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Q & A

PRELIMINARY AND INCOMPLETE: CLOSE HOLD
Questions & Answers
October 21, 1997

OVERVIEW

Q: WHAT IS THE ECONOMIC LOGIC OF THE PRESIDENT'S PLAN?

- A:
- As the President has emphasized, the risks posed by global climate change are real and sensible preventive steps are justified. The effects of addressing this critical issue depend on whether we do it smart or we do it dumb. Doing it smart means using market mechanisms, ensuring global participation, and relying on regular common-sense economic reviews.
 - The President's program begins with a set of tax incentives, R&D programs, and industry-by-industry consultations; includes an evaluation period beginning around 2005; and then moves to the internationally binding period with a market-based permit system between 2008 and 2012. It is intended to ensure that we explore all possible avenues for low-cost carbon reductions.

Q: COULD YOU DESCRIBE THE THREE-STAGE PLAN IN MORE DETAIL, AND EXPLAIN HOW IT WORKS?

A: Yes:

- In the first stage, his package includes tax incentives and spending for R&D and energy efficiency, a set of Federal government energy initiatives, and industry-by-industry consultations to explore their best ideas on how to reduce emissions in a cost-effective manner.
- In the second stage, which would begin around 2005, the program reviews our progress and evaluates next steps as we move toward a market-based permit trading system for carbon emissions. During this second stage, the details of the permit system would be refined and perhaps tested. Such a permit system is similar to, at least in concept, the one that currently applies to sulfur dioxide emissions -- although the scale of the carbon trading system would be significantly larger than the current sulfur dioxide program.
- Then, finally, in the third stage -- to reduce emissions to 1990 levels by 2008-2012 and below 1990 levels after that -- we would reduce emissions to 1990 levels. Before beginning this third stage, Congress and the President would review how the economy had responded to the first two stages. And a critical component of this third stage is the inclusion of developing countries in an

international system.

Q: HOW DOES THIS THREE-STAGE PLAN RECOGNIZE THE UNCERTAINTY INVOLVED IN CLIMATE CHANGE?

A: This three-stage program recognizes the uncertainty involved in the effort to address climate change in three ways:

- By adopting a graduated approach to emissions reductions, it allows us to grab the “low-hanging” fruit first.
- By adopting a system of regular economic reviews, to monitor our progress and re-assess how the economy is responding. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.
- By insisting that the United States will not adopt binding obligations without developing country participation and by emphasizing the importance of an international trading system. This allows the U.S. to take advantage of low-cost reduction possibilities abroad. As a letter signed by 2500 economists -- including 8 Nobel prize-winners -- argues, “In order for the world to achieve its climatic objectives at least cost, a cooperative approach among nations is required -- such as an international emissions trading agreement.”

Q: HOW DOES THIS PLAN RELATE TO LESSONS LEARNED FROM ECONOMIC MODELS?

A: The economics literature on climate change suggests several lessons, including:

- Efforts to address climate change involve substantial uncertainties, in terms of both the economy and the environment;
- A “cap and trade” system in which emission permits are issued and then traded among firms can substantially reduce the cost of meeting an emissions target by creating incentives for emissions to be reduced by those firms and in those activities where costs are lowest;
- International emission permit trading substantially lowers costs by applying the same cost-minimizing principle globally; and
- Joint implementation, whereby US firms would receive credit for undertaking emission reductions in countries with low abatement costs, would also lower the domestic burden.

The President's plan reflects these crucial lessons:

- It reflects the underlying uncertainties involved by adopting a graduated, three-stage approach to reducing emissions and instituting regular economic reviews.
- It includes a market-based emissions trading system that can substantially reduce costs relative to command-and-control approaches.
- It emphasizes international permit trading, and
- It conditions U.S. binding obligations on the participation of developing countries in the international system.

CLIMATE CHANGE ACTION PLAN

Q: HOW IS THE FIRST STAGE DIFFERENT FROM THE CLIMATE CHANGE ACTION PLAN THAT THE ADMINISTRATION HAS ALREADY ADOPTED?

A: The first stage of the President's climate change proposal differs from the Climate Change Action Plan in four critical ways:

- It includes substantially more funding. The President's proposal includes funding for carbon-reducing activities of \$5 billion over 5 years -- substantially more than current funding for the climate change action plan. [Funding for the Climate Change Action Plan in FY 1995 was \$184 million, in FY 1996 \$158 million, and in FY 1997 \$163 million. Total funding for climate-related activities is somewhat higher -- but still less than \$500 million per year -- because items such as PNGV are not included in the Climate Change Action Plan definition.]
- Crucially, the President's proposal now includes binding targets. In expectation of these binding targets, firms and households will begin to adjust their behavior today -- a factor that was not present in the climate change action plan.
- To provide further incentives for firms to take action now, the President has indicated his strong support for developing an early credit program of appropriate rewards for those who take prompt early action.
- Finally, the President has indicated his support for environmentally-friendly electricity restructuring, which has the potential to reduce emissions significantly.

Q: HAVEN'T SIMILAR PROGRAMS FAILED TO REDUCE EMISSIONS?

A: Total emissions are higher than anticipated when the Climate Change Action Plan was

adopted several years ago, because of stronger economic growth, lower energy prices, and reduced funding for Congress.

But estimates still suggest that the partial effect of the activities under the current Climate Change Action Plan is to reduce emissions by 76 million metric tons in 2000 and 169 million metrics in 2010. The President's three-stage plan includes 6 times the funding level of the Climate Change Action Plan -- and thus could produce substantially more reductions in carbon emissions. [390 million metric tons of reductions are needed in 2010 to move from business-as-usual to 1990 emissions levels.]

ECONOMIC COSTS OF CLIMATE CHANGE ITSELF

Q: WHAT ARE THE ECONOMIC COSTS OF CLIMATE CHANGE ITSELF? IS THERE AN ECONOMIC BENEFIT TO REDUCING CARBON EMISSIONS?

A: Yes. Several prominent economists, including Bill Cline and Bill Nordhaus, have examined the economic impact of *not* acting at all. They study the costs of climate change in terms of agriculture, sea-level increases, life and morbidity, hurricane damage, and other factors. Their general conclusion is that the cost of allowing climate change to continue unabated could amount to losses of about 1 percent of GDP -- equivalent to about \$8⁹billion -- in the United States. [Nordhaus, *Managing the Global Commons*, Table 4.1; Cline, *The Economics of Global Warming*, Table 3.4.] Other analysts believe that the effects could be even larger.

[Note: By itself, reducing emissions to 1990 levels would not avert all -- or even most -- of the damages. So the partial benefit to reducing emissions to 1990 levels is *much* smaller than the figures listed above.]

TARGET AND TIMETABLE

Q: HOW DID YOU CHOOSE 1990 BY 2008 TO 2012, RATHER THAN ANY OTHER ALTERNATIVE?

A: The President carefully weighed a wide variety of different targets and timetables. Because of the multitude of economic, environmental, and diplomatic factors involved in each approach, this decision was very difficult. He decided that the best balancing of all these factors, and one that would represent a credible first step in addressing climate change, would be to set a target and timetable of reducing emissions to 1990 levels by 2008 to 2012. That is the proposal we will be bringing to Kyoto. The President feels that his graduated approach strikes the proper balance between those who wish to do more, at the possible risk of imposing significant costs on the economy, and those who wish to do less, at the possible risk of imposing significant costs on the environment.

Q: HOW EXACTLY IS THE TIMETABLE MEASURED? WHAT DOES 2008 TO 2012 MEAN?

A: The proposal means that the objective is to reduce average greenhouse gas emissions between 2008 and 2012 to their level in 1990. In 1990, *net* U.S. emissions of all greenhouse gases -- CO₂, methane, nitrogen oxide, etc. -- amounted to 1.46 billion metric tons of carbon equivalent. Total CO₂ (carbon dioxide) emissions amounted to 1.34 billion metric tons, and *net* carbon dioxide emissions amounted to 1.23 billion of this total. (Net means gross emissions minus sinks, such as forests.)

[The U.S. position is that the international agreement should be stated in terms of total net emissions.]

Q: WHAT WILL U.S. EMISSIONS BE IN 2008-2012 UNDER BUSINESS-AS-USUAL? HOW ABOUT OTHER COUNTRIES?

A: We don't have a precise answer for 2008-2012, but we do have estimates for 2010 -- which is likely to be close to the average for 2008 to 2012. According to projections from DOE's Energy Information Administration, U.S. CO₂ emissions under business-as-usual are expected to increase from 1.34 billion metric tons in 1990 to 1.72 billion in 2010 -- an increase of 29 percent.

Western Europe CO₂ emissions are projected to rise from 1.02 billion metric tons in 1990 to 1.21 billion in 2010 -- an increase of 19 percent.

[Japanese emissions are expected to rise from 308 million metric tons to 466 million -- an increase of 51 percent. That estimate, however, does not fully reflect the recent slow-down in growth in Japan, and may therefore be substantially overstated.]

World emissions are expected to rise by 46 percent, from 6.0 billion metric tons in 1990 to 8.8 billion metric tons in 2010.

Q: WHY DID YOU CHOOSE A MULTI-YEAR TIMETABLE?

A: As press reports earlier this week indicated, carbon emissions often fluctuate significantly from year to year, based on economic growth, the weather, and other variables. The purpose of the multi-year timetable is to average over several years and thus minimize the impact of year-to-year fluctuations on meeting our international obligation.

Q: DOESN'T RESEARCH (BY MANNE AND RICHEL) SHOW THAT THE PRESIDENT'S TARGET AND TIMETABLE IMPOSES SUBSTANTIALLY HIGHER ECONOMIC COSTS FOR NO ADDITIONAL ENVIRONMENTAL BENEFIT, RELATIVE TO A MORE GRADUAL ADJUSTMENT PATH?

A: Some economic research does suggest that relative to the plan proposed by the President, a more backloaded approach to emissions reductions could reduce the costs involved, even while resulting in the same ultimate concentration of carbon in the atmosphere. But the emissions paths called for under such a plan rely on very steep -- and perhaps implausible -- declines in the out-years to ensure that the same concentration goal is met. [If we had proposed such a path, we would undoubtedly have been criticized for proposing a plan that was too backloaded.]

The President feels that his graduated approach, which includes regular reviews, strikes the proper balance between those who wish to do more, at the possible risk of imposing significant costs on the economy, and those who wish to do less, at the possible risk of imposing significant costs on the environment.

GDP AND EMPLOYMENT

Q: WHAT IS THE EFFECT ON GDP?

A:

- The precise effect on GDP is very difficult to assess. To provide some perspective: as you all know, it is difficult to gauge exactly what impact the balanced budget agreement will have on the U.S. economy's growth rate, levels of employment, interest rates and consumption over the next five years. But with global climate change, it is orders of magnitude more difficult to gauge the effects on the economy. Global climate change involves not just the next five years and not just the American economy, but, rather economic and physical processes that operate globally and over decades.
- To reflect this uncertainty, the President has proposed a graduated, three-stage approach to emissions reductions -- starting with a period of voluntary action, tax incentives, R&D, and Federal efficiency improvements, and then followed by an evaluation period around 2005. He has also proposed regular economic reviews, to ensure that the economic costs are not excessive. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.
- President Clinton's top priority, since his first days in office, has been revitalizing the U.S. economy, creating jobs and investing in people and technology to enhance long-term growth. We have made tremendous progress, and the President is not going to jeopardize that progress. Nor would we expect any

future President or Congress to do so.

- As for specific estimates of the impact on GDP -- which again are highly uncertain -- I would emphasize that two key components of the President's plan are that developing country participation and an international permit trading system. As 2500 economists -- including 8 Nobel prize-winners -- have argued, "In order for the world to achieve its climatic objectives at least cost, a cooperative approach among nations is required -- such as an international emissions trading agreement."
- With these two components -- developing country participation and international trading -- economic analysis suggests that the effect on GDP is likely to be minimal -- and much less than the typical variation in growth from quarter to quarter or year to year. [With worldwide trading, economic models suggest that the effect on GDP in 2010 is likely to amount to less than 0.1 percent of GDP.]

FOLLOW: BUT DON'T SOME MODELS SHOW DECLINES IN GDP OF 1 TO 2 PERCENT? IS THAT "MINIMAL"?

A: Some models do indeed show declines of those amounts, but they ignore several key issues:

- First, there is much uncertainty over cost projections that are a decade or more in the future -- a decade ago, we could never have predicted that we would now have an unemployment rate below 5 percent, core inflation below 2.5 percent, and a budget deficit substantially under \$50 billion.
- Second, to reflect the uncertainty involved in addressing climate change, the President has proposed a graduated, three-stage approach to emissions reductions -- starting with a period of voluntary action, tax incentives, R&D, and Federal efficiency improvements, and then followed by an evaluation period before the internationally binding period. He has also proposed regular economic reviews, to ensure that the economic costs are not excessive. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.
- Third, most models ignore the economic costs associated with climate change itself -- increased flooding, sea-level rise, and other dislocation. So looking just at the impact of reducing emissions on GDP is misleading.
- Finally, those estimates are based on model runs that assume that developing countries do *not* participate and that there is no international permit trading -- even though both are key components of the President's plan. When those

components are included in the analysis, the effects on GDP are predicted to be substantially lower. [With worldwide trading, economic models suggest that the effect on GDP in 2010 is likely to amount to about 0.1 percent of GDP.]

Q: **WHAT IS THE EFFECT ON OVERALL EMPLOYMENT?**

A: Same as answer to GDP question above, but substituting “employment” for “GDP.” [With worldwide trading, the effect on employment is likely to be about 75,000 jobs -- about one-third the average *monthly* job creation since President Clinton took office.]

Q: **DIDN'T AN EPI REPORT SHOW THAT OVERALL EMPLOYMENT WOULD FALL BY MORE THAN 1.5 MILLION UNDER THE PRESIDENT'S PLAN?**

A: No. The EPI report assumed no international trading and no developing country participation -- key components of the President's plan. Other results suggest that such omissions produce grossly misleading results. The President's plan also includes regular economic reviews, precisely to ensure that the economic costs are not excessive.

After all, President Clinton's top priority, since his first days in office, has been revitalizing the economy, creating jobs and investing in people and technology to enhance long-term growth. And we have made tremendous progress: growth is strong, unemployment is down to 4.9 percent, and over 13 million jobs have been created since January 1993. He is not going to jeopardize that progress.

Q: **WHAT ABOUT EMPLOYMENT IN SPECIFIC SECTORS?**

A: President Clinton's top priority, since his first days in office, has been revitalizing the economy, creating jobs and investing in people and technology to enhance long-term growth. And we have made tremendous progress: growth is strong, unemployment is down to 4.9 percent, and over 13 million jobs have been created since January 1993. He is not going to jeopardize that progress.

As the President has emphasized, the risks posed by global climate change are real and sensible preventive steps are justified. It is likely that in the effort to address this substantial challenge, some sectors will gain and some will lose. The regular economic reviews that are a critical part of the President's plan, and his commitment to developing a system of transition assistance for any affected workers, are intended to minimize any costs.

FOLLOW: **WHICH SPECIFIC SECTORS WILL BE HURT?**

A: We would expect that the impact would be more significant in carbon-intensive and energy-intensive sectors. But we do not have precise modeling results, showing which industries will gain and which will be hurt. I should note, however, that the President has

expressed his commitment to working with interested parties to develop a system of transition assistance, to reduce the burden on workers in affected industries.

PERMIT PRICES AND ENERGY PRICE INCREASES

Q: DON'T MOST MODELS SUGGEST THAT CARBON PRICES WILL HAVE TO RISE BY \$100 TO \$200 PER TON TO REDUCE EMISSIONS TO 1990 LEVELS BY 2010?

A: Many models have concluded that permit prices would need to be in that range to reduce emissions to 1990 levels by 2010 with no international trading. But such trading, along with developing country participation, is a key component of the President's plan. The economics literature suggests that if international trading were to develop, the costs involved would be substantially reduced.

I should also note that there is much uncertainty over cost projections that are a decade or more in the future -- a decade ago, we could never have predicted that we would now have an unemployment rate below 5 percent, core inflation below 2.5 percent, and a budget deficit substantially under \$50 billion.

To reflect the uncertainty involved in addressing climate change, the President has proposed a graduated, three-stage approach to emissions reductions -- starting with a period of voluntary action, tax incentives, R&D, and Federal efficiency improvements, and then followed by an evaluation period around 2005. He has also proposed regular economic reviews, to ensure that the economic costs are not excessive. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.

FOLLOW: HOW MUCH OF A DIFFERENCE DOES INTERNATIONAL TRADING REALLY MAKE?

- A:
- I hesitate to give a precise answer because of the substantial uncertainties involved in the analytical effort, and because of the institutional difficulties in making international trading a reality. But many reports suggest that international trading *could* substantially reduce the cost.
 - The World Bank is already working on designing a system for international trade in permits. Some experiments have already been conducted -- including one in the Nordic countries that suggested that international trading "can be an important means of reducing the costs to achieve a greenhouse gas objective." [Peter Bohm, "A Joint Implementation as Emission Quota Trade: An Experiment Among Four Nordic Countries," Nordic Council of Ministers, February 7, 1997.]

- Over 2500 economists -- including 8 Nobel prize-winners -- have signed a letter emphasizing that "In order for the world to achieve its climatic objectives at least cost, a cooperative approach among nations is required -- such as an international emissions trading agreement."
- A recent report written by several leading climate change economists and published by the Pacific Northwest National Laboratory this month suggests that worldwide permit trading would allow us to reach 1990 levels by 2010 for a permit price of approximately \$25 per ton in 2010 -- or an increase of about 6 cents per gallon of gasoline after 13 years. [JA Edmonds, SH Kim, CN MacCracken, RD Sands, MA Wise, "Return to 1990: The Cost of Mitigating United States Carbon Emissions in the Post-2000 Period," Battelle, October 1997.]

Q: DIDN'T THE 5-LABS STUDY CONCLUDE THAT CARBON PRICES WOULD HAVE TO RISE BY \$50 TO REACH 1990 LEVELS BY 2010, AND ISN'T THAT ON THE OPTIMISTIC SIDE?

A: The 5-Labs study examined a scenario in which there was no international trading, and concluded that the permit price would have to be \$50 to reduce emissions to 1990 levels by 2010 with no such trading. But the President's plan emphasizes international trading and developing country participation. The economics literature suggests that worldwide trading substantially reduces the costs involved.

✓ [An DOE analysis that combines international permit trading with the results of the 5-Labs study suggests that a permit price of \$25 or lower in 2010 would allow the country to meet its target and timetable.]

Q: ISN'T \$25 PER TON OF CARBON STILL A SUBSTANTIAL INCREASE IN ENERGY COSTS?

A: As the President has emphasized, the risks posed by global climate change are real and sensible preventive steps are justified. Some increase in the relative price of energy is necessary to address climate change. Under the President's plan, any relative price shifts involved would not take effect until 2005 or later.

N [Note: \$25 per ton translates into about 6 cents per gallon of gasoline, and approximately \$200 per year for the average family.]

Q: DON'T SOME ADS SUGGEST THAT GAS PRICES WOULD HAVE TO RISE BY 50 CENTS?

A: Those ads are misleading. They seem to be based on especially pessimistic views about

what could happen if we attempted to reduce emissions to 1990 levels without international trading. But such trading, including with developing countries, is a key component of the President's plan. Since the economics literature suggests that worldwide trading substantially reduces the costs involved, those ads are misleading. And remember that the President's plan includes regular economic reviews, to ensure that the costs do not become excessive.

CREDIBILITY

Q: HOW CAN YOU POSSIBLY REDUCE EMISSIONS TO 1990 LEVELS BY 2008-2012 WITHOUT IMPOSING EXCESSIVE COSTS ON THE ECONOMY?

- A:
- Climate change is a critical challenge facing the country, but there is substantial uncertainty surrounding how costly it will be to address. Given this uncertainty, it would be irresponsible not to explore all possible avenues for low-cost emissions reductions before undertaking any effort that would be excessively costly.
 - The President's graduated, three-stage approach therefore recognizes that there is substantial uncertainty over any project that is a decade or more in the future -- a decade ago, we could never have predicted that we would now have an unemployment rate below 5 percent, core inflation below 2.5 percent, and a budget deficit substantially under \$50 billion.
 - To reflect the uncertainty involved in addressing climate change, the President has proposed a graduated, three-stage approach to emissions reductions -- starting with a period of voluntary action, tax incentives, R&D, and Federal efficiency improvements, and then followed by an evaluation period around 2005. He has proposed regular economic reviews, to ensure that the economic costs are not excessive. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.
 - I don't know for sure that we can succeed in this effort, but I'll tell you one thing: After the first two stages of the President's program, we will have made a credible first step and we'll know a lot more than we do now about both the science and economics of climate change.

SAFETY VALVE, ECONOMIC REVIEWS, AND "BINDING" TARGET

Q: IS THE TARGET AND TIMETABLE BINDING?

- A: Yes, but it would not be reasonable to expect this President, or any future President or Congress, to impose excessive costs on the economy to meet that target.

Q: THEN HOW CAN YOU CLAIM THAT THE TARGET AND TIMETABLE IS BINDING, WHEN MOST ECONOMIC MODELS SUGGEST THAT YOU CAN'T REDUCE EMISSIONS THAT MUCH WITHOUT INCURRING EXCESSIVE COSTS?

- A:
- First, there is much uncertainty over any cost projections that are a decade or more in the future -- a decade ago years ago, we could never have predicted that we would now have an unemployment rate below 5 percent, core inflation below 2.5 percent, and a budget deficit substantially under \$50 billion.
 - Second, the models to which you refer assume no worldwide permit trading. But such trading, including with developing countries, is a key component of the President's plan. The economics literature suggests that worldwide trading substantially reduces the costs involved.
 - Finally, it is unreasonable to ignore the reality that future Congresses will always have the option to protect the economy or to undertake more environmental action. We should therefore recognize that decisions about whether the United States was willing to bear the costs that could be necessary to meet the target and timetable goal will, in a sense, have to be made at that time.

Q: HOW CAN YOU ENSURE THAT THE COSTS ARE NOT EXCESSIVE?

- To ensure that the costs are not excessive, the President has proposed a graduated, three-stage approach to emissions reductions -- starting with a period of voluntary action, tax incentives, R&D, and Federal efficiency improvements, and then followed by an evaluation period around 2005. He has proposed regular economic reviews, precisely to ensure that the economic costs are not excessive. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.
- The President has also emphasized the participation of developing countries, and an international system of trading permits, as key components of his climate change plan. Such factors should substantially reduce the costs involved.

Q: WILL THESE REVIEWS FORM PART OF THE INTERNATIONAL TREATY?

- A:
- No, although the treaty already includes broad language that preserves a country's right to take protective action if the costs involved become excessive.

Q: HOW CAN YOU SIGN AN INTERNATIONAL TREATY THAT DOESN'T REFLECT THE PROTECTIONS YOU ARE CLAIMING DOMESTICALLY?

A: No country would ever be expected to sacrifice its national interests -- including either its national security or its economic well-being -- on the basis of an international treaty. So let me put it this way: We would be just as committed to this treaty, if we get an adequate agreement, as any other we have ever adopted.

Q: DO YOU INTEND TO MEET YOUR BINDING OBLIGATION?

A: We certainly intend to meet any binding obligation under the treaty, should the terms of that treaty be adequately negotiated. The issue is a critical one, and the President feels strongly that we must begin to take corrective action. But there are understandably a host of imponderables involved in this undertaking -- which involves actions over a decade or more. So I am also confident that if the costs of action are excessively high, the Congress and the President will make appropriate adjustments.

Q: DOES YOUR PROPOSAL INCLUDE A "SAFETY VALVE"?

A: That term has unfortunately become a bit maligned. Our proposal includes a variety of mechanisms to ensure that the economic costs involved are not excessive -- including the graduated, three-step approach with regular economic reviews and the commitment to an international trading regime. You can call them what you want.

Q: DIDN'T THE ADMINISTRATION PROPOSE A "SAFETY VALVE" INVOLVING A MAXIMUM PERMIT PRICE?

A: The issue of whether it would make sense to impose a ceiling on the permit price in the internationally binding period (Stage 3) has been raised by researchers at Resources for the Future, and was discussed during the President's climate change conference. The Administration never proposed such a safety valve, however.

FOLLOW: WHY DIDN'T THE ADMINISTRATION ADOPT SUCH AN APPROACH?

A: We felt it was unnecessary to impose a formal ceiling price during the internationally binding period at this time. We are confident that our graduated approach, with its regular economic reviews and scope for adjustments by future Presidents and Congresses, provides sufficient protection against excessive economic costs.

Q: WHO WILL CONDUCT THE ECONOMIC REVIEWS?

A: The reviews will be conducted by relevant experts and officials. It is possible that we

would form a commission to conduct them.

Q: WHAT IMPACT WILL THE REVIEWS HAVE ON POLICY?

A: The reviews will help to ensure that policy-makers, both in the Administration and in Congress, have the best possible information on how the economy is responding to the effort to address climate change, how other countries are performing relative to their own commitments, and how the climate is changing in response to human activities. That information will then undoubtedly be used to make any adjustments that seem appropriate to policy-makers in the future. It doesn't seem wise for me to speculate about what form such adjustments would take -- whether in terms of more aggressive environmental action, or less aggressive.

STANDARDS

Q: ARE YOU PROPOSING ANY INCREASE IN CAFE STANDARDS TO IMPROVE FUEL EFFICIENCY AND REDUCE EMISSIONS?

A: In the DOT appropriations bill that was just passed and signed into law, Congress precluded any change in CAFE standards for FY 1998. So we do not currently have the authority to change CAFE standards.

Q: ARE YOU PROPOSING ANY OTHER STANDARDS AS PART OF YOUR PACKAGE?

A: As part of our industry-by-industry consultation process, we will be working with interested parties to explore all possible opportunities for reducing carbon emissions. That could include energy-efficiency standards if appropriate. But we are not putting out any specific proposals at this time. We want to elicit industry views on the subject.

TAX INCREASES

Q: DOESN'T THE PRESIDENT'S PLAN AMOUNT TO THE LARGEST ENERGY TAX INCREASE IN HISTORY -- \$200 BILLION A YEAR OR MORE?

A: Not at all. The President's plan includes tax *cuts*, not tax increases. It does not involve tax increases at all.

FOLLOW: BUT ISN'T A PERMIT SYSTEM JUST LIKE A TAX?

A: No. There are several critical differences between a permit system and a tax. For example, a permit system provides insurance that a given quantitative target will be met, whereas a tax does not.

FOLLOW: BUT IF YOU AUCTION THE PERMITS, ISN'T THAT A TAX?

A: First, we have not decided to auction the permits. Second, just for the record, there are still several critical differences between such an auctioned permit system and a tax. For example, the permit system provides insurance that a given quantitative target will be met, whereas a tax does not. And any revenue from the auctions could be used to *reduce* other taxes -- so that the entire effort would be revenue-neutral.

Q: WON'T ENERGY PRICES INCREASE, JUST AS IF YOU IMPOSED A TAX?

A: Climate change is a critical issue, and some increase in the relative price of energy will ultimately be necessary to address it. But it would be irresponsible not to explore all possible alternatives before resorting to moderate relative price change. The President has therefore proposed a graduated approach to emissions reductions -- starting with a period of voluntary action, tax incentives, R&D, and Federal efficiency improvements, and then followed by an evaluation period around 2005. He has also proposed regular economic reviews, to ensure that the costs are not excessive. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period. The President has also emphasized the participation of developing countries, and an international system of trading permits, as key components of his climate change plan. Such factors should substantially reduce the costs involved.

Q: HOW DOES THIS EFFORT COMPARE TO THE BTU TAX?

A: This effort is not a tax, so it is not directly comparable. And energy price increases would not occur for a decade or more. But in terms of oil prices, the effect of a \$25 carbon permit price is approximately the same. Remember, however, that the internationally binding permit program would not begin until 2008.

[A \$25 permit price is equivalent to approximately 60 to 70 cents per million BTUs. In 1993, the Administration proposed a tax of 26 cents per million BTUs plus a 34 cents per million BTUs tax on oil.]

DETAILS OF PERMIT SYSTEM, INCLUDING GRANDFATHERING VERSUS AUCTIONING

Q: HAVE YOU DECIDED WHETHER THE PERMITS WOULD BE AUCTIONED OR GRANDFATHERED?

A: No. That is a very important issue that we will explore with Congress and other interested parties when the time comes for developing domestic implementation legislation.

Q: WHERE WOULD THE PERMIT REQUIREMENTS BE IMPOSED?

A: That is a very important issue that we will explore with Congress and other interested parties when the time comes for developing domestic implementation legislation.

COMPETITIVENESS

Q: WON'T THIS PLAN LEAD TO MASSIVE SHIFTS OF U.S. INDUSTRY AND JOBS ABROAD?

- A:
- No. The President has made very clear that we will not assume binding obligations until the developing countries make adequate commitments in terms of their own obligations.
 - I would also note that non-tradeable sectors account for a substantial share of carbon emissions. Transportation and buildings, for example, account for roughly two-thirds of U.S. emissions. For these sectors, the "competitiveness" argument seems largely irrelevant.
 - In most manufacturing sectors, furthermore, energy costs are a small percentage of total costs. According to the 1995 Annual Census of Manufactures, energy costs for manufacturing industries averaged just 2.2 percent of total costs.

DEVELOPING COUNTRIES AND INTERNATIONAL TRADING

Q: WHAT SPECIFIC MODELS SHOW THAT WORLDWIDE INTERNATIONAL TRADING ALLOWS RELATIVELY LOW-COST REDUCTIONS?

- A:
- According to JA Edmonds, SH Kim, CN MacCracken, RD Sands, MA Wise, "Return to 1990: The Cost of Mitigating United States Carbon Emissions in the Post-2000 Period," Battelle, October 1997, the cost of reaching 1990 levels by 2010 with worldwide trading would be a permit price of \$26 per ton in 2010.
 - The models used by the Interagency Analytical Team to produce its draft report suggest that the permit price needed to reduce emissions to 1990 levels by 2010 would be between \$9 and \$20 in 2010.

Q: DOESN'T INTERNATIONAL TRADING MEAN THAT WE ARE ESCAPING OUR OBLIGATION TO REDUCE EMISSIONS?

A: No. A ton of carbon emitted from Argentina is just as damaging to the global climate system as a ton of carbon emitted from the United States. So we are contributing just as much to the effort to address global climate change if we facilitate reductions abroad as if

we reduce here. The U.S. position has therefore always emphasized the efficiency of allowing least-cost reductions wherever they occur in the world.

Q: WON'T INTERNATIONAL TRADING MEAN THAT WE ARE SENDING BILLIONS OF DOLLARS ABROAD, AND EXPANDING OUT TRADE DEFICIT?

A: First, it is difficult to predict precisely how large the trade in these permits will be. Second, the estimates we do have suggest that such trade could amount to a few billion dollars a year -- a relatively modest amount. Third, our balance of payments statisticians have not determined whether such trade would show up in the trade deficit at all, or would be more appropriately handled in other parts of the balance of payments (e.g., other elements of the current account, or within the capital account). Finally, our oil imports should decline as a result of efforts to address climate change. Some estimates suggest that our trade deficit could therefore *narrow* as a result of the effort.

Q: IS INTERNATIONAL TRADING REALLY FEASIBLE, ESPECIALLY WITH DEVELOPING COUNTRIES?

A:

- Creating a system of international trading will undoubtedly be a challenge for the United States and other parties to any climate change treaty. But the President is firmly committed to the concept, because it is an efficient, market-based approach to emissions reductions -- it substantially reduces the costs of meeting our target.
- The World Bank has already begun work on how such an international trading system could function.
- And some carbon trades are already occurring under our pilot Joint Implementation program.

Q: HOW CAN WE EXPECT COUNTRIES LIKE INDIA AND CHINA TO PARTICIPATE IN AN INTERNATIONAL TRADING REGIME?

A: Such countries already participate in international trade in other products. The President has made clear that we will not adopt binding obligations until the developing countries make adequate commitments in terms of their own obligations. And once they have made such commitments, there is no reason to suspect that they would be unwilling to be guided by economic incentives in deciding whether to sell carbon emissions permits on an international market.

PROCESS ON ECONOMIC MODELING AND ECONOMIC ANALYSIS

Q: WHAT ECONOMIC ANALYSIS AND MODELS DID YOU USE IN

EVALUATING DIFFERENT POLICIES?

A: We relied on a wide variety of published analyses and outside experts, as well as the professional judgment of the Administration's top economists. Given the uncertainties involved, it would have been imprudent to rely on one single model or set of models. So we wound up relying on a large number of analyses and views -- including the results from the Energy Modeling Forum at Stanford University, the Intergovernmental Panel on Climate Change, and others.

Q: **WHAT IS THE INTERAGENCY ANALYTICAL TEAM? DOES ITS REPORT REFLECT THE ADMINISTRATION'S OFFICIAL ECONOMIC ANALYSIS?**

- A:
- When the Administration evaluates possible policies, it normally sets up a variety of staff-level working groups to inform the principals' discussions. The Interagency Analytical Team (IAT) was one such group -- an informal group of modelers from various agencies in the Federal government.
 - Once the relevant principals within the Administration looked over the staff work and the peer review comments on it, it was decided that further activity would be futile because of the difficulty of developing a model or set of models that can give us a definitive answer as to the economic impacts of a given climate change policy. So the IAT report is *not* the Administration's official economic analysis on this issue.
 - The working group's draft report, which was released on July 15, summarizes the preliminary results of the modeling effort. That modeling effort produced some useful lessons, but -- as illustrated by comments from peer reviewers -- it also suffered from shortcomings.
 - As Janet Yellen emphasized in her testimony on July 15, the lessons and the shortcomings of the exercise point to one clear conclusion: the effort to develop a model or set of models that can give us a definitive answer on the precise economic impact of a given climate change policy is futile. Rather, we are left with a set of parameters and relationships that influence estimates of the impacts. As she indicated, it is more productive to employ a broad set of economic tools to analyze policy options than to seek to develop a single definitive model. So that's what we did.

ECONOMIC TEAM RUMORS

Q: **ISN'T IT TRUE THAT THE ECONOMIC TEAM OBJECTED TO THE PRESIDENT'S CHOICE OF EMISSIONS REDUCTIONS?**

A: I'm sure that you can understand that the advice given by any Administration officials to the President must remain confidential. But I can assure you that the economic team supports the President's package, especially its emphasis on a market-based approach and on international trading.

Q: BUT DOESN'T YOUR OWN ANALYSIS SHOW THAT REACHING 1990 BY 2010 WOULD INVOLVE SUBSTANTIAL COSTS?

A: It seems inappropriate for me to reveal the analysis and views that I have shared with the President. I can say that I have informed him of the results from conventional economic models available in the public domain, and discussed both the benefits and limitations of such models. Given the importance I attach to frank internal discussions, I would prefer not to elaborate beyond that -- except to note once again, that there is much uncertainty involved in the estimates and that worldwide international trading, a key component of the President's plan, reduces the costs involved significantly.

COMPONENTS OF STAGE 1

Q: WHAT DOES STAGE 1 OF THE PRESIDENT'S PLAN ENTAIL?

A: The first stage, which applies until 2005, includes:

- **\$5 billion for tax cuts and R&D:** A package of carbon-reducing tax incentives and other programs amounting to \$5 billion over 5 years. For example, the package may include tax credits for carbon-saving technologies such as renewable energy sources.
- **Federal energy efficiency improvement:** A Federal government energy efficiency initiative is being developed by the Department of Energy, in conjunction with the Department of Defense, OMB, and other relevant agencies. It includes expanding the use of Energy Savings Performance Contracts, reinventing federal procurement, taking a "sustainable design" approach to federal facilities, and developing more efficient military propulsion systems. The effort would also include a review of existing Executive Orders on purchases, and preparation of a new Executive Order to fill any gaps.
- **Industry-by-industry consultation:** We will encourage businesses, on an industry by industry basis, to prepare plans for reductions that they believe they could achieve on their own and how they could best achieve them. Each relevant industry would prepare a plan over the next 6-12 months.
- **Credit for early action:** The President and Vice President strongly support appropriate rewards for those who promptly take early action to reduce emissions.

The details of how such an early credit system would operate, however, are complex and can't be fully articulated until the details of an overall permit trading system are worked out. We should state our support for early action and indicate that early actors will be appropriately rewarded.

- **Electricity restructuring:** The President has announced his support for restructuring the electricity industry, which -- if done properly -- could help to reduce carbon emissions, save consumers billions of dollars, and improve the efficiency of our economy.
- **Transition Assistance.** We will work cooperatively with labor and Congress to insure that we give proper assistance to any workers who are dislocated by the changes in energy usage inherent in any climate change plan.

Q: WHAT ARE THE PAY-FORS ON THE \$5 BILLION IN TAX INCENTIVES AND R&D?

A: We will be developing the detail of that package as part of the FY 1999 budget process. The proposals will clearly be fully paid for, but we are still working out the details of what will be included in the package itself. It doesn't make sense to identify precisely the pay-fors before identifying the items themselves.

Q: WHAT IS THE SHARE OF TAX CUTS IN THE \$5 BILLION?

A: That will be decided as part of the FY 1999 budget process.

Q: HOW MUCH DO WE CURRENTLY SPEND ON ACTIVITIES LIKE THIS?

A: The President's proposal includes funding for carbon-reducing activities of an additional \$5 billion over 5 years -- substantially above the current funding for the climate change action plan. Funding for the Climate Change Action Plan in FY 1995 was \$184 million, in FY 1996 \$158 million, and in FY 1997 \$163 million. (Total funding for climate-related activities is somewhat higher -- but still less than \$500 million per year -- because items such as PNGV are not included in the Climate Change Action Plan definition.)

COMPONENTS OF STAGE 2

Q: WHAT DOES STAGE 2 OF THE PRESIDENT'S PLAN ENTAIL?

A: In stage 2, which begins in 2005, experience under Stage 1 would be evaluated, proposals for the emissions trading system would be developed and perhaps tested, and a review of other countries' actions would be undertaken.

ELECTRICITY RESTRUCTURING

Q: WHAT EFFECT DOES ELECTRICITY RESTRUCTURING HAVE ON CARBON EMISSIONS?

A: If done properly, electricity restructuring has the potential to reduce carbon emissions by rewarding pursuit of greater efficiency in the generation and use of electricity. According to conservative estimates, restructuring could save U.S. residential and industrial consumers \$20 billion per year. A well-crafted restructuring package could also produce significant carbon emissions reductions. As we heard at the President's climate change conference, we currently waste two-thirds of the energy used to produce electricity -- and restructuring could help to reduce that waste. Other potential elements of a restructuring package, including a renewables portfolio standard and green labeling, could also reduce carbon emissions.

Q: WHAT IS THE PRESIDENT'S PLAN FOR ELECTRICITY RESTRUCTURING? WHEN WILL THE DETAILS BE AVAILABLE?

A: We will be refining our thinking on this issue over the coming months, and we look forward to working with all interested parties to ensure that we can craft a restructuring package that saves American consumers money and is good for the environment.

DIPLOMATIC/TREATY Q's & A's

Q: Is this proposal on targets and timetables your bottom line?

A: • This is a negotiation. It would not be helpful to discuss our bottom line here today. However, I would like to emphasize two points. First, the President believes the targets he proposed today are realistic and achievable. Under no circumstances would he accept a target that failed to meet these criteria. Second, these targets are part of a comprehensive framework to which the President is deeply committed and which must form a part of any agreement at Kyoto. Other parts of the framework include flexibility in meeting targets, through tools like joint implementation, and the participation of all countries.

Q: Do you expect an agreement at Kyoto?

A: • The United States hopes an agreement can be reached at Kyoto. We cannot solve this problem unless countries around the world work together.

• These are very difficult negotiations. One of the experts at our White House Conference on Climate Change called them the most difficult international

negotiations, ever. But we believe the world must find a way to address this problem, for our children and grandchildren.

Q: Will the President raise climate change next week with Jiang Zemin?

- A:
- Absolutely. The President has spoken to the Chinese leadership about this issue before, and will do so again. The United States and China are the number one and two emitters of greenhouse gases in the world. The President believes that China and other developing countries have an opportunity to chart a different energy future -- one based on clean and cheap technologies.
 - Under the leadership of Vice President Gore, we have been discussing cooperation with China on energy and the environment. We hope to use the summit to strengthen our cooperation in this area.

Q: Did the President speak with any foreign leaders before making this announcement?

- A:
- The President has consulted widely with other heads of state on this issue. Last week, he raised climate change in his meetings in Venezuela, Brazil and Argentina. This week, he spoke by phone with several leaders [do we want to name them?].

Q: Does the United States support the EU bubble?

- A:
- No. The United States does not believe that any countries should receive special treatment under the Convention. The United States believes that members of the European Union should agree to comply with obligations agreed at Kyoto on the same terms as the United States.

Q: What does the President think of the recent Japanese proposal?

- A:
- President appreciates Japan's leadership in hosting the Kyoto conference and their efforts to help forge an agreement in Kyoto. The President believes that the targets and timetables set forth in his proposal are realistic and achievable and hopes that Japan will support them.

Q: Does the United States support the differentiation elements contained in the Japanese proposal?

- A:
- The United States does not believe it will be possible to negotiate a complex differentiation scheme before Kyoto.

Q: What does binding" mean? How will the climate treaty be enforced?

A: • “Binding” means that this will be a treaty obligation of the United States. The United States has entered into hundreds, if not thousands, of binding treaties, with a broad range of enforcement mechanisms. For this treaty, the United States has proposed an enforcement regime under which countries that fail to comply would first receive technical assistance; then might officially be declared to be out of compliance with the treaty; and finally would lose the right to sell emissions permits and/or have their emissions permits devalued. Enforcement mechanisms remain a topic for negotiation.

Q: Will you submit any agreement reached at Kyoto to the Senate for its advice and consent?

A: • We honor and respect the U.S. Senate’s important role in providing advice and consent to the ratification of treaties. We would anticipate the need for Senate advice and consent to any international agreement adopted in Kyoto that would impose binding commitments on the U.S. to control emissions.

Q: Korea and Mexico are not currently Annex I countries. Will the graduation of countries to Annex I be part of any agreement at Kyoto?

A: • This is a topic for negotiation. The treaty has a regular review mechanism, under which the Parties examine annexes. The Parties are scheduled to review the membership Annex I in 1998.

Q: Will the President or Vice-President go to Kyoto?

A: • We have not made final decisions about the membership of our delegation in Kyoto.

Q: Sources within the Pentagon are concerned that the climate treaty could hurt our military readiness. What are you doing to address this concern?

A: • Under no circumstances will this treaty in any way impair military readiness. We are exploring the concerns that have been expressed, to be sure they are fully and adequately addressed, but do not anticipate any difficulties in addressing these concerns.

• I would note that the Department of Defense has an impressive record of environmental leadership. In areas ranging from ozone depletion to hazardous waste cleanup to energy efficiency, the record of our armed services in responding to environmental challenges is superb. President Clinton is deeply proud of the men and women in uniform and their efforts to ensure a better world for our children and grandchildren.

Q: What is the President proposing that developing countries do as part of his proposal?

- A:
- The President believes that developing countries must be part of this global regime. Without them, we cannot solve this problem. The President believes we can engage developing countries on this issue in ways that are good for them and good for us. He believes that developing countries have an opportunity to chart a different energy future -- one based on clean and cheap technologies.
 - The President spoke about this issue in each country he visited in Latin America last week. Throughout his trip, he shared his conviction that we can and must work together on this problem, in ways that benefit us all. He plans to raise this issue with Jiang Zemin next week.
 - Today, the President emphasized that the United States will [not assume binding obligations under the climate treaty unless] developing countries participate in this global regime. The United States and other developed countries will lead, but developing countries must also be part of the solution. In particular, the President emphasized the importance of joint implementation [and of additional negotiations over emissions limits for key developing countries].

TARGET & TIMETABLE

Q: The U.S. target and timetable is the weakest of any of the proposals put forward to date, including from the European Union and Japan. Why?

- A:
- I would argue that in many ways our target is the strongest that has been put forward. We have proposed emissions reductions that are realistic, achievable, and meaningful. We have backed up those proposals with a three-stage domestic implementation plan. And we have called for a comprehensive international framework that will ensure that all countries participate in a global effort to reduce emissions at the least cost.
 - Keep in mind that some of these other targets aren't all they seem to be. The EU derives enormous benefits from a 1990 baseline -- Germany, for example, gets to claim credit for all the cheap reductions that were a fortuitous consequence of reunification.
 - With regard to Japan, a careful examination of their proposal will reveal that we are not so far apart.

Q: How can you suggest that the u.s. is taking a leadership role on climate change when

you will be 13% over the rio objective of reducing emissions to 1990 levels by 2000 and are now effectively postponing the rio goal by a further ten years?

- A:
- Our goal is real progress, not rhetoric.
 - The U.S. has proposed emissions reductions that are realistic, achievable, and meaningful. We have backed up those proposals with a three-stage domestic implementation plan. And we have called for a comprehensive international framework that will ensure that all countries participate in a global effort to reduce emissions at the least cost.

Q: The target and timetable you have proposed appears to be the most environmentally stringent that was seriously considered. Given the far more aggressive european proposal, how do you expect to be able to negotiate a deal in Kyoto?

- A:
- We are hopeful that all countries will come to Kyoto with an open mind, prepared to negotiate an agreement that provides real and achievable gains.
 - We are not interested in signing an agreement that includes unnecessarily stringent targets and that ignores the other elements that are critical to a successful global effort to reduce emissions.
 - That is why the U.S. has proposed emissions reductions that are realistic, achievable, and meaningful; why we have backed up those proposals with a three-stage domestic implementation plan; and why we have called for a comprehensive international framework that will ensure that all countries participate in a global effort to reduce emissions at the least cost.

Q: Isn't it true that this proposal doesn't actually reduce emissions at all but instead just stabilizes them at a certain level?

- A:
- No. Our proposal involves real and meaningful reductions. Consider that under a business-as-usual scenario, U.S. emissions are predicted to be 28% above 1990 levels by 2010.
 - We also stipulate that further reductions, below the 1990 baseline, would be achieved in a second emissions budget period.

PROSPECTS FOR KYOTO

Q: Given how far apart countries seem to be in their stated positions, is it realistic to expect any kind of agreement in Kyoto?

- A:
- We are hopeful that all countries will come to Kyoto with an open mind, prepared to negotiate an agreement that provides real and achievable gains.
 - No agreement is better than a bad agreement. The U.S. will continue to insist that any international framework include realistic, achievable targets; flexible implementation mechanisms like emissions trading and joint implementation; and the meaningful participation of developing countries.

Q: Can you explain exactly what it would take for the U.S. to sign an agreement in Kyoto? For example, would you accept agreement in principle on emissions trading if the details were not yet worked out?

- A:
- The U.S. believes any agreement should include realistic, achievable targets; flexible implementation mechanisms like emissions trading and joint implementation; and the meaningful participation of developing countries. These three elements form the core of a comprehensive international framework for reducing emissions at the least cost.

Q: What happens if there is no deal in Kyoto?

- A:
- We are hopeful that all countries will come to Kyoto with an open mind, prepared to negotiate an agreement that provides real and achievable gains.
 - Even if we cannot reach agreement in Kyoto, climate change will remain a top priority issue for this President. The U.S. will continue to work on building support for a comprehensive international framework that involves all countries in a common effort to meet this important challenge.
 - And we will get busy on the elements of the President's plan that we can start right away.

POLITICAL

Q: Isn't it true that under your plan any increases in energy prices wouldn't kick in until after the first term of a possible gore presidency?

- A:
- The President has proposed a three-stage domestic implementation program intended to ensure that we phase-in emissions reductions and explore all possible avenues for low-cost carbon reductions.
 - This approach was chosen because it represents the most economically sensible

way of achieving meaningful emissions reductions.

Q: Is it true that the president rejected a first set of options as not environmentally strong enough and requested new ones?

- A:
- No. That is not an accurate characterization.
 - It is true that the President and Vice President have been very engaged in this process and have met with their senior advisers on a number of occasions to discuss various options.

Joint Implementation and Trading

Q: How is *international trading* supposed to work?

- A:
- Under an international emissions trading regime, a country or firm would be able to meet its emissions reduction target by reducing pollution itself, purchasing reductions from another country that was able to achieve excess gains, or some combination of both.
 - An effective trading regime would provide a powerful incentive for nations to reduce emissions below the amount required and then sell surplus reductions to others who in turn avoid more costly actions.
 - The U.S. has proposed that emissions trading be permitted among all countries that agree to a binding emissions target.

Q: How is *joint implementation* supposed to work?

- A:
- JI would allow U.S. companies to gain credits by investing in overseas projects that reduce greenhouse gases.
 - U.S. companies benefit because reductions are often less expensive than they would have been at home.
 - Countries (and companies in the host countries) benefit because they get more immediate access to environmentally friendly technologies and resources.

Q: The Administration has not been very successful in getting developing countries to agree to these types of projects. Many have criticized JI for giving credits for the easiest reductions to US companies, while then requiring developing countries to be responsible for the hardest reductions on their own. Do you think developing

countries will really accept these schemes as fair?

- A:
- JI is based on the idea that in a worldwide market of emission reductions, companies and countries will search the globe for the least cost ways to reduce greenhouse gas emissions.
 - Joint implementation will allow many developing countries, quite literally, to advertise and market their pollution reduction opportunities as attractive areas for US investment. Central American nations, for instance, are attracted to the idea of having foreign companies invest in local reforestation projects as an inexpensive way to offset carbon emissions from overseas plants.

Q: Are you prepared to sign an agreement and get details later? Will that hurt your leverage in getting a complete agreement at a later date? Will lack of progress on JI and trading be sufficient to kill U.S. agreement to a treaty in Kyoto?

- A:
- Seeking flexible, market based mechanisms is one of the central principles in President Clinton's approach, and this includes international trading and joint implementation. .
 - We believe that these elements are critical if we are to reduce carbon emissions in the lowest cost way possible. We expect that when all countries recognize the potential benefits that these elements provide, they will also find them to be very attractive.

Q: Will you sign onto a target and timetable and not negotiate these mechanisms?

- A:
- In our view, the flexibility provided by domestic and international market mechanisms are essential to finding the least cost way of reducing greenhouse gas emissions.
 - Our proposal for a target and timetable, for developing country obligations, and for international flexibility together make up a comprehensive, cost-effective and environmentally strong plan. Taken together, all three elements form a coherent package.

Q: Will you be able to trade with countries that have not taken on binding obligations?

- A:
- The US proposal for international trading only applies to countries that have taken on binding targets. Joint implementation, by comparison, is designed to allow US

businesses to seek emission reductions in countries that have not yet taken on binding obligations.

Q: Many critics say that the actual details of international trading and joint implementation schemes will be difficult to establish and monitor. Will the details of these mechanisms be negotiated at Kyoto and does the Administration have specific plans for establishing these mechanisms? Who will monitor and maintain the trading regime? If the US has a domestic trading regime and Europe doesn't, can companies still trade across borders?

- A:
- We are currently exploring a number of ways to establish an international trading regime.
 - Joint implementation can work. Through the US Initiative on Joint Implementation, American companies have already begun a number of pilot projects with developing nations to help lower greenhouse gas emissions. Projects already have been established in Costa Rica, Bolivia, Czech Republic and Russia.
 - Argentina, for example, has recently endorsed joint implementation for credit as part of the Kyoto negotiations, and will soon begin pilot projects aimed at lowering greenhouse gas emissions.

SCIENCE

Q: Does the climate change science justify near-term action? Aren't the uncertainties still too great?

- A:
- Absolutely not. The fundamental science of climate change is clear. Greenhouse gas concentrations in the atmosphere are rising as a result of human actions. These increased concentrations are warming the planet, and unless we reduce our emissions, the effects on our climate are likely to become increasingly severe.
 - Yes, uncertainties do remain. We are not sure exactly how fast the planet will warm or which regions of the world will suffer the worst impacts. Yet what we do know is more than enough to justify taking the kinds of sensible actions the President has proposed.
 - As for the skeptics who would have us do nothing, they represent a tiny fraction of the scientific community. On the other hand, the Intergovernmental Panel on

Climate Change, including 2,000 of the world's premier climate experts, has underscored the seriousness of the climate change problem and the need for action.

- As part of his proposal, the President has called for additional scientific studies focused on key areas, including a call to the National Academy of Sciences to examine the issue of establishing a long-term goal for stabilizing atmospheric concentrations of greenhouse gases.

VI. ANTICIPATED Q&As

QUESTION: The Administration's economic analysis seemed to play down certain costs, such as auto fatalities and highway congestion. Why would the Administration do this on the one hand, while also telling developing countries that there are significant ancillary benefits to acting on climate? Will the Administration seek to refine these cost estimates?

- **As you know, the ancillary benefits from taking action on climate change are quite large. The most important of these effects are on air quality, especially from the reduced PM and SO₂ that occurs with the transition from coal to other energy sources. In developing nations such as China, these benefits are also likely to be quite large, particularly since their coal-fired plants are generally at least one technology generation behind those in industrialized nations.**
- **With respect to the impact of climate policies on automobile related ancillary benefits -- traffic congestion and fatalities -- we certainly expect that if our climate policies raise the price of gasoline, we will experience these benefits. However, these benefits are significantly less than those for air pollution, and are much more dependent on the final design of the cap and trade system other factors, such as energy prices, corporate decisions, etc.**

QUESTION: Recently critics have claimed that the Administration has spent too much time looking at potentially costly ways of preventing climate change rather than potentially cheaper costs of trying to adapt to a changing climate. Given that a certain amount of climate change is already past any policy-maker's control, why has the Administration not given these costs closer scrutiny?

- **We have reviewed several attempts to estimate the costs of climate change that include adaptation costs. Even with adaptation, assuming a doubling of CO₂ concentrations by 2100, the cost impacts of a changing climate could be on the order of 1% of GDP annually.**
- **While adaptation may be important for small changes in climate, significant changes in climate -- such as shifts in the Gulf Stream or ocean currents -- are difficult to predict, perhaps harder still to adapt to, and could have costs which exceed the relatively modest insurance policy that we are proposing.**
- **In an ongoing "National Assessment of the Potential Consequences of Climate Variability and Change for the United States", we are examining vulnerabilities to climate variations and the potential for adaptation in 20 geographic regions of the United States and 5 economic sectors.**

QUESTION: The Administration Economic Analysis used a very low technology improvement factor. Why is that, particularly in light of the President's own robust expectations about what currently existing technologies can deliver?

- **The Economic Analysis's assumptions on technology do not presuppose that the final amount of technology diffusion will not be higher. Rather, these conservative estimates are analogous to the conservative assumptions that the Administration uses every year in predicting annual economic growth when making budget forecasts. Over the last six years, we have consistently *underestimated* economic growth -- making our projections among the most credible available.**

QUESTION: Have you made any determinations on the early credit program? Do you anticipate using energy efficiency standards or additional off BAU to judge whether real reductions are being made? Do you expect to cap the amount of credits given during the early period?

- **We have not made any determinations on the exact shape of the early credit program, but as we examine proposals from interested groups on this system, we will be vigilant in making sure that the program rewards credible actions to reduce emissions and does not tie our hands when establishing a domestic cap and trade program.**

QUESTION: Have you begun to explore the benefits of auctioning v. grandfathering emissions permits? Won't an early credit system predispose you to use grandfathering techniques?

- **We have not begun any serious consideration of how emissions permits would be distributed during the cap and trade system.**
- **We have begun to examine the parameters of how to provide appropriate credit for early action, and have held one meeting with the groups that have done hard thinking on what such a system should look like. We think it important to note that all the groups interested in designing an early credit system feel that such a system should not prejudice the cap and trade system.**
- **We plan in the near term to conduct a public workshop on this issue.**

QUESTION: The Economic Analysis states that electricity restructuring is likely to lead to both reduced carbon emissions and that it will lead to lower energy costs for consumers, offsetting any price increases caused by a cap and trade system. Is this logical? What models were used to determine this? Why was this only discussed in the Economic Analysis, yet not included in the final calculations of the costs of taking action on climate change?

- **Competition creates a price incentive for electric utilities to reduce the amount of fuel they use in generating electricity. For instance, we would expect that cogeneration projects would become more attractive to utilities as a way of getting the most bang for their buck on fuel used in generating power. This means that wasted energy is put to productive use, meaning less carbon emitted.**
- **We didn't try to incorporate this into our final costs because the illustrative model that we used in coming up with possible price scenarios did not include the impact**

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of electricity restructuring. It is important to recall that our analysis was not a statement about what U.S. implementation of Kyoto would actually cost, but rather that we thought certain models had credibly estimated an international permit price as low as \$23 per ton of carbon, assuming full use of the flexibility measures included in the Kyoto Protocol.

QUESTION: You were quoted in the NYT as having said that you hope that US domestic efforts can amount to as much as 45% of our Kyoto obligation. Do you expect that Congressional opposition to the President's CCTI will make it impossible to reach this goal?

- **The President and Administration are committed to an aggressive program for reducing emissions, that includes the CCTI, electricity restructuring, active partnerships with key industries for how they can reduce their emissions, federal government leadership in increasing our energy efficiency and reducing our own emissions, and examining more fully how to promote sink-related activities.**
- **Opposition to CCTI will hamper our ability to reduce emissions -- which is particularly surprising since the technology R&D in our proposal are win-win, no regrets efforts to promote energy efficiency and clean energy technology. These kinds of programs have long enjoyed bipartisan support in congress, and we are hopeful that the current Congress will continue to recognize the importance of these programs.**

QUESTION: The EU's environment ministers called for a "concrete ceiling on the use of flexible mechanisms" and insists that work to define such a ceiling begin in Buenos Aires. Does this statement make progress in Buenos Aires impossible? Will the U.S. sign the Kyoto if the EU insists on these caps?

- **The Administration has always indicated that it intends to sign the Protocol while it remains open for signature at the UN. Our plans have not changed.**
- **We think the decision by the EU ministers is unfortunate. It is hypocritical for the EU to have a burden sharing system, such as the bubble, while not allowing other nations to trade. Moreover, their effort to cap emissions trading will unduly hamper the system, and will mean fewer emissions reductions for the global environment.**

QUESTION: The Administration's economic analysis assumes full trading with the biggest developing nations, and that those nations adopt targets just below the business as usual levels. Do you expect this to be the case? Is this the minimum criteria for submitting Kyoto to the Senate? If developing nations adopt more stringent emissions targets, will that not automatically lead to higher costs?

- **We continue to work in bilateral and multilateral arena to encourage developing countries to participate meaningfully in the Kyoto framework. We have long said**

that developing countries should adopt commitments that are consistent with their need for economic development. We also are actively demonstrating that taking on a target and timetable allows these nations potentially large financial rewards through international trading.

QUESTION: The Administration's initial estimates after Kyoto acknowledged a significant amount of variability in the way that sink activities will be accounted for. Do you expect any resolution of sink accounting at Buenos Aires? Will forest management projects be awarded credit?

- **The Administration strongly feels that forest management projects that produce real carbon sequestration should be credited in the international trading system. We hope that Buenos Aires will help clarify the process for accounting of sinks, but these issues are very complex, international understanding of them is still forming, so it is too soon to tell whether any real progress can be made.**

QUESTION: The Administration continues to push both voluntary targets and CDM for developing nations. Won't CDM projects be meaningless (or better handled as JI projects) if a nation adopts a target and timetable? Will developing nations get credit for CDM projects done between 2000 and the first budget period? If not, will robust CDM efforts alone count as meaningful participation for some developing countries?

- **As you know, the rules for CDM and trading are a central area of discussion at Buenos Aires. We are working hard to ensure that developing nations can begin doing CDM projects in 2000, and are exploring ways to make sure that credits earned from these projects could be used to comply with a first budget period target for these countries, and that participating in CDM projects does not preclude taking on a target and timetable in the first budget period.**
- **The Administration considers CDM to be an important down payment on developing country participation, but by itself is not meaningful participation. That said, we have consistently said that commitments for poorer developing countries would not need to be the same as those for industrialized nations, and that CDM projects could be a significant aspect of a nations' participation in Kyoto.**

QUESTION: Will there be regional quotas for CDM? What are U.S. thoughts regarding the composition of the CDM governing board?

- **The U.S. wants this mechanism to be established according to market principles. We think that these getting the principles and rules established should precede any discussion of the institutions for governing them.**
- **We have not yet fully discussed proposals for regional distribution of CDM projects, but we have begun to promote efforts such as regional workshops and technical**

assistance to ensure that all regions benefit from this important mechanism while still ensuring that market-principles remain central to its operation.

QUESTION: The Administration's hopes for meaningful participation depend upon convincing developing nations of the benefit of market-based mechanisms. Is this the right strategy, considering that in the eyes of many developing nations, complete reliance on international markets has only led to wild economic swings such as the Asia financial crisis? Are you getting any traction in convincing these countries that these mechanisms will increase foreign investment?

- **Emissions trading has an extremely positive track record in the United States. Our SO₂ trading program demonstrated that trading can provide real environmental and economic benefits, if properly regulated and monitored. We think that the same holds for international emissions trading, and we are working hard to demonstrate to developing countries how they stand to gain from this system.**
- **In Kyoto, China was adamantly opposed to emissions trading. As a result of President Clinton's trip to China earlier this year, the Chinese government has become more open to the Clean Development Mechanism, and at Buenos Aires we hope to work with China and other developing countries in moving forward on defining the rules for these important mechanisms.**
- **The economic crisis has demonstrated to all countries that development and investment resources are scarce. CDM and emissions trading provide real incentives for companies in developed nations to invest in clean energy and other climate friendly projects in less developed countries.**

QUESTION: The Administration seems to favor seller liability. Is this a credible position, particularly given the fact that Russia is most likely to sell tons and its government's recent track record on a number of issues leaves a lot to be desired?

- **The Administration is working closely with other countries to develop rules on trading, including the important issue of the allocation of risk that a party might oversell its emissions permits. We strongly support rules that make the system operate as efficiently as possible, while not jeopardizing in any way the environmental integrity of the system or our ability to meet Kyoto targets. We are also working with other countries to build stronger infrastructure for monitoring and reporting systems.**

QUESTION: China and India are the biggest pieces of the developing country puzzle, with enormous projected growths in energy production. Administration estimates of the costs of addressing climate change skyrocket if these countries are not part of the trading scheme. Yet neither have shown much interest in CDM, not to mention targets and timetables. Moreover, the U.S. has refused to cooperate with them on the few large-scale, climate friendly energy sources available to them -- nuclear and hydroelectric. How do you intend to get out of this box?

- **As indicated above, we have begun to work constructively with China in talking about a number of clean energy projects, as well as in designing international market mechanisms, and continue to try to show them why taking a target and timetable can provide real economic and environmental benefits. For instance, during the President's trip, over \$2 billion in commercial contracts between U.S. companies and China. Many of these focused on clean energy, including cleaner ways of using coal for fuel, as well as efforts to promote safer use of nuclear energy.**
- **We recognize that we still have much to accomplish with the Chinese, and that it may take some time, but we also have been encouraged by recent discussions.**
- **Our discussions with India are not as well developed, but we hope that in the coming years, they will also proceed in a positive direction.**

Record Type: Record

To: tpeterson @ jrnl.com @ INET @ LNGTWY

cc: Lucia A. Wyman/WHO/EOP, Todd Stern/WHO/EOP, Robert S. Kapla/CEQ/EOP

Subject: Re: draft answers to KM questions

Here are our answers to the 3 questions we were assigned. Note that the answer to question 1 may be problematic

Rosina M. Bierbaum

1. How does the international science community feel about the certainty of sinks measurements?

The best expression of the international science communities judgement on the accuracy of sink measurement is in the IPCC Guidelines for National Greenhouse Gas Inventories. The IPCC estimates the uncertainty associated with estimates of emissions and removals from Land Use Change and Forestry (which covers most above ground sinks) to be approximately 60%. The uncertainty surrounding estimates of emissions and removals of greenhouse gases by soils is thought to be significantly greater. The US believes we can characterize domestic sinks more accurately and is currently analyzing the issue in an interagency workgroup

2. Why is it necessary to begin reducing greenhouse gas emissions so drastically by the year 2012 - is there a scientific basis for this?

Yes. We have made a major investment in global change research over the last 10 years (about \$1.8 billion in FY98). The study of climate change has been a discipline of increasing prominence and importance -- a major field of scientific inquiry -- since the International Geophysical Year, 40 years ago. And one of the results of this endeavor is that the science community is telling us that the climate is changing. We need to continue to learn about exactly how fast, how much and where climate will change, but we know enough *now* to know we are headed into uncharted territory very quickly. The potential impacts we face include increased droughts and floods and changing patterns of disease. Some think we are already seeing signs of these.

We must start to change the emissions paths we are on now for 3 reasons:

The longer we continue on "business as usual" before deciding to reduce emissions, the sharper--and potentially more expensive--the later decreases will have to be.

- Starting the process will spur innovation and cost-effective technologies that must rapidly diffuse around the world to make the sustained reductions we will need to address this problem.

Slowing the rate of climate change will make it more likely human and ecological systems can adapt to that change.

3. Is it true that Katie McGinty has said that several of our floods, droughts and other severe weather events were caused by global warming? How can an individual weather event be attributed to global warming given all of the other factors that affect climate patterns?

No individual weather event can be attributed to climate change, but the recent severe floods and droughts experienced in America stand as examples of the kind of events that we expect will become more frequent in the future as a consequence of climate change. The rate of evaporation is expected to increase as the climate warms, leading to an increase in average global precipitation as well as frequency of intense rainfall and floods in some regions. Consistent with theory, both total precipitation and the amount that falls in extreme downpours has increased over the last century in the United States. Rising temperatures will simultaneously lead to decreased soil moisture in some regions, leading to increased frequency and intensity of droughts. (Many parts of the US have experienced both floods and droughts over the last ten years.)

4. Does Katie McGinty believe the recent series of unexplained dolphin and sea lion deaths on US coasts is caused by global warming? Does Katie believe that El Nino is caused by global warming, or that El Nino's are getting worse or more frequent?

Climate change could lead to changes in coastal marine ecosystems that would have a negative effect on marine mammals and other wildlife. Although, it is difficult to extract clear indications of climate change from normal variations in climate, we have some examples of what could be expected. For instance, warmer water off California caused by El Nino has led some marine biologists to be concerned about increased beach strandings of seals and sea lions. The Fish and Wildlife Service has already reported that warmer Pacific water has caused a dramatic increase in the starvation of seabirds along the Oregon coast. This is believed to be due to loss of protective cover provided by kelp, leading to declines in some species of small fish on which the birds feed.

As far as El Nino is concerned, the cause of such events is not yet understood. There are historical records of the occurrences of El Nino's, and analysis of these records indicate that the pattern of El Nino events over the last two decades is quite anomalous. This period of erratic El Ninos coincides with the observed increase in temperature over the last several decades, and this curious coincidence is certainly worthy of further investigation. It may be that climate change is affecting the pattern of El Nino events.

Greenwire story related to this follows:

07-07-1997

WORLDVIEW - EL NINO: WEATHER PHENOMENON MAY DISRUPT FOOD CHAIN

El Nino -- the weather phenomenon that warms the Pacific Ocean and affects global climate -- "may play havoc with the food chain and marine ecosystems" off the Pacific coast this year.

The early arrival of El Nino has marine biologists concerned that this year's disruption will increase beach strandings of seals and sea lions and cause declines in kelp that provide a "protective canopy" for some species of small fish. US Fish and Wildlife Service officials have already reported that warmer Pacific water has caused "a dramatic increase in the starvation of seabirds" along the Oregon coast due to the lack of food.

Although Ron Lynn, who heads the National Oceanic and Atmospheric Admin.'s El Nino Watch Project, said that salmon and rockfish migration could be hindered by the warmer Pacific waters, mahi-mahi, yellowtail, albacore and bluefin tuna are among the species whose range of migration could increase (William Claiborne, Washington Post, 7/4).

Meanwhile, Kevin Trenberth of the US National Center for Atmospheric Research warned that Australia could face more droughts if global warming is contributing to the El Nino phenomenon (Stuart Honeysett, Sydney Australian, 7/5).
Greenwire

**CLIMATE CHANGE Q&A
ABC SATELLITE INTERVIEW
6/2/98**

You've declared in near-apocalyptic terms the dangers posed by global warming. Yet there are legitimate scientists who say there is no proof that climate change is a threat. Why should the nation launch a costly attack on global warming if the basic science is in dispute?

There may be those who dispute it, but the scientific evidence is clear and compelling. The world's leading atmospheric scientists agree that human activity is having a discernible impact on our climate. This century is the warmest in 600 years, and 1997 was the warmest year on record. We can't wait for complete unanimity on the science -- the stakes are too high. If we'd waited for complete unanimity on the dangers of tobacco, we never would have placed warnings on cigarettes. There will always be a handful of scientists who rail against the consensus view. Some, I'm sure, are sincere. But it comes as no surprise that many are funded by the oil and coal lobby. These special interests are not monolithic, though. Some oil companies are looking at the evidence and saying yes, it's real. They're breaking from the pack. They're investing in clean energy technologies. And they're the ones that will have a competitive edge in the years ahead.

Even if there is consensus among the scientists, most Americans either don't seem to believe it or don't care. With the potential impacts so far off, how do you get people to pay attention now?

The worst impacts are far off. That's true. But let me tell you, El Nino just gave us a very good taste of what we can expect -- record temperatures, record rainfall, record drought, wildfires burning out of control. Even the rain forest has become a tinder box. Climate change didn't cause the El Nino -- we've been experiencing El Ninos since long before we began pumping greenhouse gases into the atmosphere. But the extreme, erratic weather caused by El Nino is just the sort of weather the climate scientists say our children and grandchildren will endure in the warmer, wetter world that climate change will bring. This winter's El Nino is a window on our future. It wreaked terrible havoc -- people were killed, homes were destroyed. But if it helps us realize just what is at stake, and take action to prevent it, then perhaps there's some meaning to these tragedies.

Some economists say that meeting the emissions targets you agreed to in Kyoto will send energy prices soaring and put the economy in a tail spin. Is it worth the cost?

Every time we propose action to protect the environment -- whether it's acid rain, or banning DDT, or protecting the ozone layer -- the skeptics say it will wreck the economy. And every time, they're wrong. We're not taking some heavy-handed regulatory approach. We've designed a sensible, cost-effective strategy that relies on flexible, market-based mechanisms. We're doing it smart. We're using the power of the marketplace to spur new technologies and "solution" industries. We're forging partnerships with the auto industry, the building industry, the electronics

industry and others to promote energy efficiency and clean energy technologies. Janet Yellen, who chairs our Council of Economic Advisers, testified before Congress that meeting the Kyoto target would cost the typical American family just \$70 to \$110 a year -- and that those costs would be almost entirely offset by the savings from electricity restructuring. That is a very modest premium that buys us insurance against the truly calamitous costs of global warming.

It's been nearly six months since Kyoto, and the President hasn't signed the treaty, let alone submitted it for ratification. The Senate has already declared that it won't approve a treaty that doesn't bind developing countries. Will Kyoto ever be ratified?

As the President has said, we will sign the protocol. We will do it at the time that makes the most sense from a diplomatic perspective. The President has also said he will not submit the protocol for ratification until we can achieve the meaningful participation of key developing countries. The protocol lays a very strong foundation, and we are engaged in vigorous diplomatic efforts to secure developing country commitments. Just recently, the president of Chile joined President Clinton in a statement acknowledging that developing countries must join the effort. While we can't necessarily expect developing countries to take on the same kinds of commitments, we are confident they will be willing to do their part.

The Administration is proposing billions to begin reducing greenhouse gas emissions. Isn't that "backdoor implementation" -- trying to enforce Kyoto without submitting it for ratification?

First of all, President Clinton made clear before Kyoto that we are committed to curbing greenhouse gas pollution -- treaty or no treaty. We are not trying to implement Kyoto. We are proposing \$6.3 billion in tax and research incentives. There's nothing in our proposal that compels anyone to do anything. Rather, it would reward companies that pursue energy efficiency and clean energy technologies -- and reward consumers who buy their products. More efficient cars, appliances, homes. Solar energy panels. Things that will save energy -- and save money. So we will not only cut greenhouse gas emissions, but reduce air pollution and boost the economy. I don't know why Congress would want to deny taxpayers these opportunities.

Even if the costs are minimal, as you say, they'll fall heavily on some -- like coal miners. What do you say to them?

There is no denying that over time, as our energy patterns evolve, some sectors like coal will be more heavily affected than others. But this is a long-term adjustment. Nothing will happen overnight. We'll be burning coal for years to come. We have time to plan, and the President and I are committed to taking care of those who bear a disproportionate burden. We can help workers and communities with retraining and transition assistance. New economic opportunities will be created, and we'll do our best to make sure that those in need can take advantage of them.

Eizenstat HIRC Qs&As

Climate Change: "Backdoor Implementation"

Question: Is it true that the Administration is moving ahead to implement the Kyoto Protocol before sending that agreement to the Senate for its advice and consent? How do you explain the President's Climate Change Technology Initiative in that regard? How does this square with your statement to the Senate Foreign Relations Committee that you would not implement the Kyoto Protocol before seeking Senate advice and consent?

Answer: Before obtaining advice and consent, the Administration will not implement the Kyoto Protocol in any way that goes beyond existing U.S. obligations under the Framework Convention on Climate Change, to which the United States is a Party.

For example, Article 4.2(a) and (b) of the Convention include a binding obligation to adopt policies and take measures to mitigate climate change, as well as a non-binding "aim" to return our greenhouse gas emissions to 1990 levels by the year 2000. To implement these commitments, the President launched the Climate Change Action Plan in 1993 which contained nearly 50 programs designed to address the threat of climate change.

The President announced in October of last year, well before Kyoto, that the Administration would move forward to promote the development and diffusion of climate-friendly technologies. The Climate Change Technology Initiative was an outgrowth of that commitment. By promoting technology development and diffusion now, we will be increasing our competitiveness and we will be making a down payment that can help us avoid potentially costly actions in the future.

These efforts are fully consistent with existing U.S. commitments under the U.N. Framework Convention on Climate Change.

Eizenstat HIRC Qs&As

Climate Change: Ashcroft (Knollenberg/Klink) Bill

Question: Senator Ashcroft recently introduced a bill – S. 2019, the “Economic Growth and Sovereignty Protection Act” – that would prohibit the use of Federal funds to implement the Kyoto Protocol unless or until the Senate has given its advice and consent and to clarify the authority of Federal agencies with respect to the regulation of the emissions of carbon dioxide. A companion bill has been introduced in this chamber by Congressmen Knollenberg and Klink. Given the message that Congress has sent loud and clear to the Administration, why did the President propose the \$6.3 billion Climate Change Technology Initiative? When will the Administration begin paying attention to the very strongly held views of Congress on the Kyoto Protocol?

Answer: The President first proposed the Climate Change Technology Initiative last October, well before adoption of the Kyoto Protocol. He expanded on that proposal in his State of the Union message this year, in light of the outcome in Kyoto. But let me emphasize -- the Climate Change Technology Initiative is fully consistent with existing U.S. commitments under the U.N. Framework Convention on Climate Change. It represents a thoughtful, prudent approach that, if implemented, will be good for American business and good for the environment. For this reason, it is very likely that the President would have proposed such an initiative, regardless of the outcome in Kyoto – upon which it is in no way dependent.

Let me say, however, that the bill introduced by Senator Ashcroft contains a sweeping ban – it prohibit any Federal agency from promulgating regulations to limit the emissions of carbon dioxide, unless a law is enacted specifically granting such authority. What we do not understand is this: Which existing laws is the Ashcroft bill is seeking to override?

Eizenstat HIRC Qs&As

Climate Change: State Department Climate Change Coordinator

Question: Mr. Eizenstat, you referred in your testimony to Secretary of State Albright's Earth Day speech – I thought her speech was pretty good, strong on getting developing countries involved. But tell me, who will she name to serve as the State Department's Climate Change Coordinator and when will she name someone? Will it be you? Will it be the new designee as Under Secretary for Global Affairs – Frank Loy? And what exactly will the Coordinator be responsible for doing – developing countries only, or other things too?

Answer: Secretary Albright said that we are mounting a full court diplomatic press to achieve meaningful participation from key developing countries, and I indicated in my written testimony a number of the specific efforts we are making in that regard. The Secretary herself is also fully engaged on this issue – for example, it was an issue she raised on her recent trip to China. But no decision has yet been made concerning who will serve as the Department's Climate Change Coordinator or what the specific portfolio will be.

Eizenstat HIRC Qs&As

Climate Change: Hagel/Byrd Resolution

Question: Mr. Eizenstat, I notice in your testimony that you mention the article in the Washington Post last week by Senators Hagel and Byrd. What you don't mention is the final paragraph of that article, which reads as follows (and I quote):

“The agreement reached in Kyoto does not meet either of the criteria laid out in the Byrd-Hagel resolution. Further negotiations and work clearly will be needed this year and probably beyond before these tests can be met. These tests must be met. The U.N. Global Climate Treaty should not be signed by the president until it meets both of these clear objectives.”

What do you suppose Senators Byrd and Hagel meant when they said that the Kyoto Protocol does not meet either of the criteria contained in their resolution – a resolution which was endorsed by 95 percent of the United States Senate, I might add?

Answer: I have not yet had an opportunity to meet with Senator Byrd or Senator Hagel since reading their article last week in the Washington Post. However, I see nothing inconsistent with what they said or with our current approach – we agree that we did not achieve the meaningful participation of key developing countries in Kyoto and that we have further work to do on this. We also agree that the Parties to the Framework Convention have yet to develop rules and guidelines for the flexibility mechanisms contained in the Protocol (emissions trading, joint implementation and the Clean Development Mechanism) -- we will begin work on this two weeks from now in Bonn. In other words, I think that Senator Byrd and Senator Hagel meant that there is more work to be done before we move to ratify the Kyoto Protocol, and we agree.

Eizenstat HIRC Qs&As

Climate Change: Signing

Question: Senators Byrd and Hagel both said that the President should not sign the Kyoto Protocol until it meets both of the clear objectives set forth by the United States Senate in its resolution last July. But you have said that the United States will sign within the one year period that the Protocol is open for signature. Do you expect to meet the objectives set forth by the Senate by March 15, 1999? If not, will you ignore the clear advice of the Senate and sign the Protocol anyway?

Answer: We are working hard to develop rules and guidelines concerning the flexibility mechanisms (emissions trading, joint implementation and Clean Development Mechanism) contained in the Kyoto Protocol as well as to move forward with preparatory work in other areas (e.g., compliance mechanisms). We are also working very hard to achieve more meaningful participation of key developing countries. I am optimistic that we will make considerable progress on both counts this year. At the same time, I doubt that all will be done by March 15, 1999. As we have said, we intend to sign the Protocol within the one year period that it will remain open for signature at a time when it is tactically advantageous for us to do so. However, we are in no way ignoring the view of the United States Senate -- the President has made quite clear that we will not send the Protocol to the Senate for advice and consent until we have achieved meaningful participation of key developing countries.

Questions for Yellen Mock Hearing

*Produce
Docs.*

- Why not sectors?
- What about job loss?
- Compare DRI, or Argonne, or other problematic numbers
- Aren't your assumptions about effects of trading rosy scenarios in the extreme?
- You don't have any idea of how trading or CDM would work, do you?
- What assumptions are you making about this umbrella? Do you really think you can set up a trading bloc and exclude the EU?
- Doesn't your analysis depend on full-scale trading with China, India and other large developing countries? And isn't it true that there is virtually no chance of getting them into a trading system at least in the first budget period? So doesn't your analysis fall apart?
- Under your scenario, what part of U.S. reductions would come from abroad? Isn't it likely that the EU and others will insist on some restriction of what we can rely on from trading and CDM? So isn't your analysis fundamentally flawed?
- Let me try to understand what you are saying: do you agree with the numbers per ton of carbon based on the SGM model, as discussed in your testimony at p. 16?

If not, what numbers *do* you agree with?
- This Administration has been promising Congress an economic analysis for the past year. Last summer you came up [to this Committee?] and walked away from the work that had been done by the Interagency Analytic Team. Now you are back with what is supposed to be economic analysis, but includes virtually no numbers that you are willing to stand behind. Is this whole undertaking based on a wing and a prayer?
- U.S. has agreed to a target that amounts to around 41% less than the [CO₂] the U.S. economy is projected to emit in 2010. In other words, it will take a massive shift in energy usage to achieve what we agreed to in Kyoto. How could that happen without large dislocations of workers and increase in prices?
- I don't understand why you can't make some quantitative estimate of *benefits* from climate change mitigation. I know uncertainty, but uncertainty on costs as well. Seems to me that you're just helping those who want to criticize the treaty.

- Isn't your analysis dependent on U.S. being able to buy large numbers of permits from Russia? And doesn't Russia have those permits simply because its economy fell apart rather than because it took any actions to reduce ghg? No environmental benefit?
- Job flight and no environmental benefit if LDCs not participate, right?

In fact, you've said that the ghg problem in LDCs could get worse because of lower energy prices, right?

- Isn't this the wrong way to approach the problem. Shouldn't we start off with a small price signal and then ramp up much more slowly so that plant and equipment could turn over in a more natural cycle?

- Doesn't the President's plan fall dramatically short of what is needed to meet the Kyoto target? You talk of all win-win actions, no taxes, no regulations for 10 years. But then aren't you going to have to put the screws on in the cap and trade system you envision for that time, driving prices way up? You've adopted a binding limit but aren't suggesting the measures needed to reach it.

- Some (e.g. Schmalensee) have suggested that within the next 5-10 years we'll gather data that will make it much clearer whether we are on the high, middle or low side of the projected temperature increases, and therefore how serious the problem may be. Shouldn't we wait...

• If no agreement for 2 or 3 years, wouldn't that increase price?



Julie M. Anderson
03/24/99 02:09:07 PM

Record Type: Record

To: Todd Stern/WHO/EOP, Roger S. Ballentine/WHO/EOP, Joseph E. Aldy/CEA/EOP

cc:

Subject: softball questions

I'd like to get this up there asap.

Questions for Janet Yellen, CEA

Economic Model Questions

Q. What is the "SGM" model and why did the Administration choose it?

Market-Based Mechanisms in the Kyoto Protocol

Q. Dr. Yellen, I thought I heard you say that your analysis does not account for technological improvements in energy efficiency. Is that correct?

Q. Dr. Yellen, your analysis relies heavily on international trading to lower costs for the U.S. Could you please explain why international trading is so beneficial?

Q. Dr. Yellen, I understand that many other countries only wanted to include 3 greenhouse gases in the Protocol, what is the economic benefit of including 6 kinds of gases?

Q. Dr. Yellen, I also understand that many countries opposed the inclusion of sinks – such as forests which absorb carbon – in the Protocol, why does the inclusion of sinks help lower the costs of meeting Kyoto targets?

Cost of Inaction Question

Q. Dr. Yellen, we are going to hear a lot today about the costs of taking action to address climate change. What about the costs of NOT taking action? Aren't there costs associated with impacts on public health? On the agriculture sector? On species diversity?

Q. Does the Administration analysis estimate the economic or environmental benefits of addressing climate change?

Coal Question

Q. Dr. Yellen, I've been hearing that implementing the Kyoto Protocol will decimate the U.S. coal industry. Do you agree with that forecast?

Jobs Question

Q. We are hearing that the Kyoto Protocol could cost the U.S. million of jobs, but your testimony states that the Protocol will not affect overall employment. Why is the range of estimates so

General economics question about Kyoto agreement

Q: ISN'T THE KYOTO AGREEMENT A DISASTER FOR THE ECONOMY?

Q: WON'T IT CAUSE JOB LOSSES OF 3 MILLION?

Q: ISN'T THIS THE LARGEST TAX INCREASE IN HISTORY?

A: No. Janet Yellen will be providing a detailed discussion of our economic analysis of the Kyoto Agreement when she testifies before Congress next week. So without providing a full analysis, which Janet will present, let me note that such claims ignore several key elements of the President's plan:

1. They ignore the President's \$6 billion package of tax cuts and Federal

R&D: To spur energy efficiency and the development of lower-carbon energy sources, the Administration's FY 1999 budget includes a major new package of \$3.6 billion in tax cuts and \$2.7 billion in R&D spending -- totalling \$6.3 billion over five years.

2. They ignore the potential for increased use of existing energy-efficient

products: As the Department of Energy's 5-Labs study illustrates, many existing technologies produce win-win solutions to reducing carbon emissions -- but nonetheless are still not widely used. The President is committed to expanding their reach. The models referenced assume little change in the penetration rate of existing energy-efficient equipment.

3. They ignore the President's Federal energy initiative: To reduce greenhouse gas emissions from Federal sources, the Department of Energy will spearhead a comprehensive effort that includes expanded performance contracting to make Federal buildings more energy-efficient, improved Federal procurement practices, establishment of a new level of excellence for Federal building construction and renovation, and partnerships to improve the energy efficiency of Federal aircraft, ships and vehicles.

4. They ignore electricity restructuring: To spur further efforts to clean our air and deliver a downpayment on greenhouse gas emission reductions, while saving consumers billions, we will pursue a bold plan to restructure the energy sector. It is time to change the rules that are often more than 70 years old -- stifling innovations that can save money and impede newer, cleaner technologies.

5. They ignore international emissions trading. Two key components of the President's plan are his support for an international system of emissions permit trading, and his commitment that developing countries must participate in the international effort. International trading can substantially reduce the costs of emissions reductions. A recent World Bank analysis found that China could reduce its emissions by 333 million metric tons in

2010 at zero or negative cost.

6. They ignore the economic costs associated with climate change itself. Climate change will lead to increased flooding, sea-level rise, and other dislocation. So looking just at the impact of reducing emissions on GDP is misleading.

\$6.3 billion package

Q: What's in the President's \$6.3 package for climate change?

A: The President's initiative amounts to \$6.3 billion over 5 years -- \$1.3 billion more than the \$5 billion package he promised in his October 22 speech at the National Geographic Society on this issue.

It contains \$3.6 billion over the next 5 years in tax cuts for energy efficient purchases and renewable energy -- including tax credits of \$3,000 to \$4,000 for purchases of advanced technology, highly fuel efficient vehicles -- and \$2.7 billion in additional research and development spending.

Q: Don't you do much of these R&D activities already? What's new here?

A: The FY 1998 budget for these activities is \$819 million. The President's tax cut and R&D proposals would more than double that -- to \$1.71 billion -- in FY 1999. And over 5 years, the President's budget would provide an additional \$6.3 billion over FY 1998 funding levels.

Q: How much will this package contribute to emissions reductions? The *Washington Post* this morning complained that the package was woefully inadequate.

A: The \$6.3 billion package should be seen as only one part of the President's overall approach to reducing emissions. The Post editorial was misguided, because it neglected the other elements of the President's overall approach. That approach, as he indicated in his October 22 speech, includes not only tax incentives and R&D, but also elements such as:

-- Industry-by-industry consultations, to work with industries on the best ways of moving forward together to address this challenge

-- Electricity restructuring, which can remove outdated regulations and save American consumers \$20 billion a year -- while also improving the environment

-- Federal energy efficiency efforts, to improve the Federal government's own use of energy

No one ever claimed that the \$6 billion package would get us all the way there by itself. But it is certainly a good first step in the right direction.

Q: Could you describe the tax package in more detail?

A: The tax package amounts to \$3.6 billion over 5 years. Some of the initiatives it includes are:

- Tax credits for energy-efficient building equipment (\$1.4 billion over 5 years)
- A tax credit for rooftop solar systems (\$0.1 billion)
- A tax credit for combined heat and power (CHP) systems (\$0.9 billion)
- Tax credits for highly fuel efficient vehicles (\$0.7 billion)
- A tax credit for new energy efficient homes (\$0.2 billion)

Q: Are the details of the tax credits for fuel efficient vehicles locked in stone?

A: Absolutely not. We look forward to working with the auto companies, as well as environmental groups and other interested parties, on many of the details. I am aware, for example, that the auto companies have other thoughts about how to design incentives for purchases of advanced technology vehicles. But let's not lose sight of the point here: What we want to achieve is a performance-based incentive scheme to get more efficient cars on the road, and we're open to ideas about how to do that.

[Background: The auto companies are concerned that the fuel efficiency standard upon which are tax credits are based puts them at a disadvantage relative to foreign producers. They would prefer a technology-based standard -- for example, a credit for any car with a fuel cell in it. Technical staff at Treasury and EPA are very concerned that the auto companies' approach may not produce any environmental benefits -- so we are willing to work with them to address their concerns, but do want to maintain our insistence that the tax cuts go for *results*. It is also important that we seem open to speaking with environmental and other groups.]

Q: What's in the R&D package?

A: 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. Examples include:

- *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.
- *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. The recent announcements by the Big 3 show the promise of this program. In FY99, the combined request for PNGV-related work in those agencies is \$277 million, up from \$227 million appropriated in FY98.
- *Renewable energy*. Expand research partnerships for key renewable technologies such as wind, photovoltaics, geothermal, biomass, and hydropower to accelerate

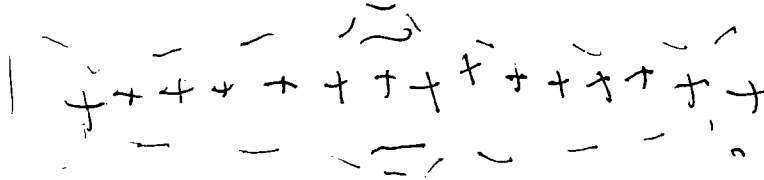
price reductions and improve performance. The same programs will also be supporting increased R&D in hydrogen production and storage and in superconductivity. The FY99 budget proposes a \$100 million increase in DOE for solar and renewable energy R&D -- a 37 percent increase over FY98.

Q&A for Eizenstat SFRC Hearing (Feb. 10, 1998)

Ratification

- Q: By refusing to submit the Protocol to the Senate promptly after signing it, isn't the President disregarding the Senate's appropriate constitutional role of advice and consent?
- Q: If you think this is such a historic agreement, why do you insist on not sending it to the Senate?
- Q: You seem to be saying that the Protocol is not good enough to submit for ratification, but that it *is* good enough for the United States to sign. I don't understand that. I always thought that it really meant something for the United States to put its name to a solemn international treaty.

Follow up: But the premise of your position is that even though we may never get developing country participation -- or even though the rules for international trading may get completely fouled up -- it is still appropriate for us to have signed. Doesn't our signing have both a legal and a moral significance?



Climate Change Questions

- signing / ratification
- To be read in yellow
- - Kope article
- Need China etc.

Kyoto Protocol

Target

- Why did U.S. agree to a target that is much tougher than the one President Clinton proposed in October?
- Since the Protocol can be amended by 3/4 of the parties, including developing countries, won't developing countries, perhaps with help from countries such as the EU, be able to amend our target and make it even more stringent?
- Did the Vice President's visit -- with his call for greater flexibility on the U.S. side -- diminish your negotiating leverage and help lead to the cave-in of our position of 1990 levels by 2008-2012?

Bubble

- If the EU Bubble gives them an advantage, as Undersecretary Eizenstat admitted to congressional observers, why did the U.S. agree to it?

Emissions trading

- You claim that getting emissions trading was a great achievement and you base much of your economic case -- that this agreement won't be too costly -- on trading. But the protocol includes only the most general concept of trading, without the principles in your January 1997 proposal. Haven't we lost our leverage by signing onto a binding target and timetable without achieving the specifics on emissions trading.
- In the absence of more detail, you can't really have any confidence in how a trading system will work. For example, you don't even know how much of our target will be able to be satisfied through trading, do you?
- You don't know how trading will be monitored, verified or administered, do you?
- Can you explain how the system will work if some countries have domestic trading, as is anticipated here, and others, such as the EU, do not? Will U.S. companies trade with foreign countries? Will our trades have to be made through the government?
- Doesn't our whole plan to reduce our costs through trading really amount to a plan to transfer billions of dollars to Russia in return for excess Russian emission rights?
- And isn't it true that those excess Russian emission rights result not from any positive

actions the Russians have taken to reduce greenhouse gas emissions or clean up their environment, but simply because their economy collapsed shortly after 1990, driving down their demand for energy?

• So, in effect, isn't this whole trading business a sham? We pay the Russians to satisfy a target that is too tough on us and not tough enough on them; our economy is hurt; and the environment doesn't get helped at all, because the Russians aren't actually taking any significant action to help the environment. Isn't that right?

Umbrella

- You've talked about setting up a potential trading block of countries outside the EU -- an umbrella to counter their bubble. How would the umbrella work? Would you intend to limit trading to countries within the umbrella? Is that legal? Do you think setting up such a block that excluded the EU makes good sense from a broader foreign policy perspective?

Clean Development Mechanism

- As in the case of emissions trading, you are claiming the Clean Development Mechanism as a big success and as a key element in keeping costs down for American business, but, once again, the Protocol only includes the general concept, with no clear outline of how it would work. Haven't we lost our leverage by signing onto a binding target and timetable without achieving the specifics on joint implementation?
- Can you describe in some detail how the CDM would work?
- The Protocol indicates that the part of a nation's target that can be met through the CDM will be determined by a later [Meeting of the Parties]. So it is possible that the ability of our companies to use the CDM to meet our target will be very restricted, isn't it?

If it is very restricted, will we walk away from the deal? Wouldn't it be foolhardy to sign the Protocol before we know how restricted our ability to use the CDM is going to be?

- How will the CDM be financed?
- How big a share of the proceeds will be devoted to assisting developing countries with adjustments to climate change -- 5%? 20%? 50%? Do we really have any idea? Who decides?
- The OPEC countries actually had the nerve to press for a compensation fund so that we would have to pay them to make up for the reduced use of oil that is likely to result from an effort to cut greenhouse gases. We opposed that demand, couldn't these proceeds end up being applied, at least in part, to pay off OPEC countries?

- Since projects under the CDM will be done in developing countries that do not have emissions budgets, who will monitor and verify that the reductions from a given project are real?

If credits were given for reductions that would have occurred anyway, then the CDM could turn into another environmental sham, couldn't it? That is, industrialized countries could be allowed to satisfy their reduction requirements by getting credit for reductions that were going to occur anyway in developing countries; and since the developing countries have no budget, there could be no offsetting reduction of their budgets. Isn't that right?

So who will decide that those reductions are more than would have occurred anyway, and how will they decide that?

- How will the CDM be administered? Are we going to create yet another international institution? Who will control it?
- You say that this idea is in effect the same as our idea for joint implementation, but JI would have operated on a company to company basis without new international bureaucracies, while the CDM will require a new bureaucracy, right?

Sovereignty/Enforcement

- Won't this Protocol inevitably come to impair U.S. sovereignty?
- Under the Protocol, won't we inevitably be turning over decisions about American energy usage, and therefore the American economy, to international bodies dominated by the developing countries, perhaps acting in concert with the EU?
- What verification procedures are there to ensure that other countries honor their obligations?
- How will the Protocol be enforced? Either it will be an honor system, without any real enforcement, in which case the United States will get taken advantage of as we honor our obligations while others ignore their own; or there will be a real enforcement system, in which case international bureaucracies will be able to sit in judgment on whether we are meeting our obligations. Which will it be? And aren't both these alternatives unacceptable?

National Security

- By agreeing to include all domestic military operations and training in our emissions budget, haven't we forced ourselves to limit these operations in order to meet our target?

- The Protocol only exempts U.S. military exercises that are multinational and humanitarian. Won't that will inevitably put pressure on us to limit unilateral military action, such as in Grenada, Panama or Libya?

• Why didn't you just insist on a clearcut exemption of military emissions, as the Pentagon clearly wanted, rather than the flawed formula you accepted?

As I DVD wanted

Rogue nations

- Why doesn't the Protocol exclude rogue nations like Iran, Iraq or Libya? Do you think they should be able to benefit from this Protocol?

Entry into force

- Why did you agree to a provision that will allow this Protocol to go into effect all over the world *without* U.S. ratification? Didn't you in effect intentionally diminish the role of the Congress?

Developing countries

Why let China off?

• Before Kyoto, the President and Vice President both said we would walk away from a bad deal, and emphasized that developing country participation was essential. You then went to Kyoto and got nothing from developing countries. Why didn't you keep your word and walk away?

- The Administration has admitted repeatedly that a deal omitting developing countries will fail because developing countries will soon overtake developed countries as the largest emitters. In light of that, isn't it foolish to enter into a deal that omits the developing countries?

Wasn't B.M. error?

• The fatal error in this negotiation was the Berlin Mandate, which completely let the developing countries off the hook. Shouldn't we have just let this Kyoto process fail and started over on a sounder footing? As you have said, this is a problem that must be resolved over decades, so why get going on the wrong foot?

• How can you expect to have any negotiating leverage on developing countries when the developed countries agree to stringent targets first, getting nothing in return from developing countries?

• What real incentive do developing countries now have to agree to tough limits of their own?

• You went into the Kyoto conference with very low expectations regarding developing countries -- just seeking a provision that would have allowed individual developing

countries to opt in to the Protocol voluntarily. Even *that* modest provision was denounced and defeated. In light of that reception by the Chinese, Indians, Brazilians, and others, isn't it self-delusion to think that you will draw the key developing countries into the Protocol even in the next few years?

- What *is* your strategy for getting developing countries to participate in the Protocol?
- What constitutes "meaningful participation?"
- Given the lack of incentive for developing countries to participate and the lack of leverage over them, won't it be years before we can expect enough key developing countries to participate?

If so, won't it be years before the Protocol is ready to be submitted to the Senate, by your own standard?

And if years do pass, won't it in effect become impossible to achieve the target you have accepted in the 2008-2012 period?

- The purpose of the voluntary opt-in provision (Article 10) was to allow developing countries to join the Protocol if they wanted to? Since that provision was soundly defeated, isn't it the case that developing countries may *not* join the Protocol, even if they want to?

Signing/Ratification



- When do you expect the President to sign the Protocol?
 - When do you expect the President to submit the Protocol to the Senate for its advice and consent?
- By refusing to submit the Protocol to the Senate promptly after signing it, isn't the President disregarding the Senate's appropriate constitutional role of advice and consent?

Domestic program

- Isn't the President's domestic program -- such as the \$6.3 billion budget package he recently announced -- just a way of implementing the Kyoto agreement without getting the advice and consent of the Senate?
- Is the Administration planning any steps designed, in effect, to implement the Kyoto agreement by Executive Order?

Economics

In a business as usual scenario, energy use would be 34% higher in 2010 than 1990, and we've agreed to a target of 7% below 1990. So we have to be 41% lower than where we'd otherwise be. That is a wrenching change -- how can you seriously believe we could achieve that without rationing or huge price increases to depress demand?

Have you done economic analysis to show what it would cost our economy to meet the target in the Kyoto Protocol? In price per ton of carbon? In jobs lost? In GDP lost? If not, why not? If so, what do your numbers show?

Have you done an analysis of economic impacts on a sector by sector basis so we can see which sectors of the economy -- whether industrial, energy producing or agricultural -- will be hard hit?

Does the President's plan make any provision for those industries that would be hardest hit?

- [Questions based on the Argonne Study showing very serious job impact on six energy intensive industries.]
- From an economic standpoint, isn't a stringent target like 7% below 1990 levels by 2008-2012 exactly the wrong way to go? Wouldn't it be much better for the economy to phase the changes in more slowly, so that capital stock could be turned over in a more natural way, rather than forcing such stock to be turned over too rapidly?

In fact, don't studies indicate that the *environmental* result would be more or less the same whether you started very quickly, or moved more gradually at first and accelerated the pace later; but that the *economic* result would be much better following the second approach?

Isn't your approach just designed to sugar-coat things at first -- no taxes, etc. -- only to then slam on the brakes through a cap and trade emissions program starting in 2008? Given the fact that you aren't relying on any price signal *before* 2008, isn't the cap and trade system that starts in 2008 going to produce very high prices per ton of carbon in order to meet our Kyoto target?

Isn't a domestic emissions trading system just another name for an energy tax? The bottom line will be exactly the same: consumers will pay higher energy prices than they otherwise would, right?

- [Questions about various studies that show 2 million jobs lost, 50 cent/gallon increase in gas prices, \$2000 increase in energy bills for a family of four, etc.]



DOE's Five Labs study depends on an increase of \$50/ton of carbon in order to meet a goal *less stringent* than the one you've accepted -- and DOE's report is based on a lot of optimistic assumptions about technology development. So isn't a number of around \$50/ton of carbon -- which would mean about [12 cents/gallon of gas or \$x in increased energy prices for a family of four -- about as *low* a cost as we could rationally predict to meet our Kyoto target?

- [Other Orszag QS]

Science

- [Questions from Rosina on uncertainty of science.]

Take off

or have

Q&A on Signing Kyoto Protocol

Q: Are you planning to sign the Kyoto Protocol and if so when?

A: We plan to sign the Protocol within the one-year signing period provided for in the agreement, which runs from March 1998 to March 1999. We haven't yet determined the precise timing.

Q: If you have already decided to sign, why don't you sign right away and then submit the Protocol to the Senate for its advice and consent? If you aren't going to sign right away, what needs to happen before you are ready to sign? Do you have criteria?

A: This is to some extent a tactical issue and we will sign at a time that makes the most sense in terms of the overall diplomatic situation.

Q: But surely you must have some idea of what would cause you to sign?

A: Senator, the timing of signing is not the main issue. We are going to sign the Protocol and will make a decision about exact timing with reference to the overall diplomatic situation. The issue that is more significant is ratification. And, as the President has said, we are not going to submit the Protocol for ratification until there is meaningful participation from key developing countries.

Subject: Kyoto Primer - FYI

Author: "Kirk; Mark" <Mark.Kirk@mail.house.gov> at house

Date: 5/11/98 12:42 PM

The Chairman of the International Relations Committee, Rep. Benjamin A. Gilman (R-NY), announced that he would ask ten top questions that need to be answered before Congress considers the Kyoto climate change treaty. The hearing will be held at 10:00 am, Wednesday, May 13 in room 2172 Rayburn. Witnesses include Under Secretary of State Eizenstat, Janet Yellen, Chairman of the White House Council of Economic Advisors, and Robert Burt, Chairman and CEO of FMC representing the Business Roundtable. The Roundtable will release a major report on the Kyoto Treaty at the hearing.

"The Senate passed the Byrd-Hagel resolution by a vote of 95 to zero, outlining two major issues: the lack of participation in the treaty by 129 countries and the huge potential cost of implementing this treaty," Gilman stated. "I will seek the answers to ten key questions that the Administration must answer before we consider the Kyoto proposal."

The Top Ten Gilman questions were as follows:

1. The White House Council for Economic Advisors stated Kyoto would increase taxes on Americans by four cents on a gallon of gas. Three U.S. government labs said the tax would be eight to 36 cents a gallon. A Wharton Econometric study indicated the tax would total 40 cents a gallon. What did the White House discover that lowers the tax needed to implement this treaty below its own Department of Energy studies?
2. Based on the DOE study, implementing Kyoto will cost \$600 billion. The Vietnam War cost Americans \$481 billion. Does the Administration believe that Americans will pay such a high price to implement a U.N. treaty?
3. China is the second largest producer of greenhouse gases and will be the number one producer by 2015. So far, China has announced a climate change policy of "Three Nos":
 1. No signature of the Kyoto Protocol,
 2. No voluntary implementation of stabilization targets, and
 3. No future commitments to limit greenhouse gas production.

What good is a treaty the Chinese will not sign?

4. The Danish Meteorological Institute recently published an article showing that the Earth's temperature owes everything to long-term changes in the sun's output, not CO2 produced by man. They noted the global cooling trend between 1945 and 1970 when carbon dioxide emissions by man were rapidly increasing. Ben Santer, the Lawrence Livermore National Laboratory lead writer of the U.N. Intergovernmental Panel on Climate Change (IPCC) noted the evidence points "either way" on climate

...tax increase to implement this treaty?

5. Under the Administration's proposal to trade carbon credits, Russia will have 800 million metric tons of carbon credits to trade. The White House estimated that each credit (using optimistic assumptions) will cost \$23 per metric ton. Given the common assumption that the U.S. will buy nearly all of the Russian credits at this low cost, that means America's utility and gasoline consumers will be taxed to provide over \$18 billion in new foreign aid projects for Russia. These monies will be sent directly from consumers in the form of higher prices and will not be linked to any conditions such as nuclear non-proliferation, cooperation on anti-narcotics, anti-terrorism or human rights concerns. Is this treaty a huge hidden indirect tax on Americans to provide large amounts of unrestricted foreign aid to Russia?

6. Under the proposed trading scheme, any nation that is emitting CO2 below its 1990 level will be able to sell carbon credits on a U.N.-managed market. Key countries that are significantly below their 1990 emissions are: Lybia, Iraq, Iran and North Korea. None of the U.N. drafts prohibit rouge nations from benefiting under this treaty. Why?

7. The implementation of this treaty will require the establishment of a new U.N. bureaucracy. If this new bureaucracy orders the closing of an American plant or blocks the construction of a new American factory, will the Administration abide by that ruling? If the Administration finds the U.N. staff is using its power to help our competitors, will it block implementation?

8. Under the treaty, the domestic operations of the DoD are limited. While the DoD originally sought a blanket waiver of the treaty's application, the White House ordered the DoD to back down and only exempted overseas operations consistent with the U.N. charter. U.S. forces are the best in the world because they train and operate more than anyone else. This treaty will now exert a strong pressure on future Administrations to keep our forces grounded and in port to meet our emissions targets. How can this be changed without incurring the objection of the Iraqis and Libyans who have an equal voice to the U.S. in climate change negotiations.

9. The U.S. completed negotiations and signed the Kyoto pact but refuses to submit it to the Senate for ratification as the Constitution requires. Why?

10. Legislation has been introduced to block funding for the implementation of the Kyoto treaty before it is ratified. Does the Administration oppose this? Why?

The following is a summary of the key decisions made by the Administration at Kyoto:

TOP TEN U.S. GIVEAWAYS AT KYOTO

Since Vice President Gore told U.S. negotiators at the Kyoto Climate Change Conference to show "increased negotiating flexibility" to achieve an agreement, the United States surrendered its position on ten critical issues. The U.S. negotiating positions surrendered since the Vice President's visit include:

1. Involvement of Developing Countries: U.S. Position: the U.S. called for the "meaningful participation" of "key" developing countries such as China, Mexico, India and Brazil in the emission reduction limits of the protocol. CAVE: No developing countries agreed to be bound by emission limits in the Kyoto Protocol. Provisions permitting voluntary commitments by developing countries were also eliminated.

U.S. Loses

X

U.S. Wins ____

for developing countries to agree to binding emissions limits for developing countries by the time the protocol began to bind the U.S. (Scheduled for 2008). CAVE: Despite a brave effort by New Zealand (who proposed a deadline for developing countries to agree by 2002 to cut the rate of growth of their emissions), this modest proposal was rejected.

U.S. Loses X U.S. Wins

3. Cuts in Emissions: U.S. Position: the Clinton-Gore Administration called for the U.S. to stabilize U.S. emissions at 1990 levels by 2012. CAVE: Under pressure from the E.U. and Japan, the U.S. agreed to further cuts in emissions. Absent an economic analysis, the Administration could not explain how these deeper cuts will affect the U.S. economy and unemployment.

U.S. Loses X U.S. Wins

4. Policies & Measures: U.S. Position: the U.S. opposed the inclusion of a long list of specific policies and measures the E.U. wanted specified and mandated in the protocol. The U.S. wanted parties to the protocol to achieve their emissions reductions in flexible ways, to be determined by each country. CAVE: the U.S. agreed to the inclusion to a suggested list of policies and measures to be used to meet emission limits. This is a first step toward compromising U.S. economic sovereignty by giving the U.N. the power not only to set emissions limits but also to control how those limits will be met.

U.S. Loses X U.S. Wins

5. The E.U. "Bubble": U.S. Position: the U.S. opposed the creation of a European "bubble" that would combine the total emissions of all E.U. members. The bubble will ease the burden for E.U. members thanks to lower emissions from the former East Germany and the conversion of the U.K. from coal-fired power to natural gas-fired power. It would allow some E.U. members to increase emissions, while others decline. CAVE: the U.S. accepted the E.U. bubble and only prevented new E.U. members from being covered.

U.S. Loses X U.S. Wins

6. Joint Implementation: U.S. Position: the U.S. proposed giving American companies that are required to reduce emissions an opportunity to invest in emission-reduction projects in other countries. Each company would have controlled the location, duration and cost of the project. CAVE: Under pressure from developing countries, the U.S. agreed to a proposal by Brazil to establish a centrally-managed U.N. "Clean Development Mechanism." U.S. companies required to pay for projects abroad will now face greater U.N. management and control.

U.S. Loses X U.S. Wins

7. Domestic Military Operations: U.S. Position: until just prior to the Kyoto Conference, the Defense Department called for excluding all emissions by the armed forces from the limits set by the protocol. CAVE: Under pressure from China, Iran and Russia, the U.S. agreed to include all domestic military operations and training in the emissions limits. The U.S. may now have to cut critical military training and operations to meet emission limits.

U.S. Loses X U.S. Wins

8. Developing Country Reporting and Mitigation: U.S. Position: the U.S. called for developing countries to make efforts to report on their emissions and mitigate emission growth. CAVE: under the protocol, developed countries, including the U.S., must pay the full cost of

U.S. Loses X U.S. Wins

9. New U.S. Commitments: U.S. Position: in order to give industry, labor and agriculture clear guidance on what the U.S. commitments will be, the U.S. called for clear commitments and procedures to be negotiated in Kyoto. The U.S. did not want to be subject to future conferences with potentially new and unclear commitments offered. CAVE: the U.S. agreed that once the Protocol enters into force, developing countries, using a 3/4 vote of all parties, can add new binding commitments on the U.S. and other developed countries.

U.S. Loses X U.S. Wins

10. Entry Into Force: U.S. Position: the U.S. originally called for a large number of countries representing a very large part of world carbon emissions to ratify the Protocol before its entry into force. CAVE: the draft protocol will now enter into force when countries representing a much lower percentage of total world carbon emissions ratify the treaty.

U.S. Loses X U.S. Wins

dy have agreed to restrict missiles and related technologies capable of delivering weapons of mass destruction. The regime is most restrictive in its treatment of ballistic and cruise missiles carrying 500-kilogram payloads to ranges of 900 kilometers or more.

Under development since 1989, the air-launched Apache is modular in design and will be produced in several variants. The short-range variant, designed for

Dennis Gornley is vice president for defense policy at Pacific-Sierra Research Corp., Arlington, Va.

The Apache has a stealthy aerodynamic shape, low-observable materials, low infrared signatures and combined guidance and navigation schemes that make it a world-class missile.

Although the precise characteristics of the UAE's version, called Black Shahine, are not publicly known, two things appear certain: It will be a state-of-the-art missile and exceed MTOR thresholds.

France's action may well stem from confusion over just how MTOR member states ought to determine a cruise missile's range. Most of the MTOR's implementation experience has focused on de-

broadly similar to France's Apache. And China, with Russian technical assistance, is developing land-attack cruise missiles for theater and strategic roles.

China's questionable behavior in ballistic missile transfers does not augur well for future cruise missile exports, especially if there are ambiguities in the way existing MTOR provisions handle air-launched cruise missile range.

If MTOR problems in restricting sales of advanced cruise missiles like Apache are not rectified, such systems abruptly could appear in adversary arsenals even before indigenously produced missiles or

consensus in clarifying ground rules for determining cruise missile range.

Perhaps the most important lesson is that we expect too much from the MTOR in controlling missile proliferation. That has serious implications for the West's huge investments in air defense. However effective these investments may be in coping with manned aircraft, there are severe shortcomings in defending against low-flying cruise missiles.

What's more, these weaknesses will become more exaggerated, and costly to repair if low-observable cruise missiles like the Apache leak into adversary arsenals.

Exempt Pentagon From Kyoto's Environmental Limitations

By FRANK GAFFNEY

Even by the standards of a White House given, as President Bill Clinton recently put it, to fudging the facts where they prove politically inconvenient, the Clinton team's stance on the environmental impact on the U.S. military of the new Global Climate Change protocol is extraordinary. Specifically, White House spokesmen are telling the Senate that the Defense Department will not be adversely affected by the Kyoto Protocol when all evidence indicates otherwise.

This prospect was made clear last September by Sherri Goodman, deputy undersecretary of defense for environmental security, who circulated a memorandum warning that: "Any restriction on allowable carbon dioxide emissions for [tactical and strategic] systems will affect DoD military operations and readiness."

At the time, Goodman proposed a blanket waiver for "military tactical and strategic systems used in training to support readiness or in support of national security, humanitarian activities, peacekeeping, peace-enforcement and

United Nations actions."

Unfortunately, after the White House, at the insistence of the Joint Chiefs of Staff, agreed to such a waiver before the Kyoto conference, the negotiating team was directed in Japan to abandon that stance. What emerged was an exemption applying only to some military activities.

Specifically, the protocol says: "Emissions resulting from multilateral operations pursuant to the United Nations charter shall not be included in national totals, but reported separately. Emissions related to other operations shall be included in the national emissions totals of one or more parties involved."

Despite the clear meaning of this language, Goodman made the following representations March 11 before the Armed Services readiness subcommittee, chaired by Sen. James Inhofe, R-Okla.:

"Emissions for multilateral operations pursuant to the United Nations charter are exempted from emissions limits. This includes not only multilateral operations expressly authorized by the U.N. Security Council, such as Desert Storm, Bosnia and Somalia, but also multilateral operations not expressly authorized, but consistent with, the U.N.

charter, such as Grenada and Panama."

(At the time, many countries argued U.S. operations in Grenada and Panama were not consistent with the U.N. charter and roundly condemned the unilateral actions mounted under Presidents Ronald Reagan and George Bush.)

Goodman went on to declare: "Virtually every military operation that we have conducted in the post-Cold War period has been multilateral ... because we construe that phrase very broadly to include even [purchasing] fuel from a host nation ... I'm hard pressed to even think of ... a military operation that has been conducted that would be defined ... as unilateral."

In other words, the White House told the Senate last month that, despite the obvious limitation established by the treaty on other-than-multilateral operations, there will be no impact on the U.S. military because it does not engage in any more unilateral operations overseas.

Against the possibility that such a contention might be seen as implausible, Goodman averred: "It's a matter of United States sovereignty as to what it conducts, what it does unilaterally, and we

did not need an international treaty to tell us how to do that."

Of course, that is not the point. What is at issue is whether the unratified Kyoto Protocol might effectively prevent, or at least significantly compound, the costs or other disincentives associated with unilateral action.

Even more remarkable was Goodman's announcement that: "The administration has decided that it will oppose efforts to impose emissions limits or constraints on domestic military operations and training. This decision means that our military readiness will be protected due to climate change policy."

Goodman promised Inhofe and his colleagues that this extraordinary position would be affirmed by memorandum issued by the National Security Council (NSC). As of this writing, no such memo has been received by the Armed Services Committee.

According to the trade publication *Defense Environment Alert*, however, the NSC's executive secretary did circulate March 27 a memorandum to relevant agencies providing "White House guidance concerning the obligations of the Department of Defense in implementing the Kyoto agreement." The relevant portions of

this guidance are as follows:

"It has been determined that measures intended to promote reductions in emissions of greenhouse gases shall not impair or adversely affect military operations and training (including tactical aircraft, ships, weapons systems, combat training and border security) or the ability to reallocate to the Defense Department emissions resulting from overseas activities and bases pursuant to the agreement at Kyoto."

My 20 years of experience with international accords tells me the White House either does not understand what it signed up to in Kyoto or is willfully misrepresenting its agreement to the Senate.

If the protocol is ratified without formally changing its text to reflect the sort of blanket exemption for DoD now claimed by the White House, or if the Senate permits the treaty's effective implementation without ratification, experience suggests the Pentagon will be subjected to harmful operational and other constraints.

The White House has yet to make a compelling case for imposing Kyoto's hardships and costs on the nation as a whole. The Senate must ensure, at the very least, that the national security is spared these burdens.

Frank Gaffney is the director of the Center for Security Policy in Washington.

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NATIONAL SECURITY COUNCIL AUTHORIZES CLIMATE CHANGE EXEMPTION FOR MILITARY

The National Security Council (NSC) has issued a policy memo that effectively exempts U.S. military operations and training from any greenhouse gas emissions limits set in the administration's climate change policies. The March 27 memo signals President Clinton's approval of the exemption, says Sherri W. Goodman, the Pentagon's top environment official. *Text of the memo is reprinted below.*

The NSC memo delivers White House guidance on DOD's obligations in implementing the international climate change treaty, agreed to by the United States and other industrial countries last December in Kyoto, Japan. The memo states that as the administration develops its domestic policies on climate change, "it has been determined that measures intended to promote reductions in emissions of greenhouse gases shall not impair or adversely affect military operations and training (including tactical aircraft, ships, weapons systems, combat training and border security) . . ." This means the military now has "an exemption for emissions from domestic military operations and training," said Goodman, who is deputy under secretary for environmental security, in a May 1 interview.

A Senate source says, however, the NSC language falls short of a blanket exemption, adding that "it is vague enough that it will allow the administration to do whatever they want."

Emissions from operations and training comprise 58 percent of DOD's total greenhouse gas emissions, with the remainder coming from installation operations and non-tactical vehicles. DOD now will concentrate on reducing its greenhouse gas emissions through its facility operations. DOD is the largest single energy consumer in the federal government; carbon dioxide, a product of energy use, is considered the main greenhouse gas.

The NSC memo mirrors an announcement made by Goodman in congressional testimony in March and answers concerns high-level Pentagon officials have had over the impact greenhouse gas emissions limits might impose on military

continued on page 17

Text: NSC Memo Exempting Military Operations and Training

National Security Council
Washington, D.C. 20504

March 27, 1998

Memorandum For	Mr. Jim Dorskind Executive Secretary Executive Secretariat Department of Commerce
Ms. Kristie A. Kenney Executive Secretary Department of State	
Mr. Neal Comstock Executive Secretary Department of the Treasury	Mr. James N. Solit Director, Executive Secretariat Department of Energy
Col. James N. Mattis Executive Secretary Department of Defense	Mr. William A. Nitze Assistant Administrator for International Activities Environmental Protection Agency
Col. M. Manning, USMC Secretary, Joint Staff	
Subject: Climate Change	

and Grenada) are exempt from the agreement reached at Kyoto. Second, emissions from military (and civilian) international air and marine transport are also exempt. Third, the Kyoto agreement authorizes countries to reallocate emissions from military activities if they choose. Department of Defense officials participated prominently in the U.S. delegation at Kyoto.

This memorandum provides White House guidance concerning the obligations of the Department of Defense in implementing the Kyoto agreement. In this regard, the following points are relevant:

First, the President has emphasized that the United States will not assume binding obligations under the Kyoto Protocol until developing countries meaningfully participate in efforts to address climate change. He has also indicated that, in his view, the agreement reached at Kyoto does not provide for the meaningful participation of developing countries.

Second, as we develop our climate change policies, it has been determined that measures intended to promote reductions in emissions of greenhouse gases shall not impair or adversely affect military operations and training (including tactical aircraft, ships, weapons systems, combat training and border security) or the ability to reallocate to the Defense Department emissions resulting from overseas activities and bases pursuant to the agreement at Kyoto. We understand that emissions from military operations and training make up roughly 58 percent of the Defense Department's total greenhouse gas emissions.

The Department of Defense has played an important role in the development of our climate change policies. We are committed to ensuring that the Department continues to play such a role. We look forward to working to address the challenge of climate change while protecting our military readiness.

Glyn T. Davies
Executive Secretary

President Clinton is committed to reducing greenhouse gases as part of his national security strategy. Last December in Kyoto, the United States led the way in shaping an historic treaty to address the challenge of climate change.

At Kyoto, our negotiators sought and obtained several provisions designed to address the unique circumstances of the U.S. military. First, emissions from multilateral military operations pursuant to the UN Charter (such as Desert Storm, Bosnia

to proposal status — as a way to give the agency time to evaluate the conflicting comments it received.

The debate also led to heightened concern among industry groups that EPA would be unable to keep its promise to adopt flexible implementation strategies for the new standard.

In an apparent concession to environmental groups, EPA sources now say that the agency is reexamining its

revocation proposal to determine whether it may have erred in revoking the standard in some locales, an EPA source says. While EPA is unlikely to backtrack in 90 percent of the areas, this source says, it is reevaluating its decision in the remaining 10 percent according to several factors, including the degree to which those areas have pushed forward with efforts to ensure air quality maintenance.

Contracts

ARMY RE-AWARDS PINE BLUFF INCINERATOR CONTRACT TO RAYTHEON

In a long-awaited decision, the Army announced May 1 that it had re-awarded to Raytheon Demilitarization Co. a \$512 million contract for chemical weapons incineration in Pine Bluff, AR. The contract award was suspended last fall, triggered by a General Accounting Office (GAO) determination that the Army had improperly awarded the initial contract to Raytheon.

"We're excited to learn that [the award of the contract to us] has been upheld," a Raytheon source says.

In a May 1 press release, the Army says it made the new contract decision "based upon a thorough and detailed review of the issues raised by the GAO." GAO, responding to a contract protest, found last Nov. 13 that the Army had improperly awarded the Pine Bluff contract to Raytheon and ordered the military to re-evaluate the contract award process (see Nov. 18, 1997, issue, p3). Details of GAO's decision were not made public because the parties involved in the dispute could not agree on what information to release. At press time, it was unclear what issues GAO had raised and how the Army had changed its contract evaluation process.

The systems contract — covering construction, equipment installation, systemization, operation and closure of the facility — was originally given to Raytheon last July. However, a competitor, EG&G Inc., protested the award, charging that the Army had disregarded its contracting guidelines. EG&G claimed that because it had higher technical and management scores and a lower bid, it should have received the contract. The Army, EG&G said, unfairly compared its performance at the Tooele, UT, chemical weapons incinerator with Raytheon's performance at the chemical weapons incinerator on Johnston Island in the Pacific. The comparison was for a six-month period rather than the lifetime of the two plants, EG&G said.

EG&G is "very disappointed" that it didn't win, but it continues to fully support the Army's program, an EG&G source says. The company is waiting for a May 6 debriefing from the Army to learn how the military could award the contract to Raytheon in light of GAO's decision, the source says.

Raytheon's contract was awarded with a limited notice to proceed, meaning that the company can plan for construction activities but must wait until the state issues environmental permits before breaking ground. Next month, the Arkansas Department of Pollution Control and Ecology expects to release for public comment draft Resource Conservation & Recovery Act and air permits. The Army anticipates that final permits will be issued by the end of the year.

The contract covers the destruction of all of the Army's chemical weapons stored at Pine Bluff Chemical Activity. The facility stores 12 percent of the nation's chemical weapons stockpile, including 6.4 million pounds of mustard agent in ton containers, and 1.25 million pounds of nerve agent in M-55 rockets and land mines.

NSC issues memo on climate change . . . begins on page 6

training. The administration's position also may quiet criticisms key members of Congress have expressed against the administration for not securing language in the international climate change treaty that fully protects military readiness.

The memo says that the president "is committed to reducing greenhouse gases as part of his national security strategy." This reaffirms the priority that Clinton is giving to reducing greenhouse gas emissions, Goodman said. In some ways, it is stating that "protecting our environment and maintaining military readiness go hand in hand," she added. The threat of climate change as a national security threat will be elaborated on in the president's upcoming national security strategy, she said.

The NSC memo also reiterates narrow military-related exemptions that are contained in the climate change treaty. In particular, it reaffirms that the United States and other countries may agree to reallocate emissions from military bases located in foreign countries, Goodman said. Without reallocation, the rules of the treaty call for emissions to be assigned to the countries in which they occur.

The NSC directs that DOD will continue to play an "important role" in developing climate change policies. Along these lines, the military will continue to reduce energy consumption at its facilities, according to Goodman.

Earliest COT

DRAFT DOD LETTER

Draft Response to Defense News Article

We are writing to correct the inaccurate assertions and facts in Mr. Gaffney's article, "Exempt Pentagon from Kyoto's Environmental Limitations," that appeared in last week's Defense News.

First, the article asserts that, "White House spokesmen are telling the Senate that the Defense Department will not be adversely affected by the Kyoto Protocol when all evidence indicates otherwise." This is not true. The Kyoto Protocol serves our nation's environmental interests while at the same time satisfying our national security interests. The Department's goal for the Kyoto negotiations was to preserve our ability conduct military operations with trained and ready forces. The President strongly supported this goal and is committed to ensuring that our military retains the readiness and flexibility to undertake military actions, both unilaterally and multilaterally.

In terms of provisions that needed to be agreed upon internationally, U.S. negotiators sought and obtained several relevant provisions. Three technical objectives related to protecting national security were achieved in a decision of the Parties at Kyoto adopted in conjunction with the Protocol. First, emissions from "bunker fuels" (those used in international aviation and maritime transport) were exempted from emissions targets adopted. Second, emissions resulting from multilateral operations pursuant to the UN Charter were exempted from emissions limits. Third, the Protocol recognizes that countries may decide, among themselves, how to account for other emissions relating to operations (e.g., U.S. training in another NATO country), without going through emissions trading.

Second, the article incorrectly quotes the text of the Kyoto provision that addresses the second and third objectives. The correct text reads, "Emissions resulting from multilateral operations pursuant to the United Nations Charter shall not be included in national totals but reported separately; other emissions related to operations shall be included in the national emissions totals of one or more parties involved."

Based on the inaccurate text, Mr. Gaffney asserts that there is an, "obvious limitation established by the treaty on other-than-multilateral operations," and that despite the obvious limitation, the White House told the Senate, "there will be no impact on the U.S. military because it does not engage in any more unilateral operations overseas." Both assertions are untrue.

The Department of Defense carefully considered the potential impacts that the Protocol could have on national security including greenhouse gas emissions from all types of operations. While the article is correct in stating that the Protocol does not specifically exempt the reporting of emissions that result from unilateral military operations, this will not impact our national security. The key issue for the U.S. was ensuring that other countries would not be inhibited from supporting the U.S. in taking military action. Indeed, one of our key accomplishments in Kyoto was to include the provision that excludes emissions resulting from multilateral operations

from national emissions targets. A multilateral operation is an operation that involves more than one country. This involvement may include providing combat forces, logistics, and other support or any combination of these. For purposes of the Kyoto Protocol, an operation that is undertaken by U.S. forces with permission of the host country is a multilateral operation, and the host country is entitled to exclude the emissions from their national target. This provision ensures that a country will not have to fear exceeding its greenhouse gas emissions target if it elects to support a multilateral operation.

In the rare cases where the U.S. does act unilaterally (under the Kyoto Protocol this means no support of any kind from any nation), emissions from U.S. operations would fall into three categories: 1) pre-deployment emissions within the U.S., 2) emissions from air and naval operations in international airspace and waters, and 3) emissions at the site of the operation. Under the Protocol, each category of emissions is accounted for differently. Emissions that occur within the U.S. would be included within the U.S. emissions target; however, the Administration has determined that domestic implementation measures intended to promote reductions in emissions of greenhouse gases shall not impair or adversely affect military operations and training. Thus, emissions from military operations in the U.S. will be exempt from emission limitations. Emissions from air and naval operations in international airspace and waters are exempt under the Protocol. Finally, emissions at the site of the operation would be attributable to the country in which they occur. The net result is that while a unilateral operation is not specifically exempt, there is no impact on the Department, and no significant impact on the U.S.

Third, in discussing a relevant National Security Council memo that the Administration promised to provide to the Senate, Mr. Gaffney asserts that, "As of this writing, no such memo has been received by the Armed Services Committee." Again, this is not correct. The memo was provided to the Committee on

Finally, Mr. Gaffney asserts that the Administration does not understand what it signed up to in Kyoto. Once again, this is not the case. The President ensured that U.S. negotiators addressed the national security issues that needed to be addressed internationally in Kyoto, and is committed to working with Congress to address the national security issues that must be addressed domestically.

Record Type: Record

To: Todd Stern/WHO/EOP

cc: Jonathan H. Adashek/WHO/EOP

Subject: See what you think about these climate "q's"

Todd--here's my suggested list. Edit at will! Rosina

Climate Change Questions (2-2-98 Draft)

Is climate changing?

Even climate is changing, how do we know that humans are responsible?

Isn't it true that we don't really know if observed climate changes are caused by increases in greenhouse gases?

Why is it necessary to begin reducing greenhouse gas emissions so drastically by the year 2012 - is there a scientific basis for this? Before we undertake costly mitigation measures, why not put a whole bunch of money into resolving the science?

Why should we care if it gets a little bit warmer, especially if the changes are mainly nighttime and winter temperatures?

How can humans have such a big effect when natural sources account for 97% of the carbon emissions in a year?

Why is there a difference between satellite and surface-based measurements of temperature?

Can't climate change be explained by variation in the amount of Solar radiation that reaches the Earth?

Isn't it true that most of the scientists who signed the "scientists letter" aren't climate specialists? What makes them qualified to speak out on this subject?

How can we predict the future climate, when we can't even predict the weather for next week?

If we don't even know how much climate will change, how can we project what the effects will be?

How can any projections of impacts be accurate when climate models don't give an accurate picture of regional changes?

How can anyone isolate the role of climate change from all the other illnesses and conditions that can affect people's health?

Won't warmer weather increase agricultural productivity? And aren't warm weather and CO2 it good for plants?

How do we have any idea what emissions might be in 50 to 100 years?

How does the international science community feel about the certainty of sinks measurements?

Is it true that you said that several of our floods, droughts and other severe weather events were caused by global warming? How can an individual weather event be attributed to global warming given all of the other factors that affect climate patterns?

Do you believe the recent series of unexplained dolphin and sea lion deaths on US coasts is caused by global warming? Do you believe that El Nino is caused by global warming, or that El Nino's are getting worse or more frequent?

FRENCH COURT IRAN

Under-Secretary of State Tom Pickering held talks in Paris with French officials to discuss pending sanctions against the giant French oil company Total SA because of its \$2 billion venture in Iran to construct a pipeline.

The sanctions mandated under U.S. law have led to a major diplomatic row between France (joined by its EU partners) and the United States. The French threaten that if sanctions are imposed they will retaliate against U.S. companies and sue the U.S. in the World Trade Organization, who's rules, they claim, preclude such sanctions.

The Clinton Administration is sending mixed signals on its intentions regarding enforcement of the Iran-Libya Sanctions Act (ILSA), which contains a waiver provision for the President. Use of the waiver, however, would anger Congress, which believes that Iran is on the verge of developing long range ballistic missiles capable of delivering weapons of mass destruction to targets as far away as Israel and Europe.

Meanwhile, there are rumors that the French government may be encouraging further business deals with Iran by French companies to deliberately provoke a confrontation over the U.S. policy of sanctioning trade with rogue regimes.

VIOLENCE ROCKS N. IRELAND

Violence in Northern Ireland has escalated since the recent killing of loyalist assassin Billy Wright ("King Rat") in the Maze prison near Belfast by a nationalist splinter group.

The fragile peace talks, set to resume this month under the leadership of former Senator George Mitchell, are now threatened. Extremists may use the lack of progress in talks as an excuse to fill the vacuum with hate and violence.

One Catholic woman on the streets in Dungannon after the most recent killings told the media: "Handfuls of these madmen on both sides are able to poison the atmosphere for everyone."

The historic talks include the IRA's political wing Sinn Fein, whose leader Gerry Adams met last month in London with British Prime Minister Tony Blair. The historic meeting was the first by a republican leader with a British Prime Minister since the partition of Ireland in the 1920s.

BAD WEATHER DOWNS COLOMBIAN ANTI-DRUG HELO

Just before year's end, the Colombian National Police (CNP) lost another of the surplus, U.S. Vietnam-era Huey helicopters they have to battle well-armed narco-guerrillas and narcotics traffickers who produce 80% of the world's cocaine and more than 60% of the heroin seized here in the United States.

The latest Huey lost in operation was named "Dangerous Dan" after Rep. Dan Burton. It crashed in high winds and bad weather in the 10,000-foot-high Andes Mountains while escorting an opium eradication mission in the Huila area where the poppy

for eventual heroin production is grown. Another U.S. chopper, named "Big Ben" after Rep. Ben Gilman, sustained ground fire last spring in Colombia's coca and cocaine producing lowlands.

House Republican leaders, aware of the risks the CNP's anti-narcotics units face in these areas, and realizing that the best place to beat the narcotics traffickers is at the source, earmarked \$50 million in FY 1998 to upgrade the Hueys and to provide Black Hawk high performance utility helicopters. These choppers will give the CNP range, height, lift, and survivability in crashes in these dangerous zones.

Meanwhile, President Clinton's Drug Czar, Barry McCaffrey, touts high tech, "non-intrusive" border control technology as the way to stem the flow of drugs entering from Mexico. In 1996, 254 million people, 75 million autos and 3.5 million trucks and rail cars were recorded crossing the border (not including those entering the country surreptitiously). That's an average of 219,178 cars, trucks and rail cars to check "non-intrusively" each day.

KYOTO CLIMATE CHANGE TREATY: TOP TEN GIVEAWAYS

The Kyoto Climate Change Conference produced an agreement that will do little to protect the environment while damaging the U.S. economy. Here is what the U.S. gave up in Kyoto:

1. **Developing Countries:** Not bound by emission limits. Provisions permitting voluntary commitments by developing countries were also eliminated.
2. **No Future Developing Country Commitments.**
3. **Cuts in Emissions:** Under pressure from the E.U. and Japan, the U.S. agreed to deeper cuts in emissions than it originally planned.
4. **Policies & Measures:** Gives the U.N. power to set emissions limits and decide how limits will be met.
5. **The E.U. "Bubble":** U.S. accepted the E.U. bubble (which would combine the total emissions of all E.U. members) and only bars new E.U. members from coverage.
6. **Joint Implementation:** Establishes a U.N. "Clean Development Mechanism." U.S. companies required to pay for projects abroad will now face greater U.N. management and control.
7. **Domestic Military Operations:** By agreeing to include all domestic military operations and training in the emissions limits, the U.S. will have to cut military training and operations to meet emission limits.
8. **Developing Country Reporting and Mitigation:** The U.S. and developed countries must pay the full cost of emission reports and of any mitigation effort.
9. **New U.S. Commitments:** Once the Protocol enters into force, developing countries, using a 3/4 vote of all parties, can add new binding commitments on the U.S. and other developed countries.
10. **Entry Into Force:** Negotiators allowed the treaty to enter into force even without U.S. ratification.

Visit the House International Relations Committee
Internet Website at:
http://www.house.gov/international_relations/

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CC:

Subject: Hill Info

Last week, I appeared on a panel with Dave Garman, lead professional staff on climate change to Senate Energy & Natural Resources Chairman Murkowski. You may remember him from Kyoto. He's an old hand at this stuff. He laid out their case against the Administration's climate policy, and I thought you might benefit from my notes. This will give a sense of where some of them will be coming from -- much of which you may already know. Here are his major concerns:

1. He thinks that the Administration lacks the right appreciation for the important institutional role the Senate plays on this issue -- including advice and consent, but also on domestic implementation.

-- he described his view that the POTUS and VP both said they'd walk from Kyoto if developing countries did not participate meaningfully -- and then refused to do so in Kyoto. Since the developing countries are not included in binding commitments (and LDCs even killed provisions for voluntary opt in), he thought the Administration should have walked. Doing so would have been better for the international process in the long run. Also, he thinks many Senators will question whether we kept our word to them.

-- he thinks that without developing countries on board, Administration is unilaterally burdening American consumers and businesses while getting no environmental benefit.

-- he said the Administration's approach only exacerbates mistrust that resulted from the recess appointment of Bill Lee and the rumors about recess appointment for the census director.

-- in sum, he thinks that the Admin does not show appropriate respect for the constitutional role of the Senate.

2. He thought that the Administration should recognize the importance of Senate help on tax credits and R&D. There are important Senators, like Chairman Murkowski, who like energy R&D and renewables. Typically, the House cuts these programs, and the Senate restores them to higher levels in Conference. So Senators shouldn't be taken for granted, because the Admin is going to need them. He thinks there is not enough trust or mutual respect shown in the Admin's decision to delay ratification -- and as a result, it doesn't bode well for these programs in the \$5 billion package.

3. He said Senators like the flexibility provisions (JI/CDM, Trading) -- but they don't think we got enough detail to really be confident of their availability. (He rattled off a type-written list of key verbs from the protocol and ministerial decisions -- elaborate, define, determine, develop, etc -- all of which he thought sounded too vague. The audience chuckled as he read words and asked them, does this sound certain to you?) Bottom line here: all Admin got was a framework for how to get flexibility later. And Senate won't ratify w/out those details.

4. Protocol is missing strong verification provisions to enable Senate to be sure others are complying. But then he went on to complain about how intrusive this regime is on our sovereignty over energy policy. The Chair of the Senate Energy Committee should set our energy policy, he said -- not some group of international bureaucrats in Bonn.

5. He sees no real sense of urgency on climate for most Senators. He described how Senators don't just take the word of federal scientists -- instead they turn to their state climatologists or academics from universities back home, who are much more measured in their statements. And those scientists say not to trust those scientists who are dazzled by a trip to the White House, and they will more fairly describe the uncertainties.

6. Finally, many Senators don't think the POTUS is serious about climate given his stance on nuclear and hydropower. Nuclear is 23% of our electric generation and hydro is 10% -- together 33%. And its all carbon free. Lots of the voluntary action so far comes from nuclear. But on nuclear, the POTUS has a veto threat out on waste legislation that the Senate has passed twice. On hydro, for the first time in history, we have an Interior Secretary who has said that he wants to be the first to tear down a dam vs. building one. But there's not a word about hydro in the 1993 climate action plan -- even with all the relicensing decisions coming upon us.

On Q&A, he was asked what the Senate would have wanted us to do in Kyoto, and he said we should have walked away -- and that the real problem was that we didn't walk away in Berlin in 95, where the developing countries were first let off the hook. Now they hear that POTUS plans to sign in March even tho the details aren't there, and he thinks once again -- like in Berlin -- we'll be giving up negotiating leverage.

He was also asked what he was hearing about resonance with the American people, and he said he had heard some polls saying that 75% approval for the Kyoto agreement, which he expects to be our high water mark. He predicted a regional split beginning to occur -- and he reminded us that the majority members (R's) of his committee are all westerners -- Sen. Nichols of Oklahoma is the furthest east! (I checked -- he's right.)

Lastly, he was asked whether the Senate is saying nothing should be done, or does it have an alternative plan for dealing with the climate problem. His answer: he agrees with the way we are trying to mobilize capital on a global basis via our flexibility provisions to the

opportunities for the most cost effective reductions. But he stressed the bottom line is that the intrusiveness and perceived one-sided-ness of the international side of the issues gets in the way of most Senators wanting to deal with this issue at all.

I hope that this helps as we prepare to deal with Members in the coming weeks. It's always good to get a sense of where they're coming from.

Message Sent To:

Kathleen A. McGinty
Lucia A. Wyman
Shelley N. Fidler
Todd Stern
William J. Antholis

THE WHITE HOUSE
WASHINGTON

Todd -

Attached is an article by
API's president, which outlines
some of the familiar Qs we
might get. Nothing surprising,
but a good starting point.

I've had this on my desk for
a month now, and have just
forgotten to give it to you. Oops.

B.

FM: AP/Knight Ridder

K3156

^BC-KYOTO-COMMENTARY:KRT op-ed<

^Putting the Kyoto climate treaty into perspective<

Knight-Ridder/Tribune News Service

KRT FORUM

By Red Cavaney

(KRT)

This fall, when President Clinton announced his administration's goals for the global climate summit in Kyoto, Japan, he indicated U.S. negotiators would seek an agreement that would not be harmful to American families, workers, consumers and farmers and would involve meaningful participation by developing countries, who will be the leading emitters of those gases in the next several decades.

In anticipation of the Kyoto negotiations, this past summer the U.S. Senate passed the Byrd-Hagel resolution setting out similar criteria, by a 95 to 0 vote. Unfortunately, the Kyoto agreement that has been approved fails on both counts economic impact and global participation.

Under the agreement, the United States would have to cut greenhouse gas emissions 7 percent below 1990 levels by 2012. The only way to do that is by reducing energy use by about 30 percent.

Proponents of the agreement seem to believe technology will enable the United States to achieve these cuts in a painless way. But those technologies for example, technologies that would vastly improve the energy efficiency of vehicles, appliances and factories at affordable additional cost simply do not exist. Clearly, technological breakthroughs will occur, but they typically aren't magically produced on the short timetable called for in the agreement. From the perspective of technology, 10 or 12 years is close to tomorrow.

The administration also suggests an emissions trading system could efficiently allocate cuts in emissions and, therefore, cut the costs of achieving reductions. However, all that survived Kyoto was agreement to study such a system. The system's rules would come later, after more negotiations. And, having exempted developing countries, the negotiators left only one nation Russia with nearly a monopoly on the supply and pricing of tradable permits for emission rights.

While trading is an attractive intellectual concept, there are enormous obstacles to be overcome to put it in place globally.

Furthermore, trading ultimately involves energy rationing or taxes.

Therefore, barring miraculous technological breakthroughs, the massive energy reductions called for by the Kyoto agreement can only be achieved by intrusive and disruptive government initiatives: rationing to reduce availability or high taxes to stifle demand.

The result would be either less energy for consumers to use directly, such as the oil, gas and electricity to heat their homes, or increased taxes that would mean higher prices for that energy.

Independent estimates indicate gasoline prices, for example, could increase on the order of 50 cents a gallon or more.

Consumers would also see a huge hidden tax in the form of higher

Todd:

This is dated X-Mas Eve.
Not funny to respond, but
we can use this in our
"Myths" sheets.

Bill

① false: reducing emissions can be done by switching to cleaner fuels, by planting trees, or by reducing emissions overseas where it may be cheaper.

② false: auto companies claimed they could introduce more efficient cars by the year 2000.

③ false: agreement is the ~~path~~ to the right to trade.

④ false: ~~emissions trading~~ exact trading scheme was not even established, but less carbon intensive energy would certainly be enough, ~~the~~ administration has ruled out a tax increase

⑤ We've heard this before.

⑥ prices for goods and services across the board because energy is a component of their costs. U.S. businesses and farmers would see their expenses rise sharply, with a resulting drop in productivity. Fewer new jobs would be created, and, in businesses most dependent on energy, payrolls would have to be pared.

Overall, the economic impact could be enormous. According to Charles River Associates, an independent, Boston-based economics consulting firm, the Kyoto agreement would result in a cumulative loss to the U.S. economy of more than \$700 billion by 2010. Of course, the gross domestic product is an abstraction to most of us, but it does reflect the output of factories, farms and other businesses across the country and the jobs that go with them. Charles River estimates 3,000,000 fewer American jobs in 2010 because of the Kyoto agreement. Jobs are not an abstraction they are people, our neighbors. That is not a price Americans should have to pay.

⑦ Similarly, the United States should not suffer the disadvantages the Kyoto agreement would impose upon it by exempting countries such as China, India, South Korea, Brazil and Mexico, which have indicated they will not curtail their emissions and which would not experience comparable large energy cost increases. With significantly cheaper energy, businesses and agriculture in those countries would gain a competitive advantage over their American counterparts, win customers away from U.S. business and agriculture and enjoy U.S. businesses and jobs being relocated there. Such results are not the fair deal the president indicated he wanted from Kyoto.

Furthermore, without participation by developing countries, future increases in their emissions could largely offset reductions in the United States, reductions paid for in lost jobs and lower standards of living.

The fact of an unsatisfactory Kyoto agreement does not mean we should walk away from this issue. Potential **climate change** is a legitimate concern and should be addressed. In fact, a number of programs are underway within the petroleum and other industries to make prudent, economically justifiable, voluntary reductions in greenhouse gas emissions.

Early this month, in a personal communication to Vice President Gore, business and industry leaders conveyed their willingness to promote expansion of the president's voluntary greenhouse gas emissions program. They also expressed support for more investment in research programs to reduce the major and very substantial scientific uncertainties about **climate change** and for more research and development of new technologies.

⑧ That's a far better solution than the flawed Kyoto agreement. Although many assert there is a scientific consensus that compels such an agreement, many climate scientists acknowledge substantial uncertainties remain and "there is not a persuasive case for detection of greenhouse warming."

President Clinton should reject the Kyoto result and instead join with business, industry, labor, agriculture and consumer groups in fashioning a constructive, cost-effective program for addressing the nation's climate concerns.

In the end this debate is not about action or inaction, or being for or against addressing legitimate environmental issues. It is about responsible action that recognizes climate is a long-term issue and

⑥ False: No evidence that jobs are not ~~lost~~ by changes in energy prices

⑦ False: No evidence indicates that ~~business~~ has been a result of fuel costs.

⑧ False: Broad consensus. Some scientists said ozone holes was not a problem

that nations both have and need time to take actions that do not jeopardize their economic well-being.

X X X

Red Cavaney is president of the American Petroleum Institute. Readers may write to him at: API, 1220 L St. NW, Washington, D.C. 20005.

This essay is available to Knight-Ridder/Tribune News Service subscribers. Knight-Ridder/Tribune did not subsidize the writing of this column; the opinions are those of the writer and do not necessarily represent the views of Knight-Ridder/Tribune or its editors.

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1-30-98

QUESTIONS FOR TESTIMONY:

The Protocol

Is the Kyoto Protocol in the security interests of U.S. or is it just another derogation of U.S. sovereignty to the UN?

Do you plan to sign the Kyoto Protocol and then ignore the Senate's right to "advice and consent"?

Are you planning to implement the Protocol by Executive Order?

Isn't the Domestic Climate Change Program just a way of implementing an international agreement without securing Congressional agreement to the policy first?

Isn't it true that your own analysis showed that reducing ghg emissions would slow economic growth and raise gasoline prices at least 26%?

What do you mean by "meaningful participation" of developing countries?

Given the rules of procedure of the Conference of the Parties, aren't we turning over decisions that will affect the prosperity of American citizens over the very developing countries that are exempt from any obligations under the agreement?

If we ratify the protocol, won't developing countries be able to dictate the U.S. Target in the future—and penalize us, if we fail to comply?

How do we know there is any reason for taking action? Isn't this just too costly?

There are scientists who disagree with the Intergovernmental Panel on Climate Change. Are you aware of these disagreements?

Isn't this just another way of establishing another UN mega-Secretariat? Do we need anymore big international bureaucracies subsidized by the U.S. taxpayer? Moreover, aren't these people going to become an enforcement operation – and if we don't comply – what will happen? International penalties for noncompliance?

Emissions Trading

How can the Administration set up a verifiable ^{global} trading regime anyway?

Can you assure the Congress that every other party to the Protocol will have equivalent monitoring and verification procedures?

How can you be so sure trading will save us money?

It seems that the trading regime is constructed on the premise that we will pay Russia for the reductions that occurred due to the collapse of their economy not because they have taken any action to reduce ghg emissions. Is this sensible?

Haven't we just given the Europeans "free hot air" under their bubble and saddled ourselves with paying for it?

Aren't we giving Russia a potentially sizable transfer of resources with no guarantee that they will use it wisely? We will also have no leverage on Russian policies with these funds. Isn't this a giveaway of taxpayers money?

CLEAN DEVELOPMENT MECHANISM

This CDM is clearly a scheme to saddle us with another international institution. How will this be funded? How will it be set up? Is this yet another arm of the World Bank?

Why do we need "mechanisms" to transfer resources from developed countries to developing countries? These countries are exempt from obligations under the protocol so why transfer resources to them?

How will this advance "meaningful participation" with developing countries?

How can we make this scheme work? What will it take?

NATIONAL SECURITY

Haven't we jeopardized the ability of our military to maintain its readiness by committing to legally binding targets under the Protocol? If we ratify, won't we be weakening our defensive capability?

Why didn't you just exempt the military rather than this complex formula on bunker fuels in the Protocol and the decision of the parties to exempt certain well-defined military operations?

*Not include
unilateral*

Q&A ON ECONOMIC ANALYSIS

COSTS

- Q: WHY IS YOUR ESTIMATE OF THE COSTS INVOLVED SO MUCH LOWER THAN OTHER ESTIMATES? HOW IS YOUR ANALYSIS POSSIBLY CREDIBLE?
- Q: IF YOUR ANALYSIS IS CORRECT, HOW MUCH WILL AMERICAN CONSUMERS HAVE TO PAY IN 2010 TO MEET THE PRESIDENT'S GOALS? ISN'T THAT A SUBSTANTIAL HARDSHIP FOR THE AVERAGE AMERICAN FAMILY?
- Q: HOW MUCH WILL GAS PRICES INCREASE UNDER YOUR ANALYSIS?
- Q: HOW MUCH WILL ELECTRICITY PRICES INCREASE UNDER YOUR ANALYSIS?
- Q: WHAT IS THE DISTRIBUTIONAL EFFECT OF THE INCREASE IN ENERGY PRICES?
- Q: UNDER YOUR ANALYSIS, WHEN DO ENERGY PRICES START TO RISE ABOVE THEIR BASELINE LEVEL?

PEER REVIEW, PREVIOUS STATEMENTS, AND GENERAL

- Q: DO YOU HAVE ANY OUTSIDE EXPERTS WHO CONCUR WITH YOUR ANALYSIS? WAS IT PEER-REVIEWED?
- Q: DIDN'T JANET YELLEN CLAIM THAT USING THESE TYPES OF MODELS IS FUTILE?
- Q: DON'T INTERNAL ADMINISTRATION DOCUMENTS SHOW MUCH HIGHER COSTS?
- Q: HOW DO THESE RESULTS RELATE TO THE IAT REPORT? ARE THE MODELS OR ASSUMPTIONS SIMILAR?
- Q: WHY DID IT TAKE YOU SO LONG TO RELEASE THIS REPORT?

TAXES

- Q: DOESN'T YOUR ANALYSIS SHOW THAT THE PRESIDENT'S PLAN ENTAILS A TAX INCREASE OF [\$30] BILLION IN 2010?
- Q: HOW LARGE IS THE TAX INCREASE FOR THE AVERAGE FAMILY IMPLIED

BY YOUR MODEL?

Q: DOES YOUR ANALYSIS INCLUDE THE PRESIDENT'S PROPOSED TAX CUTS?

TECHNOLOGY

Q: WHAT DOES YOUR ANALYSIS ASSUME ABOUT TECHNOLOGY?

ELECTRICITY RESTRUCTURING

Q: DON'T SOME CREDIBLE SOURCES BELIEVE THAT ELECTRICITY RESTRUCTURING WILL RAISE CARBON EMISSIONS? DID YOU INCLUDE THAT IN YOUR ANALYSIS?

DEVELOPING COUNTRIES AND TRADING

Q: WHY DO YOU ASSUME THAT DEVELOPING COUNTRIES WILL PARTICIPATE IN THE INTERNATIONAL EFFORT TO MITIGATE CLIMATE CHANGE, WHEN THEY HAVE NOT AGREED TO DO SO?

Q: WHY DO YOU ASSUME INTERNATIONAL TRADING, WHEN THE RULES FOR SUCH TRADING HAVE NOT YET BEEN CLARIFIED?

Q: WHY DO YOU BELIEVE THAT INTERNATIONAL PERMIT TRADING WILL WORK SO WELL? AREN'T YOUR ASSUMPTIONS IMPLAUSIBLE?

Q: HOW LARGE ARE THE TRANSFERS TO THE REST OF THE WORLD UNDER YOUR ANALYSIS? WON'T THAT EXPAND THE CURRENT ACCOUNT DEFICIT, WHICH IS ALREADY GROWING SUBSTANTIALLY?

Questions and Answers Resources for the Future

The Administration's economic analysis seemed to play down certain costs, such as auto fatalities and highway congestion. Why would the Administration do this on the one hand, while also telling developing countries that there are significant ancillary benefits to acting on climate? Will the Administration seek to refine these cost estimates?

- **As you know, the ancillary benefits from taking action on climate change are quite large. The most important of these effects are on air quality, especially from the reduced PM and SO₂ that occurs with the transition from coal to other energy sources. In developing nations such as China, these benefits are also likely to be quite large, particularly since their coal-fired plants are generally at least one technology generation behind those in industrialized nations.**
- **With respect to the impact of climate policies on automobile related ancillary benefits -- traffic congestion and fatalities -- we certainly expect that if our climate policies raise the price of gasoline, we will experience these benefits. However, these benefits are significantly less than those for air pollution, and are much more dependent on the final design of the cap and trade system.**

Recently critics have claimed that the Administration has spent too much time looking at potentially costly ways of preventing climate change rather than potentially cheaper costs of trying to adapt to a changing climate. Given that a certain amount of climate change is already past any policy-maker's control, why has the Administration not given these costs closer scrutiny?

- **We have reviewed several attempts to estimate the costs of climate change that include adaptation costs. Even with adaptation, assuming a doubling of CO₂ concentrations by 2100, the cost impacts of a changing climate could be on the order of 1% of GDP annually.**
- **While adaptation may be important for small changes in climate, significant changes in climate -- such as shifts in the Gulf Stream or ocean currents -- are difficult to predict, perhaps harder still to adapt to, and could have costs which exceed the relatively modest insurance policy that we are proposing.**

The Administration Economic Analysis used a very low technology improvement factor. Why is that, particularly in light of the President's own robust expectations about what currently existing technologies can deliver?

- **The Economic Analysis's assumptions on technology do not presuppose that the final amount of technology diffusion will not be higher. Rather, these conservative estimates are analogous to the conservative assumptions that the Administration uses every year in predicting annual economic growth when making budget**

forecasts. Over the last six years, we have consistently *underestimated* economic growth -- making our projections among the most credible available.

Have you made any determinations on the early credit program? Do you anticipate using energy efficiency standards or additionality off BAU to judge whether real reductions are being made? Do you expect to cap the amount of credits given during the early period?

- **We have not made any determinations on the exact shape of the early credit program, but as we examine proposals from interested groups on this system, we will be vigilant in making sure that the program rewards credible actions to reduce emissions and does not tie our hands when establishing a cap and trade program.**

Have you begun to explore the benefits of auctioning v. grandfathering emissions permits? Won't an early credit system predispose you to use grandfathering techniques?

- **No.**

The Economic Analysis states that electricity restructuring is likely to lead to both reduced carbon emissions and that it will lead to lower energy costs for consumers, offsetting any price increases caused by a cap and trade system. Is this logical? What models were used to determine this? Why was this only discussed in the Economic Analysis, yet not included in the final calculations of the costs of taking action on climate change?

- **Competition creates a price incentive for electric utilities to reduce the amount of fuel they use in generating electricity. For instance, we would expect that cogeneration projects would become more attractive to utilities as a way of getting the most bang for their buck on fuel used in generating power. This means that wasted energy is put to productive use, meaning less carbon emitted.**
- **We didn't try to incorporate this into our final costs because the illustrative model that we used in coming up with possible price scenarios did not include the impact of electricity restructuring. It is important to recall that our analysis was not a statement about what U.S. implementation of Kyoto would actually cost, but rather that we thought certain models had credibly estimated an international permit price as low as \$23 per ton of carbon, assuming full use of the flexibility measures included in the Kyoto Protocol.**

You were quoted in the NYT as having said that you hope that US domestic efforts can amount to as much as 45% of our Kyoto obligation. Do you expect that Congressional opposition to the President's CCTI will make it impossible to reach this goal?

- **The President and Administration are committed to an aggressive program for reducing emissions, that includes the CCTI, electricity restructuring, active partnerships with key industries for how they can reduce their emissions, federal**

government leadership in reducing our own emissions, and a consideration of how to promote sink-related activities.

- **Opposition to CCTI will hamper our ability to reduce emissions -- which is particularly surprising since the technology R&D in our proposal are win-win, no regrets efforts to promote energy efficiency and clean energy technology. These kinds of programs have long enjoyed bipartisan support in congress, and we are hopeful that the current congress will recognize the importance of these programs.**

The Administration's economic analysis assumes full trading with the biggest developing nations, and that those nations adopt targets just below the business as usual levels. Do you expect this to be the case? Is this the minimum criteria for submitting Kyoto to the Senate? If developing nations adopt more stringent emissions targets, will that not automatically lead to higher costs?

- **We continue to work in bilateral and multilateral arena to encourage developing countries to participate meaningfully in the Kyoto framework. We have long said that developing countries should adopt commitments that are consistent with their need for economic development. We also are actively demonstrating that taking on a target and timetable allows these nations potentially large financial rewards through international trading.**

The Administration's initial estimates after Kyoto acknowledged a significant amount of variability in the way that sink activities will be accounted for. Do you expect any resolution of sink accounting at Buenos Aires? Will forest management projects be awarded credit?

- **The Administration strongly feels that forest management projects that produce real carbon sequestration should be credited in the international trading system. We hope that Buenos Aires will help clarify the accounting of sinks, but these issues are very complex, international understanding of them is still forming, so it is too soon to tell whether any real progress can be made.**

The Administration continues to push both voluntary targets and CDM for developing nations. Won't CDM projects be meaningless (or better handled as JI projects) if a nation adopts a target and timetable? Will developing nations get credit for CDM projects done between 2000 and the first budget period? If not, will robust CDM efforts alone count as meaningful participation for some developing countries?

- **As you know, the rules for CDM and trading are a central area of discussion at Buenos Aires. We are working hard to ensure that developing nations can begin doing CDM projects in 2000, and are exploring ways to make sure that credits earned from these projects could be used to comply with a first budget period target for these countries, and that participating in CDM projects does not preclude taking on a target and timetable in the first budget period.**

- **The Administration considers CDM to be an important down payment on developing country participation, but by itself is not meaningful participation. That said, we have consistently said that commitments for poorer developing countries would not need to be the same as those for industrialized nations, and that CDM projects could be a significant aspect of a nations' participation in Kyoto.**

Will there be regional quotas for CDM? What are U.S. thoughts regarding the composition of the CDM governing board?

- **The U.S. wants this mechanism to be established according to market principles. We think that these getting the principles and rules established should precede any discussion of the institutions for governing them.**
- **We have not yet fully discussed proposals for regional distribution of CDM projects, but we have begun to promote efforts such as regional workshops and technical assistance to ensure that all regions benefit from this important mechanism while still ensuring that market-principles remain central to its operation.**

The Administration's hopes for meaningful participation depend upon convincing developing nations of the benefit of market-based mechanisms. Is this the right strategy, considering that in the eyes of many developing nations, complete reliance on international markets has only led to wild economic swings such as the Asia financial crisis? Are you getting any traction in convincing these countries that these mechanisms will increase foreign investment?

- **Emissions trading has an extremely positive track record in the United States. Our SO2 trading program demonstrated that trading can provide real environmental and economic benefits, if properly regulated and monitored. We think that the same holds for international emissions trading, and we are working hard to demonstrate to developing countries how they stand to gain from this system.**
- **In Kyoto, China was adamantly opposed to emissions trading. As a result of President Clinton's trip to China earlier this year, the Chinese government has become more open to the idea of trading, and at Buenos Aires we look forward to starting work with China in developing the rules of the trading system.**
- **The economic crisis has demonstrated to all countries that development and investment resources are scarce. CDM and emissions trading provide real incentives for companies in developed nations to invest in clean energy and other climate friendly projects in less developed countries.**

The Administration seems to favor seller liability. Is this a credible position, particularly given the fact that Russia is most likely to sell tons and its government's recent track record on a number of issues leaves a lot to be desired?

- **The Administration is working closely with other countries to develop rules on**

trading, including the important issue of the allocation of risk in issuing emissions permits. We strongly support rules that make the system operate as efficiently as possible, while not jeopardizing in any way the environmental integrity of the system or our ability to meet Kyoto targets.

China and India are the biggest pieces of the developing country puzzle, with enormous projected growths in energy production. Administration estimates of the costs of addressing climate change skyrocket if these countries are not part of the trading scheme. Yet neither have shown much interest in CDM, not to mention targets and timetables. Moreover, the U.S. has refused to cooperate with them on the few large-scale, climate friendly energy sources available to them -- nuclear and hydroelectric. How do you intend to get out of this box?

- **As indicated above, we have begun to work constructively with China in talking about a number of clean energy projects, as well as in designing international market mechanisms, and continue to try to show them why taking a target and timetable can provide real economic and environmental benefits. For instance, during the President's trip, over \$2 billion in commercial contracts between U.S. companies and China. Many of these focused on clean energy, including cleaner ways of using coal for fuel, as well as efforts to promote safer use of nuclear energy.**
- **We recognize that we still have much to accomplish with the Chinese, and that it may take some time, but we also have been encouraged by recent discussions.**
- **Our discussions with India are not as well developed, but we hope that in the coming years, they will also proceed in a positive direction.**