transportation Technologies Consortium, which promotes research on electric and hybrid vehicles. The 1999 request is \$617 million, exceeding 1998 funding by \$161 million.
- o Solar and renewable energy R&D. The 1999 request is \$372 million, an increase of \$100 million over 1998 levels.
- o New activities within the fossil energy research and development program. The President requested \$10 million to investigate the sequestration of carbon and \$20 million for a new effort to improve the efficiency of the combustion of coal.
- o Other research and development. New programs include \$10 million to investigate ways to increase the useful life of existing nuclear plants and \$27 million in the basic science account for research, principally on carbon sequestration. The research on carbon sequestration in the basic science program and the fossil fuel R&D

TABLE 3. FUNDING FOR PROGRAMS IN THE CLIMATE CHANGE TECHNOLOGY INITIATIVE (In millions of dollars of budget authority)

	1997	1998	Requested 1999	Change, 1998-1999
Department of Energy				
Energy conservation R&D				
Energy efficiency and conservation	273	307	403	
Federal Energy Management Program	20	20	34	
Partnership for a New Generation of Vehicles	120	128	164	
Municipal energy management	2	2	7	
Advanced Transportation Technologies Consortium	a	a	10	
Subtotal	414	457	617	161
Solar and renewable energy R&D ^b	244	272	372	100
Fossil energy R&D				
Sequestration of carbon ^c	1	2	10	
Advanced combustion of coal	a	a	20	
Subtotal	1	2	30	28
Other energy R&D				
Extending life of nuclear plants	a	a	10	
Tracking CO ₂ emissions	a	a	3	
Basic science/technology (Sequestration of carbon)	a	a	27	
Subtotal	a	a	40	40
Total	658	730	1,059	329
Environmental Protection Agency ^d				
Former Programs of the Climate Change Action Plan (excluding PNGV)	71	73	115	
Partnership for a New Generation of Vehicles	15	17	35	
Other	a	a	55	
Subtotal	86	90	205	115
Department of Housing and Urban Development (PATH) ^e	a	a	10	10
Department of Commerce (NIST)	a	a	7	7
Department of Agriculture ^e	a	a	10	10
Total	744	820	1,292	471

TABLE 3. CONTINUED

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget; *Budget of the United States Government, Fiscal Year 1999*; U.S. House of Representatives, *Making Appropriations for Energy and Water Development for the Fiscal Year Ending September 30, 1998*, conference report to accompany H.R. 2203, Report 105-271 (September 26, 1997); Department of Energy, *Fiscal Year 1999 Budget Request to Congress: Control Table by Appropriation* (January 30, 1998); Department of Energy, *Fiscal Year 1999 Congressional Budget Request: Science, Technology and Energy for the Future* (February 1998); Department of Housing and Urban Development; Department of the Treasury; Global Environment Facility Secretariat's Office; Department of State; Environmental Protection Agency; and the Agency for International Development.

NOTE: R&D = research and development; PNGV = Partnership for a New Generation of Vehicles; PATH = Partnership for Advancing Technologies in Housing; NIST = National Institute of Standards and Technology.

- a. No funding in that year.
 - b. Net of prior-year balances, including balance carryovers for Renewable Energy Research Program (research in photovoltaics, biomass/biofuels, wind, hydrogen, and solar photoconversion) in 1998 and 1999.
 - c. Climate Change Technology Initiative (CCTI) totals in the table are augmented in 1997 by \$1 million and in 1998 by \$1.6 million—funding for the Department of Energy's carbon sequestration research. Comparable funding for CCTI is \$743 million in 1997 and \$819 million in 1998.
 - d. Figures for the Environmental Protection Agency in 1997 and 1998 equal agency funding for Climate Change Action Plan (CCAP) programs.
 - e. Some funding related to climate change activities for Department of Housing and Urban Development (HUD) and Department of Agriculture (USDA) were not included in order to be consistent with the President's budget request. HUD used about \$1 million in "seed" funds for the Partnership for Advancing Technologies in Housing program in 1998; those funds were taken from HUD's general R&D fund and used as start-up funds for the program. Funding for Climate Change Action Plan (CCAP) programs at USDA was \$8 million in 1997 and 1998. CBO was unable to determine what happened to the USDA CCAP programs.
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programs is the only example of newly proposed research that would not also serve other energy policy goals.

CCTI activities within the Environmental Protection Agency would include the bulk of programs that were formerly part of the Climate Change Action Plan (CCAP). Many of the CCAP programs administered by EPA would be expanded under the proposal, including the Energy Star Programs for buildings, appliance labeling, and homes. The 1999 request for the former CCAP activities other than the Partnership for a New Generation of Vehicles (PNGV) is about \$115 million, up from \$73 million in 1998. The PNGV, formerly part of CCAP, is now part of the Climate Change Technology Initiative. EPA's contribution to PNGV would roughly double, from \$17 million to \$35 million, in the 1999 request.

The Partnership for a New Generation of Vehicles, launched in 1993, is a cooperative effort between the federal government and industry to foster breakthrough technology in personal vehicles. In addition to DOE and EPA, the Department of Commerce, the National Science Foundation, and the Department of Transportation receive funding for PNGV activities. One goal of the program is to

develop a production prototype vehicle capable of 80 miles per gallon by 2004. Funding was about \$234 million in 1997 and \$227 million in 1998. The President's request for PNGV funding for all agencies, whether included in CCTI or not, is \$50 million above 1998 levels.

The CCTI program in the Department of Housing and Urban Development is the Partnership for Advancing Technologies in Housing (PATH). The purpose of PATH is to develop, demonstrate, and help to commercialize safe, energy-efficient housing technologies. The PATH program received about \$1 million in seed money from a HUD R&D account in 1998. The program would be funded at \$10 million in 1999 under the President's proposal.

CCTI programs at the Department of Agriculture (USDA) would fund research on biomass and carbon sequestration. CCTI would allot \$10 million to USDA to support research on the conversion of wood, crop wastes, and energy crops to fuels and electricity and on enhancing the carbon-sequestering capabilities of agricultural species.

The CCTI also includes funding for new research at the National Institute of Standards and Technology in the Department of Commerce. Research efforts at NIST would work to improve measurements of greenhouse gases and would support biotechnology work on plant metabolism and carbon sequestration. The proposed level of funding for NIST programs in 1999 is \$7 million.

International Activities That Target Climate Change

The United States contributes to various international efforts to assess the problem of climate change and to reduce emissions of carbon dioxide and other greenhouse gases. Contributions to the Intergovernmental Panel on Climate Change, the Global Environment Facility, the Montreal Protocol, and bilateral assistance programs totaled more than \$200 million in 1998 (see Table 4).

Intergovernmental Panel on Climate Change and the Climate Change Secretariat. The Intergovernmental Panel on Climate Change (IPCC) was established in 1988 by the World Meteorological Organization and the United Nations Environment Programme (UNEP) to assess the available scientific, technical, and socioeconomic information in the field of climate change. The IPCC released its Second Assessment Report in 1995 and periodically produces technical papers and develops methodologies (for example, inventories of greenhouse gases) for use by the parties to the Climate Change Convention. The Climate Change Secretariat was organized under the U.N. Framework Convention on Climate Change to handle coordination and administrative responsibilities under the Convention. The United States contributed \$5 million to the IPCC and the Climate Change Secretariat in 1998. The 1999 request is \$8 million.

TABLE 4. FUNDING FOR INTERNATIONAL PROGRAMS DIRECTLY RELATED TO GLOBAL CHANGE (In millions of dollars of budget authority)

	1997	1998	Requested 1999	Change, 1998-1999
Department of State				
Intergovernmental Panel on Climate Change and the Climate Change Secretariat ^a	3	5	8	3
Bilateral Assistance Grant Program (AID)	150	150	150	0
Department of the Treasury				
Global Environment Facility ^b	13	18	73	55
Montreal Protocol				
Department of State	28	28	34	
Environmental Protection Agency	<u>12</u>	<u>12</u>	<u>21</u>	
Total	40	40	55	15
All Programs				
Total	206	213	287	74

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget; *Budget of the United States Government, Fiscal Year 1999*; Department of the Treasury; Global Environment Facility Secretariat's Office; Department of State; Environmental Protection Agency; and the Agency for International Development.

NOTE: AID = Agency for International Development.

a. Funding data are voluntary contributions to the Climate Stabilization Fund.

b. Funding for the "climate" share of the Global Environment Facility was calculated as 38 percent of the total budget authority (net of funding for payments in arrears).

Bilateral Assistance. Bilateral assistance is primarily conducted through the U.S. Agency for International Development (AID). AID has made the mitigation of climate change one of two global environmental priorities. The agency supports grants focusing on this issue to nine key countries—India, Indonesia, the Philippines, Mexico, Brazil, Russia, Ukraine, Kazakhstan, and Poland—and supports a broader portfolio of energy efficiency, renewable energy, and forestry activities related to climate change. Obligations for grants related to climate change were \$150 million in 1998, the same as the request for 1999.

Global Environment Facility. The Global Environment Facility (GEF) is an international financial institution established in 1991 to provide developing countries with grants and low-interest loans for projects in four areas: global climate change, international waters, biological diversity, and depletion of the ozone layer. The GEF is run jointly by the United Nations Development Programme (UNDP), UNEP, and the World Bank. Budget authority for climate change activities was about \$18 million in 1998 (38 percent of all funds appropriated for the GEF). The total request for funds for the GEF in 1999 is \$300 million—38 percent of which is \$114 million. The 1999 budget identifies about \$41 million (of the \$114 million) as “payments in arrears,” leaving \$73 million that may be available for new obligation.

Montreal Protocol. The Montreal Protocol is an international environmental agreement with the objective of eliminating the use of substances that deplete the ozone layer in the stratosphere and are believed to contribute to climate change: chlorofluorocarbons, halons, and hydrochlorofluorocarbons. The agreement is implemented by the World Bank, UNDP, UNEP, and the United Nations Industrial Development Organization. The U.S. contribution, which is jointly paid by the Department of State and the Environmental Protection Agency, totaled \$40 million in 1998. CBO includes spending for the Montreal Protocol in this memorandum because of the close link between ozone-depleting gases and greenhouse gases.

The request for 1999 is \$55 million—\$34 million for the Department of State and \$21 million for the Environmental Protection Agency.

TAX PROPOSALS DIRECTLY LINKED TO CLIMATE CHANGE

As part of its Climate Change Technology Initiative, the Administration has proposed several tax preferences designed to encourage the development of new technologies that offer superior energy efficiency and to induce purchases of higher-cost, energy-efficient equipment. Improving energy efficiency would reduce emissions of carbon dioxide, the cost of complying with any future limits on emissions, or both.

The Administration sought to tailor the incentives to technologies that either are currently available or will be when the credits go into effect and to equipment that can be precisely defined for purposes of the Internal Revenue Service. According to estimates of the Joint Committee on Taxation (JCT), the tax incentives would result in revenue losses of \$3.8 billion through 2003 and \$9.8 billion through 2008 (see Table 5).³

3. Joint Committee on Taxation, “Estimated Budget Effects of the Revenue Provisions Contained in the President’s Fiscal Year 1999 Budget Proposal,” February 24, 1998.

TABLE 5. ESTIMATES OF REVENUE LOSSES FROM PROPOSALS FOR ENERGY AND ENVIRONMENTAL TAX INCENTIVES IN THE ADMINISTRATION'S 1999 BUDGET (In millions of dollars)

Proposal	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1998- 2003	1998- 2008
Tax Credits													
Fuel-Efficient Vehicles	0	0	a	-89	-299	-544	-904	-1,011	-1,004	-994	-979	-931	-5,823
Energy-Efficient Building Equipment	0	-125	-225	-285	-340	-410	-155	-20	-5	1 ^b	1 ^b	-1,385	-1,563
CHP Equipment	18 ^c	-326	-285	-90	-116	-115	-39	2 ^b	3 ^b	4 ^b	4 ^b	-913	-938
Wind and Biomass	0	-2	-7	-21	-43	-71	-109	-128	-131	-134	-137	-144	-784
Energy-Efficient Homes	0	-5	-25	-40	-55	-75	-35	0	0	0	0	-200	-235
Circuit Breaker Equipment	0	-5	-10	-15	-10	-5	-2	2 ^b	1 ^b	1 ^b	1 ^b	-45	-42
Rooftop Solar Equipment	0	-2	-6	-9	-12	-16	-18	-26	-12	d	d	-43	-100
PFC and HFC Recycling Equipment	0	-5	-10	-10	-5	-3	1 ^b	1 ^b	1 ^b	1 ^b	d	-33	-29
Other Tax Incentives													
Parking and Transit Benefits	0	-8	-16	-25	-31	-35	-36	-39	-43	-42	-44	-114	-318
All Tax Incentives													
Total	18	-478	-584	-584	-911	-1,274	-1,297	-1,219	-1,190	-1,163	-1,154	-3,808	-9,832

SOURCE: Congressional Budget Office based on the Joint Committee on Taxation's estimates of the revenue effects of the Climate Change Technology Initiative in the President's 1999 budget.

NOTE: CHP = combined heat and power; PFC = perfluorocompound; HFC = hydrofluorocarbon.

a. Revenue loss of less than \$500,000.

b. Positive revenue estimates reflect projected lower deductions for depreciation.

c. The positive revenue estimate reflects a projected slowdown in investment pending enactment of the credit, which in turn would result in lower deductions for depreciation.

d. Revenue gain of less than \$500,000.

Tax Credits

Most of the proposals for tax preferences are for new or expanded tax credits.

Tax Credits for Highly Fuel-Efficient Vehicles. Under current law, a 10 percent credit is available for the purchase of new electric vehicles for use by the taxpayer and not for resale. In addition, a deduction is available for qualified clean-fuel vehicles. The proposed tax credits are intended to reduce carbon dioxide emissions by encouraging the manufacture and purchase of fuel-efficient vehicles. The proposal is for two temporary tax credits: a \$4,000 credit for each vehicle that has three times the base fuel economy for its class, and a \$3,000 tax credit for each vehicle that has twice the base fuel economy for its class. The \$4,000 credit would be available in calendar years 2003 through 2006 and would subsequently be reduced by \$1,000 a year, phasing out completely in 2010. The \$3,000 credit would be available for calendar years 2000 through 2003 and would phase out in 2006, also at the rate of \$1,000 a year. The credits would be available for cars, sport utility vehicles, minivans, light trucks as well as hybrid, electric, and other light vehicles. Taxpayers who claimed the new credits would not be able to claim the credit that is currently available for electric vehicles or the deduction for clean-fuel vehicles.

The JCT estimates that enacting the proposal would reduce revenues by \$931 million from 1998 through 2003 and by \$5,823 million from 1998 through 2008.

Tax Credit for Energy-Efficient Building Equipment. The proposal would provide a credit for the purchase of certain types of energy-efficient building equipment: fuel cells, electric heat pumps and advanced natural gas water heaters, advanced natural gas and residential-size electric heat pumps, and advanced central air conditioners. The credit, which would be nonrefundable, would be equal to 20 percent of the purchase price, subject to a cap. For businesses, it would be subject to the limits on the general business credit, and it would reduce the basis of the equipment. The credit would be in effect from January 1, 2000, to December 31, 2004, for fuel cells, and from January 1, 1999, to December 31, 2003, for other types of equipment. To be eligible for the credit, the equipment would have to meet specified criteria.

The JCT estimates that the proposal would result in revenue losses of \$1,385 million between 1998 and 2003 and \$1,563 million between 1998 and 2008.

Investment Tax Credit for Combined Heat and Power Systems. Combined heat and power (CHP) systems are used to produce electricity and process heat or mechanical power from a single primary energy source. The systems use thermal energy that is otherwise wasted in the process of producing electricity conventionally—which, in turn, results in less consumption of fossil fuels, reduced carbon emissions, and lower costs. The proposal is for a 10 percent investment tax credit for CHP systems with electrical capacity of more than 50 kilowatts. Investments in the systems with cost-recovery periods of less than 15 years would be eligible for the credit only if a 15-

year recovery period and the 150 percent declining-balance method were used to calculate depreciation deductions.

The systems would be required to produce at least 20 percent of their useful energy in the form of both thermal energy and electric or mechanical power. To qualify for the credit, CHP systems would have to meet specified energy-efficiency and percentage-of-energy tests, as certified by qualified engineers, pursuant to regulations issued by the Secretary of the Treasury. The credit would be subject to the limits on general business credits and would be available for equipment placed in service during calendar years 1999 through 2003.

The JCT estimates that the proposal would result in revenue losses of \$913 million through 2003.

Wind and Biomass Tax Credit. A tax credit of 1.5 cents per kilowatt hour (indexed for inflation after 1992) is currently available for electricity produced from wind or biomass. It now applies only to facilities placed in service before June 1, 1999, for wind and before July 1, 1999, for biomass. The proposal would extend the credit for both types of facilities placed in service by July 1, 2004. Unlike the other proposed tax credits, the wind and biomass credit is based on production rather than investment. The electricity must be sold to an unrelated third party, and the credit is limited to the first 10 years of production.

The JCT estimates the potential revenue losses of the proposal at \$144 million through 2003 and \$784 million through 2008.

Tax Credit for Purchase of New Energy-Efficient Homes. The proposal would provide a tax credit of 1 percent of the purchase price up to \$2,000 to buyers of new homes that use at least 50 percent less energy for heating, cooling, and hot water than the Model Energy Code standard for single-family homes. The credit would be available for calendar years 1999 through 2003. Homes purchased in 2004 and 2005 would be eligible for a maximum credit of \$1,000.

The JCT estimates that the proposal would result in revenue losses of \$200 million between 1998 and 2003 and an additional \$35 million in 2004.

Tax Credit for Replacement of Circuit Breaker Equipment. The proposal would provide a 10 percent tax credit to replace circuit breakers installed before 1986 that use sulfur hexafluoride (SF₆), a potent greenhouse gas. The replaced circuit breakers must be destroyed to prevent further use. The credit applies to property placed in service in calendar years 1999 through 2003 and is subject to the limits of the general business credit. Also, the amount of credit claimed reduces the depreciable basis of qualified property for which the credit is taken.

The JCT estimates that the proposal would result in revenue losses of \$45 million between 1998 and 2003.

Tax Credit for Rooftop Solar Equipment. The proposed tax credit would be available for two types of solar equipment—photovoltaic heating systems and water heating systems located on or adjacent to buildings. The credit would be equal to 15 percent of the total investment in either system up to a maximum credit of \$2,000 for rooftop photovoltaic heating systems and \$1,000 for solar water heating systems. It would be nonrefundable and would not be available for systems to heat swimming pools. For businesses, the credit would reduce the depreciable basis of the property by the amount claimed and would be subject to the limits of the general business credit. It would apply to equipment placed in service during calendar years 1999 through 2003 for solar water heating systems and through 2005 for rooftop photovoltaic systems.

Under current law, a 10 percent energy investment tax credit for businesses is available for equipment that uses solar energy to generate electricity, to heat or cool or provide hot water for use in a structure, or to provide solar-process heat. The equivalent credit for residential solar systems expired in 1985. Under the proposals, businesses would have to choose between the present and the proposed tax credits.

The JCT estimates that enacting the proposal would reduce revenues by \$43 million through 2003 and \$100 million through 2008.

Tax Credit for Perfluorocompound and Hydrofluorocarbon Recycling Equipment. Perfluorocompounds (PFCs) and certain hydrofluorocarbons (HFCs) are extremely potent greenhouse gases because of their stability in the atmosphere and their capacity to absorb radiation. Under current law, manufacturers who install equipment to recover or recycle PFC and HFC gases used in producing semiconductors may depreciate the cost of that equipment over six years. The proposal would make available a 10 percent tax credit for installing PFC and HFC recovery or recycling equipment. The credit would be subject to the limits of the general business tax credit and would reduce the depreciable basis of the equipment by the amount claimed. To qualify, the equipment must recover at least 99 percent of the PFCs and HFCs used and must be placed in service between January 1, 1999, and December 31, 2003.

The JCT estimates that enacting the proposal would reduce revenues by about \$33 million between 1998 and 2003.

Parking and Transit Benefits

The Administration has also proposed an increase in benefits to encourage the use of mass transit and van pools. Current law provides for the exclusion of parking benefits from gross income, regardless of whether the benefits are in addition to or

in lieu of other employee compensation. However, for transit and van-pool benefits, the exclusion applies only if those benefits are in addition to other compensation. The current limits on the income exclusion (in 1993 dollars) are \$155 per month for parking and \$60 for transit passes and van-pool benefits. The proposal calls for eliminating the relative tax advantage of parking benefits. It would treat parking, transit passes, and van-pool benefits in the same way, subject to the same limits that currently apply to parking.

The JCT estimates that the proposal would reduce revenues by \$114 million through 2003 and \$318 million through 2008.

CHAPTER III

OTHER FEDERAL SPENDING PROGRAMS

AND TAX POLICIES ASSOCIATED WITH

CLIMATE CHANGE

Other federal programs and tax policies affect energy use and emissions of carbon dioxide—some positively, some negatively. Energy use is so important to the economy, and the government affects economic activity in so many ways, that a very broad range of government programs could be included. Deciding where to draw the line is difficult. The programs and tax policies included in this chapter represent one way to inventory a set of programs and tax policies associated with energy use and climate change.

Programs closely associated with climate change include activities in transportation, energy conservation, and nuclear energy research and development that could affect emissions of carbon dioxide (or lower the costs of using less carbon). Those programs have multiple objectives—as do many that are directly related to climate change. Isolating the portions of the programs that should be charged to climate change is impossible. Nevertheless, since those programs are linked to activities related to climate change, they may be part of future changes to the policy mix.

FEDERAL SPENDING PROGRAMS THAT AFFECT ENERGY USE

The federal government currently funds several programs that have the purpose or effect of conserving energy or reducing emissions of greenhouse gases but that are not identified as being directly linked to climate change (see Table 6). The 1999 budget requests for most of those programs are near 1998 levels, with the exception of the Department of Energy's Weatherization Assistance Program, which would increase from \$125 million to \$154 million, and civilian nuclear R&D, which would rise from \$7 million to \$34 million. Programs and activities included are:

- o The non-CCTI activities of the Partnership for a New Generation of Vehicles administered by the Department of Commerce's NIST, the National Science Foundation, and the Department of Transportation (DOT). The 1999 request totals \$78 million, which is a slight decrease from 1998 levels.
- o The Congestion Mitigation and Air Quality Improvement Program, which would remain at about the same level as in 1998—\$1.3 billion.

TABLE 6. FUNDING FOR FEDERAL PROGRAMS ASSOCIATED WITH CLIMATE CHANGE
(In millions of dollars of budget authority)

	1997	1998	Requested 1999	Change, 1998-1999
Partnership for a New Generation of Vehicles (Non-CCTI)				
Department of Commerce	41	25	22	
National Science Foundation	54	53	52	
Department of Transportation	4	4	4	
Subtotal	99	82	78	-4
Congestion Mitigation and Air Quality Improvement Program (CMAQ)*				
Department of Transportation, Federal Highway Administration				
Transit	362	563	565	
Traffic flow	265	412	413	
Surface transportation program devoted to CMAQ	57	88	88	
Shared ride	36	55	55	
Demand management	31	48	48	
Bicycle/pedestrian	22	34	34	
Other	36	57	57	
Subtotal	807	1,257	1,260	3
Advanced Transportation Technologies Consortium (Non-CCTI)^b				
Department of Defense	15	15	c	
Department of Transportation				
Federal Transit Administration	2	2	c	
Research and Special Programs				
Administration	c	c	10	
Subtotal	16	17	10	-7
Other Transportation Programs				
Department of Transportation, Federal Transit Administration				
Advanced Technology Transit Bus	7	10	1	
Fuel Cell Bus	8	4	4	
Subtotal	14	14	5	-9

TABLE 6. CONTINUED

	1997	1998	Requested 1999	Change, 1998-1999
Energy Conservation Assistance Grant Programs				
DOE, Office of State and Community Programs				
Weatherization Assistance	121	125	154	
State Energy Conservation	29	30	37	
Subtotal	150	155	191	36
Civilian Nuclear Energy Research and Development				
Fission (Non-CCTI)	41	7	34	
Fusion	230	230	230	
Subtotal	271	237	262	26
All Programs				
Total	1,357	1,762	1,806	45

SOURCE: Congressional Budget Office based on information from the Office of Management and Budget; *Budget of the United States Government, Fiscal Year 1999*; House Committee on Appropriations, *Department of Defense Appropriations Bill, 1998*, report to accompany H.R. 2266, Report 105-206, (July 25, 1997); Department of Energy, *Fiscal Year 1999 Congressional Budget Request: Science, Technology and Energy for the Future* (February 1998); Department of Energy, *Fiscal Year 1999 Budget Request to Congress: Control Table by Appropriation* (January 30, 1998); Department of Transportation, Federal Highway Administration and Federal Transit Administration; U.S. House of Representatives, *Making Appropriations for Department of Transportation and Related Agencies for Fiscal Year Ending September 30, 1997*, conference report to accompany H.R. 3675, Report 104-785 (September 16, 1996); U.S. House of Representatives, *Making Appropriations for Department of Transportation and Related Agencies for Fiscal Year Ending September 30, 1998*, conference report to accompany H.R. 2169, Report 105-313 (October 7, 1997); and the Northeast Alternative Vehicle Consortium.

NOTE: CCTI = Climate Change Technology Initiative; CMAQ = Congestion Mitigation and Air Quality Improvement Program; DOE = Department of Energy.

- Figures for CMAQ categories were calculated using the percentage share held by each category from 1992 to 1996 as follows: transit, 44.8 percent; traffic flow, 32.8 percent; surface transportation program devoted to CMAQ, 7.0 percent; shared ride, 4.4 percent; demand management, 3.8 percent; bicycle/pedestrian, 2.7 percent; and other, 4.5 percent. On May 22, 1998, the House and Senate passed the Transportation Equity Act for the 21st Century. The act would authorize funds to be appropriated out of the Highway Trust Fund for the CMAQ program at a funding level of \$1.35 billion in 1999.
- Requested funding for the Advanced Transportation Technologies Consortium for 1999 is \$20 million—\$10 million for the Department of Energy and \$10 million for the Department of Transportation—which is about \$3.5 million greater than funding in 1998.
- No funding in that year.

- o The Advanced Transportation Technologies Consortium, which would receive \$10 million in funding from the Department of Transportation in addition to the \$10 million in funding from DOE under CCTI.
- o The Advanced Technology Transit Bus and Fuel Cell Bus Programs at the Federal Transit Administration, which support the development and market penetration of low-emission, light-weight, low-cost buses. Funding for those programs totaled \$14 million in 1998; the total funding request for 1999 is only \$5 million because the transit bus program ends next year.
- o Conservation grants administered by the Department of Energy. Those grants would be funded at \$191 million in 1999—an increase of \$36 million compared with 1998. The additional funding would expand programs that administer block grants to states to fund energy-efficiency programs and weatherization of low-income housing.
- o Civilian nuclear energy R&D (that was not included in the CCTI). Those activities are University Nuclear Science and Reactor Support (at \$10 million, an increase of \$3 million from 1998), a new \$24 million Nuclear Energy Research Initiative, and research on magnetic fusion, funding for which has been stable for several years and comes in at \$228 million.

TAX PROVISIONS THAT AFFECT ENERGY USE

Several tax preferences in current law directly or indirectly discourage reliance on fossil fuels. In addition, several excise taxes raise the price of fossil fuels and thereby reduce demand for them.

Tax Preferences to Promote Less Use of Fossil Fuels

Of the tax preferences designed to encourage less reliance on fossil fuels, two account for the largest revenue losses: the excise tax exemption for alcohol fuels, and the exclusion from income of interest on state and local bonds for hydroelectricity-generating facilities and solid waste disposal facilities that produce electricity (see Table 7). These and other preferences are described below.

Income Tax Credits and Excise Tax Exemptions for Alcohol Fuels. The tax code provides three income tax credits for alcohol-based motor fuels: the alcohol mixture

TABLE 7. ESTIMATES OF TAX EXPENDITURES FROM PREFERENCES THAT DISCOURAGE RELIANCE ON FOSSIL FUELS (In millions of dollars)

Tax Preference	1996	1997	1998	1999	2000	2001	2002
Tax Credits for Alcohol Fuels	11	11	11	11	11	11	3
Excise Tax Exemption for Alcohol Fuels	511	520	530	539	547	556	564
Exclusion of Energy Conservation Subsidies Provided by Public Utilities	55	40	35	35	35	40	40
Tax Credits for Investments in Solar and Geothermal Energy Facilities	80	80	75	70	70	70	70
Tax Credit for Electricity Production from Wind and Biomass	5	10	20	35	37	38	40
Deductions for Clean-Fuel Vehicles and Refueling Property	16	10	10	12	13	15	4
Tax Credit for Electric Vehicles	1	11	25	34	54	71	77
Exclusion of Interest on State and Local IDBs for Energy Production Facilities	225	225	215	205	215	215	210

SOURCE: Congressional Budget Office based on the Joint Committee on Taxation's estimates of the revenue effects of the Climate Change Technology Initiative in the President's 1999 budget.

NOTES: Tax expenditures are revenues that the federal government forgoes as a result of provisions in the income tax code that give selective relief to particular groups of taxpayers or special incentives for particular types of economic activity.

IDBs = industrial development bonds.

or blender's credit, the pure alcohol credit, and the credit for small ethanol producers. The first two credits are 53 cents per gallon of ethanol and 60 cents per gallon of methanol of at least 190 proof; for mixtures of between 150 proof and 190 proof, the credits are 40 cents per gallon of alcohol and 45 cents per gallon of methanol. The credit for small ethanol producers is 10 cents per gallon of ethanol produced, used, or sold for use as a transportation fuel. That credit is limited to 15 million gallons of annual alcohol production from firms with a production capacity of less than 30 million gallons. The credits, which were extended under the Transportation Equity Act of 1998, are in effect through December 31, 2007.

Blenders have a choice of using the income tax credit or claiming an excise tax exemption of 5.4 cents for mixtures of ethanol and liquid motor fuels. Because the credits are included in income and apply only to a portion of income tax liability, most blenders opt for the excise tax exemption. Consumption of ethanol motor fuel has increased sharply in the past 20 years. That increase is probably a result not so much of the income tax credits but of the exemption of alcohol fuels from excise taxes. The Transportation Equity Act extended the excise tax reduction through 2007.

The extent to which the use of ethanol motor fuels reduces emissions of greenhouse gases has been the subject of recent reports by the General Accounting Office (GAO) and Argonne National Laboratory (ANL), among others. The GAO reports concluded that the effect on emissions is difficult to determine but is likely to be minimal. By contrast, the ANL study concluded that the use of corn-based ethanol significantly reduces both the use of fossil energy and emissions of greenhouse gases.¹

Exclusion of Energy Conservation Subsidies Provided by Public Utilities. The tax code permits residential customers to exclude from income the subsidies provided by public utilities for the purchase or installation of an energy conservation item. The exclusion, which is permanent, reduces the costs of programs financed by utilities to conserve energy.

Tax Credit for Investments in Solar and Geothermal Energy Facilities. The tax code provides a 10 percent credit for business investment in solar and geothermal energy equipment (electric utilities do not qualify). The credits are permanent.

Tax Credit for Electricity Production from Wind and Biomass. The tax code permits a 1.5-cent credit (in 1992 dollars, adjusted for inflation) per kilowatt hour for electricity produced from wind energy or "closed-loop" biomass. (Closed-loop

1. See General Accounting Office, *Tax Policy: Effects of the Alcohol Fuel Incentives*, Letter Report, GAO/GGD-97-41 (1997), and *Motor Fuels: Issues Related to Reformulated Gasoline, Oxygenated Fuels, and Biofuels*, Letter Report, GAO/RCED-96-121 (1996); Argonne National Laboratory, *Fuel-Cycle Fossil Energy Use and Greenhouse Gas Emissions of Fuel Ethanol Produced from U.S. Midwest Corn* (Oak Ridge, Tenn.: 1997).

biomass generates electricity using matter from plants grown solely for fuel.) The credit was instituted to encourage development of technologies that use renewable energy resources rather than conventional fossil fuels. The electricity must be produced from a qualified facility and must be sold to an unrelated third party. (A qualified facility is one that is placed in service after 1992 and before July 1, 1999, for biomass and after 1993 and before June 1, 1999, for wind. The facility must be owned by the taxpayer who claims the credit.) The credit is available for 10 years after a facility is placed in service. It is phased out as the price of electricity from the renewable resource rises over a 3-cent range, from 8 cents to 11 cents (in 1992 dollars, adjusted for inflation). It is also reduced by other government subsidies, including tax-exempt financing. The Administration is proposing to extend the credit.

Deductions for Clean-Fuel Vehicles and Refueling Property and the Tax Credit for Electric Vehicles. Deductions are available for the portion of the cost attributed to the engine, the fuel delivery system, and the exhaust system of vehicles that burn clean fuel. The vehicle must be new, but deductions can also be taken for retrofitting vehicles propelled by gasoline or diesel fuel. Costs are limited by a vehicle's type and weight. The deductions phase out between 2002 and 2005.

Electric vehicles qualify for a tax credit but not the deduction. The credit is 10 percent of the cost of the vehicle up to \$4,000. It, too, phases out between 2002 and 2005. The tax preferences are intended to make clean-fuel and electric vehicles more economically attractive, but costs are still high relative to conventional vehicles.

Exclusion of Interest on State and Local Industrial Development Bonds for Energy Production Facilities. Tax-exempt financing is limited to solid waste disposal facilities that produce electric energy and to the construction of hydroelectric generating facilities at dam sites built before 1979 or at sites without dams that require no impoundment of water. The bonds generally are subject to a state-by-state annual volume cap on private activity bonds; however, bonds issued for governmentally owned solid waste disposal facilities are not subject to the cap. The exclusion is permanent.

Excise Taxes and Fees

Excises and fees that may result in decreased emissions of carbon dioxide chiefly include taxes on coal, motor fuels, equipment, and transactions related to travel and shipping (see Table 8). Those tax receipts primarily finance spending on roads, airports, harbors, and other transportation needs. Financing those transportation programs could increase emissions of carbon dioxide. Building more and better roads, airports, and harbors may provide an incentive for more travel. Taxes on motor fuels are dedicated to several trust funds. The largest share of revenue goes

TABLE 8. ESTIMATES OF RECEIPTS FROM EXCISE TAXES AND FEES THAT MAY REDUCE THE USE OF FOSSIL FUELS (In millions of dollars)

Tax or Fee	1996	1997	1998	1999	2000	2001	2002
Highway Trust Fund^a							
Trust Fund Taxes	23,456	24,354	25,569	37,873	32,499	33,010	33,548
General Fund Taxes	<u>6,513</u>	<u>6,772</u>	<u>321</u>	<u>489</u>	<u>414</u>	<u>420</u>	<u>426</u>
Total	29,968	31,126	25,890	38,362	32,913	33,430	33,974
Airport and Airway Trust Fund^a							
Trust Fund Fuel Taxes	688	753	798	836	867	893	918
Other Trust Fund Taxes	1,153	3,822	7,566	9,254	8,446	8,923	9,643
General Fund Taxes	<u>584</u>	<u>612</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	2,425	5,187	8,364	10,090	9,313	9,816	10,561
Aquatic Resources Trust Fund							
Taxes on Motorboat Fuels, Motors, and Sportfishing Equipment	315	321	281	376	336	339	345
Inland Waterways Trust Fund							
Fuel Taxes	103	107	110	113	115	117	119
Land and Water Conservation Trust Fund							
Taxes	1	1	1	1	1	1	1
Leaking Underground Storage Tank Trust Fund							
Fuel Taxes	40	0	139	206	176	179	181
Harbor Maintenance Trust Fund							
Cargo Taxes	746	784	826	873	922	972	1,025
Hazardous Substance Superfund							
Petroleum, Chemicals, and Feedstock	211	0	0	0	0	0	0
Black Lung Disability Trust Fund							
Coal Tax	615	632	641	651	661	671	681

(Continued)

TABLE 8. CONTINUED

Tax or Fee	1996	1997	1998	1999	2000	2001	2002
Abandoned Mine Reclamation Fund							
Coal Fee	256	266	262	260	262	267	274
Taxes Not Dedicated to Trust or Special Funds							
Gas Guzzler Taxes	33	47	37	34	34	34	34
Ozone-Depleting Chemicals Taxes	429	100	65	14	0	0	0

SOURCE: Congressional Budget Office.

- a. Projections reflect modifications in the rules governing deposits. Taxes imposed on gasoline, diesel fuel, special motor fuels, and kerosene that would otherwise be deposited with the Treasury after July 31, 1998, and before September 20, 1998, are not required to be deposited until October 5, 1998. The same rule modifications apply to air cargo taxes. In addition, deposits of air passenger taxes normally due after August 14, 1998, and before October 1, 1998, are now due on October 5, 1998.

to transportation, with smaller amounts going to nature conservation and environmental cleanup. The Land and Water Conservation Trust Fund accumulates roughly \$1 million per year from oil and gas leases. The only excise taxes not dedicated to trust or special funds and designed solely to discourage consumption of products that are detrimental to the environment (as opposed to paying for cleanup after damage has occurred) are taxes on cars that do not achieve specified fuel economy ratings and on ozone-depleting chemicals. Those taxes raise nominal amounts of revenue compared with the trust fund taxes.

Highway Trust Fund. Several excise taxes finance the Highway Trust Fund, which was established under the Federal-Aid Highway Act of 1956. The primary sources of revenue are a tax of 18.3 cents per gallon levied on gasoline, a tax of 24.3 cents per gallon on diesel fuel, and taxes on gasohol and other special fuels. Other trust fund taxes are levied on sales of tires, inner tubes, trucks, tractors, and trailers. In addition, annual use taxes are levied on trucks weighing more than 55,000 pounds. Of the total taxes on gasoline, 1.5 cents per gallon is dedicated to a special mass transit account, which may be used for capital and related expenditures. The taxes dedicated to the Highway Trust Fund were scheduled to expire on September 30, 1999, with the exception of a motor fuels excise tax of 4.3 cents per gallon. The Transportation Equity Act of 1998 extended them through 2005.

Airport and Airway Trust Fund. Taxes on air passenger tickets, air cargo, noncommercial jet fuel and aviation gasoline, domestic flight segments, and

international departures and arrivals are dedicated to the Airport and Airway Trust Fund. Those taxes were scheduled to expire on September 30, 1997. The Taxpayer Relief Act of 1997 extended them with significant modifications, including new taxes on domestic flight segments and international arrivals. The trust fund, which was established in the Airport and Airway Development and Revenue Acts of 1970, finances a substantial portion of the Federal Aviation Administration's budget. When fully phased in, the domestic air passenger tax will be 7.5 percent of the transportation cost plus \$3 per flight segment (indexed for inflation). Air cargo is subject to a 6.25 percent excise tax. Aviation gasoline is subject to a permanent excise tax of 4.3 cents per gallon. (Noncommercial aviation fuels are subject to an excise tax of 15 cents per gallon on aviation gasoline and 17.5 cents per gallon on jet fuel.) Commercial air passengers coming from another country or leaving the United States are subject to a \$12 tax per arrival or departure.

Aquatic Resources Trust Fund. Taxes on gasoline, electric outboard motors, sportfishing equipment, and sonar devices for finding fish are dedicated to the Aquatic Resources Trust Fund, which was established under the Deficit Reduction Act of 1984. The trust fund is composed of two accounts: one for fish management and restoration and the other for boating safety. Taxes on diesel fuel for recreational motorboats were repealed by the Taxpayer Relief Act of 1997.

Inland Waterways Trust Fund. Taxes dedicated to the Inland Waterways Trust Fund are levied at the rate of 20 cents a gallon on fuels used by commercial vessels plying specified inland and intracoastal waterways. The expenditures from the trust fund, which was established in 1978 under the Inland Waterways Revenue Act, finance up to half of the construction and rehabilitation expenditures for navigation projects on a designated system of 27 inland and intracoastal waterways.

Leaking Underground Storage Tank Trust Fund. An additional 0.1-cent tax on gasoline, diesel, and other motor fuels; aviation fuels; and fuels used by vessels in inland waterways is dedicated to the Leaking Underground Storage Tank Trust Fund. Expenditures from the trust fund finance the cleanup of underground petroleum tanks that are leaking. The tax, which was initially established under the Superfund Amendments and Reauthorization Act of 1986 and had expired at the end of 1995, was reinstated by the Taxpayer Relief Act of 1997.

Harbor Maintenance Trust Fund. Under the Water Resources Development Act of 1986, a tax on both ship passengers and the value of cargo loaded or unloaded at U.S. harbors, channels, and ports was dedicated to the operation and maintenance costs of the Saint Lawrence Seaway and harbors within the United States. The tax is 0.125 percent and, in the case of passengers, had been levied on transportation charges. The Supreme Court recently held that the harbor maintenance tax was unconstitutional as applied to exports. Subsequently—in June 1998—the U.S. Court of International Trade ruled that the tax on embarking passengers was also unconstitutional.

Black Lung Disability Trust Fund. Taxes of \$0.55 a ton on surface-mined coal and \$1.10 a ton on underground-mined coal other than lignite are dedicated to the Black Lung Disability Trust Fund, established in 1977 under the Black Lung Benefits Revenue Act. The trust fund finances medical care and rehabilitation for miners with black lung disease and makes disability payments to them and to their surviving spouses and dependents.

Abandoned Mine Reclamation Fund. Fees that are structurally similar to excise taxes are levied on the tonnage of domestically mined coal and dedicated to the Abandoned Mine Land Fund, established in 1977 under the Surface Mining Control and Reclamation Act. The current fee is 35 cents per ton on surface-mined coal and 15 cents per ton on underground-mined coal or, alternatively, 10 percent of the value of the coal at the mine, whichever is less. For surface-mined lignite, the fee is 10 cents a ton, or 2 percent of the value of the coal at the mine. The Energy Policy Act of 1992 extended the authorization of the fees through September 30, 2004.

Gas Guzzler Taxes. Gas guzzler taxes are levied on domestic and imported cars with fuel-economy ratings of less than 22.5 miles per gallon. The tax ranges from \$1,000 for cars that get at least 21.5 but less than 22.5 miles per gallon to \$7,700 for cars that get less than 12.5 miles per gallon. Revenue from the tax is deposited in the general fund.

Taxes on Ozone-Depleting Chemicals. Taxes imposed on a variety of CFCs and halons as well as carbon tetrachloride and methyl chloroform are calculated as the product of a base tax amount and the specific chemical's "ozone-depleting factor." The base rate was set at \$5.35 per pound in 1995 and has increased by \$0.45 per pound per year. The amount of revenue collected, however, is small because production and import of most ozone-depleting chemicals are prohibited.

Proposed Increases in Excise Taxes That May Cut the Use of Fossil Fuels and Emissions of Carbon Dioxide

The Administration has proposed reinstating several taxes dedicated to the Oil Spill Liability Trust Fund and the Hazardous Substance Superfund (see Table 9). The taxes dedicated to these two funds expired a few years ago. Reinstatement would lead to price increases for oil and petroleum products and thus could indirectly result in reduced emissions of greenhouse gases. The Administration also proposed reinstating the motor fuel excise taxes dedicated to the Highway Trust Fund; those taxes were recently extended and are currently in effect through 2005.

Oil Spill Excise Tax. The President's budget proposes to reinstate the oil spill excise tax of 5 cents per barrel on domestic crude oil and imported petroleum products. The tax, which expired at the end of calendar year 1994, was dedicated to the Oil Spill

TABLE 9. ESTIMATES OF REVENUES FROM PROPOSALS FOR INCREASES IN EXCISE TAXES RELATED TO ENERGY AND THE ENVIRONMENT IN THE ADMINISTRATION'S 1999 BUDGET (In millions of dollars)

Proposal	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	1998- 2003	1998- 2008
Oil Spill Excise Tax	64	186	231	235	239	243	248	253	258	264	269	1,197	2,489
Hazardous Substance Excise Taxes	84	667	693	706	718	731	745	760	775	792	809	3,598	7,479
Total	148	853	924	941	957	974	993	1,013	1,033	1,056	1,078	4,795	9,968

SOURCE: Congressional Budget Office based on the Joint Committee on Taxation's estimates of the revenue effects of the Climate Change Technology Initiative in the President's 1999 budget.

Liability Trust Fund to finance the cleanup of oil spills and other costs associated with oil pollution. The tax was not imposed for the calendar quarter if the unobligated balance in the trust fund exceeded \$1 billion at the close of the previous quarter. The proposal would reinstate the tax from the date of enactment through September 30, 2008, and would increase the funding limit from \$1 billion to \$5 billion.

The JCT estimates that the proposal would increase revenues by \$1,197 million through 2003 and by \$2,489 million through 2008 (see Table 9).

Hazardous Substance Excise Taxes. The President's budget also calls for reinstating three taxes that were dedicated to the Hazardous Substance Superfund and expired at the end of 1995: an excise tax of 9.7 cents per barrel on domestic crude oil and imported petroleum products; an excise tax on listed hazardous chemicals at rates that varied from \$0.22 to \$4.87 per ton; and an excise tax on imported substances that use any materials in their manufacture or production that are subject to the hazardous chemicals excise tax. The taxes were dedicated to the Superfund for expenditures connected to releases of hazardous substances into the environment, under provisions of the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended. The proposal would reinstate the taxes for calendar years 1998 through 2008.

The JCT estimates that the proposal would increase revenues by \$3,598 million through 2003 and by \$7,479 million through 2008.

Tax Preferences to Increase the Domestic Supply of Fossil Fuels

Several tax preferences in current law were designed to increase domestic production of oil and other fuels and reduce reliance on imports, particularly from the Persian Gulf region or politically unstable areas (see Table 10). To the extent that tax preferences lead to lower fuel prices, their effect may go beyond substituting domestic oil for imported oil to fostering increased consumption of fossil fuels. Tax preferences to encourage energy self-sufficiency may also result in more rapid depletion of national resources. In recent years, however, oil drilling activity has been low because of a drop in oil prices and cutbacks in certain tax benefits; as a result, preferences to encourage domestic production of fossil fuels would currently have little effect on emissions of carbon dioxide.

Expensing of Exploration and Development Costs for Oil, Gas, and Other Fuels. Firms engaged in production of oil, gas, or geothermal energy are permitted to expense (rather than capitalize) certain intangible drilling and development costs (IDCs), which include amounts paid for labor, fuel, repairs to drilling equipment,

TABLE 10. ESTIMATES OF TAX EXPENDITURES FROM PREFERENCES TO INCREASE DOMESTIC PRODUCTION OF FOSSIL FUELS AND REDUCE RELIANCE ON IMPORTS (In millions of dollars)

Tax Preference	1996	1997	1998	1999	2000	2001	2002
Expensing of Exploration and Development Costs							
Oil and gas	304	324	356	405	454	498	541
Other fuels	a	a	a	a	a	a	a
Excess of Percentage over Cost Depletion							
Oil and gas	418	471	489	508	529	550	572
Other fuels	85	143	145	148	151	154	157
Tax Credit for Enhanced Oil Recovery Costs	a	a	a	a	a	a	a
Expensing of Tertiary Injectants	a	a	a	a	a	a	a
Tax Credit for Production of Nonconventional Fuels	1,200	1,250	1,300	1,325	1,350	1,350	1,350

SOURCE: Congressional Budget Office based on estimates of the Joint Committee on Taxation.

NOTE: Tax expenditures are revenues that the federal government forgoes as a result of provisions in the income tax code that give selective relief to particular groups of taxpayers or special incentives for particular types of economic activity.

a. Positive tax expenditure of less than \$50 million.

hauling, supplies, and site preparation. For vertically integrated producers, expensing is limited to 70 percent of IDCs. That limit was set in the Tax Reform Act of 1986, which also repealed expensing on foreign properties. Additionally, IDCs are subject to the alternative minimum tax (AMT). The amount subject to the AMT is limited to 70 percent.

Excess of Percentage over Cost Depletion for Oil, Gas, and Other Fuels. Firms that extract oil, gas, or other minerals are permitted a deduction to recover their capital investment in the mineral reserve, which depreciates as the minerals are depleted. Cost depletion allows for the recovery of the actual capital investment over the period that the reserve produces income. Percentage depletion allows for the deduction of a fixed percentage of revenue from sales of the mineral. The percentage depletion method of deduction may and typically does exceed the amount of capital invested. Percentage depletion is allowed only for independent producers and

owners entitled to royalties and only for up to 1,000 barrels of oil or its equivalent in gas per day. At present, about one-fourth of oil and gas production benefits from the subsidy. Percentage depletion for the major integrated oil companies was repealed in 1975.

The percentage depletion rate for oil and gas is 15 percent; a higher rate is permitted for marginal wells. The percentage depletion rate for other fuels ranges from 10 percent to 22 percent.

Tax Credit for Enhanced Oil Recovery Costs. The tax code provides a 15 percent credit for the costs of recovering domestic oil by a qualified "enhanced oil recovery" method. Qualifying methods are those that make possible the extraction of oil that is too viscous to be extracted by conventional methods. The costs of labor, repair of equipment, and injectants as well as the intangible costs of drilling and development, qualify for the credit, which is subject to the limits of the general business credit. The credit phases out over a \$6 range for oil prices above \$28 per barrel (adjusted for inflation after 1991). Current oil prices are well below the phaseout threshold.

Expensing of Tertiary Injectants. Tertiary recovery projects inject fluids, gases, and other chemicals into oil or gas reservoirs to enhance the recovery process. The tax code permits a deduction for the costs of the chemical injectants used in oil and gas production in the year in which the costs are incurred. Without incentives, tertiary recovery methods are generally uneconomic.

Tax Credit for Production of Nonconventional Fuels. The tax code provides a production tax credit of \$3 per barrel (in 1979 dollars) for certain types of liquid and gaseous fuels that are equivalent to oil and are produced from alternative energy sources. The credit is phased out as oil prices rise from \$23.50 to \$29.50 (in 1979 dollars). Both the credit and the phaseout range are adjusted for inflation. Qualifying fuels include oil produced from shale or tar sands and synthetic fuels produced from coal. The credit is available through 2002 for facilities placed in service before 1993. For gas produced from biomass and synthetic fuels produced from coal or lignite, it is available through 2007 for facilities placed in service by July 1, 1998, pursuant to a binding contract entered into before 1997. The credit is offset by benefits from government grants, tax-exempt financing, and credits for energy, investment, and enhanced oil recovery. Apart from coal-bed methane, production of nonconventional fuels has hardly increased since 1980.²

2. The use of coal-bed methane as a source of energy results in emissions of carbon dioxide instead of methane. Carbon dioxide is a less potent greenhouse gas than methane.

OTHER FEDERAL ACTIVITIES

Many other federal activities that appear in the budget may indirectly affect emissions of carbon dioxide and other greenhouse gases by altering the supply of energy or the demand for energy.

The federal government contributes to the supply of energy by:

- o Producing power (Tennessee Valley Authority, Bonneville Power Administration, and four other power marketing administrations);
- o Providing loans to rural electric cooperatives;
- o Contributing to efforts to develop a nuclear waste disposal facility;
- o Enriching uranium for use in nuclear power;
- o Operating the naval petroleum reserves and protecting the oil shale reserves; and
- o Leasing oil, gas, and other minerals onshore and offshore.

Although the government spends money on those supply activities, it also benefits from the substantial receipts they generate in the form of user fees, payments, and royalties.

The Low Income Home Energy Assistance Program (LIHEAP) provides assistance to low-income households in meeting the costs of heating and cooling their homes by making payments to eligible households and energy suppliers. States may target assistance to households with high energy needs and may assist households in reducing their need for energy. Budget authority for LIHEAP was about \$1 billion in 1997 and 1998.

Transportation programs, in addition to those specifically cited above, may alter fuel use and carbon emissions. Over time, such programs may affect the total amount of travel (and, therefore, fuel used and emissions produced) as well as the type of travel chosen (substituting the amount of one type of travel for another can affect total emissions). For example, the Federal Transit Administration provides grants to transit operators and conducts transit planning and research activities. Emissions could either increase if spending raises the total demand for travel by boosting ridership or decrease (or stay constant) if rising ridership displaces automobile travel.

Finally, the federal government is itself a major user of energy. Gross energy consumption by the government is about 2 percent of all energy consumed in the

United States, with the government's energy bill totaling roughly \$8 billion annually. The Federal Energy Management Program, described previously, aims to cut energy usage. Even if goals are met, however, the government would remain a major energy consumer and would be affected significantly by future policies to reduce carbon emissions.

CBO MEMORANDUM



CONGRESSIONAL BUDGET OFFICE
SECOND AND D STREETS, S.W.
WASHINGTON, D.C. 20515



White House Climate Change Task Force

734 Jackson Place, N.W. • Washington, DC 20503

FAX

To:

TODD

Organization/Title:

Fax:

Phone:

Pages (including cover):

4

Date:

From:

MARTHA

Phone:

Message:

Energy and Water **\$137M**

1. DOE

A. Solar and Renewables: FY98 - \$272.2M; FY99 - \$372.3M; I - \$100M

- Expand photovoltaics research
- Expand wind energy systems research
- Expand research on conversion of wood and crop wastes and energy crops to fuels and electricity.
- Expand geothermal, hydrogen, hydropower research.

Comm. 2000
Senate
Increase
not funded
roughly \$100m

B. Nuclear \$10M

- Initiate R&D to support the development of technologies to safely operate nuclear power plants for another 10 to 20 years and to increase plant efficiency.
- Initiate research program for clean coal technologies.

got our request

House
H. Subcom.
full
Comm.
Tues.

C. Energy Research \$27M

- Engage in biochemical and microbial research.
- Increase in \$3.4M for work with forest product industries on sequestration and greater reliance on biomass fuels.
- DOE will lead efforts to assess implications of new research results of the Global Change Research Program

got our request

2. USDA - \$10M for research on conversion of wood and crop wastes to fuels.

Interior **\$193.5M**

1. DOE

A. Industry Initiatives: FY98 - \$136.2M; FY99 - \$166.6M; I - \$30.4M

- Expanding Industries for the Future. New grant program to spur production of GHG reducing technologies. \$19M
- Developing advanced technologies in bulk chemical production. \$2.8M

- Expand Motor Challenge to cut electric use by 50% to run pumps, fans, etc. \$4.8M.

B. Buildings: FY98 - \$78.8M; FY99 - \$126.4M; I - \$47.7M

- Energy Star
- Expand research partnerships for building equipment and appliances. By 2000, have a refrigerator using half the electricity of today's. \$19.7M
- State and local partnerships
- Codes & Standards; Management
- Solar R&D and deployment partnerships. New program to work with industry, govt., builders. Money will also be used to train builders and inspectors. \$10.5M for photovoltaic units and \$1.5M for solar water and space heating.
- Expand Build America partnership to improve whole building designs. \$13.4M

C. Transportation: FY98 - \$193.3M; FY99 - \$246.1M; I - \$52.8M

- Advanced direct injection diesel cycle engines
- Advanced heavy vehicle technologies
- PGNV
- New partnership to develop diesel engines for light trucks and SUVs.
- Expand partnership with state and locals to find alternatives to SUVs.

D. Carbon Sequestration

- Conduct an applied sequestration R&D program

E. Energy Information Administration

- \$2.5M for policy

Climate Change FY99 Budget Request by Appropriations Subcommittee**YA-HUD-Independent Agencies \$116M**

1. HUD - \$10M for PATH

2. EPA

A. Industry Initiatives: FY98 - \$20.2M; FY99 - \$51.6M; I - \$31.4M

- Voluntary agreements w/ industry for early credit
- Industry consultation

B. Buildings: FY98 - \$38.7M; FY99 - \$78.1M; I - \$39.4M

- Energy star

C. Carbon Removal: FY98 - \$0; FY99 - \$3.4M; I - \$3.4M

- Work w/ forest product industries to achieve greater reliance on biomass

D. Transportation: FY98 - \$21.7M; \$58.9M; I - \$37.2M

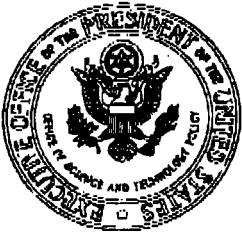
- EPA, DOE, DOT program to partner w/ state and locals on alternatives to SOV.
FY98 - \$4.8M; FY99 - \$12M; I - \$7.2M
- PGNV. FY98 - \$15.6M; FY99 - \$43.6M; I - \$28M
- Program to develop low Nox methanol-fueled diesel engines
- Advanced direct injection diesel cycle engines
- Fuel cells
- EPA, DOE, DOD and manufacturers program to increase fuel efficiency of heavy diesel powered trucks

E. Engaging Developing Countries: I - \$3.4M

F. State and Local Outreach: I - \$2M

Senate
cut about
\$100m out of
requested
\$115m
increase

FACSIMILE TRANSMITTAL SHEET

**OSTP - Environment Division**

Office of Science and Technology Policy
 Executive Office of the President
 Old Executive Office Building, Room 443
 Washington, DC 20502
 202-456-6202 (main)

TO: Todd Stern

FAX: _____ VOICE: _____

FROM: ROSINA M. BIERBAUM
 (v): 202-456-6077 (f): 202-456-6025 (e-mail): rbierbaum@ostp.eop.gov

DATE: _____ # of Pages (including this cover page): 7

Should you have difficulties receiving this fax in its entirety, please call (202) 456-6202.

COMMENTS:

URGENT -
 FOR Hill briefing

(4)

1 - simplest
 2 - Pathway
 3 - GCRP

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GLOBAL CLIMATE CHANGE RESEARCH:

Q: Why is the USGCRP budget declining? I can see that it is a very small change, but with climate change such a high priority it seems strange that the USGCRP is reduced.

You are correct that the decrease is very small: \$3 million, which is something like 2/10 of 1% of the budget. If you unpack the numbers a little, you can see that the only decrease is in NASA, and there it is mainly a small reduction in funding of space hardware and data management activities. Many of the other science activities in the USGCRP are getting healthy increases, including, those at NSF (+\$20m), EPA (+\$6m), DOE (+\$5m), and DOC (+\$9m), and we are seeing some exciting new science in the program, including the initiation of the first National Assessment of climate change impacts.

The Administration remains absolutely committed to support of global change research. Global-scale environmental changes, including ozone depletion, climate change, and loss of biodiversity, are some of the most serious issues facing our nation and the world. We will continue strong support for this activity, as have the past three Administrations. We simply cannot turn away from this challenge. Increased understanding is our most fundamental requirement for dealing with these issues.

To take just one example, we know that the climate is already changing due to human influences. We need improved prediction of the rate, magnitude, and regional consequences of change, and identification of the most effective mitigation and adaptation strategies. The USGCRP is making a major contribution to these critical tasks and has initiated the first National Assessment of Climate Change Impacts to focus on some of these questions.

What is the Admin response to the new National Academy of Science PATHWAYS report?

We feel that the ^{NAS}~~NRC~~ "Pathways" study will prove to be a valuable document and will help the Administration and the agencies in our ongoing effort to improve the US Global Change Research Program (USGCRP) and ensure that it focuses on the highest priority science questions. In fact, the report defines a set of science questions that we feel will be very influential in setting the future research agenda of the USGCRP.

Release of the "Overview" of the National Research Council Report *Global Environmental Change: Research Pathways for the Next Decade*

On Monday, May 18, the NRC held a private briefing for the federal agencies on the results of the "Pathways" study, which has been under preparation for several years. A 60 page overview document will be released on Tuesday, May 19 at 5 pm; the full report of more than 800 pages will not be published for at least 2 more months.

- The major conclusion of the report is that there is a need for increased focus on a limited set of science questions in the USGCRP, as opposed to the broad systems view that has characterized the program during its first decade. A greater focus on hydrological cycle and carbon cycle investigations is strongly advocated, as is a recognition of the need to better understand the effects of multiple stresses on ecosystems.

Administration agrees: Over the next two days OSTP and OMB will participate in a retreat to formulate long-term research plans in response to the NRC recommendations.

- The report notes that issues of biological diversity have not received adequate attention in the program. There is also explicit recognition of the need to consider issues of policy relevance in the design of the USGCRP research agenda, including regional scale information on the impacts of global environmental change.

Administration will be addressing Biodiversity issues in the first National Assessment of the consequences of climate change that it is conducting (and which was called for by Congress in the USGCRP authorizing legislation back in 1990). The Assessment report will come out at the end of 1999.

OSTP and OMB will be working closely with OMB and the USGCRP agencies to make use of these recommendations in this year's budget and program examination process.

CLIMATE CHANGE: US GLOBAL CHANGE RESEARCH PROGRAM

Background

The US Global Change Research Program (USGCRP) is a National Research Program conducted under the auspices of the National Science and Technology Council (NSTC) Committee on Environment and Natural Resources. The NSTC is a cabinet-level council established by President Clinton in November 1993 and is the principal means for coordinating science and technology issues across the Federal government.

The USGCRP began as a Presidential Initiative, and was codified by the Global Change Research Act of 1990. The program's fundamental purpose is to increase understanding of the Earth system and thus provide a sound scientific basis for national and international decision making on global change issues.

Scientific Focus: The USGCRP supports four key areas of Earth system studies that are of scientific and practical importance:

- *Seasonal to Interannual Climate Variability*, focused on the development and refinement of forecasts of seasonal and interannual climate variability, including study and prediction of the El Niño-Southern Oscillation phenomena in the tropical Pacific Ocean. These forecasts are used for economic planning and development in climate-sensitive sectors such as agriculture, water supply, and public health.
- *Climate Change Over Decades to Centuries*, with an emphasis on prediction of long-term climate change and its impacts on natural resources, public health, and socio-economic sectors. This effort is focused on understanding the effects of increasing atmospheric concentrations of CO₂, and the rising temperatures and changing patterns of precipitation associated with this increase, thus providing the knowledge required for society to address these changes.
- *Changes in Ozone, UV Radiation, and Atmospheric Chemistry*, focused on advancing understanding of the causes, rate, magnitude, and consequences of changes in stratospheric ozone, UV radiation, and atmospheric chemistry. This research has unambiguously identified chlorofluorocarbons (CFCs) from human activities as the cause of the Antarctic ozone hole. Observations of declining CFC growth rates demonstrate the efficacy of the policies adopted to protect the ozone layer.
- *Changes in Land Cover and Terrestrial and Aquatic Ecosystems*, focused on increasing understanding of the basic processes governing the functions and structure of terrestrial, and aquatic ecosystems. A special emphasis is placed on efforts to inventory the current land cover of the Earth and to document and understand the causes and consequences of land-cover changes, including effects on biodiversity.

5/14/98

Rosina Bierbaum, Peter Backlund, Susan Bassow

page 3 of 6

OSTP Background Info on CCTI

Motivation

- Environment
 - Global
 - Regional
 - Local
- Economic
 - Domestic Savings
 - International Markets
- Security
 - Oil Insecurity
 - Economic development and political stability in developing countries
- Leadership in Energy Science and Technology

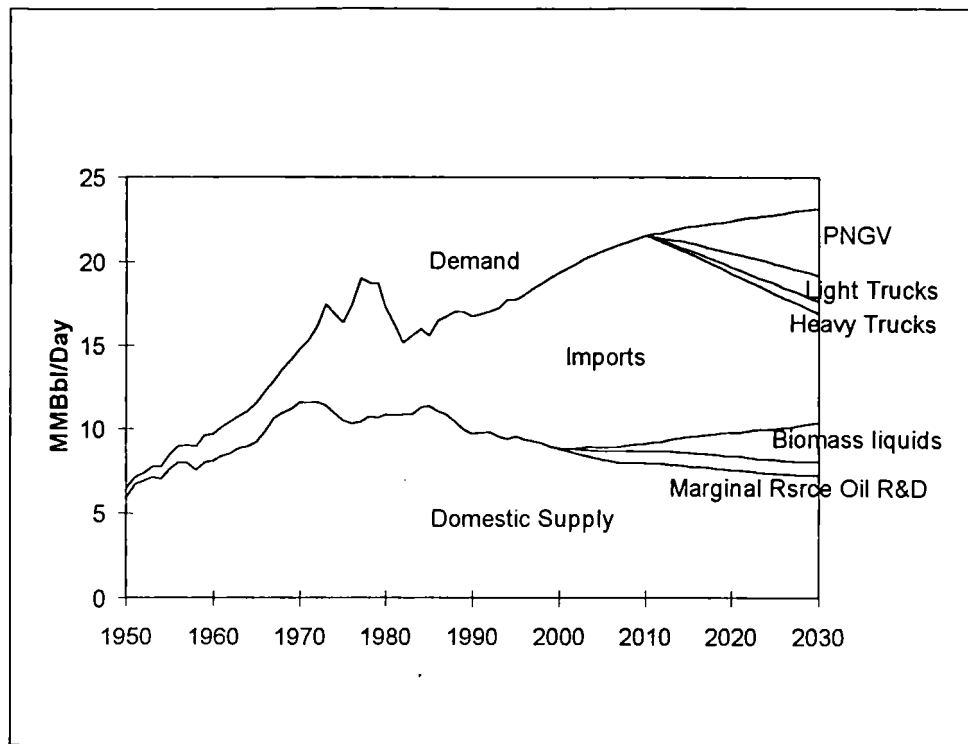
MOTIVATION: Although the Climate Change Technology Initiative will develop technologies to reduce the emission of greenhouse gases, the technologies it is developing provide numerous other benefits as well--environmental, economic, and national security benefits, and leadership in science and technology.

ENVIRONMENT: In addition to reducing the emission of greenhouse gases, the technologies developed under the Climate Change Technology Initiative will reduce local and regional air pollution. This can have significant health benefits, particularly in urban areas.

ECONOMIC: The economic benefits of this initiative are many. Technological advance is the most important factor in growing our economy. The R&D done under the CCTI will contribute to that economic growth. If the energy intensity of our economy was still at same level as in 1970, we would be spending \$150 billion more per year for energy. Energy efficiency improvements account for much of this savings, contributing to our robust economic growth while greatly reducing our greenhouse gas emissions.



INTERNATIONAL MARKETS for advanced energy technologies offer U.S. industry a huge export opportunity. Between 1995 and 2010, the Energy Information Administration projects that developing countries will invest some \$1.3 trillion in generation, transmission, and distribution equipment. There will be similarly large investments in the lights, refrigerators, electronics, industrial motors, and other equipment that uses this electricity. Electricity use in developing countries will increase a further 50% between 2010 and 2020. Oil consumption by developing countries is projected to increase from 24 million barrels per day in 1996 to 54 million barrels per day by 2020; much of this will be for transport. Developing countries will need efficient technologies to reduce the high costs to develop and fuel this energy infrastructure. For example, the Congressional Office of Technology Assessment showed that developing countries could reduce the upfront capital cost for the generation, transmission, and use of electricity by 13% and the lifecycle cost by 28% by using available high efficiency technologies--reducing electricity use (and carbon emissions) by 47%. With all the economic development pressures they face, developing countries will find such savings very attractive. Developing countries will also need clean technologies to reduce the urban air pollution many of their cities are now choking on. Advanced energy technologies can meet these requirements cost effectively while reducing emissions of greenhouse gases.



OIL SECURITY. We currently depend on imported oil for about half of our domestic oil consumption, at a cost of \$64 billion in 1996. The figure shown here is from the report by the President's Committee of Advisors on Science and Technology (PCAST) and the assumptions underlying this chart are explained in detail in that report. This chart indicates that oil imports will continue to grow under business-as-usual out to 2030; import costs will increase to over \$100 billion per year. Advanced technologies recommended by PCAST and proposed for funding under the CCTI include energy efficient vehicles and liquid fuels from biomass. These could substantially reduce U.S. dependence on imported oil and generate income for the farm community.

ECONOMIC DEVELOPMENT AND POLITICAL STABILITY IN DEVELOPING COUNTRIES. Economic well-being depends on reliable, affordable supplies of energy; environmental well-being depends on energy technologies that emit less air pollutants and carbon dioxide. Both the economic and environmental needs of people in developing countries must be met in order to promote continued growth and meet their aspirations. This is an important component of encouraging political stability, peace, and continued movement towards democratization.

LEADERSHIP IN ENERGY SCIENCE AND TECHNOLOGY. As for all technologies, leadership in energy science and technology can contribute to our market position and economic vitality and environmental quality.

Elements of the CCTI

- R&D
- Tax Incentives

The Climate Change Technology Initiative has two major tracks: Research and Development of Advanced Energy Technologies, and tax incentives to accelerate commercialization of advanced environmentally-sound technologies.

Program details are provided below.

Climate Change Technology Initiative (Agencies) (Direct programs and tax incentives, millions of dollars)					
Selected Agencies	1997 Actual	1998 Estimate	1999 Proposed	Increase: 1998 to 1999	Increase: 5-Year Total
Energy	657	729	1,060	331	1,899
Environmental Protection Agency	86	90	205	115	677
Housing and Urban Development	–	–	10	10	10
Commerce	–	–	7	7	38
Agriculture	–	–	10	10	86
Appropriations Sub-Total	743	819	1,292	473	2,710
Tax Incentives	–	–	421	421	3,635
Total Initiative	743	819	1,713	894	6,345

The Department of Energy is the largest recipient of R&D funding, followed by EPA and USDA. R&D funding proposed for 1999 would be an increase of \$473 million over 1998; over five years, this increase would total \$2,710 million.

Funding for tax incentives is somewhat higher, totaling \$3,635 million over five years.

Climate Change Technology Initiative (Sectors) (Direct programs and tax incentives, millions of dollars)						
Key Sectors and Topics	1998 Estimate	1999 Proposed			Total Increase 1998 – 1999	Total Tax Incentives 1999-2003
		Approp- riations	Tax Incen- tives	Total		
Buildings	146	264	136	400	254	1,696
Industry	156	216	276	492	336	1,004
Transportation	246	356	4	360	114	744
Electricity	220	312	5	317	97	191
Carbon Sequestration and Cross-Cutting Research	0	42	-	42	42	-
Policy Analysis, Market Incentives	6	26	-	26	20	-
Program Direction	45	57	-	57	12	-
Total	819	1,292	421	1,713	894	3,635

BUILDINGS: Buildings technologies account for the largest increase in direct funding. This includes R&D to improve the efficiency of furnaces, air conditioners, lights, refrigerators, and other building equipment and appliances, as well as the design of buildings to improve energy efficiency. In addition, there is funding for increased outreach to consumers and businesses to improve the efficiency of their buildings.

INDUSTRY: Direct funding is focused on expanding the Industries of the Future program to improve the efficiency of energy-intensive materials processing such as aluminum, steel, glass, paper and forest products, chemicals, and others. It also expands research in cross-cutting technologies such as advanced turbines, efficient electric motor systems, and combined heat and power.

TRANSPORTATION: Direct funding goes to improving the efficiency of automobiles through the PNGV program, and of trucks. Technologies being examined include advanced direct injection diesel engines, fuel cells, and others.

ELECTRICITY: Most of the direct funding goes to advanced renewable energy technologies. These technologies have shown remarkable advances in performance and reductions in cost in recent years. For example, over the past two decades, the cost of photovoltaic- and wind-generated power has declined by as much as 10 times. Wind energy is now down to as low as 5 cents/kWh and the next generation of turbines is expected to reduce this cost to the range of 2.8-3.4 cents per kWh with moderate to good winds by 2005.

CARBON SEQUESTRATION: carbon sequestration is the technology for capturing the carbon dioxide generated by the combustion of fossil fuels and injecting it, for example, into geological structures such as depleted oil and gas reservoirs to keep it out of the atmosphere where it would contribute to global warming. This is a long-term technology option which needs much more research, but one that offers considerable potential.

Climate Change Technology Initiative Tax Incentives (Tax Expenditures, millions of dollars)		
	1999	Total 1999-2003
Buildings		
Tax credit for energy-efficient building equipment; 20% of qualifying investment	123	1,379
Tax credit for new energy-efficient homes, 1% of purchase price to \$2000	7	197
Tax credit for rooftop solar systems; 15%/\$1000 for DSHW, 15%/\$2000 for PV	6	120
Transportation		
\$3K/\$4K Tax credits for 2X/3X mpg vehicles (begins in year 2000).	—	660
Equalize tax treatment of parking, transit, and vanpool benefits	4	84
Industry		
10% tax credit for combined heat and power systems	270	942
10% tax credit for certain circuit breaker equipment	3	36
10% tax credit for PFC/HFC recycling equipment	3	26
Electricity		
Extend production tax credit for electricity produced from wind and biomass	5	191
Total	421	3,635

This table lists the tax credits that are proposed under the Climate Change Technology Strategy and indicates the expected value of the claims for these credits.

Why doesn't the private sector do all of this?

- **Financial Support for R&D:** is difficult to obtain as energy prices pose stiff competition for any new technology. Energy is a commodity with very thin margins; substantial risks of price drops.
- **Start-Up Companies:** Many of the advanced energy technologies are pioneered by start-up companies. They have few technology options and so are much more likely to "bet the company." But they also have limited resources to commercialize their products and difficulty attracting financing.
- **Infrastructure:** Capital and institutional infrastructure to make use of new technologies are often not well developed.
- **Capital Costs** are often higher for innovative energy supply and energy efficient technologies, even though their lifecycle cost is less.
- **Environmental Benefits** are often not valued in the market.

Reasons why the private sector does not invest as much as is desirable in developing innovative energy technologies are listed here.

Consider the financial support for R&D. An innovative pharmaceutical can command a very high price and encourages innovation and investment. In contrast, an innovative energy technology still produces electricity, for example, and must compete against very well established technologies and infrastructures.

Start-up Companies: ...

Infrastructure: ...

Capital Costs: ...

Environmental Benefits: ...

Together, these factors necessitate Federal support in order to ensure that the economic, environmental, and national security benefits from improved energy technologies are adequately pursued on behalf of the public; the private sector can not and will not do so for legitimate business reasons. It is then essential that public-private partnerships are formed to develop these technologies and capture these benefits for the public.

This is not corporate welfare. Instead, the Federal government has increasingly focused on public-private partnerships to leverage Federal resources, to benefit from private sector efficiencies and focus on markets, and to help ensure a strong commercialization effort.

Comparisons to other Studies: PCAST

- 1998 to 1999 Funding Increase for DOE R&D
 - PCAST: \$369M CCTI: \$275M
- Total for Direct Appropriations including outreach,
 - PCAST: \$369M CCTI: \$473M
- Tax Incentives
 - PCAST: “The Panel recommends that the nation adopt a commercialization strategy to complement national R&D work in specific areas. This strategy should be designed to reduce the prices of these technologies to competitive levels and should be bound by cost and time.
 - CCTI: \$3,635 M 5-year total

PCAST, The President’s Committee of Advisors on Science and Technology Energy R&D Panel, recently completed a review of national energy R&D. This panel was composed of nationally noted energy experts from industry, universities, and non-governmental organizations. It also had a number of nationally recognized individuals without energy expertise who had to be convinced of the importance of investing in energy R&D, particularly Federally supported. They considered how much the private sector could likely invest in R&D, the potential for increased synergy through public-private partnerships, and the national needs that could be addressed through improved energy technologies. The PCAST Panel had individuals with a wide range of views on the risks of climate change, but nevertheless found that increased R&D is an inexpensive insurance policy providing the means for cost-effective reductions in greenhouse gas emissions in the event that society decides such reductions are necessary. Further, the Panel found that improved energy technologies were also important in addressing the full range of energy-linked economic, environmental, and national security challenges facing our country--reducing consumer costs for energy, increasing industry productivity and competitiveness, reducing dependence on imported oil, improving air quality, and contributing to U.S. export opportunities in advanced energy technologies, among others.

The PCAST Panel reached consensus and produced a highly regarded study. Robert White, President Emeritus of the National Academy of Engineering, recently described the Panel’s proposals as “wise and far-reaching.”

In developing the CCTI, the Administration took into account the findings of PCAST, as well as the budget constraints facing the United States, and numerous other factors. The result was the CCTI which offers substantial national economic, security, and other benefits in addition to the benefits of reduced greenhouse gas emissions. CCTI offers substantial benefits for the United States.



122 C St., NW, Fourth Floor
Washington, D.C. 20001
(202) 383-2500 Fax (202) 383-2505

FAX TRANSMITTAL

TO: Roger Ballantine

FAX:

FROM: Jaime Steve

DATE: 4/10

PAGE(S) 3 (including cover sheet)

Please respond by calling:

main line: 202-383-2500

fax #: 202-383-2505

202-383-2

MESSAGE: Here are the 2 items I mentioned
at the Wednesday meeting.

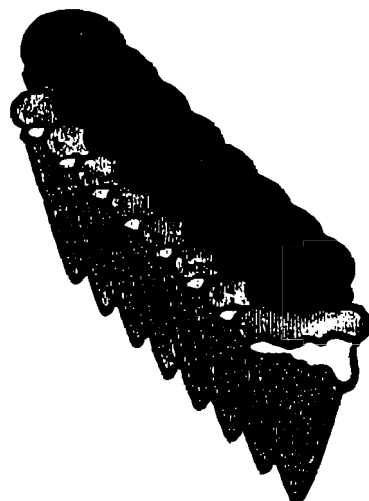
1.) Wind Energy Tax Credit -- sponsor list.

2.) House Renewable Energy Expo (May 21)
"Ben + Jerry's" event

— Jaime

AWEA, formed in 1974, is the national trade association of the U.S. wind energy industry. The association's membership of more than 700 includes turbine manufacturers, wind project developers, utilities, academicians, and interested individuals from 49 states. More information on wind energy is available at the AWEA web site: <http://www.econet.org/awea>, or email: windmail@mclmail.com

Membership and publications information is available from AWEA's Fax-on-Request service at (800) 634-4299 or contact AWEA at (202) 383-2500.

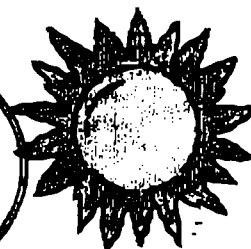


The Sustainable Energy Coalition
in cooperation with the members of the
House Renewable Energy Caucus
invites you to attend the
THIRD ANNUAL
HOUSE RENEWABLE ENERGY EXPO
(featuring energy efficiency and renewable energy)
and
ICE CREAM SOCIAL *



May 21, 1998
11:00 a.m. - 4:00 p.m.

Cannon Caucus Room
(345 Cannon House Office Building)
1st and Independence Avenue, S.E



The Expo will demonstrate the current status of renewable energy (i.e., solar, wind, geothermal, biomass, hydroelectric), fuel cells, district energy, and energy-efficient building, industrial, and transportation technologies and feature nearly 60 exhibits by businesses, government agencies, and national trade associations.



*The Expo will also feature FREE Ben & Jerry ®'s ice cream and Coca Cola ® soft drinks.

Last year's event attracted over 1,400 visitors including members of Congress, their staff, media, and other interested persons .



The Expo is free and open to the public

For further information, contact the Sustainable Energy Coalition : 315 Circle Avenue, #2, Takoma Park, MD 20912; 301-270-2258, fax: 301-891-2866; kbossong@cais.com.

wind energy

Production Tax Credit (PTC)

Sponsors

Senate: (S. 1459) Charles Grassley (R-IA), James Jeffords (R-VT), Frank Murkowski (R-AK), Kent Conrad (D-ND), Bob Kerrey (D-NE), Tom Harkin (D-IA), Diane Feinstein (D-CA), Barbara Boxer (D-CA), Tim Johnson (D-SD), Patrick Leahy (D-VT), John Kerry (D-MA).

House: (H.R. 1401) Bill Thomas (R-CA), Neil Abercrombie (D-HI), Roscoe Bartlett (R-MD), Earl Blumenauer (D-OR), Sherwood Boehlert (R-NY), Peter DeFazio (D-OR), Calvin Dooley (D-CA), Jennifer Dunn (R-WA), Vern Ehlers (R-MI), John Ensign (R-NV), Vic Fazio (D-CA), Elizabeth Furse (D-OR), Elton Gallegly (R-CA), Maurice Hinchey (D-NY), Scott Klug (R-WI), Dennis J. Kucinich (D-OH), John Lewis (D-GA), Robert Matsui (D-CA), Jim McDermott (D-WA), George Miller (D-CA), David Minge (D-MN), Jim Nussle (R-IA), John Olver (D-MA), Frank Pallone (D-NJ), Collin Peterson (D-MN), Jim Ramstad (R-MN), Frank Riggs (R-CA), Lynn Rivers (D-MI), Dan Schaefer (R-CO), Robert C. Scott (D-VA), E. Clay Shaw, Jr. (R-FL), Chris Shays (R-CT), David Skaggs (D-CO), Bart Stupak (D-MI), Ellen Tauscher (D-CA), Karen Thurman (D-FL), Esteban Edward Torres (D-CA), Wes Watkins (R-OK), Jerry Weller (R-IL), Lynn Woolsey (D-CA).

Summary

A straight 5-year extension (through July 1, 2004) of this existing provision providing a 1.5 cent per kilowatt-hour tax credit (adjusted for inflation) for electricity produced using wind resources. (Current PTC expires July 1, 1999.)

Background

The PTC, enacted as part of the Energy Policy Act of 1992 (EPAct), is a sound, low-cost investment in an emerging sector of the energy industry. Yet, because of factors not envisioned when the credit was first created, the domestic wind energy industry has not been able to make full use of this credit in recent years. The credit is now scheduled to expire just as it is needed most to allow the domestic wind energy industry to install new capacity to make the transition to the anticipated deregulated marketplace.

The PTC currently provides a 1.5 cent per kilowatt-hour credit for energy produced from a new facility brought on-line after December 31, 1993 and before July 1, 1999 for the first ten years of the facility's existence. Despite the availability of the credit, relatively little new capacity has been built to make use of this production incentive. Price fluctuations in the energy market combined with anticipated electric restructuring have generated considerable market uncertainty which has hampered the efforts of wind energy producers to enter the commercial marketplace in the U.S.

Problem

Although the PTC is a production tax credit available only for energy actually produced from new facilities, the credit is inextricably linked to financing and developing continued wind energy production capacity. The financing and permitting requirements for a typical wind energy installation require two to three years of lead time at a minimum. Yet the PTC is now scheduled to expire in just over one year. This situation is already drying up investments and halting future project planning just as wind stands to assume a new and competitive role in the domestic energy market.

[4/2/98]

PROVIDE TAX CREDIT FOR HIGH-FUEL-ECONOMY VEHICLES

Current Law

No generally available income tax credit for purchases of fuel-efficient vehicles is provided currently. A 10 percent tax credit is provided for the cost of a qualified electric vehicle, up to a maximum credit of \$4,000. A qualified electric vehicle is a motor vehicle that is powered primarily by an electric motor drawing current from rechargeable batteries, fuel cells, or other portable sources of electrical current, the original use of which commences with the taxpayer, and that is acquired for the use by the taxpayer and not for resale. The full amount of the credit is available for purchases prior to 2002. The credit begins to phase down in 2002 and phases out in 2005.

Certain costs of qualified clean-fuel vehicle property may be deducted when such property is placed in service. Qualified electric vehicles do not qualify for the clean-fuel vehicle deduction. The deduction phases down in the years 2002 through 2004.

Reasons for Change

The transportation sector now accounts for one-third of greenhouse gas emissions in the United States. Cars, sport utility vehicles, light trucks and minivans alone account for 20 percent of our greenhouse gas emissions.

The proposed credits will encourage the early introduction and purchase of highly fuel-efficient vehicles and will help to move ultra fuel efficient vehicles with three times the fuel efficiency of today's vehicles from the laboratory to the highway. These vehicles can significantly reduce emissions of carbon dioxide, the most prevalent greenhouse gas.

Proposal

The proposal would provide two temporary tax credits for the purchase of fuel efficient vehicles:

(1) Credit for vehicles with triple the base fuel economy. This credit would be \$4,000 for each vehicle that has three times the base fuel economy for its class. The \$4,000 credit would be available for purchases of qualifying vehicles after December 31, 2002, and before January 1, 2007. The credit amount would phase down to \$3,000 in 2007, \$2,000 in 2008, and \$1,000 in 2009, and would phase out in 2010.

(2) Credit for vehicles with twice the base fuel economy. This credit would be \$3,000 for each vehicle that has twice the base fuel economy for its class. The \$3,000 credit would be available for purchases of qualifying vehicles after December 31, 1999 and

before January 1, 2004. The credit amount would phase down to \$2,000 in 2004, \$1,000 in 2005, and would phase out in 2006.

These credits would be available for all qualifying light vehicles, including cars, minivans, sport utility vehicles, light trucks, and hybrid and electric vehicles. Taxpayers who claim one of these credits would not be able to claim the qualified electric vehicle credit or the deduction for clean-fuel vehicle property for the same vehicle.

EQUALIZE TREATMENT OF PARKING AND TRANSIT BENEFITS

Current Law

Under current law, qualified transportation fringe benefits provided by an employer are excluded from income. Qualified transportation fringe benefits include parking, transit passes, and vanpool benefits. For taxable years beginning after December 31, 1997, parking is excludable from gross income even when provided in lieu of other compensation payable to an employee. Transit passes and vanpool benefits, however, are only excludable if provided in addition to, and not in lieu of, any compensation otherwise payable to an employee.

Under current law, up to \$155 (in 1993 dollars) per month of employer-provided parking benefits is excludable from income; in 1998 the limit is \$175 per month. Up to \$60 (in 1993 dollars) per month of employer-provided transit and vanpool benefits is excludable from income; in 1998 the limit is \$65 per month.

Reasons for Change

The tax treatment of transit and vanpool benefits should be equalized with the tax treatment of parking benefits. This equalization would eliminate the tax disincentives for providing transit and vanpool benefits relative to parking benefits.

Proposal

Under the proposal, employers would be allowed to offer their employees transit and vanpool benefits in lieu of compensation, beginning January 1, 1999. The proposal would enact the same change for transit and vanpool benefits that the Taxpayer Relief Act of 1997 enacted for parking benefits.

The proposal also would raise the monthly limit on employer-provided transit and vanpool benefits excludable from income to \$155 (in 1993 dollars) per month, i.e., the limit on parking benefits. As under current law, the amount of the benefits would be indexed for inflation.

PROVIDE INVESTMENT TAX CREDIT FOR COMBINED HEAT AND POWER (CHP) SYSTEMS

Current Law

Combined heat and power (CHP) systems are used to produce electricity and process heat and/or mechanical power from a single primary energy source. A tax credit is currently not available for investments in CHP systems.

Depreciation allowances for depreciation for CHP property vary by asset use and capacity. Assets employed in the production of electricity with rated total capacity in excess of 500 kilowatts, or employed in the production of steam with rated total capacity in excess of 12,500 pounds per hour, and used by the taxpayer in an industrial manufacturing process or plant activity (and not ordinarily available for sale to others), have a general cost recovery period of 15 years. Electricity or steam production assets of lesser rated capacity generally are classified with other manufacturing assets and have cost recovery periods of five to ten years. Assets used in the steam power production of electricity for sale, including combustion turbines operated in a combined cycle with a conventional steam unit, have a 20 year recovery period. Other turbines and engines used to produce electricity for sale have a 15 year recovery period. Assets that are structural components of buildings have a recovery period of either 39 years (if nonresidential) or 27.5 years (if residential). For assets with recovery periods of 10 years or less, the 200 percent declining balance method may be used to compute depreciation allowances. The 150 percent declining balance method may be used for assets with recovery periods of 15 or 20 years. The straight-line method must be used for buildings and their structural components.

Reasons for Change

Combined heat and power systems utilize thermal energy that is otherwise wasted in the process of producing electricity by more conventional methods. CHP systems achieve greater energy efficiency, lessen the consumption of primary fossil fuels, lower total energy costs, and reduce carbon emissions. An investment tax credit for CHP assets is expected to encourage and accelerate investment in such systems. The increased demand for CHP equipment should, in turn, reduce manufacturing costs and spur technological innovation in improved CHP systems.

Proposal

The proposal would establish a 10 percent investment credit for certain CHP systems with an electrical capacity in excess of 50 kilowatts (or with a capacity to produce mechanical power equivalent to 50 kilowatts). Investments in qualified CHP systems that are assigned cost recovery periods of less than 15 years would be eligible for the credit, provided that a 15 year recovery period and 150 percent declining balance method are utilized to calculate depreciation allowances. Property placed in service outside the United States would be ineligible for the credit.

A qualified CHP system would be defined as equipment used in the simultaneous or sequential production of electricity, thermal energy (including heating and cooling and/or mechanical power), and mechanical power. A qualified CHP system would be required to produce at least 20 percent of its total useful energy in the form of both (i) thermal energy, and (ii) electric and/or mechanical power. For CHP systems with an electrical capacity of 50 megawatts or less, the total energy efficiency of the system would have to be greater than 60 percent. For larger systems, the total energy efficiency would have to exceed 70 percent. For this purpose, total energy efficiency would be calculated as the sum of the useful electrical, thermal, and mechanical power produced, measured in Btus, divided by the lower heating value of the primary energy supplied. Taxpayers would be required to obtain proper certification by qualified engineers for meeting the energy efficiency and percentage-of-energy tests, pursuant to regulations to be issued by the Secretary of the Treasury.

The credit would be subject to the limitations on the general business credits. The depreciable basis of qualified property for which the credit is taken would be reduced by the amount of the credit. Regulated public utilities claiming the credit would be required to use a normalization method of accounting with respect to the credit. Taxpayers using the credit for CHP systems would not be entitled to any other tax credit for the same equipment. The credit would apply to investments in CHP systems placed in service after December 31, 1998, but before January 1, 2004.

PROVIDE TAX CREDIT FOR REPLACEMENT OF CERTAIN CIRCUIT BREAKER EQUIPMENT

Current Law

No tax credits are provided currently for the purchase of large power circuit breakers used in the transmission and distribution of electricity.

Reasons for Change

Some power circuit breakers used in the transmission and distribution of electric power use sulfur hexafluoride (SF6). Certain older circuit breakers that use a dual pressure technology are especially prone to leak SF6 gas. Of all greenhouse gases, SF6 is among the most potent because it has an expected atmospheric lifetime of over three thousand years, and a global warming potential 23,900 times that of carbon dioxide, the most abundant greenhouse gas.

Proposal

A tax credit would be available for the installation of new power circuit breaker equipment to replace certain older power circuit breakers. The tax credit would be 10 percent of qualified investment. To be eligible for the credit, the replaced power circuit breakers must be dual pressure circuit breakers that contain SF6, have a capacity of at least 115kV, and have been installed by December 31, 1985. The replaced circuit breaker equipment must be destroyed so as to prevent its further use. The credit would be subject to the limitations on the general business credits. The depreciable basis of qualified property for which the credit is taken would be reduced by the amount of the credit claimed. The new equipment must be placed in service in the five year period beginning January 1, 1999 and ending December 31, 2003.

PROVIDE TAX CREDIT FOR CERTAIN PERFLUOROCOMPOUND (PFC) AND HYDROFLUOROCARBON (HFC) RECYCLING EQUIPMENT

Current Law

No tax credits are provided currently for the purchase of perfluorocompound (PFC) and hydrofluorocarbon (HFC) recycling equipment. Semiconductor manufacturers who install equipment to recover or recycle PFC and HFC gases used in the production of semiconductors may depreciate the cost of that equipment over 6 years.

Reasons for Change

Of all greenhouse gases, PFCs and certain HFCs are among the most potent because of their extreme stability in the atmosphere and strong absorption of radiation. PFCs commonly have expected atmospheric lifetimes of thousands of years, and a global warming potential thousands of times greater than that of carbon dioxide, which is the most abundant greenhouse gas. PFCs and certain HFCs are used extensively in the semiconductor manufacturing industry. Because of the anticipated rapid growth of the semiconductor industry, annual emissions of PFCs would grow from 0.2 million metric tons of carbon equivalent (MMTCE) in 1990 to as much as 26 MMTCE by 2010 if no control measures were undertaken. Anticipated voluntary measures by the semiconductor industry to reduce emissions are expected to limit annual emissions to 13 MMTCE by 2010. Installation of additional equipment to recover and recycle PFC and HFC gases could eliminate most of the remaining emissions. While new methods of manufacturing semiconductors are expected ultimately to eliminate PFC and HFC emissions, emissions from existing plants would continue until the plants were eventually replaced or recycling equipment is installed.

Proposal

A tax credit would be available for the installation of PFC and HFC recovery/recycling equipment in semiconductor manufacturing plants. The tax credit would be 10 percent of qualified investment. The credit would be subject to the limitations on the general business credits. The depreciable basis of qualified property for which the credit is taken would be reduced by the amount of the credit claimed. Equipment would qualify for the credit only if it recovers at least 99 percent of PFCs and HFCs, and the equipment is placed in service in the five-year period beginning January 1, 1999 and ending December 31, 2003.

PROVIDE TAX CREDIT FOR ROOFTOP SOLAR EQUIPMENT

Current Law

A 10 percent business energy investment tax credit is provided for qualifying equipment that uses solar energy to generate electricity, to heat or cool or provide hot water for use in a structure, or to provide solar process heat.

Reasons for Change

An investment tax credit for rooftop solar photovoltaic systems and solar water heating systems will reduce the cost of these investments and encourage individuals and businesses to adopt these systems. Heat and electricity from these sources produce no greenhouse gasses.

Proposal

Under this proposal, a tax credit would be available for purchasers of rooftop photovoltaic systems and solar water heating systems located on or adjacent to the building for uses other than heating swimming pools. The credit would be equal to 15 percent of qualified investment up to a maximum of \$1,000 for solar water heating systems and \$2,000 for rooftop photovoltaic systems. This credit would be nonrefundable. For businesses, this credit would be subject to the limitations of the general business credit. The depreciable basis of the qualified property would be reduced by the amount of the credit claimed. The credit would apply only to equipment placed in service in the five year period after December 31, 1998 and before January 1, 2004 for solar water heating systems and for the seven year period beginning after December 31, 1998 and before January 1, 2006 for rooftop photovoltaic systems. Taxpayers would have to choose between the proposed credit and the present tax credit for each investment.

EXTEND WIND AND BIOMASS TAX CREDIT

Current Law

Current law provides taxpayers a 1.5 cent per kilowatt hour tax credit, for electricity produced from wind or "closed-loop" biomass. The electricity must be sold to an unrelated third party and the credit is limited to the first 10 years of production. The credit applies only to facilities placed in service before July 1, 1999, after which it expires. The credit amount is indexed for inflation after 1992.

Reasons for Change

The tax credit helps make such electricity produced from wind and closed-loop biomass competitive with other forms of electricity. Electricity from these sources produces no greenhouse gases.

Proposal

The proposal would extend the current credit for five years, to facilities placed in service before July 1, 2004.

PROVIDE TAX CREDIT FOR ENERGY-EFFICIENT BUILDING EQUIPMENT

Current Law

No income tax credit is provided currently for investment in energy-efficient building equipment.

Reasons for Change

A credit for types of equipment that have substantially increased energy efficiency over conventional equipment will help to accelerate the development and distribution of energy-efficient technologies. A credit would reduce costs to consumers, increasing demand for the equipment and reducing manufacturing costs, while also spurring technological innovation.

Proposal

A credit would be provided for the purchase of certain types of highly efficient building equipment: fuel cells, electric heat pump water heaters, advanced natural gas and residential size electric heat pumps, and advanced central air conditioners. The credit would equal 20 percent of the purchase price, subject to a cap. The credit would be nonrefundable. For businesses, it would be subject to the limitations on the general business credit and would reduce the basis of the equipment. The credit would generally be available for final purchases from unrelated third parties between January 1, 1999 and December 31, 2003 for use within the United States. (Because of the current state of technology, the credit for fuel cells would be available for purchases between January 1, 2000 and December 31, 2004.)

To be eligible for the credit, the specific technologies would have to meet the following criteria:

Fuel cells generate electricity and heat using an electrochemical process. To qualify for the credit, fuel cell technologies would be required to have an electricity-only generation efficiency greater than 35 percent. Fuel cells with a minimum generating capacity of 50 kilowatts would be eligible for the credit.

Electric heat pump hot water heaters use electrically powered vapor compression cycles to extract heat from air and deliver it to a hot water storage tank. Qualifying heat pump water heaters would be required to yield an Energy Factor greater than or equal to 1.7 in the standard Department of Energy (DOE) test procedure.

Electric heat pumps use electrically powered vapor compression cycles to extract heat from air in one space and deliver it to air in another space. EHP technologies with a heating efficiency greater than or equal to 9 HSPF and a cooling efficiency greater than or equal to 15 SEER would qualify for the credit.

Natural gas heat pumps use either a gas-absorption cycle or a gas-driven engine to power the vapor compression cycle to extract heat from one source and deliver it to another. Qualifying natural gas heat pumps would be those with a coefficient of performance for heating of at least 1.25 and for cooling of at least 0.70.

Central air conditioners would be required to have an efficiency equal to or greater than 15 SEER to qualify for the credit.

Advanced natural gas water heaters use a variety of mechanisms to increase steady state efficiency and reduce standby and vent losses. Only natural gas water heaters with an energy factor of at least 0.80 in DOE test procedures would qualify for the credit.

PROVIDE TAX CREDIT FOR PURCHASE OF NEW ENERGY EFFICIENT HOMES

Current Law

No deductions or credits are provided currently for the purchase of energy efficient new homes.

Reasons for Change

Residences, which account for about one-sixth of all U.S. greenhouse gases, offer one of the largest single sources of carbon-saving potential. Some States and certain Federal programs require new houses to meet Model Energy Code standards for insulation and related construction standards, and for heating, cooling and hot water equipment. By the use of cost-effective means, many new homes could reduce energy consumption by 50 percent or more as compared to the Model Energy Code standard. A targeted credit for such highly energy efficient new housing could increase the use of energy efficient building practices and efficient heating and cooling equipment. In addition, it could help spur innovation in house design and construction, thereby providing significant environmental benefits over the long term.

Proposal

A tax credit of up to \$2,000 would be available to purchasers of highly energy efficient new homes. To claim the credit, the taxpayer must use the new home as the taxpayer's principal residence, and the new home must use at least 50 percent less energy for heating, cooling and hot water than the Model Energy Code standard for single family residences. The tax credit would be one percent of the purchase price of the home up to a maximum credit of \$2,000 for eligible homes purchased in the five-year period beginning January 1, 1999 and ending December 31, 2003. The credit would be available for an additional two years, i.e., for homes purchased January 1, 2004 through December 31, 2005, with a maximum credit of \$1,000.

3/25/98

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Climate Change Technology Initiative Allies

1. Buildings: \$47.7 million in new programs over FY98 enacted.

Appliances--

- Alliance to Save Energy (appliances, insulation, lighting)
 - Honeywell (MN)
 - Johnson Controls (WI)
 - Owens Corning (NY)
 - Johns Manville
 - GE
 - Phillips
 - Sylvania
- American Home Appliance Manufacturers (appliances)
 - GE
 - Whirlpool
 - Amana
 - Frigidare
 - Maytag

Natural Gas Heat Pumps & Hot Water Heaters

- American Gas Assn. -- (gas heat pump r&d) (nationwide membership)
 - Brooklyn Union Gas (NY)
 - So Cal Gas
 - PSE&G (NJ)
 - Wepco (WI)
 - PG&E (CA)
- Interstate Natural Gas Assn. (Pipelines)
 - Enron (TX)
 - ANR/Coastal (TX, LA, MI)
 - Duke/Pan Energy (NC, TX)
 - Columbia (VA, WV)

Electronics

- Electronics Industries Alliance.
 - United Technologies
 - Lucent Technologies
 - Motorola
 - Phillips/Magnavox
 - Intel

Heating & Cooling

- American Refrigeration Institute
 - Carrier (CT, NY, TN)
 - York Int'l

2. INDUSTRIAL EFFICIENCY: \$30 million above FY98 enacted.

Industries of the Future

Motor Challenge

- American Iron & Steel Inst.
- Bethlehem Steel
- USX
- Aluminum Assn.
- Alcoa
- Reynolds
- American Forest & Paper Assn.
- Weyerhaeuser
- Champion
- Georgia Pacific
- Council for Chemical Research
- Dow
- DuPont
- Monsanto
- BP
- Amoco
- Shell
- Chevron
- Visteon
- Libby Owens Ford
- Corning
- National Mining Assn.
- Peabody
- American Foundry Society
- National Assn. Of Die Casters
- Steel Founders Society
- Soybean Assn.
- Nat'l Corngrowers Assn.
- Wheatgrowers
- Cargill
- Union Camp

3. TRANSPORTATION TECHNOLOGIES: \$52 million requested over FY98.

Partnership for a New Generation of Vehicles

- GM
- Chrysler

-- Ford

4. SOLAR & RENEWABLES: \$100 million over FY98 enacted.

Million Solar Roofs

Solar R&D

- Solar Energy Industries Assn. (Scott Sklar)
- BP Solar
- Solarex
- Amoco/Enron
- Seimens Solar
- Spire Corp.
- Golden Photon
- Cummins
- Duke Solar

Wind R, D & D

- American Wind Energy Assn.
- Zond/Enron Wind
- Bergey Windpower
- U.S. Windpower?
- Kennetech?
- PacifiCorp
- Northern States Power

Biomass

- [tbd]

Geothermal

- Unocal
- Calpine
- Oxbow
- Transamerica Geothermal

Hydropower

- National Hydropower Assn.
- Duke Energy
- APPA
- Lower Co. River Auth.
- Salt River Project

Advanced Technologies

- Allied Signal
- International Fuel Cells
- Ballard Corp.

Climate Change Technology Initiative Crosscut

February 16, 1998

Crosscut by Agency

	FY 1997 Actual	FY 1998 Estimate	FY 1999 Request	Change '98-'99
Energy	657	729	1060	331
EPA	86	90	205	115
HUD	--	--	10	10
Agriculture	--	--	10	10
Commerce	--	--	7	7
Subtotal, spending	743	819	1292	473
Tax Incentives	--	--	421	421
Total Initiative	743	819	1713	894

Crosscut for All Agencies by Sector

	FY 1998 Estimate	FY 1999 Request	Change '98-'99
Buildings	148	264	118
Industry	156	218	60
Transportation	246	356	110
Electricity	220	332	112
Sequestration & Crosscutting	--	42	42
Policy Analysis & Incentives	6	26	20
Program Direction	45	57	12
Total	819	1292	473

Department of Energy Crosscut by Organization

	FY 1998 Estimate	FY 1999 Request	Change '98-'99
Energy Efficiency	456.5	617.4	161.0
Renewable Energy	272.2	372.3	100.1
Fossil Energy	0	30.0	30.0
Nuclear Energy	0	10.0	10.0
EIA	0	2.5	2.5
Energy Research	0	27.0	27.0
Totals	729	1059	331

Department of Energy Crosscut by Category

	FY 1998 Estimate	FY 1999 Request	Change '98-'99
Energy Efficiency	456.5	617.4	160.9
Clean Energy	272.2	402.3	130.1
Carbon Sequestration	0	18	18
Basic Science	0	19	19
Policy	0	2.5	2.5
Total	729	1059	331

OPTIONAL FORM 10 (7-93)

FAX TRANSMITTAL

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To	LISA/DIRK	From	ERIC PETERSEN
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GSN 7540-01-317-7386

5038-101

GENERAL SERVICES ADMINISTRATION

Climate Change Technology Initiative Crosscut

February 15, 1998

Crosscut by Agency

	FY 1997 Actual	FY 1998 Estimate	FY 1999 Request	Change '98-'99
Energy	657	729	1060	331
EPA	86	90	205	115
HUD	--	--	10	10
Agriculture	--	--	10	10
Commerce	--	--	7	7
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Basic Science	0	19	19
Policy	0	2.5	2.5
Total	729	1059	331

Energy Efficiency and Renewable Energy Detail

	FY 1997	FY 1998	FY 1999	Change
Energy Efficiency				
Buildings R&D	60.1	78.8	126.4	47.7
Industry	115.4	136.2	166.6	30.4
Transportation	172.5	193.3	246.1	52.8
FEMP	19.8	19.8	33.9	14.1
Policy Studies	0.0	0.0	4.5	4.5
Policy & Management	n/a	28.6	39.9	11.4
Subtotal, Energy Efficiency	387.8	456.5	617.4	160.9
Solar and Renewables	266.2	296.7	389.3	92.6
Solar buildings		2.7	5.0	2.3
PV Bonus		1.6	4.0	2.5
Million Roofs		5.0	6.4	1.4
Transportation biofuels		30.7	46.9	16.2
Remaining Solar		241.1	310.0	68.9
Program direction		15.7	17.0	1.3
Reductions/Use of Balances		-24.4	-17	
Subtotal, Solar & Renewable	266.2	272.2	372.3	100.0
Total, Climate-Related	654.0	728.7	989.7	261.0

Energy Research Detail

	FY 1999
Sequestration	
Enhanced natural cycle	4.0
Ocean uptake (microorganisms)	2.0
Geosciences / underground storage	3.0
Energy R&D	
Hydrogen production (sequencing)	5.0
Materials science (ceramics, etc.)	3.5
Chemistry (combustion, catalysis)	4.5
Biosciences	5.0
	27.0

Fossil Energy Detail

	FY 1999
Power Generation and Coal R&D	
Integrated gasification combined cycle	14.0
Coal research	5.0
Indirect fired cycle	1.0
Sequestration	10.0
	30.0

Notes:

Buildings CCTI is defined as all program activities except state grants.

Industry CCTI is defined as all program activities.

Transportation CCTI is defined as all program activities except transportation biofuels.

FEMP CCTI is defined as all program activities.

Renewables CCTI is defined as all EERE program activities in Energy and Water Development including transportation biofuels.

Energy Efficiency and Renewable Energy Detail

	FY 1998	FY 1999	Change
Buildings R&D	78.8	128.4	47.7
Industry	138.2	168.6	30.4
Transportation	193.3	248.1	52.8
FEMP	19.9	33.9	14.1
Policy Analysis (Office of Policy)	0.0	4.5	4.5
Policy & Management (EERE)	28.6	39.9	11.4
Subtotal, Energy Efficiency	458.5	617.4	161.0
Solar and Renewables	296.8	389.3	92.6
EWD reductions/adjustments	-24.4	-17.0	7.4
Solar and Renewables Total	272.2	372.3	100.0
Total, Climate-Related	728.7	989.7	261.0
Balance of EERE Budget:			
Grants	155.1	191.1	36.0
PODRA	-20.8	-35	
Total, EERE Budget Authority	887.5	1145.8	258.2
Total, EERE Program	908.2	1197.8	289.5

Note: Budget Authority is what is appropriated; Program Spending equals budget authority plus other sources of funding.

EERE Programmatic Detail for CCTI: Solar and Renewables

	FY 1998	FY 1999	Change	
			Total RD&D	Deployment
Solar & Renewables				
Solar buildings	2.7	5.0	2.3	2.1
PV Bonus	1.5	4.0	2.5	2.5
Million Roofs	5.0	6.4	1.4	
PV R&D	59.0	68.4	9.4	9.4
Solar thermal	16.5	22.5	6.0	6.0
Biopower	28.2	42.9	14.7	14.7
Transportation biofuels	30.7	46.9	16.2	16.2
Wind power	32.5	43.5	11.0	11.0
Renewable Energy Production Incentive	3.0	4.0	1.0	
Solar program support	0.0	14.0	14.0	
International	1.4	8.8	7.4	
Solar technology transfer	0.0	1.4	1.4	
NREL	3.2	5.0	1.8	1.8
Geothermal	29.1	33.0	3.9	0.4
Hydrogen	16.0	24.0	8.0	8.0
Hydropower	0.7	4.0	3.3	3.3
Renewable Energy Indian Resources	3.9	0.0	-3.9	
Superconductivity	32.0	32.0	0.0	
Energy storage	3.9	6.0	2.1	2.1
EMF	6.9	0.0	-6.9	
Climate Challenge	0.0	0.5	0.5	
Program direction	15.7	17.0	1.3	1.3
Remote power initiative	4.9	0.0	-4.9	
Total, Solar and Renewables Program	296.8	389.3	92.6	78.9
Reductions & Use of Prior Year Balances	-24.4	-17.0	7.4	24.1
Total, Solar and Renewables Budget Authority	272.2	372.3	100.0	

EERE Programmatic Detail for CCTI: Energy Efficiency

	FY 1998	FY 1999	Change		
			Total RD&D	Deployment	
Transportation Technologies					
Technology deployment	11.8	16.3	4.5	0.0	4.5
Advanced automotive technologies	113.3	144.6	31.4	31.4	
Advanced heavy vehicle technologies	25.6	44.2	18.6	18.6	
Materials technologies	35.0	31.8	-3.2	-3.2	
Management	7.6	9.2	1.6	1.6	
Transportation Technology Totals	193.3	246.1	52.8	48.4	4.5
Industrial Technologies					
Industries of the Future (specific)	53.1	76.0	22.9	22.9	
Industries of the Future (crosscutting)	49.1	49.4	0.3	0.3	
Technology Access	26.3	32.0	5.7	1.5	4.2
Management	7.7	9.2	1.5	1.5	
Industrial Technology Totals	136.2	166.6	30.4	26.2	4.2
Building Technologies					
Building systems design	23.0	36.4	13.4	9.4	4.0
Building equipment and materials	26.9	46.2	19.3	15.7	3.5
Codes and standards	14.4	22.6	8.2	0.0	8.2
State and local partnerships	1.8	6.8	5.0	0.0	5.0
Management	12.9	14.7	1.8	1.8	
Building Technology Totals	78.8	126.4	47.7	26.9	20.7
Federal Energy Management	18.8	33.9	14.1	0.0	14.1
Policy and Management	28.6	44.4	15.9	8.0	7.85
Total, Energy Efficiency CCTI	456.6	617.4	160.8	109.5	51.3
Non-CCTI State and Local Grants	155.1	191.1	36.0	0.0	36.0
Total Energy Efficiency (CCTI + non-CCTI)	611.7	808.5	196.8	109.5	87.3

TALKING POINTS RE CLIMATE TAX/R&D PACKAGE

- Our credibility on climate will be severely damaged if we don't make a major push to get this package, including the tax piece, enacted as soon as possible. This is particularly true in light of the criticism we received from enviros/press about talking big on electricity/climate and not delivering. This could be put in the same category unless we're seen as working this as a high priority.
- Republicans will go after this, and we need to hit back hard to make clear that it's an anti-environment, extreme attack -- The Senate budget resolution already took a swipe at the 6 billion package, state that the budget would not include any measures to implement the Kyoto treaty. We need to hit back hard on any suggestion that this is "backdoor implementation" (it's hardly backdoor or mandatory, and much of the R&D has been done for years, we're just stepping up the level of spending to accelerate results); or that Republican attacks on this package are anything other than anti-environment action.
- Democrat leadership is supportive of this R&D/tax package -- it's included in the unity agenda for the event on earth week.
- The R&D pieces are usually effectively worked w/ committee staff by agencies and affected industries, who have been working this for years, but we need to do a better job of coordination of those efforts, and of making sure that industry understands these projects could be at additional risk due to their inclusion in a climate package.
- We need an aggressive strategy on the tax piece -- it cannot wait for overall budget summit or for a more general tax package. Many of these tax provisions are supported by affected industries as well as the Administration, and should not be difficult to pass. We need a review by leg affairs here and in agencies, w/ Treasury, about how to pass each piece, and need to be willing to move forward on individual pieces as they're ready to go. (There may be some overall budget reason not to do this, but if so we need to understand what it is, and what the timing is. In any event, we need to have a strategy for building support on the Hill for individual tax provisions so that when the budget strategy permits we're good to go.)
- Car tax provision may be an exception b/c domestic industry not on board. (Foreign companies and enviros generally supportive). We're continuing to work w/ domestic companies individually, and may be able to make some progress. May want to consider high level calls to industry leaders as we get closer. We should reassess this in a week or two, but it should NOT languish. We cannot be seen as giving this up b/c domestics want delay. This is particularly true if we don't fight hard to keep the CAFE rider off DOT appropriations this year. (This should also be discussed -- it's in the House version and not in the Senate. Gorton opposes the rider, and would help us. Not sure an aggressive strategy on this is the right one, but if we don't work it we've GOT to work the car tax. We need to think about a deadline for working w/ companies, and if no progress be willing to publicly criticize them for this outrageous position.

-
- Next steps -- a team needs to be assigned to work the legislative side of this. We need legislative language on tax ready to go to Hill, and we need to assign people to work the Hill on each piece of the package. For example, Homebuilders have endorsed efficient buildings piece, as have a number of industries and enviros. It could pass quickly, as could most of the others. Car tax is an exception, as noted above.

Republican Budget Resolution Short-changes President's Priorities in Education, Child Care, and Research

March 25, 1997

Building on a successful record of fiscal discipline and economic growth, the President's budget delivers balance and surpluses for years to come, while investing in critical priorities to prepare the nation for the 21st century. The President's budget places top priority on investments to help our children. Unfortunately, so far the Republican budget too often turns its back on children.

PRIORITY: SMALL CLASSES WITH QUALIFIED TEACHERS TO IMPROVE READING IN GRADES 1-3.

President Clinton is proposing a \$12.4 billion initiative over 7 years (\$7.3 billion over 5 years) to help local schools provide small classes with qualified teachers in the early grades. This initiative will help ensure that every child receives personal attention, learns to read independently, and gets a solid foundation for further learning. The new initiative will reduce class size from a nationwide average of 22 in grades 1-3 to an average of 18, providing funds to help local school districts hire an additional 100,000 well-prepared teachers.

Republican Response: The Senate Republican budget resolution completely ignores this important, common sense initiative to reduce class size. In the Budget Committee, Republicans defeated a Democratic attempt to add the President's proposal to the resolution.

PRIORITY: MODERN SCHOOL BUILDINGS TO IMPROVE STUDENT LEARNING. President Clinton is proposing federal tax credits to pay interest on nearly \$22 billion in bonds to build and renovate public schools. The tax credits will cost the Treasury \$5 billion over 5 years, and more than \$10 billion over ten years. Half of this bond authority will be allocated to the 100 to 125 school districts with the largest number of low-income children, and the other half will be allocated to the states.

Republican Response: The Senate Republican budget resolution does not even mention school construction.

PRIORITY: A SOLID FUNDING INCREASE FOR DISCRETIONARY EDUCATION PROGRAMS.

Building on important education investments in last year's balanced budget agreement, the President's budget proposes a solid \$2.2 billion increase in fiscal 1999 for discretionary programs in education and training. This funding increase is needed to support the High Hopes initiative, after school programs, education opportunity zones, and other critical priorities.

Republican Response: The Senate Republican budget resolution cuts the President's proposal for education and training funding (Function 500) by approximately \$2 billion.

PRIORITY: A COMPREHENSIVE CHILD CARE INITIATIVE. The President proposed an historic \$21.6 billion initiative to help working families pay for child care, improve the safety and quality of care, promote early childhood education, and increase the number of high-quality after-school programs. The initiative includes \$7.5 billion in mandatory funding to increase child care subsidies available to low-income families, a \$5.1 billion expansion of the Child and Dependent Care Tax

Credit, a new \$3 billion Early Learning Fund to support innovative child development efforts, and an increase of \$800 million over five years to expand the 21st Century Community Learning Centers program.

Republican Response: The Senate Republican budget resolution provides no mandatory funding for either child care subsidies or early childhood education. The resolution goes out of its way to exclude child care from the tobacco reserve fund. At best, the resolution purports to provide \$5 billion in additional discretionary funding for child care, (but does so only by forcing cuts in other programs for the poor since the Labor-HHS-Education discretionary funding is stretched to the limit already) and, at worst, is disingenuous. The resolution mentions, as part of an illustrative tax cut package, \$9 billion in "further relief for child care expenses." Unlike the President's budget, however, no detail is provided on how any tax cuts would be paid for, which undermines the seriousness of the tax cut proposals.

PRIORITY: A 21ST CENTURY RESEARCH FUND. The centerpiece of the President's R&D proposal is the 21st Century Research Fund. The \$31 billion Research Fund is deficit-neutral. It provides for increases in most of the Federal government's civilian research programs, which will grow at an overall rate of 8 percent in FY 1999, and climb by 32 percent over the next five years. Highlights of the R&D budget include:

- **National Institutes of Health (NIH).** The budget reflects an unprecedented commitment to biomedical research with the largest increase ever for NIH, which is up 8% (\$1.15 billion) to \$14.8 billion.
- **National Science Foundation (NSF).** NSF, which supports much of the research that trains the next generation of America's scientists and engineers, increases by 10% (\$344 million) to \$3.8 billion. The increase is the largest ever for NSF.

Republican Response: Unfortunately, the Senate Republican Budget Resolution would not provide funding for many of these key R&D investments. To give just one example, the Senate Budget Resolution would cut the President's request in Function 250 --which includes critical research programs at NSF, NASA, and Energy --by \$5.6 billion over the next five years. Although some members of Congress have talked about doubling R&D over the next 10 years --this policy is certainly not reflected in the Budget Resolution.

The Republican Budget Resolution also pits medical research against child care and education. By denying NIH funding access to tobacco proceeds, the Republican budget forces critical health research to compete for scarce dollars with children and education. The President's budget secures such funding by creating a Research Fund for America -- dedicating a portion of the tobacco proceeds to research in health care and disease.

Additional Detail on Potential Effects of the Republican Committee-reported Budget Resolution (S.Con.Res. 86)

- **Underfunds education, training and social services.** The Republican committee-reported budget resolution (S.Con.Res. 86) funds elementary education at the levels assumed in the Bipartisan Budget Agreement, and increases funding above the President's request for Impact Aid, Special Education, and the title VI block grant. As a result, the Republican plan would roughly freeze resources for other education, training and social services programs over 5 years. Funding for FY 1999 in this area is \$2 billion below the President's Budget. At the Resolution funding level, many of the President's initiatives and program increases could not be funded. Examples of such impacts include:
 - Half a million disadvantaged children would not receive the extra help they need to succeed in school.
 - About 450,000 students could be denied safe after-school care in 1999.
 - Some 30,000 new children could be denied access to the Head Start program.
 - 6,500 middle schools would not have drug and violence prevention coordinators.
- **Inadequate Health Funding.** While the Budget Resolution assumes increases in funding for the National Institutes of Health in FY 1999, it proposes a total of \$1.6 billion less than the President's request for NIH over five years. Moreover, the Budget Resolution funds all other health priorities -- including Ryan White, drug abuse prevention and treatment, and CDC's prevention activities -- at \$300 million below the President's Budget in FY 1999 and \$4 billion below the Budget over five years.
- **Women's, Infants, and Children (WIC) program cut.** The President proposed a participation level of 7.5 million. The Republican plan assumes a level that would finance only 7.4 million -- 100,000 fewer participants.
- **Phases out Economic Development Administration (EDA).** The Republican plan phases out funding for EDA by 2001. According to an independent Rutgers University study, EDA investments in distressed communities has a direct, positive impact on job creation, leads to greater private sector investment and increases the local tax base.
- **Slows Superfund clean ups.** The Republican plan's level for Function 300 (Natural Resources and the Environment) would reduce funding below the FY 1998 level. A freeze on Superfund at this level would seriously delay completion of Superfund site cleanups and jeopardize public health for citizens living near affected sites. The number of Superfund completions could be reduced by 55 sites in FY 1999 and an additional 17 sites in FY 2000.

- **Inadequately funds the Endangered Species Act (ESA) program.** The Republican plan freezes funding for operations of Interior's Fish and Wildlife Service at the FY 1998 enacted level instead of providing the \$81 million (+14%) increase requested, which includes a \$38 million increase for the ESA program. A freeze at the FY 1998 level would particularly damage successful implementation of the ESA reforms initiated by the Administration and included in pending ESA reauthorization legislation, and fails to fund the proposed private landowners incentives program. The Administration strongly supports private landowner incentives, but does not support funding this program through the sale of public lands.
- **Undermines food safety.** Without the proposed food safety user fees, food safety could be undermined. If the 6 percent increase in food safety funding is not approved, it could mean the layoff or RIF of an estimated 250 meat and poultry inspectors, which would result in the slowdown of production, or even rotating shut-downs, in some meat- and poultry slaughter and processing plants.

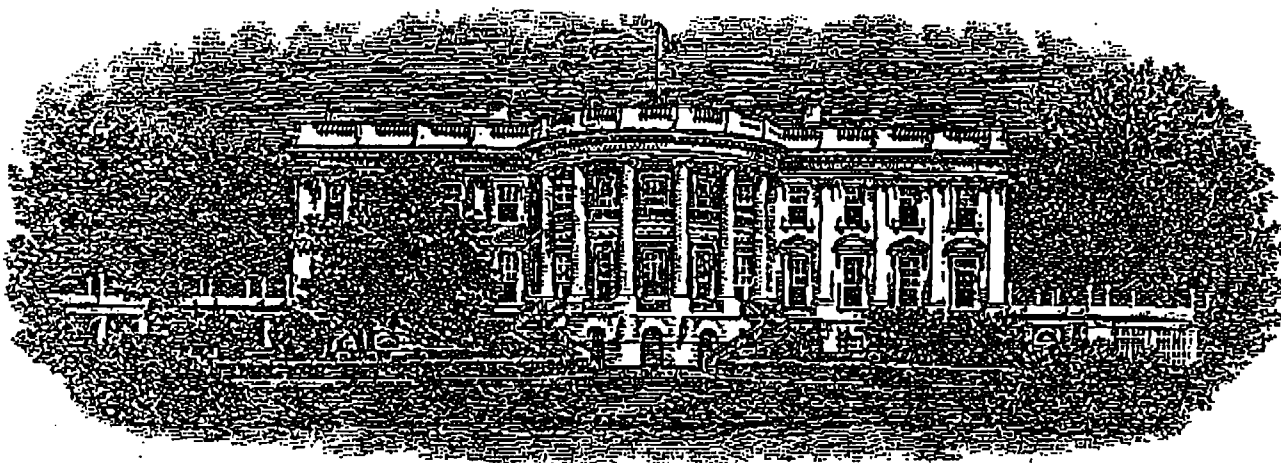
The Republican plan could also deny vital investments proposed for the President's Food Safety Initiative. This could mean a delay of USDA's modernization of the Federal meat and poultry inspection system, as well as reduced funding for mandatory improvements in state inspection systems, including upgraded state lab testing for pathogens.

- **Eliminates Climate Change Initiative.** The Republican plan fails to fund the President's five-year, \$6.3 billion initiative to help the country meet the challenge of reducing greenhouse gas emissions early in the next century. The Republican plan's assumptions fail to include investments of \$2.7 billion for research and development of energy efficient and low-carbon technologies, as well as \$3.6 billion in proposed tax cuts for highly fuel efficient cars, renewable energy, and related technologies. Besides reducing greenhouse gases, these efforts would produce substantial benefits for the Nation -- both now and in the future -- in terms of economic growth, increased national security, a cleaner environment, and more job opportunities for American workers.
- **Guts Clean Water and Watershed Restoration Initiative.** The Republican plan's funding of lower priority environmental and natural resource programs in Function 300 could eliminate much, if not most, of the requested funding in 1999 and the outyears for programs designed to prevent pollution run-off, protect public health, and ensure community-based watershed management.
- **Fails to fund priority Federal land management maintenance and restoration.** The Republican plan would not fully fund the 14 percent increase requested by the President in 1999 and the outyears for priority maintenance and construction for the National Park Service, the Forest Service, the Fish and Wildlife Service, and the Bureau of Land Management. A freeze at the FY 1998 levels would not allow the land management agencies to reduce the serious backlog of maintenance and construction projects designed to preserve and protect the Nation's precious natural, historic, and cultural resources for the enjoyment of current and

future generations.

- **Jeopardizes Key Science Priorities.** Given the overall reductions in function 250 in the outyears, the Republican plan will be unable to support their assumptions of full funding for the space station, increases for the NSF, and other key science initiatives.
- **Threatens Aviation Safety.** By shifting resources to fund large increases in surface transportation programs and failing to protect critical aviation programs, the Republican plan threatens the Administration's ongoing efforts to assure aviation safety and modernize the nation's air traffic control system.
- **Undermines IRS customer service and systems improvements.** The Republican plan's assumption of \$7.3 billion for FY 1999 is almost \$1 billion below the President's request. It effectively "freezes" IRS at the 1998 enacted level. This level could cripple the information systems modernization efforts; paralyze critical upgrades to legacy systems that could negatively impact the 1999 filing season; and would fail to fund any initiatives to improve customer service.
- **Reduces funding for border patrol agents.** The \$93 million increase assumed for the Immigration and Naturalization Service is sufficient to fund the 1,000 Border Patrol agents added in FY 1998, but it would provide only enough resources to hire approximately 175 new agents in FY 1999 -- 825 fewer agents than the President's request. This funding level would not fund border infrastructure nor permit the construction of Border Patrol stations to house new agents or detention facilities to incarcerate illegal aliens apprehended by these new agents.
- **Undermines public safety in the District.** Bureau of Prisons is funded \$265 million below the President's Budget; this funding level would be insufficient for construction of needed D.C. prison space, as recently authorized by Congress.

THE WHITE HOUSE
OFFICE OF LEGISLATIVE AFFAIRS



FAX COVER SHEET

TO:

Todd Stern

FROM:

Ballentine

Date: _____

No. of Pages including cover: _____

2

Phone: _____

Fax:

62215

Phone: (202) 456-6493

Fax: (202) 456-6468

MESSAGE:

FYI

Bob Franks (R-NJ), Co-Chair
225 Cannon HOB
Washington, D.C. 20515
(202) 225-5361
FAX (202) 225-9460



Marty Meehan (D-MA), Co-Chair
2434 Rayburn HOB
Washington, D.C. 20516
(202) 225-3411
FAX (202) 226-0771

THE CONGRESSIONAL TASK FORCE ON MANUFACTURING

March 30, 1998

Dear Colleague:

We urge you to join us in signing the enclosed letter to Chairman Ralph Regula asking for \$158 million in funding for the industrial energy efficiency programs of the Office of Industrial Technologies (OIT) and \$70.5 million for the Energy Information Administration (EIA).

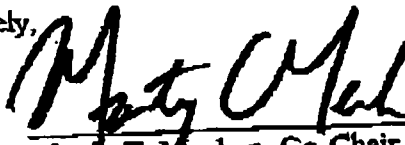
The rising public concern over greenhouse gas emissions will eventually require manufacturers to employ new energy-saving systems and devices. Finding solutions through technology can support and improve the nation's manufacturing competitiveness and represent a preferred strategy to deal with the challenges of lowering the rate of emissions. OIT's programs create partnerships with industries to improve energy efficiency and productivity. By sharing the cost of research and development and encouraging competition for inventions and innovations, the federal government leverages investment in technologies that will sustain its manufacturing base in the future. At the same time, OIT provides important technical support to small and mid-sized manufacturers who want to improve efficiency now.

EIA needs a modest increase in funding to meet additional responsibilities for the collection of greenhouse gas emissions. Please join us in supporting the funding needed for these important programs.

Please contact Tim Daniels at 5-5361 by Friday, April 3.

Sincerely,


Bob Franks, Co-Chair
Congressional Manufacturing Task Force


Marty Meehan, Co-Chair
Congressional Manufacturing Task Force

OPTIONAL FORM 98 (7-90)

FAX TRANSMITTAL

To <i>Roger Beckett</i>	From <i>Ally</i>
Dept./Agency	Phone #
Fax # <i>506 2404</i>	Fax #

NSN 7540-01-317-7368

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GENERAL SERVICES ADMINISTRATION

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Americans, but because of the low update and specific budget neutrality provisions of the Balanced Budget Act of 1997, the blending of rates to create greater equity for rural and other lower payment areas was not implemented in 1998 or 1999.

(b) Sense of the Senate.—It is the sense of the Senate that the functional totals underlying this concurrent resolution on the budget assume that funding the blending of local and national payment rates pursuant to the Balanced Budget Act of 1997 should be a priority for the Senate Finance Committee this year within the budget as established by this Committee.

SEC. 310. SENSE OF THE SENATE ON LONG-TERM CARE.

(a) Findings.—The Senate finds that our Nation is not financially prepared to meet the long-term care needs of its rapidly aging population and that long-term care needs threaten the financial security of American families.

(b) Sense of the Senate.—It is the sense of the Senate that this concurrent resolution on the budget assumes that the National Bipartisan Commission on the Future of Medicare should, as part of its deliberations, describe long-term care needs and make all appropriate recommendations including private sector options that reflect the need for a continuum of care that spans from acute to long-term care. This is not a specific recommendation that any new program be added to Medicare.

SEC. 311. SENSE OF THE SENATE ON CLIMATE CHANGE RESEARCH AND OTHER FUNDING.

It is the sense of the Senate that the assumptions underlying the functional totals in this resolution assume the following:

(1) To the extent that funding is made available through grants or other Federal expenditures to reduce emissions of carbon dioxide or other greenhouse gases or to increase sequestration of carbon to offset such emissions, such funding shall be made available through competitive, merit-based awards designed to select cost-effective methods for reducing, sequestering, or mitigating such emissions. Such awards shall consider all technologies, methods, and research for reducing, sequestering, or mitigating emissions, including sustainable agricultural practices and forest management and conservation strategies. Funding criteria shall be comprehensive in scope, not limited to specific technologies or industries, awarded on a nondiscriminatory basis, and target cost-effectiveness in reducing, sequestering, or mitigating carbon dioxide and other greenhouse gases through natural resource management programs or products. In considering the cost-effectiveness of various reduction, sequestration, or mitigation technologies, other environmental benefits should be considered.

(2) To the extent any tax credits or other tax incentives are created to stimulate the adoption of technologies or practices that reduce, sequester, or mitigate emissions of carbon dioxide and other greenhouse gases ("emissions tax

Wyden

TOTAL P.04

Page 20

incentives"), such emission tax incentives shall also be available to any person that employs an alternative technology or practice that reduces, sequesters, or mitigates emissions of carbon dioxide or other greenhouse gases as effectively as those technologies or practices for which a tax credit or other incentive is provided. Only payments for technologies or in support of practices not legally required when payment is made shall qualify for tax incentives.

SEC. 312. SENSE OF THE SENATE ON INCREASED FUNDING FOR THE CHILD CARE AND DEVELOPMENT BLOCK GRANT.

(a) Findings.—The Senate finds that—

- (1) 54 percent of women in the labor force have children under 13 and are either single parents or have husbands who earn less than \$30,000 per year;
- (2) in 1995, 82 percent of women with children younger than age 6, and 77 percent of women with children ages 6-17 were in the labor force, and 59 percent of women with children younger than 3 were in the labor force;
- (3) a 1997 General Accounting Office study found that the increased work participation requirements of the welfare reform law will cause the need for child care to exceed the known supply;
- (4) a 1995 study by the Urban Institute of child care prices in 6 cities found that the average cost of care for a 2-year-old in a child care center ranged from \$3,100 to \$8,100;
- (5) for an entry-level worker, the family's child care costs at the average price of care for an infant in a child care center would be at least 50 percent of family income in 5 of the 6 cities examined;
- (6) 40 percent of children under the age of 5 are taken care of at home by 1 parent;
- (7) a large number of low- and middle-income families sacrifice a second full-time income so that a parent may be at home with the child;
- (8) the average income of 2-parent families with a single income is \$20,000 less than the average income of 2-parent families with 2 incomes;
- (9) the recent National Institute for Child Health and Development study found that the greatest factor in the development of a young child is "what is happening at home and in families"; and
- (10) increased tax relief directed at making child care more affordable, and increased funding for the Child Care and Development Block Grant, would take significant steps toward bringing quality child care within the reach of many parents, and would increase the options available to parents in deciding how best to care for their children.

(b) Sense of Senate.—It is the sense of the Senate that the levels in this resolution and legislation enacted pursuant to this resolution assume—

- (1) that tax relief should be directed at parents who are struggling to afford quality child care, including those who

United States Senate

WASHINGTON, DC 20510

April 2, 1998

Dear Chairman Domenici:

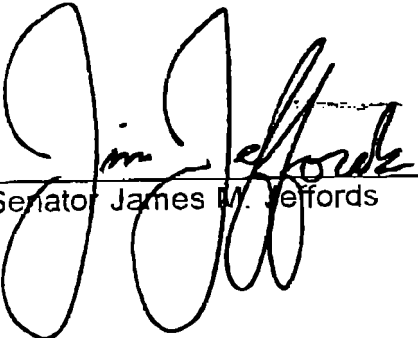
As you develop the FY99 Energy and Water Appropriations bill, we ask that you consider supporting increases in funding for renewable energy — solar, wind, biomass, hydrogen, geothermal, hydropower — research and development programs. The Administration has proposed increasing obligations for renewables by 31% from \$297 million to \$389 million.

Investment in these renewable programs is important for several reasons. First, renewable energy research and development programs enhance fuel and technology diversity, thereby providing the United States with insulation from future oil price shocks and an oil supply dominated by the Middle East. Our national security is currently threatened by a heavy reliance on oil from abroad. Nearly half of U.S. oil was imported in 1996. Such imports accounted for \$62 billion of the U.S. foreign trade deficit in 1996. Moreover, DOE estimates oil-import bills reaching between \$102 billion and \$158 billion per year by 2020, at which time this country will be importing nearly 50 percent more oil than in 1996.

Second, investments in renewable energy increase the U.S. market share of domestic and international markets for energy-supply products and permits the expansion of high technology jobs within the U.S. economy. It is estimated that the world market for energy supply equipment and construction over the next 30 years is in the range of several hundred billion dollars per year. America currently leads the world technologically in developing advanced renewable instruments and products. Research and development assistance has resulted in dramatic cost and performance improvements in wind turbines, helped to maintain America's dominance in solar technology development, and made it cheaper to produce ethanol from agriculture, forests and municipal waste. We should not surrender our lead to foreign competitors, who clearly recognize the potential market for clean and inexpensive renewable energy technologies.

Renewable energy investments are critical to reduce our dependence on foreign sources of oil, expand U.S. markets, and create jobs. These are vital programs to maintain our nation's interests. Thank you for taking into account these high priority matters.

Sincerely,



Senator James M. Jeffords



Senator William V. Roth, Jr.

April 2, 1998

Page 2

Domenici Renewables Letter

Senator Richard G. Lugar



Senator Arlen Specter

Senator John H. Chafee

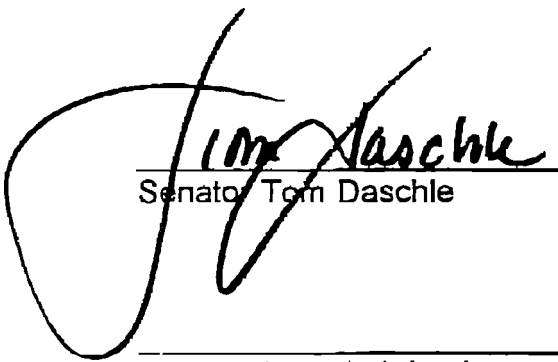
Senator Susan M. Collins

Senator Tim Johnson

Senator John F. Kerry

Senator Barbara Boxer

Senator Dianne Feinstein



Senator Tom Daschle

Senator Patrick J. Leahy

Senator Edward M. Kennedy



Senator Tom Harkin

Senator Paul Wellstone



Senator Mary L. Landrieu

Senator Daniel Patrick Moynihan

Senator J. Robert Kerrey

Record Type: Record

To: Todd Stern/WHO/EOP

cc:

Subject: Sales Strategy for CCTI

Todd--See email below. Randy does energy budgets for TJ. As his e-mail came in I just got a call from Carol Werner, co-director of the Energy and ENvironment Study Institute on the Hill asking why the Admin wasn't up there talking about the CCTI --she claims both sides want to hear more. So, Randy's thoughts may be an appropriate set to consider at your Monday meeting. Take care, Rosina

----- Forwarded by Rosina M. Bierbaum/OSTP/EOP on 03/20/98 08:55 PM -----

Randolph J. Steer

03/20/98 08:52:30 PM

Record Type: Record

To: T J. Glauthier/OMB/EOP, Kathleen Peroff/OMB/EOP, Gary L. Bennethum/OMB/EOP

cc: David A. Bernell/OMB/EOP, Rosina M. Bierbaum/OSTP/EOP

Subject: Sales Strategy for CCTI

I talked to Rosina Bierbaum today about the apparent zeroing-out of CCTI in the Senate budget resolution. Todd Stern is planning to have a meeting Monday to discuss how to respond to that. What I suggested to Rosina is that we need a two-pronged attack -- two messages, and two messengers. What I am proposing may seem like a lot of artillery at this stage, but the position taken by the Senate budget committee is one that has been echoed in other places, and the budget committee action is setting the tone of the debate for the rest of the summer. If they can be persuaded to back off of their current position, our job will be a lot easier the rest of the year.

Message 1 -- The argument that the CCTI is an attempt to "implement the Kyoto Treaty" is specious posturing that won't prove productive for anyone. This message needs to be delivered by the Administration, perhaps at multiple levels simultaneously. The audience would be the Senate (and House) budget committees. It might be appropriate for the Vice President to call each of the members of the committees individually, or meet with them in small groups, and simultaneously for TJ and Chuck Kieffer to talk with the committee staff.

- All of the evidence clearly points to this Administration's long-term support for the programs included in the CCTI, and we have asked for increases in most of those areas every year.
- We had already decided during the fall budget process to provide significant boosts to those programs, well before the final shape of the Kyoto Treaty was known. The increases also generally follow the recommendations of PCAST, which were assembled last summer. The R&D spending increases we have proposed are what we would consider a prudent response to rising CO2 levels regardless of whether the Kyoto Treaty is signed in its current form, modified, or not signed at all.

fact sheet to go with

Boring
huh
to
not

- Long lead-time activities such as R&D, which also have direct domestic economic benefits, should not be held hostage to the difficult and potentially drawn-out process of getting developing countries to make commitments to take steps of their own to reduce greenhouse gas emissions. We are committed to the latter point, which is why the treaty has not been sent up to the Senate in its current form.
- A reading of the treaty and then a look at the CCTI will clearly indicate that the CCTI is not "implementing" anything in the treaty. More specifically, it implements none of the things that opponents of the treaty fear -- mandatory reductions in energy use, energy taxes, etc. R&D represents the easiest, possible national response to the potential damage of global climate change. It is economically painless -- and in fact offers economic benefits. It commits us to no specific actions. It lets no other countries "off the hook" -- in fact it gives our industry a competitive, high-tech advantage.

Message 2 -- The CCTI increase offers domestic benefits to the very industries that might be wary of the treaty *per se*. It adds to their technological lead in world markets and can increase their productivity. Same audience, but this message needs to be delivered by a collection of industry representatives -- the auto industry, steel, aluminum, buildings, coal, and agriculture would be good ones.

Randy.

Need Cabinet
help - need
strategy for
making this
happen

Do x mty Eps Rm at 41,

no outyear explosions

How do we pass social security first? Tobacco maybe

Rangel voting after asking effects of
[marriage penalty on stay at home]
pt is to draw out contradiction
between marriage penalty & stay at home
income averaging [stay at home]
'helps' stay at home
average incomes of 2 spouses

Showing
marriage penalty & stay at home conflict
draws them toward more expensive stay at home
tho they could go to small scale stay at home
income av. is \$306/yr

JP - marriage penalty & reform
mp reduce differential betw marriage bonus
& working families

WSP. Keep stay at home linked to child care

BR - we have tax cuts that are paid for.
other stuff is all from tobacco &
every else is off table - ~~the~~ force them
off tobacco - what we want is what
they want

ER: Be more receptive to stay at home or medicine
EB - a little but don't give leverage
Ysp - don't give them a fight Be
don't attack

Rehn - I am glad to see they want
to get ~~the~~ tobacco done
show it to them

\$20.00b
State put it tobacco deal
will want class size, child care (NIA)
They'll want a y2

Wink R - prob that tobacco \$ will be ^{cig.} tax so
crack only for mandatory effects not spending
will be for the \$1.50

R Kline - Is there a 3rd part of \$ besides
surplus (off limits via social sec.) +
tobacco. Push this into tax cuts vs.
something else

JP
Pensions will
get tied up
w/ min. wage

B. Rubin - we want get our priorities -
so which of our tax cuts in budget are
priority

* 58 Climate - no orphan - no will on Hill
need to show very imp to us maybe we
can get it in exchange for something they want

L.S. They can't move on tobacco until
we force them to

Call for summit in about a month

tobacco

tax

health care bill of rights

social

security

and

judges

next

L.S. - careful to let this look like
part of \$ for my money account
bill rather than for public health
related stuff

Agenda for White House Meeting with Chief of Staff Erskine Bowles
10 a.m., Wednesday, February 18, 1998

1. Options for Enactment of Initiatives

- (a) Micro Strategy: move individual bills, possibly on one of the pending revenue measures in Senate (technical corrections, line-item veto substitutes, Coverdell, or IRS restructuring);
- (b) Budget Reconciliation;
- (c) New Tax Bills from the House: Chairman Archer may have a bill that reduces revenues as a percentage of GDP. He may also move an extenders bill. The tobacco settlement, if moved, will undoubtedly include a tax section;
- (d) Internal Administration Coordination of Tax Initiatives.

2. Republican Initiatives

- (a) Marriage Penalty; ^{St L, n:} ^{for R's} free of tobacco
- (b) Coverdell Education; ~~also~~ 25 concerned
- (c) Estate Tax Repeal; ^{attach item like we'd use min. wage}
- (d) Sunset Tax Code/Tax Limitation Amendments; ^{messing with us}
- (e) IRS Restructuring;

3. Clinton Initiatives

- (a) Child Care (including stay-at-home moms);
- (b) Climate Change;
- (c) Low-Income Housing Tax Credit;
- (d) School Construction;
- (e) Pensions.

Clinton - R priorities
- marriage #1 priority
- car. just a way to develop profit on ed.
- Ias important
- stay at home moms

	A	B	C	D
1				
2	Domestic and International Spending on Climate Change			
3	discretionary budget authority and tax incentives; in millions of dollars)			
4				
5				
6			1997	
7			Actual	
8				
9	Climate Change Technology Initiative (CCTI)			
10				
11	Energy		657	
12				
13	Environmental Protection Agency		86	
14				
15	Housing and Urban Development		---	
16				
17	Commerce		---	
18				
19	Agriculture		---	
20				
21	Subtotal -- CCTI Spending		743	
22				
23	Tax Incentives		---	
24				
25	Subtotal -- CCTI Spending & Tax Incentives		743	
26				
27	Other Domestic Spending			
28				
29	PNGV (not included in CCTI)		99	
30				
31	Global Change Research Program		1,818	
32				
33	Federal Energy Management Program (not included in CCTI)		?	
34				
35	Subtotal -- Domestic (CCTI + Other Domestic)		2,660	
36				
37	International			
38				
39	Agency for International Development		147	
40				
41	Global Environment Facility (GEF)		13	

	E	F	G	H	I
1					
2					
3					
4					
5					
6	1998		1999		Increase
7	Estimate		Proposed		1998 to 1999
8					
9					
10					
11	729		1,060		331
12					
13	90		205		115
14					
15	---		10		10
16					
17	---		7		7
18					
19	---		10		10
20					
21	819		1,292		473
22					
23	---		421		421
24					
25	819		1,713		894
26					
27					
28					
29	82		78		-4
30					
31	1,867		1,864		-3
32					
33	?		?		?
34					
35	2,768		3,655		887
36					
37					
38					
39	150		150	1/	0
40					
41	18		114	2/	96

	A	B	C	D
42				
43	State		3	
44				
45	Subtotal -- International		163	
46				
47	Total -- Domestic & International		2,823	
48				
49				
50	Notes:			
51	1/ Does not include up to \$100 million in loan guarantees available in fiscal years 1998 and			
52	year commitment to assist developing countries.			
53	2/ Represents 38 percent of the total US annual contribution. FY 1999 includes \$193 million			
54	3/ Includes funding for climate change secretariat and Intergovernmental Panel on Climate C			
55	salaries and expenses related to international negotiations.			

	E	F	G	H	I
42					
43	5		8	3/	3
44					
45	173		272		99
46					
47	2,941		3,927		986
48					
49					
50					
51					
52					
53					
54					
55					

CLIMATE CHANGE TECHNOLOGY INITIATIVE
Included in the President's FY1999 Balanced Budget
Truman Room, White House Conference Center
February 2, 1997 5:00 - 6:00 pm

A. *Scene Setter:*

- Event begins at 5:00 in Truman Room, White House Conference Center.
 - Todd acts as MC. Opens session.
 - He recognizes Katie who puts climate initiative in context (harking back to Oct 22 and to Kyoto).
 - TJ is then recognized to lay out the initiative as it appears in the budget.
 - Jack Gibbons is recognized to speak about the R&D piece.
 - Dirk touts the Climate Change Task Force and the industry consultations.
 - Todd moderates Q and A session and recognizes agency folk who will be there to answer questions as well.
- Dan Reicher, Assistant Secretary of Energy for Energy Efficiency and Renewable Energy;
- David Gardiner, EPA Assistant Administrator for Policy, Planning and Evaluation;
- David Doniger, Senior Advisor to the EPA Administrator for Air and Radiation;
- Karl Scholz, Deputy Assistant Secretary of Treasury for Tax Analysis.

B. Talking Points

1. TODD STERN OPENS:

STERN'S TALKING POINTS

- Welcome --
 - Thanks for coming to join us today to learn about the President's plan to improve our emissions of greenhouse gases by prompting early mobilization of technology.
 - Some of you represent those constituencies who are in the best position to help move these technologies forward -- from those who produce energy efficient products, renewable technologies or advanced natural gas equipment.
 - Others represent the sectors most likely to install these products -- whether from steel, aluminum, chemicals, glass, automobiles, electric utilities or other important industries.
 - Still others represent those groups devoted to improving our environment, our economy and our energy usage.
 - Each of you has an important voice in this process. We appreciate your interest, ideas and enthusiasm. We want to work together over the coming months to assure that this initiative succeeds.
- Overview --
 - On October 22, President Clinton announced a multi-faceted plan for addressing global warming. He described three phases -- the first of which was a \$5 billion technology initiative to prompt greater use of climate friendly technology.
 - Last week, the President underscored the importance of this initiative in his State of the Union address -- and he increased the effort to the \$6 billion dollar mark.
 - Also last week, you may have heard the President amplify this theme in his radio address. And Vice President Gore unveiled one important piece -- the solar roof tax incentive -- at the opening of BP's new photovoltaic plant in Fairfield, California.
 - Today, you will hear the specifics. First, Katie McGinty -- the Chair of the President's Council on Environmental Quality -- will outline the importance of the environmental objectives in the plan. Next, Jack Gibbons -- the President's Science Advisor -- will outline the research and development priorities

undergirding the plan. Then we will turn to T.J. Glauthier -- the OMB Program Administration Director for Environment and Natural Resources -- who will walk you through the specific technology initiatives in the plan.

- We are pleased to be joined by several agency experts, each of whom are available to help answer any questions you may have at the end: Dan Reicher, Assistant Secretary of Energy for Energy Efficiency and Renewable Energy; David Gardiner, EPA Assistant Administrator for Policy, Planning and Evaluation; David Doniger, Senior Advisor to the EPA Administrator for Air and Radiation; and Karl Scholz, Deputy Assistant Secretary of Treasury for Tax Analysis.
- As I turn it to Katie, I want to stress one important point that I think you will hear consistently today -- this technology program will not only begin to put us on a better course for the global environment. It will also help make America stronger, more energy efficient, more energy independent and more competitive. All of these initiatives help business cut energy costs and preserve the environment. And all of these technologies have tremendous export potential to a world hungry for climate solutions.

2. Turn to Katie McGinty for 5 minute remarks.

MCGINTY'S TALKING POINTS

- I want to begin by stressing the importance of the task at hand. In October, President Clinton announced a climate change policy that focused our efforts on what we do best in America -- as he put it, "we innovate, we compete, we find solutions to problems and we do it all in a way that promotes entrepreneurship and strengthens the American economy." At the heart of this announcement was a commitment to the environment, faith in free markets and optimism in American innovation and technology development.
- Following that announcement, we took that mantle to Kyoto. And the United States led the international community toward a set of innovative ideas about how to turn the world economy toward a more sustainable path on climate change by using market forces.
 - We won approval of a target period that begins in 2008 and ends in 2012, and we set a target of 7 reduction from 1990 levels -- with some adjustments for certain gases and sinks.
 - But we insisted that each nation be afforded the flexibility to achieve their target in ways fitting their unique circumstances -- through any source, any sector, any gas, any sink -- even through partnerships with any country, through emissions trading, joint implementation or the clean development mechanism.
- We set our sights on this type of target in order to give those of you in industry a reasonable amount of time to make a transition to more advanced technologies.

- Today, President Clinton announced one of the most significant efforts to mobilize environmental technology ever.
- In this initiative, we are beginning to take advantage of the flexibility in the Kyoto Accord. Some of you may remember efforts favored by others to force us to do certain “mandatory harmonized policies and measures.” We resisted those efforts -- because we wanted to pursue an approach that fits our nation’s priorities.
 - This approach avoids command and control regulation, and it doesn’t increase taxes. Instead, it stimulates technology deployment with tax cuts and innovative public-private partnerships.
 - This approach will help us prepare to meet our target -- and it will also benefit our industries and consumers by helping them be more energy efficient -- and more well off economically, as they save money in the process. As for the environmental benefits, this plan just starts with curbing greenhouse gases -- because these efforts will often improve urban smog, acid rain, toxics and water quality in many industrial settings.
 - Most of these technologies are home-grown in America -- so this initiative will help build American jobs like those at the new BP solar plant that opened last week in California.
- Now let me give you an overview. Today, the President announced a \$6.3 billion Climate Change Technology Initiative in two major parts:
 - \$2.7 billion over five years for increased R&D and deployment of energy efficiency, renewable energy and carbon reduction technologies; and
 - \$3.6 billion over five years in tax incentives.
- This package is designed to prompt enhanced technology use and further research and development in every major greenhouse gas emissions sector, including in --
 - buildings (by improving their heating/cooling systems and appliances)
 - transportation (including R&D and tax cuts for efficient autos & trucks)
 - industrial processes (including R&D partnerships with the most energy intensive industries and tax cuts for combined heat and power)
 - electric utilities (renewable technology deployment, R& D for nuclear plant life extension and advanced coal technology)

- forest and agricultural sequestration (R&D on improved sequestration for farms, forests and other physical forms of sequestration plus advanced biotech work).
- I will resist walking you through the numbers -- and leave that to T.J. But after you review this package, I think you will agree that it is unparalleled in the world today. The President's commitment to this environmental challenge is second to none, and his budget reflects that commitment and his optimism that America can meet this challenge.

3. T.J. Glauthier, OMB (10 minutes).

4. Turn to Jack Gibbons, President's Science Advisor (5 minutes).

5. Turn to Dirk Forrister, Climate Change Task Force (3 minutes).

- I want to stress that this technology initiative is only part of our first phase of action. This initiative will fit "hand in glove" with the other elements of the President's plan -- industry consultations, improved federal energy use and electricity restructuring. Together, they represent an active first phase of action to improve our global environment and grow our economy.
- I know some of you are working with others in your sector to respond to the President's call that industry develop its own plans for how to begin to make emissions reductions.
- In the next few weeks, we will begin a very active program of industry consultations. And I hope that many of you will be ready to work with us. Our hope is that every major greenhouse gas sector will participate -- and we will be prepared to discuss ways that we in the federal government can help in removing barriers to further emission mitigation and in offering credit for early action.
- I hope you will feel free to call on us at the Climate Change Task Force just down the block at 734 Jackson Place whenever you need assistance as this important effort moves forward.

5. Open to audience for Q & A -- 30 minutes.

- Try to wrap up by 6:00 -- or 6:15 at the latest.
- Agency people will stick around for Q&A informally at the end.



forrister_d @ btgcinema.com
02/02/98 06:31:00 PM

Record Type: Record

To: Jonathan H. Adashek, Todd Stern

cc:

Subject: draft talking points -- budget rollout of climate tech initiati

TALKING POINTS: CLIMATE CHANGE TECHNOLOGY INITIATIVE

1. TODD STERN OPENS:

Welcome --

Program today - discuss P's \$6.3 b. budget package to promote mobilize energy efficiency & renewable technology or renewables.

-- Thanks for coming to join us today to learn about the President's plan to improve our emissions of greenhouse gases by prompting early mobilization of technology.

-- Some of you represent those constituencies who are in the best position to help move these technologies forward -- from those who produce energy efficient products, renewable technologies or advanced natural gas equipment.

-- Others represent the sectors most likely to install these products -- whether from steel, aluminum, chemicals, glass, automobiles, electric utilities or other important industries.

-- Still others represent those groups devoted to improving our environment, our economy and our energy usage.

-- Each of you has an important voice in this process. We appreciate your interest, ideas and enthusiasm. We want to work together over the coming months to assure that this initiative succeeds.

Overview --

-- On October 22, President Clinton announced a multi-faceted plan for addressing global warming. He described three phases -- the first of which was a \$5 billion technology initiative to prompt greater use of climate friendly technology.

-- Last week, the President underscored the importance of this initiative in his State of the Union address -- and he increased the effort to the \$6 billion dollar mark.

-- Also last week, you may have heard the President amplify this theme in his radio address. And Vice President Gore unveiled one important piece -- the solar roof tax incentive -- at the opening of BP's new

Variety of sectors:

photovoltaic plant in Fairfield, California.

-- Today, you will hear the specifics. First, Katie McGinty -- the Chair of the President's Council on Environmental Quality -- will outline the importance of the environmental objectives in the plan. Next, Jack Gibbons -- the President's Science Advisor -- will outline the research and development priorities undergirding the plan. Then we will turn to T.J. Glauthier -- the OMB Program Administration Director for Environment and Natural Resources -- who will walk you through the specific technology initiatives in the plan.

We are pleased to be joined by several agency experts, each of whom are available to help answer any questions you may have at the end: Dan Reicher, Assistant Secretary of Energy for Energy Efficiency and Renewable Energy; David Gardiner, EPA Assistant Administrator for Policy, Planning and Evaluation; David Doniger, Senior Advisor to the EPA Administrator for Air and Radiation; and Karl Scholz, Deputy Assistant Secretary of Treasury for Tax Analysis.

As I turn it to Katie, I want to stress one important point that I think you will hear consistently today -- this technology program will not only begin to put us on a better course for the global environment. It will also help make America stronger, more energy efficient, more energy independent and more competitive. All of these initiatives help business cut energy costs and preserve the environment. And all of these technologies have tremendous export potential to a world hungry for climate solutions.

2. Turn to Katie McGinty for 5 minute remarks.
3. Turn to Jack Gibbons for 5 minute remarks.
4. Turn to T.J. Glauthier for 10 minutes of specifics.
5. Open to audience for Q & A -- 35 minutes.

Try to wrap up by 6:00 -- or 6:15 at the latest.

Agency people will stick around for Q&A informally at the end.

Record Type: Record

To: Rebecca A. Cameron/WHO/EOP
cc: Thomas D. Janenda/WHO/EOP
Subject: Radio Address Invites

Rebecca,

The following names are the people that Todd would like to have invited to the President's radio address tomorrow. If you have any questions please let me know.

Thanks,

Jonathan

	<u>Name</u>	<u>Affiliation</u>	<u>Phone</u>	<u>Fax</u>
•	Kevin Fay	International Climate Change Partnership	703-841-0626	703-243-2874
•	Fred Krupp	Environmental Defense Fund	212-505-2122	212-505-2375
•	John Adams or Greg Whetstone	Natural Resources Defense Council	212-727-2700	212-633-6935
•	Jonathan Lash	World Resources Institute	202-638-6300	202-662-2511
•	Michael Marvin	Business Council for Sustainable Energy	202-785-0507	202-785-0514
•	Tom Casten	Trigen Energy Corp.	914-286-6600	914-948-9157
•	Judith Bayer	United Technologies	202-336-7436	202-336-7529
•	Roger Sant	AES Corp.	703-522-1315	703-276-6758
•	Harvey Forest	Solarex	301-698-4200	301-698-4201

DRAFT

1/31 RADIO ADDRESS

CLIMATE CHANGE TECHNOLOGY INITIATIVE

droughts, floods

Good morning. Today I'd like to talk to you about the challenge of climate change, and the steps we are taking to help American consumers and American industry meet this challenge head on.

Global warming is the most profound environmental threat we have faced -- as a nation, and as a world. Scientists agree that unless we act now, the steady buildup of greenhouse gases in our atmosphere will pose grave risks to our children and grandchildren -- ~~infectious disease~~, rising sea levels, increasingly severe storms that threaten property and life. We can head off these dangers, though. And we can do it in a way that creates jobs, saves money and strengthens our economy. We can do it through the power of the marketplace, and the power of American ingenuity.

In my State of the Union address the other night, I proposed \$6 billion for research and tax incentives to mobilize cutting-edge technology in the fight against global warming. I'd like to tell you how this technology initiative will help us all do our part, by changing the way we use energy to power our homes, our cars and our factories. [It will reduce greenhouse gas pollution by making us more energy efficient, and by promoting the use of new, renewable energy sources.]

Many of you, I'm sure, heard the encouraging news from Detroit earlier this month. Ford, GM and Chrysler all unveiled ultra-efficient prototypes that get more than twice the mileage as today's cars, with no sacrifice in comfort, safety or performance. We're proud to have supported research that led to these breakthroughs.

As part of our \$6 billion package, we'll now help move cars like these onto the roadway by offering a direct incentive to you, the consumer. [Beginning next year/2000?] We'll offer a \$3,000 tax credit for the purchase of any car twice as fuel-efficient as the average model. [That's \$3,000 off the sticker price.] [And three years later,] We'll offer a \$4,000 tax credit for cars that are three times as efficient.

Our technology package also will help turn America's homes into models of energy efficiency. We'll offer \$1.4 billion in tax credits for the purchase of energy-saving heating and cooling systems. We'll accelerate research into more efficient lighting, refrigerators, air conditioners and other appliances. And, through research and tax incentives, we'll work to make sure the homes we build in the 21st century are as super-efficient as they can be. That means more comfort and more savings for you.

Vice President Gore announced in California yesterday that we're proposing a tax credit for rooftop solar panels. We'll also step up research into solar and other renewable energy sources. And we will work with industry to cut their energy use -- protecting the environment, while enhancing the bottom line.

This initiative is an investment in our future. When we save energy, we save money. That is good for business, for consumers, and for our economy. Saving energy also reduces the terrible risk of global warming. That is good for our planet, and all those who will inherit it.

Thanks for listening.

525 words



risley_p @ btgcinema.com
01/29/98 07:56:00 PM

Record Type: Record

To: Jonathan H. Adashek, Shelley N. Fidler, Todd Stern

cc:

Subject: Trade Press climate budget briefing

concurrent with business group briefing on climate budget scheduled for monday at 5pm, you might want to consider a smaller briefing monday afternoon for the dozen or so energy/envirom trade newsletter reporters. these folks' newsletters are well read by the business community , especially on detail-heavy stories like the budget roll-out. it would benefit us for them to get the story right the first time. the other option is to invite them to the wh press room briefing on friday afternoon, those these folks are probably less used to respecting embargoes and may feel less able to ask questions in a wh briefing room setting than they might in a more comfortable setting on monday. you need not have too many people brief them; this might be suitable for dirk or plus others as schedules permit.

Elliot, please let me know what you think.

Transcript

Monday morning

NO for FRIDAY

FOR PRESIDENT RADIO ADDRESS

Environmental

Phone

Fax

OK ✓ 1.

Fred Krupp, Environmental Defense Fund
~~or Annie Patsonk, EDF~~212/505-2122
202/387-0070212/505/2375
202/387-6049

2

OK ✓ 2.

Jonathan Lash, World Resources Insitute
~~or Liz Cook, WRI~~

202/638-6300

202-662-2511

7/4/4

OK ✓ 3.

John Adams, Natural Resources Defense Council
~~OR Greg Weststone~~

212/727-2700

212/633-6935

R 3

Labor

✓ 1.

~~David Smith, AFL-CIO~~

no

✓ 2.

UAW (?) advise from Gene/Linda

no

Business

OK ✓ 1.

Kevin Fay or Eileen Claussen, International Climate Change Partnership

703/841-0626

703/243-2874

1

OK ✓ 2.

Tom Casten, Trigen Energy Corporation

914/286-6600

914/948-9157

6

OK 3.

Harvey Forest, Solarex

301/698-4200

301/698-4201

9

OK 4.

Roger Sant or Dennis Bakke, AES Cor.

703/522-1315

703/276-6758

8

OK ✓ 5.

Michael Marvin, Business Council for Sustainable Energy

202/785-0507

202/785-0514

5

OK 6.

Terry Thom, Enron Corp.
or Joe Hillings713/853-3071
202/466-9145713/646-4831
202/828-3372

OK 7.

Judith Bayer, United Technologies

202/336-7436

202/336-7529

7

OK 8.

Nancy Bacon, Energy Conversion Devices

810/280-1900

810/280-1456

Radio Address Agenda

- Text
- Embargoed briefing
 - Is it set up? Who is briefing? etc.
- Invited guests
- Calls to validators (time for calls; paper)
 - Tech list (Rosina)
 - Economists (Blinder)
 - Business (Fay, Marvin, Kasten, others)
- Detroit/Debbie Dingell

Draft 1/29/98 4pm

PRESIDENT WILLIAM J. CLINTON
RADIO ADDRESS ON CLIMATE CHANGE TECHNOLOGY INITIATIVE
THE WHITE HOUSE
January 30, 1998

Good morning. Today I'd like to talk to you about the challenge of climate change, and the steps we are taking to help American consumers and industries meet this challenge head on.

The vast majority of the world's climate scientists have concluded, unequivocally, that if we do not reduce the emissions of greenhouses into the atmosphere, the Earth will heat up, the seas will rise, and severe storms will threaten property and life. Fortunately, we can avert these dangers. Even more fortunately, we can do it in a way that creates jobs, saves money, and strengthens our economy. We can do it through the might of the marketplace and the power of American ideas.

In my State of the Union address, I called for an unprecedented commitment of \$6 billion for research and tax incentives to mobilize cutting-edge technology in the fight against global warming.

Many of you, I'm sure, heard the encouraging news from Detroit earlier this month. Ford, GM, and Chrysler just unveiled prototypes of ultra-efficient cars that get more than twice the mileage as today's models, with no sacrifice in comfort, safety, or performance. We're proud to have supported research that led to these breakthroughs.

As part of our ^{tax cut} ~~\$6 billion~~ package, we'll now help move cars like these onto the roadway by offering a direct incentive to all Americans shopping for cars. [Beginning next year/2000?] We'll offer a \$3,000 tax credit for the purchase of any car twice as fuel-efficient as the average model. [That's \$3,000 off the sticker price.] [And three years later,] We'll offer a \$4,000 tax credit for cars that are three times as efficient.

Our ^{you you} technology package also will help ~~turn America's~~ ^{you you} homes into ~~models~~ ^{you you} of energy efficiency. We'll offer \$1.4 billion in credits that will cut your taxes if you buy energy-saving heating and cooling systems. We'll accelerate research into more efficient lighting, refrigerators, air conditioners and other appliances. And, through research and tax incentives, we'll work to make sure the homes we build in the 21st century are as super-efficient as they can be. That means more comfort and lower energy bills for you.

Vice President Gore announced in California yesterday that we're proposing a tax credit for rooftop solar panels. We'll also step up research into solar and other renewable energy sources. And we will work with industry to cut their energy use -- protecting the environment, while enhancing the bottom line.

This initiative is an investment in our future. When we use energy more efficiently, we save money. And that is good for business, for consumers, and for our economy. Most importantly...
[future generations]

Thanks for listening.

when we'll you buy energy efficient cut price by 2000

MEMORANDUM FOR THE PRESIDENT

FROM: KATHLEEN MCGINTY
JIM STEINBERG
TODD STERN
GENE SPERLING
DAN TARULLO

SUBJECT: Climate Change

PURPOSE

To decide when to sign the Kyoto Protocol.

BACKGROUND

1. Schedule

The Kyoto Protocol will open for signature at the United Nations for one year starting March 16. No signing ceremony is planned.

The next Conference of Parties of the Climate Convention will be in Buenos Aires in early November. Key issues -- including rules for emissions trading -- will be on the agenda. Some of these issues may be very contentious.

At Buenos Aires and in other fora, we will work to obtain meaningful participation of key developing countries under the climate treaty. We hope to make progress, but the prospects for great strides by the time the signing period closes in March of next year are limited.

2. Domestic Implications

Several Democratic Senators -- including Byrd and Daschle -- are urging us to delay signing. Senator Byrd notes that the Kyoto Protocol fails to include the "specific, scheduled commitments" for developing countries identified as a condition to signing in his resolution. (The Byrd/Hagel resolution passed the Senate 95-0 last summer.) Senator Daschle believes that signing would be divisive within the Democratic caucus and slow momentum on this issue. Other Democratic Senators -- including Lieberman and Bob Kerrey -- believe we should sign soon, to underscore our success at Kyoto. *in 2 weeks*

The position of the Republican caucus on the signing issue is unclear. Senator Hagel, who has been active on this issue, is rumored to be considering a resolution urging us not to sign until the conditions of the Byrd/Hagel resolution are met. Senator Helms, in contrast, has urged you to

submit the treaty to the Senate for its advice and consent -- a step that would require signing -- "sooner, rather than later." Senator Helms says the Senate Foreign Relations Committee will consider the Comprehensive Test Ban Treaty "only after the Senate has had the opportunity to consider and vote on the Kyoto Protocol...".

provision should be seen as a reason for signing

The timing of our signature could have important impacts on any Senate resolution critical of the Kyoto Protocol. (There is little doubt that such a resolution could garner 51 votes at this time.) In a call last week with Stu Eizenstat, Senator Byrd said he would withhold support from any resolution critical of the Kyoto Protocol, if we withhold our signature from the treaty. Senator Hagel is reportedly reluctant to introduce a resolution without the support of Senator Byrd, preferring the 95-0 vote last year to a more partisan vote of disapproval this session.

yes - but we should wait
At this time, no constituencies have expressed strong views on the timing of our signature. [any data on business groups?] Environmental groups are still formulating their position and -- at least for the time being -- are willing to listen to an argument that not signing soon would best advance this agenda. Nevertheless, we can expect that some environmental groups will be critical of any failure to sign as the year progresses.

3. Diplomatic Implications

Several countries -- including the U.K., Italy, Japan and Canada -- will likely sign March 16 or soon thereafter. The number of signers will grow, at an uncertain pace, as the year goes on. The Commission of the European Union will push for early EU signatures, but several Member States may delay until at least June (when new EU burden-sharing arrangements will be negotiated). Russia, Australia and New Zealand may wait until rules for international emissions trading are better defined, in November at Buenos Aires.

The State Department believes that our decision on signing will have little impact on the climate negotiations this year. Some of our negotiators believe that not signing would provide additional leverage at Buenos Aires, underscoring the U.S. need for favorable resolution of several issues. [However, there is some concern that not signing could make it more difficult to engage developing countries on this issue in the year ahead.]

4. Need for a Decision

Starting the week of February 2, administration witnesses including Madeleine Albright, Stu Eizenstat and Katie McGinty will be testifying at Congressional hearings where questions on this issue are likely to arise. This memorandum seeks your guidance on how best to formulate our response.

OPTIONS

We have identified two principal options:

1. Announce that the United States will sign in March or soon thereafter.

This option sends the strongest signal that you consider the Kyoto Protocol to be an important success. It minimizes the chances that the United States will be criticized abroad for failing to lead on global warming and avoids a dynamic in any way similar to the isolation we experienced on land mines. It cuts off a divisive domestic political debate.

Perhaps the strongest argument for a March signature is that signing the Kyoto Protocol will get more difficult with time. Whenever we sign, Senator Byrd will likely disapprove. Mid-term changes in the Senate are at least as likely to add treaty opponents as supporters. Furthermore, by suggesting that additional developments are necessary before we sign, we put ourselves in a very difficult position should progress this year be scant. In early 1999, we could face a tough choice between defending scant progress as sufficient for signing or failing to sign the treaty during the signing period.

However, there is a considerable risk that a March signing would draw a Senate resolution critical of the Kyoto Protocol. Such a resolution would harden opposition from Senators whose support might grow with time, put several midwestern and coal state Democrats in difficult positions and complicate efforts to advance our domestic agenda on this issue.

need more

[Identify supporters of this option.]

2. Leave the timing issue open.

An alternative approach is to leave the timing issue open, pending further developments. A possible formulation might be as follows:

Q: When will you sign the Kyoto Protocol?

A: We hope and expect to sign the treaty this year and are awaiting further developments before deciding on timing.

Q: What further "developments"?

A: We are awaiting the outcome of discussions on this issue with other nations and our further consultations here at home.

Such an approach would leave us free to sign or delay signing as events dictate. It would avoid establishing specific criteria for signing. It could give Senator Byrd and other Senators sufficient comfort to prevent introduction of a resolution critical of the Kyoto Protocol.

[discussion pros and cons]

[Identify supporters of this option.]

NB: Does anyone support announcing now that we won't sign until after Buenos Aires? If so, will add this option.

REVISED

Draft 1/15/98 8:30pm

**PRESIDENT WILLIAM J. CLINTON
RADIO ADDRESS ON TOBACCO LEGISLATION
January 17, 1998**

Good morning. Today, I want to talk about the steps we must take to protect our children and the public health from one of the greatest threats they face: tobacco.

'98 JAN 16 AM 9:16

For years, tobacco companies have sworn that they do not market their deadly products to children. But this week, disturbing documents came to light that confirm our worst suspicions. For years, one of our nation's biggest tobacco companies appears to have singled out our children for seduction, carefully studying their habits and pursuing a marketing strategy designed to prey on their insecurities in order to get them to smoke.

Let me read you two of the most startling lines from an internal tobacco company presentation proposing a marketing campaign targeted at children as young as 14: "Our strategy becomes clear ...: Direct advertising appeal to younger smokers." Younger smokers, this document says also "represent tomorrow's cigarette business."

The message of these documents is all too clear: marketing to children sells cigarettes. Today, I want to send a very different message to those who would endanger our children: Young people are not the future of the tobacco industry -- they are the future of this country. And we must take immediate, decisive action to protect them from tobacco.

We know that every day, 3,000 young people will start smoking -- and 1,000 of them will die prematurely due to tobacco-related disease. We also know that 90% of adults who smoke -- 90% -- began using tobacco before the age of 18. That is why, starting in 1995, we launched a historic nationwide effort with the FDA to stop our children from smoking before they start, reducing their access to tobacco products, and severely restricting tobacco companies from advertising to young people. And the balanced budget agreement I signed into law last summer includes a \$24 Billion children's health initiative, providing health coverage to up to 5 million uninsured children, paid for by tobacco taxes.

But even these efforts are not enough to fully protect our children from the dangers of smoking. To do that we need comprehensive bipartisan legislation. Last September I proposed five key elements that must be at the heart of that legislation. First, and most important, it must mandate the development of a comprehensive plan to reduce teen smoking, with tough penalties for companies that do not comply. Second, it must affirm the FDA's full authority to regulate tobacco products. Third, it must include measures to hold the tobacco industry accountable, especially for marketing tobacco to children. Fourth, it must include concrete measures to improve the public health -- from reducing second-hand smoke, to expanding smoking cessation programs, to funding medical research on the effects of tobacco. Finally, it must protect tobacco farmers and their communities from loss of income caused by our efforts to reduce smoking by young people. If Congress sends me a bill that mandates these steps, I will sign it.

My administration will do all it can to insure that Congress passes this legislation. In September, I asked the Vice President to build bipartisan support for this legislation, and he has held forums across the country to focus public attention on this issue. In a few weeks, my balanced budget proposal will make specific recommendations on how much the tobacco industry should pay, and how we can best use those funds to protect the public health and our children. And today, I want to let members of Congress know that my administration will sit down with them anytime and anywhere to work out bipartisan legislation.

Reducing teen smoking has always been America's bottom line, and it has always been this Administration's bottom line. But to make it the tobacco industry's bottom line, we need this legislation. This is not about politics. This is not about money. This is about our children. The 1998 Congress should be remembered as the Congress that passed comprehensive tobacco legislation, not the Congress that passed up this historic opportunity to protect our children.

Thanks for listening.