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[Climate Change] Action

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. paper	Decision Paper (6 pages)		P1/b(1)
002. memo	Frank E. Loy to the President (3 pages)	12/02/2000	P1/b(1)
003. memo	George T. Frampton, Jr. to the Vice President (3 pages)	09/08/2000	P1/b(1)
004. email	Ian A. Bowles to National Security Advisor (2 pages)	05/08/2000	P1/b(1)
005. memo	Madeleine K. Albright to the Vice President (4 pages)	12/20/2000	P1/b(1)

COLLECTION:

Clinton Presidential Records
Office of Environmental Initiatives
Roger Ballentine
OA/Box Number: 19508

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[Climate Change] Action

2017-1093-F
ds460

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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P3 Release would violate a Federal statute [(a)(3) of the PRA]
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P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
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Cardinal = Emotions
Daunt = Wounds in it

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By MX NARA Date 3/1/14
2012-1093-f

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FROM: **IAN BOWLES, NSC/ENVIRONMENT FOR
ROGER BALLENTINE, WHITE HOUSE
CLIMATE CHANGE COORDINATOR**

PH: **456-6530**

ROOM: **361A**

SUBJECT: **DECISION PAPER ON COP6 SINKS**

PAGES: **7 incl.
cover**

PLEASE DELIVER TO:

<u>LOCATION</u>	<u>DELIVER TO</u>	<u>ROOM</u>	<u>PHONE</u>
<u>STATE</u>	<u>FRANK LOY</u>	_____	<u>647-6240</u>
<u>STATE</u>	<u>DAVID SANDALOW</u>	_____	<u>647-1554</u>
<u>USAID</u>	<u>HARRIET BABBITT</u>	_____	<u>712-4070</u>
<u>EPA</u>	<u>ROBERT PERCIASEPE</u>	_____	<u>564-7404</u>
<u>USDA</u>	<u>RICHARD ROMINGER</u>	_____	<u>720-6158</u>
<u>TREASURY</u>	<u>TODD STERN</u>	_____	<u>622-1906</u>
<u>ENERGY</u>	<u>T.J. GLAUTHIER</u>	_____	<u>586-5500</u>
<u>INTERIOR</u>	<u>DAVID HAYES</u>	_____	<u>208-6291</u>
<u>TREASURY</u>	<u>STU EIZENSTAT</u>	_____	<u>622-1080</u>
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10-9-00

THE WHITE HOUSE

WASHINGTON

October 8, 2000

MEMORANDUM FOR THE PRESIDENT

FROM: LISEL LOY *LL*
ADAM ROSMAN
JUSTIN COLEMAN

SUBJECT: Recent Information Items

We are forwarding the following recent information items:

- (A) **Berger/Sperling/Frampton/Ballentine memo on Climate Change negotiations** -- In a detailed memo, Sandy et al update you on negotiations and critical policy issues re: COP6, the Sixth Conference of Parties to the Framework Convention, to be held November 13-24 in The Hague. Expectations for this conference, the most important since Kyoto in '97, are high; we have sought to lower them, resist arbitrary deadlines for ratification, and focus on making progress on major outstanding issues re: Kyoto architecture. While the formal agenda is to resolve remaining design issues for the Kyoto "flexibility mechanisms," the role of "sinks," and the compliance regime, two issues not on the formal agenda -- the role of developing countries and cost issues -- are most critical for our domestic audience and for Senate consideration of the Protocol. (*See attached memo for detail*).
- (B) **Berger Memo re: U.S. Peacekeepers Behavior** -- In response to your question about a *USA Today* article on U.S. soldiers' behavior in Kosovo, Sandy reports that following the trial and conviction of Staff Sergeant Ronghi for raping and killing an 11-year old Kosovo Albanian girl (Ronghi is serving a life sentence with no chance of parole), Brigadier General Sanchez investigated Ronghi's battalion, and found that members of one company behaved unprofessionally; exceeded military authority by using excessive force to question Kosovar civilians; and inappropriately touched Kosovar civilian females while purporting to conduct searches. As result of the investigation, 4 Army officers and 5 enlisted men received punishment. Bill has expressed "grave concern" and stated publicly his support for additional efforts underway to address leadership and discipline within the unit.
- (C) **Berger Memo re: Luigi Einaudi Appointment** -- In response to your inquiry about how Luigi Einaudi was appointed Assistant Secretary of the Organization of American States, Sandy responds that after a distinguished civil service career at State, Einaudi campaigned very hard for this job, received broad support from Ecuador, Bolivia, and Peru, and that it was in the Administration's interest to support him, particularly given wide hemispheric support. Sandy reports that Einaudi is bringing much needed energy to OAS, and that he is already involved in an effort to reduce tensions between El Salvador and Honduras and is now engaged on Haiti.

THE WHITE HOUSE
WASHINGTON

October 6, 2000

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM:

SAMUEL BERGER
GENE SPERLING
GEORGE FRAMPTON
ROGER BALLENTINE

RE:

UPDATE ON CLIMATE CHANGE NEGOTIATIONS

copied
Berger
Sperling
Frampton
Ballentine
Podesta

The Sixth Conference of Parties to the Framework Convention (COP6) is to be held November 13-24 in The Hague. This will be the most important climate change negotiation since the Kyoto conference in 1997. On September 15, in Lyon, France, parties concluded the last preparatory meeting before COP6. This memorandum updates you on the international negotiations and summarizes current policy issues.

I. International Atmospherics and Agenda for COP6

Expectations for COP6 are very high in many quarters. In Europe and among environmental NGOs, there are strong calls for COP6 to resolve all issues necessary for ratification of the Protocol by 2002, or ten years after the Rio Earth Summit where the Framework Convention was completed. Despite these high expectations, there is enormous breadth and complexity in the issues on the agenda for COP6. We have sought to lower expectations, resist any arbitrary deadlines for ratification, and focus on making progress on major outstanding issues related to the Kyoto architecture.

The formal agenda for COP6 is to resolve remaining design issues for the Kyoto "flexibility mechanisms," the role of "sinks" (i.e. carbon-absorbing and carbon-storing sources such as trees and soils) in the Protocol and the compliance regime. The main mechanisms are emissions trading between industrialized countries and the Clean Development Mechanism (CDM) (a mechanism by which developed countries or private sector entities can fund greenhouse-gas reducing projects in developing countries and receive "credits" in return).

Two issues not on the formal agenda that are among the most critical for our domestic audience and for Senate consideration of the Protocol are the role of developing countries and questions of cost. While we are indirectly but actively addressing questions of cost in the discussions of the mechanisms, realistic approaches to addressing the role of developing countries at COP6 are limited.

cc: Vice President
Chief of Staff

II. Kyoto Mechanisms, “Sinks,” and Compliance

Limited progress has been made so far to resolve major outstanding issues concerning the design of emissions trading and the CDM and the role of “sinks” in the treaty. On emissions trading, there is growing support within the E.U. for domestic trading systems and some prospect that this will lead to less vociferous calls for quantitative “caps” on international trading; however, many hard-liners remain. A “cap” requirement would restrict how much nations could use trading (versus domestic actions) to achieve their Kyoto target. There are several variations on such “cap” proposals, but all would substantially restrict use of trading to achieve emissions reductions.

The high profile oil crisis in Europe may now introduce a note of realism into E.U. attitudes on emissions trading, as governments understand that meeting their Kyoto targets exclusively through domestic measures may be more difficult than anticipated. We continue to underscore the economic efficiency of unfettered trading and are working with the Russians to diffuse the criticism of their so-called “hot air” allotments (“hot air” is the term used to deride the large amount of Russian allotments available for trading due to a generous Kyoto target and unexpected contraction in the Russian economy resulting in unforeseen emissions reductions). The E.U.’s fear that Russia will be able to sell a large portion of its emission reduction allotments in part drives their call for “caps” on trading.

Regarding CDM design, we face two main challenges. First, there is a real prospect that the rules envisioned will be so complex as to preclude much significant use of the CDM by the private sector. Second, there are strong calls for exclusion of “sinks” and nuclear power from the CDM. “Sinks” in the CDM would allow companies credit for reforestation or protecting tropical forests. Its inclusion is important to segments of our business community and certain conservation NGOs and is a high priority for our negotiators; however, there is strong opposition from many quarters. We have consistently opposed restrictions on the CDM.

With respect to the general role of “sinks” in the Protocol, we face the challenge of including a broad definition of sinks that would allow us to (1) gain credit for our status as a net reforesting country and, (2) create incentives for agricultural interests to be involved in fighting global warming by expanding the definition of sinks beyond just forests. We anticipate seeking a broad set of definitions, but agreeing to “phase in” the broad approach to limit the benefit we could derive from sinks in the first commitment period target (2008-2012). This approach is intended to be responsive to criticisms that broad inclusion of “sinks” will fundamentally alter the “level of effort” required to reach our Kyoto target. In fact, many scientists agree that, in theory, the U.S. could meet as much as half of its Kyoto target without any change to its current forestry practices.

Regarding the treaty compliance mechanism, we have taken the position that we favor legal consequences for failure to comply with the Protocol. We disagree with the E.U. over what such consequences should be. The E.U. favors a financial penalty paid to an international fund. We have favored an approach that would require countries to borrow at a premium against a future emissions reduction commitment to make up for missing a target.

III. Developing Countries and New Approaches to Cost Control

There is little appetite among the parties to consider the role of developing countries at COP6. Likely the only prospect for establishing a "new dialogue" over the role of developing countries in combating climate change would be to link it to a discussion of new sources of funding. Nonetheless, enormous hurdles remain because developing countries themselves are unified in opposition to making any new commitments; to the contrary, they are currently seeking substantial additional commitments from industrialized countries in the form of additional financial resources as part of any deal at COP6. We are exploring innovative ideas to be responsive, but there are obvious challenges related to any new funding.

Issues of the role of developing countries in the fight against climate change are enormously challenging. The 1997 Byrd-Hagel Resolution, passed 95-0, urged the Administration not to sign on to a treaty that would bind the United States without similarly binding developing countries like China and India. On the other hand, the dynamic in the international community is that we are virtually isolated in arguing that resolving a role for developing countries should be a priority for COP6. In essence, the rest of the world thinks it would be deeply inequitable for us to try to hold developing countries to the same standard as industrialized countries.

Our overall strategy on has been to continue to cultivate a set of actions by developing countries that we can characterize as sufficient to meet our test of "meaningful participation by key developing countries," but not attempt to resolve these issues definitively at COP6. At best, we might negotiate a commitment to a process that would examine this issue after COP6. We believe that our bilateral diplomacy with countries like India and China, along with a functioning CDM and a range of non-Kyoto type commitments to clean energy, is a promising approach to help change the dynamic beyond COP6. We are also continuing to seek new and innovative roles within the Protocol for developing country actions, such as creating a treaty mechanism to recognize voluntary actions by developing countries to adopt Kyoto emissions reduction "targets" (such as those taken by Argentina, Kazakhstan, and Bolivia).

On issues of cost control, our position has been that the best way to mitigate costs is through the robust use of the flexibility mechanisms, such as trading. Others, including Brazil, have raised the notion of a "safety valve" or limit on the overall cost per-ton that any country would have to incur to meet its target in the first compliance period. We continue to engage on these issues.

IV. Constituencies

As we approach COP6, constituencies and the media are increasing their level of engagement in the negotiations. Environmentalists generally view most of our policies as attempts to create new "loopholes" in the Kyoto framework. This is particularly acute in the case of "sinks," but also applies to their calls for "caps" on trading and constraints on the CDM. The business community is also watching closely and, while espousing a wide range of views on the merits of the Kyoto agreement itself, tends to support many of our negotiating strategies. Congress, of course, does not speak with one voice; however, critics of the Protocol are far more vocal than supporters. We expect large delegations of critics from both houses to attend the negotiations in The Hague.

October 18, 1997

MEMORANDUM FOR THE PRESIDENT

**FROM: GENE SPERLING
KATHLEEN McGINTY
DANIEL TARULLO
JIM STEINBERG
TODD STERN**

SUBJECT: Climate change decision memorandum

This memorandum follows up on our earlier climate change memoranda and meetings with you. It requests specific decisions from you on various elements of our overall climate change policy. We are not looking for final decisions on the precise details of all the elements, but rather for key decisions that could form the basis for a five-point or ten-point plan. Your responses will allow us to put together a climate change policy package that you are scheduled to announce on Wednesday, October 22, while the penultimate negotiations take place in Bonn.

The decisions identified in this memo may be some of the most important and difficult of your Presidency. There does not appear to be any way fully to reconcile four constraints we have previously identified to you -- the environmental imperative, diplomatic realities, economic costs, and political opposition from business, labor and the Hill.

We think it is imperative to think beyond next week's announcement, to the management of this issue for Kyoto and beyond. In the short-term, any decision you make will draw more censure than praise. We can modulate the criticism from different quarters by moving to different points on the policy spectrum, but there is no package that wins universal acclaim. It is important, therefore, to sketch a vision of how your policy will play out in the months and years ahead.

The package we present to you today rests on several premises. First, we understand that you wish to position the United States as a leader on this issue. We present a set of policies that show that the United States is taking this problem seriously and that you are working to build the domestic consensus necessary to address this problem. Second, we recommend that an agreement in Kyoto, while desirable, should not become the measure of success of our policy. The concessions required to reach agreement there could endanger the long-term management of this issue at home. Finally, we believe that our policy can unfold with time. We should advance

a framework that is sufficiently supple to adjust to political, diplomatic, economic, and scientific developments as they occur.

I. Confirmation of your instructions on several elements

Based on your reactions to our previous memos and our meetings with you, we understand that you support the following items as components of an overall climate change policy. The purpose of this section is to confirm that our understanding is correct.

✓ **Tax cuts and R&D:** We held a very productive meeting on Thursday with Secretary Rubin, Director Raines, Deputy Secretary Summers, Chair Yellen, and others to discuss the budget and our climate change proposal. The focus of the meeting was how to structure a package of carbon-reducing tax incentives and other programs that would amount to perhaps \$5 billion over 5 years. Given the constraints on discretionary spending, we decided to explore how to move as many of the initiatives as possible on to the tax side. Treasury is working intensively with DOE, EPA, and other agencies on this front. Some of the preliminary ideas include: a tax credit for the purchase of certain highly efficient equipment for buildings; a tax credit for high fuel economy vehicles; a tax credit for photovoltaic rooftop systems; a tax credit for retiring inefficient electric generating capacity; and a tax credit for industrial cogeneration. The specific proposals could be more fully developed, and final decisions about which activities to encourage through spending or which through tax incentives, as part of the budget process. The offsets for the tax cuts could take the form of reducing current tax preferences for fossil fuels; such offsets would ensure that both the tax cuts and their "pay-fors" advance the effort to reduce carbon emissions.

• Energy ✓ **Federal energy efficiency:** The federal government spends more than \$7 billion per year on energy. A Federal government energy efficiency initiative is being developed by DOE staff, in conjunction with Defense and other relevant agencies. It would include 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, preparation of a new Executive Order to fill any gaps, a directive to federal agencies to prepare greenhouse gas reductions plans and a requirement that all federal agencies assess the greenhouse gas impacts of major federal actions.

• ✓ **Industry out-reach:** Although we are committed to a binding, rather than voluntary target, it would still make sense to encourage businesses, on an industry by industry basis, to prepare plans in which they tell us what reductions they believe they could achieve on their own and how they could best achieve them. We would ask each relevant industry to prepare a plan over the next 6-12 months and would work cooperatively with industries where appropriate. (For example, the cement industry claims it could reduce CO2

emissions by 10 million tons/year -- over 2 percent of the total national reduction needed to reach 1990 levels by 2010 -- with a regulatory change in how the industry is permitted to mix cement. We would work with the industry to facilitate such a change, if it proved to be appropriate.)

Credit for early action: We would declare that it was crucial that there be no discrimination against firms that take early action to reduce emissions (e.g., that any baseline that might be established would be set prior to any early action -- so that they would not suffer from taking early action and then seeing the baseline moved). Furthermore, we would declare that we would strongly favor appropriately rewarding those who promptly take early action. 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.

5-year science reviews: Under the existing climate treaty, the Intergovernmental Panel on Climate Change is charged with reviewing the state of the science every five years. Several corporate and Congressional leaders have suggested supplementing these reviews with additional studies by the National Academy of Sciences or your Committee of Advisors on Science and Technology (PCAST), on a similar 5-year cycle.

Emphasize long-term goal of stabilizing concentrations. The goal of the existing climate treaty is "to stabilize concentrations of greenhouse gases in the atmosphere at levels that avoid dangerous anthropogenic interference with the climate system." However, the Parties to the climate treaty have never defined precisely what levels are dangerous. Your advisers believe the United States should announce support for developing a specific, long-term goal. The U.S. would urge the Intergovernmental Panel on Climate Change, as well as the National Academy of Sciences, to undertake this task.

Global Environmental Facility. The United States is significantly in arrears to the Global Environmental Facility, which assists developing countries in reducing greenhouse gas emissions. (Of the \$430 million pledged for FY93-FY97, we have been able to contribute roughly \$185 million.) These arrears reduce our leverage with developing countries in negotiations under the climate treaty. Your advisers recommend you reemphasize your strong commitment to the Global Environment Facility and support clearing U.S. arrears at the earliest practical date. Funding for the Global Environment Facility should be pursued as a top priority.

International Financial Institutions. We would work with the international financial institutions (e.g., World Bank and IMF) to boost the importance of carbon reduction efforts in the context of both concessional and non-concessional lending decisions. The purpose would be to ensure that the activities of the international financial institutions provide the proper incentives for countries to undertake efforts to address climate

change.

Bilateral Dialogues. We are pursuing bilateral dialogues with key developing countries (including China, Brazil and India) to promote clean energy. Often, interest in energy efficiency and renewable energy is greater in these settings than in the politicized, multilateral setting of the Climate Convention. Discussions focus on regulatory structures for clean energy development, technical assistance, export credit and related items. Work is underway in this area in connection with the Jiang Zemin state visit later this month. Your advisers recommend that we pursue these dialogues with increased effort in the years ahead.

Transition Assistance. While we should not dwell on transition assistance as a major focus of your plan, you should nonetheless state as one of your principles that 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. This both makes sense and is very important to labor.

_____ Approve the above components

_____ Do not approve

_____ Discuss further

II. Overall policy approach, including targets and timetables

The most difficult decisions you must make involve targets and timetables under the climate treaty, and how explicit to make the protections against excessive economic costs as part of your announcement. You have already heard the pros and cons of different courses of action.

To put the target, timetable, and safety valve discussions in context, it may be helpful to examine the overall vision that we have for your policy package. The sections below then describe possible variations on this basic package.

The plan involves three stages. Only after we had accumulated experience during the first stage (of tax cuts, R&D, and industry out-reach) and accumulated more experience during the second stage (of a trial trading program), would we enter the period under which we would be bound by the international treaty to reaching 1990 levels. Possible budget periods are explored below.

Our approach recognizes the novelty of the task that we are undertaking, and the uncertainty surrounding its potential impact, by creating regular reviews of how effectively the economy was responding to the carbon emissions reduction effort, and how effectively other

countries were responding. Such a review would include the impact of the effort on overall energy prices, an analysis of how technology was developing to meet the need for low-cost carbon reductions, an evaluation of progress toward an international permit trading regime, an assessment of the Federal government's own efforts to conserve energy, an evaluation of the efforts undertaken by other countries to meet their targets, and a recommendation on how best to proceed. The review could be conducted every four years, starting with one in 2004 and another in 2008.

In addition to these regular reviews, the basic vision involves three stages:

- Beginning as soon as possible: Tax cuts, R&D, and industry outreach. Before 2005, we would start with the policies that we have outlined above: tax cuts, R&D, federal energy efficiency, industry out-reach, and a commitment to rewarding early action.
- 2005-2008 or 2005-2010: Trial emissions trading program. The emissions trading system would start in 2005, as a trial project that would allow us to learn how the system operates before entering the period in which our binding international obligations would hold. Gene would prefer that we include an explicit ceiling in this period, to ensure that the permit price does not rise above \$25 per ton. Katie opposes naming a specific ceiling price. This issue is explored in more detail below.
- 2008-2014 or 2010-2015: Return to 1990 emissions levels. Only after we had accumulated experience during the first stage (of tax cuts, R&D, and industry out-reach) and accumulated more experience during the second stage (of a trial trading program), would we enter the period under which we would be bound by the international treaty to reaching 1990 levels. Possible budget periods are explored below. We would also commit to further reductions, to levels below 1990, after the end of the first budget period.

Why wait

This structure is designed to phase-in implementation of the program, thereby minimizing costs. We thus start with two periods -- amounting to a decade's worth of experience -- in which the pain is relatively low, and the economy has a chance to adapt to some of the new constraints being imposed on it. Only after reviewing our experience under these two periods would we determine precisely how we would make adjustments in the binding international period.

But it is crucial to recognize that even with this strategy, we are still very exposed to attacks about the credibility of our plan or the potential costs involved in meeting the target and timetable. The vast majority of outside, credible *economists* will predict that reaching 1990 levels by the 2010 or 2015 timeframe will involve significant economic costs -- making it awkward for top Administration economists to simultaneously argue that we will meet our target and avoid significant economic costs. Other experts, such as those who look at the unused technological potential in many sectors, will be prepared to support these claims. We

will be forced to face very difficult questions about whether we are willing to accept the costs that most credible outside analysts believe will be necessary to reduce emissions to 1990 levels by the 2010 or 2015 timeframe. But if we try to protect ourselves against such attacks, we will expose ourselves to attacks that the target is not truly binding. Gene's view is that our best hope is to argue that future Congresses and Presidents will decide how best to proceed at the relevant point (see further discussion below).

At the same time, we will also face strong attacks from the environmental and international community on the ground that our target and timetable are too weak. Two weeks ago, Japan proposed 0-5 percent reductions from 1990 levels by 2008-2012, and was harshly criticized. The vast majority of the environmental community expressed outrage when press reports indicated that you were not even considering reductions below 1990 levels in the 2010 timeframe.

Within this overall framework, there are several possible variations:

A. Trial emissions trading program (2005-2008 or 2005-2010)

The framework delineated above would start a domestic emissions trading system in 2005. The first few years of the system -- before any internationally binding obligation would take hold -- would involve a relatively mild constraint (i.e, only a small reduction off the business-as-usual emissions path).

The benefit of an early start is that it allows time for the system to become operational in the run-up to the internationally binding goal, and begins to deflect emissions from the business-as-usual path. The cost is that in order to affect emissions, it moves forward the time at which energy prices will rise from their business-as-usual path.

Gene would prefer to impose a ceiling price on the permit system during this trial period, to ensure that the constraint was mild. The principal benefits of this specificity are that it builds credibility and provides a way to beat back the \$200 per ton (50 cents per gallon) attack. In response to such attacks, we could argue that the price increase would be limited until after the trial budget period (at least 2008) and, that after that date, we would not expect a future President or Congress to impose excessive costs on the economy. To environmental groups, we would argue that the \$25 ceiling applies only to the trial trading period, before the first internationally binding period.

Katie opposes naming a ceiling price. The cost of the \$25 ceiling approach is that it gives opponents a specific, Administration-approved figure to attack. Specifying the ceiling price for the trial period allows opponents to attack on that basis (\$25 per ton of carbon translates into approximately almost \$40 billion per year), and these figures would continue to be identified with the Administration's climate change program even if there is no agreement in Kyoto. We could argue that the figures would explicitly be a *ceiling* and that the prices

could be lower. A specific price would also be opposed by some in the moderate business community at least in part because they think such a price would interfere with their ability to do lucrative joint implementation projects in developing countries. Some in the business community are already arguing that any price of this kind would, whether correctly or not, be perceived as a *floor*.

During the last several days, opposition to a trial program has begun to emerge from utilities and others. We are consulting and will pass along further information as soon as we receive it.

- _____ Approve starting the permit system in 2005
 - _____ With \$25 ceiling on permit price
 - _____ Without specific ceiling on permit price
- _____ Do not approve
- _____ Discuss further

B. Targets and timetables under the climate treaty

It is vital to keep in mind that we should discuss targets and timetables as only one part of a three-piece international agreement that must also include provisions for international emissions trading and joint implementation, as well as clear obligations for developing countries. Arguing for this three-part framework allows you to take the high ground by calling for a truly global approach to the problem.

The integrity of this framework is also critical to the economic and political defense of our position. For one, the flexibility for low-cost reductions that trading and JI afford is key to our ability to defend as achievable any target that seeks to reduce emissions to 1990 levels in the 2010 timeframe. As for developing countries, insisting on their meaningful participation deflects the criticism that U.S. competitiveness is at risk and also makes the strong environmental point that the problem cannot be solved without all major greenhouse gas emitters doing their fair share.

The targets and timetables will inevitably remain the focus of enormous attention at home and abroad. Constituencies and other countries will pay more attention to this piece of our policy package than to any other. Based on our meeting with you, we understand that you would like to support a position within the current international mainstream, that you are inclined toward a first target of 1990 levels by roughly 2010 or 2015, and that you would support additional reductions in roughly the 2020 or 2025 timeframe. Based on this understanding, we suggest two possible approaches. (There are, of course, many variations that would accomplish similar goals.) Both

approaches reflect the U.S. position in support of multi-year targets, intended to smooth out annual variations in emissions caused by weather, business cycle, and other factors.

- 1990 levels by 2008-2014; reductions below 1990 levels in the next budget period
- 1990 levels by 2010-2015; reductions below 1990 levels in the next budget period

The basic dynamic is that an earlier timetable would please the environmental and international communities more, while a more gradual timetable would be less opposed by business and labor. Neither of these approaches is likely to win actual praise from the environmental groups or your negotiating partners.

Internationally, the EU and much of the rest of the world will criticize either of these options, since neither calls for reductions below 1990 in the first budget period. (The Japanese were criticized for their plan by much of the international community; we could expect even stronger criticism.) 2008-2014 would be received better than 2010-2015. Similarly, environmentalists will be very disappointed by the absence of reductions below 1990 in the first budget. The commitment to reductions below 1990 levels during the second budget period could help somewhat.

Most business and labor will not be happy with either of these options. The hard-core business opposition will attack either of them with great vigor, but more moderate companies and utilities, of the kind you hosted in the Cabinet Room in August, would feel much better about a more gradual approach (e.g., 2010-2020), but could probably live with 2010-2015 -- *if* we made clear that we were insisting on a full international package as part of the deal: joint implementation, international trading and developing country participation. The AFL-CIO has argued for a 2020 timetable.

Some of your advisers -- including Gene, Dan, and Todd -- would prefer to see a target and timetable more in the 2015 or 2020 range, and the economic agencies would prefer something beyond that. Others -- including Katie, Jim Steinberg, Jack Gibbons and Madeleine Albright -- are inclined toward an earlier target, closer to the 2010 timeframe. It is our understanding that you would prefer something closer to 2010. We have therefore presented two options in that range. Not surprisingly, those who favor something in the 2015-2020 range or beyond would prefer the option below that is less stringent.

Over the weekend, Katie has been engaged in intensive efforts to shape a coalition of business and environmental concerns that might stand up to support your policy next week. Key players are BP, several utilities, and the Environmental Defense Fund. The key components of a policy that might win support from these groups and companies appears to be: (1) 1990 levels by 2008-2014; 1990 levels minus 5 percent by 2015-2021; (2) strong commitment to credits for early action (i.e., before 2008); (3) strong support for existing elements of the U.S. position (flexibility in meeting targets and participation of developing countries), (4) no "safety valve" or

"escape clause", and (5) no trial permit period as above. At this writing, the results are uncertain. We will keep you closely apprised.

Gene notes that while initial validation is important, we must carefully weigh any possible benefits from policy changes intended to capture initial validation against possible cons from those changes if they might expose us to attacks in a larger political arena.

_____ 1990 levels by 2008-2014; reductions below 1990 levels in the next budget period

_____ 1990 levels by 2010-2015; reductions below 1990 levels in the next budget period

_____ Discuss further

C. Protecting against excessive costs during the international target period

At a minimum, we would announce a general principle that it would be unreasonable to expect you or any future President to impose excessive costs on the economy in implementing this program. The question is whether we go beyond a statement of principle, by announcing some mechanism for protecting the economy against significant damage. *The fundamental tension involved is how to balance the need for protection against charges of high economic costs against the "binding" nature of the international target.* The statement of principle provides the least protection against charges of high economic costs, and the most protection against charges that the target is not binding. In addition to that approach, there are three different visions that build upon a simple statement of principle to provide somewhat more protection against the economic damages argument; the visions vary in trading off protection against charges of substantial costs versus protection against charges that the obligation is not truly binding. You should also keep in mind how any of these approaches influence the effectiveness of your economic team in advocating our policy package.

- Announcing support for a ceiling price in the internationally binding period (e.g., 2008-2014 or 2010-2015). The ceiling price could be defined now or decided in the future following consultation with Congress and other interested parties.
- Announce support for a discretionary safety valve, which would be invoked if costs are judged to be excessive or other countries were not meeting their obligations. This discretionary safety valve would not explicitly specify the criteria (e.g., permit price, GDP growth, unemployment, international trade in permits, other countries' performance, etc.) that would be used in evaluating the costs of the program.
- Announce support for having the Congress and the President review the program immediately before the binding international period, and decide how to proceed at that point. This approach reflects the reality that future Congresses will always have the option to protect the economy or undertake more environmental action -- and thus recognizes 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 have to be made at that time.

Approach 1: Ceiling price in internationally binding period

The first approach would involve a statement to the effect that even during the internationally binding period (2008-2014, or 2010-2015), the government would stand ready to sell additional permits at some price, which could be specified now or set after appropriate consultation with Congress and other interested parties. Such a ceiling price would provide the most protection against charges that the costs involved would be excessive, but it would also provide the most ammunition for those who want to charge that the target is not truly binding.

This idea has emerged in the public dialogue on this issue very recently. Last week, due in part to a general discussion of this issue at the White House conference, there was a flood of constituency interest. Environmental groups wrote criticizing the idea in very strong terms. Several corporate leaders (including Tom Casten of Trigen, BP, and several leading utilities) voiced *opposition*. On the other hand, Gene and others believe that it is reasonable to surmise that as many business groups evaluate a specific safety valve proposal, they will be supportive to the extent that such a proposal caps overall costs.

Approach 2: Discretionary approach which would be invoked if costs are judged to be excessive or other countries are not performing

This discretionary safety valve would not explicitly specify the criteria (e.g., permit price, GDP growth, unemployment, international trade in permits, etc.) that would be used in evaluating the costs of the program. Instead, we would announce now that protective steps would be taken under either of two conditions:

- First, if the effort were imposing substantial economic damage on the country.
- Second, if some percentage of other countries were not meeting their obligations.

The principal benefit of this approach is that it would allow us to fend off the high cost estimates of our opponents, without creating a specific Administration figure to attack. In a related vein, this approach frustrates efforts to plug official Administration figures into conventional economic models, in an attempt to show that our policies are unlikely to achieve their objectives. It also offers the most protection against the concern that non-market mandates will be used to fill the gap between a specific ceiling price and the target and timetable.

On the other hand, it could allow all sides to assume the worst: Corporate groups would worry that the safety valve would never be triggered, and environmental groups (which strongly dislike the idea to begin with) would worry that it would be triggered too easily. We are also likely to be faced with a barrage of questions, from those armed with credible outside analysis,

about how we expect to meet the target for a price that was not "excessive." We could be forced into reacting to specific model results -- and thus quickly pressed into specifying the precise conditions under which the safety valve would be used. For example, we would likely face questions such as: "Is a \$100 increase in carbon prices 'excessive'?" If we responded that \$100 was excessive, we could soon fall into the trap of defining the boundary of "excessive."

Approach 3: Announce support for having the Congress and the President review the program immediately before the binding international period

This approach reflects the reality that future Congresses will always have the option to protect the economy -- and thus recognizes 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 have to be made at that time.

The benefit of this approach is that it provides some protection against the likely attacks, but still allows us to underscore our commitment to the target. But we could be criticized for avoiding the difficult choices involved, and it could allow all sides to assume the worst: Corporate groups that we had committed to the target and timetable, and that the momentum behind the internationally binding treaty would allow environmentalists to win the debate in a decade; and environmental groups that we were not truly binding the country now.

Katie supports announcing a general principle. Larry Summers supports approach 2 and Gene and Todd support approach 3.

_____ Announce general principle

_____ Approach 1: Ceiling price in internationally binding period

_____ Approach 2: Discretionary approach which would be invoked if costs are judged to be excessive or other countries were not performing

_____ Approach 3: Announce support for having the Congress and the President review the program immediately before the binding international period

_____ Discuss further

How to define the safety valve

Another question that you had about the safety valve was whether it could be triggered if the economic performance suffered because of the carbon emissions reduction effort. In response to this question, NEC staff have worked with Treasury and CEA to explore different possibilities. They have concluded that it is not technically possible to construct a credible safety valve that triggers

only if the carbon emissions reductions adversely affect economic growth: the baseline issues are simply too complicated. For example, suppose that such a policy reduces GDP growth by 0.25 percentage points in each year. If the economy is otherwise booming, so that growth in the absence of this policy would have been 3.5 percent, then the result of the policy will still be a 3.25 percent growth rate. Given the enormous uncertainties, even after the fact, regarding the effects of environmental regulation on the economy, CEA and Treasury believe that it would be impossible to separate out the role of climate change policies on the economy's growth rate with any degree of confidence.

Including a safety valve in the climate treaty

A final question is whether to reflect a safety valve in the climate treaty. Any attempt to do so would meet with fierce resistance and charges that the United States was backtracking from its call for "binding commitments." But if we fail to seek a safety valve under the treaty, there is a risk that our domestic mechanism would put us out of compliance with our international obligations – thus causing business leaders to fear that we would not invoke our safety valve if necessary.

Gene, Katie, Dan, Jim, and Todd do not recommend seeking a safety valve under the treaty. The costs of doing so would be high and the need is unclear. In the event a domestic safety valve appears likely to cause the United States to exceed emissions limits under the treaty, the United States could adjust domestic programs, renegotiate the treaty or accept the treaty's non-compliance provisions (which are unlikely to be severe).

_____ Negotiate a safety valve under the climate treaty

_____ Do not negotiate a safety valve under the climate treaty

_____ Discuss further

III. Grandfathering and auctioning

Another issue related to a permit system, and one we touched upon in our meeting, is whether the permits should be auctioned or grandfathered. Your advisers suggest that we not declare at this point our position on auctioning or grandfathering. Announcing either approach could entail considerable costs, and there is little to be gained from taking a position at this time. We would state that the structure of the domestic emissions trading program is important, and that we will work with Congress and other interested parties as we developed our domestic implementing legislation.

_____ Agree: announce that we will develop approach in consultation with key constituencies.

_____ Discuss further

IV. Developing country stance

As we have noted before, your advisers favor a tougher line on developing countries than we have taken to date. In particular, your advisers favor a linkage between the United States' willingness to make commitments and the willingness of key developing countries to do the same. Under the "two-step" approach, we would make a strong statement that the United States would not assume binding obligations under the climate treaty until key developing countries assume adequate obligations in terms of their commitments. This linkage with developing country commitments might be reflected in a "Kyoto Mandate," establishing a new round of negotiations under the treaty.

The position recommended by your advisers on this issue could very well endanger an agreement being signed this December in Kyoto. Even the current U.S. position on developing countries, which seeks additional commitments but does not draw this linkage, has won little if any support abroad. State Department negotiators believe that developing countries are unlikely to agree to a "Kyoto Mandate," and that the odds of such a mandate are close to zero unless the United States accepts targets with *reductions* below 1990 levels in roughly the 2010 timeframe.

_____ Approve linkage of U.S. commitments to developing country commitments

_____ Do not approve linkage

_____ Discuss further

V. Electricity restructuring

We have held two NEC principals meetings on electricity restructuring. Our recommendation is that one of the elements of your climate change proposal should be the announcement of support for electricity restructuring, which if properly structured, could reduce carbon emissions. It is the unanimous opinion of your advisers, however, that it would not make sense to announce your entire restructuring package in the context of climate change -- because it would be drowned out by other aspects of the package, because the Hill is consumed with Fast Track, and because we have not worked out all the details of our proposal.

One remaining issue is whether you would announce some specific examples of restructuring provisions in your climate speech. There is internal consensus in support of several provisions that could help reduce emissions, such as a "renewables portfolio standard" to promote wind, solar, geothermal and biomass and "green labeling" to provide consumers with the information to evaluate the environmental consequences of various sources of electricity. The principal benefit of mentioning these specific examples is that it provides more connection to the climate change issue. However, outsiders following the electricity restructuring issue may wonder why other environmental provisions were *not* mentioned. We are working to resolve this issue.

_____ Approve statement of environmentally-friendly program for electricity restructuring

_____ Do not approve

_____ Discuss further

VI. National Security Exemption

You should be aware that the Defense Department is seeking a “national security exemption” under the climate treaty. The Pentagon puts a high priority on this issue, due to concerns that fuel reduction requirements could hamper military operations. The issue has attracted attention on the Hill.

There is consensus among your advisers that some form of “national security exemption” is warranted. However, there may be disagreement concerning the scope of the exemption. We are working to clarify issues and resolve differences, and expect to provide additional information on this issue early next week.

11-6-75
THE WHITE HOUSE
WASHINGTONCapitol
Sten
Steinberg
Spierling
COS

November 5, 1998

MR. PRESIDENT:

Attached is a memo from Todd, Jim Steinberg and Gene on the two-week Buenos Aires climate change conference, which opened Monday. I understand you and the Vice President discussed this at your lunch. The memo is mostly informational, but there are two decisions in it — both concern issues of timing.

The first decision concerns whether to sign the Kyoto Protocol during the Buenos Aires conference. All of your advisors agree that Stu Eizenstat should announce next week that the U.S. is signing the Protocol during the conference. *John Podesta concurs.*

The second decision concerns the end date for completing the rules on international emissions trading. Todd lays out three potential options (late 1999, early 2000, late 2000), but all of your advisors agree that the U.S. should seek an end date of December 2000, with the understanding that we would press to resolve as many issues as possible next year. John didn't have a view on the timing of this issue.

Todd, Stu and the State Department team leave for Buenos Aires on Saturday, so they'd appreciate feedback from you at your earliest convenience.

Phil Caplan
Phil

THE WHITE HOUSE
WASHINGTON

98 NOV 5 AM 8:58

November 4, 1998

MEMORANDUM FOR THE PRESIDENT

FROM:

TODD STERN *TS*
JIM STEINBERG *JS*
GENE SPERLING

SUBJECT:

Climate Change

The Buenos Aires climate change conference opened Monday. This memorandum is intended to brief you on relevant issues and to seek your approval on two issues of timing.

Background

Kyoto was an historic achievement, but remains, as we have all recognized, unfinished business. As a practical matter, we will need satisfactory resolution of four key issues in order to have a legitimate chance of ratification in the Senate: developing country participation; the rules and regulations for the so-called flexibility measures (international emissions trading and the Clean Development Mechanism (CDM)); further refinement of the provisions on carbon-absorbing sinks; and compliance.

In general, we expect the Buenos Aires meeting to produce incremental progress rather than breakthroughs. The principal outcome is likely to be a work plan with specific time lines for completing work on trading and the CDM. The issue of sinks -- important to forest and farm state Senators -- is on a schedule that contemplates resolution in late 2000 (a scientific review on the subject by the International Panel on Climate Change (IPCC) will be completed in May 2000), so it probably won't figure prominently at Buenos Aires. There will likely be some discussion of compliance, but, again, focussed more on the process for working out a compliance regime rather than on the substance of such a regime.

Regarding developing countries, we expect no broad-based progress. Indeed, leading developing countries, including China, have already blocked Argentina's attempt to include on the Conference agenda a discussion about how developing countries could voluntarily assume commitments. On the other hand, Argentina is still considering an announcement that it has decided to take on a target in the 2008-2012 period, with the precise number to be specified after a few more months of analytic work. Such an announcement would be the biggest news of the

Conference. You raised this matter briefly in your pull-aside with President Menem several weeks ago, and we may ask you to follow up with a call in the next few days. Should Menem go forward with this announcement, it could provoke loud protest from China, India, Brazil and others, as well as some unhappiness in the EU. But it would be a big step forward.

Signing the Protocol

As you know, we have not yet signed the Kyoto Protocol. Our current plan is for Stu Eizenstat to announce at the beginning of the second week of the Buenos Aires conference (November 9 or 10) that we are signing. (The actual signing would be carried out by a USG official at the UN in New York.)

There are pros and cons to signing while we are in Buenos Aires, but the consensus view of your advisors (including NSC, State, NEC, CEQ and OVP) is that this is the best time and place to do it. First, it will enhance the credibility of the U.S. and strengthen our negotiating hand. More than 55 nations have signed the Protocol, including all major industrialized countries except the U.S. Second, since we have already said on many occasions that we are going to sign during the one-year signing period, which expires March 15, 1999, it makes sense to choose a moment when it can do us some good. Third, it would be preferable for us to have signed the Protocol when you travel to Japan the week of November 16, on the eve of the one-year anniversary of Kyoto, particularly since NSC is working on an environmental event there that would feature climate change.

There are two potential downsides to signing during the Conference. First, given the press attention in Buenos Aires, critics like Senator Hagel will have a platform from which to attack us. However, even if we wait to sign until after Buenos Aires, we will still get attacked and will still face possible congressional resolutions of disapproval.

Second, signing could arguably jeopardize the release of funds for the Global Environmental Facility (GEF), a multilateral development facility that funds clean energy and other environmental projects in developing countries. You will recall that, in the budget endgame, we did very well on GEF funding, getting the full \$192.5 million needed to clear our GEF arrears. However, the funding was made subject to a notification requirement which, as a practical matter, gives the foreign ops. subcommittee the power to hold up funding. At the time of the budget deal, the House leadership promised to help us secure the GEF funds. But OMB believes anger over signing the Protocol could damage our ability to get the funding released.

Your advisors (including Treasury) believe that the GEF issue should not deter us from signing. As noted, we have always said we were going to sign during the one-year signing period, and signing during the Buenos Aires Conference makes sense for the reasons discussed above. Second, by rights, the assurances we received from the House leadership on GEF shouldn't be

undermined by our signing, since we had declared our intention to sign months before those assurances were given. Third, whether we sign now or not, the GEF fight is going to be difficult, with GEF opponents quite capable of making anti-climate change demands as the price for approving the release of GEF funds. In fact, deferring signing could backfire if GEF opponents decide to hold the GEF hostage unless we agree *not* to sign.

In short, your advisors recommend that you approve signing the Kyoto Protocol during the Buenos Aires Conference.

Approve ✓

Disapprove

Discuss

The Work Plan Agenda: Caps on Emissions Trading

The EU pressed vigorously at Kyoto for a hard cap on trading -- language making clear that countries had to achieve at least 50% of their emission reductions through domestic measures. They lost on this issue; the Protocol says simply that trading is to be "supplemental" to domestic measures, a qualitative term that doesn't impose a hard cap. Nevertheless, the EU continues to press the issue, arguing that the parties must now define "supplementarity." In particular, they are demanding that "concrete ceilings" on emissions trading, expressed in both quantitative and qualitative terms, be included as a specific agenda item in any work plan.

We have taken a strong position against caps in international negotiations and Congressional testimony. According to our analysis, caps on emissions trading would increase inefficiencies in a trading system, raise the cost of meeting our target, and be difficult to administer. (Ironically, caps could increase costs for the Europeans even more.) We argue that we are committed to aggressive action at home *and* to an efficient international trading system. And we cite the results of our own SO₂ (acid rain) trading system as evidence of how important trading can be environmentally as well as economically.

Our concern is that if the cap issue is included in the work plan agenda in the wrong way it could prejudice the work plan against us, leading to a discussion not of whether a cap is appropriate, but of how tight the cap should be.

U.S. business groups -- even moderate ones, who are open to supporting the Kyoto agreement -- strongly oppose caps. And Members of Congress would undoubtedly be concerned about caps, given our reliance on trading to moderate the cost of addressing climate change.

At the same time, most domestic environmental groups either support caps or believe this an issue of secondary importance, and would blame the United States if a debate on caps slowed overall progress in making the Kyoto Protocol a reality. They tend to join the EU in

characterizing our opposition to caps as proof that we intend to buy our emission reductions from abroad and not take serious domestic action to reduce greenhouse gas emissions.

We are currently exploring whether we can find a means to resolve the work plan agenda in a way that avoids a collision with the EU. But it is still possible that we will face a decision in Buenos Aires either (1) to accept a work plan that undermines our position on caps, or (2) leave Buenos Aires with no work plan and a perception that the Kyoto process had suffered a setback. Should it come to that, we will seek your guidance.

Timing of the Work Plan on Trading and the CDM

The work plan will set an end date for completing the rules that will govern emissions trading and the Clean Development Mechanism. There are, in principle, three options for end dates: late 1999 -- the next scheduled meeting of the Conference of Parties (COP-5); April 2000 -- which would require delaying COP-5 for six months; or late 2000 (probably December) -- the regularly scheduled meeting of COP-6.

Your advisors favor an end date of COP-6 in late 2000, with the understanding that we would press to resolve as many issues as possible at next year's meeting. This outcome makes sense for several reasons. First, the earliest end date, late 1999, is almost certainly unrealistic given the complexity of the issues and the time it takes for the 160-nation Conference of Parties to make decisions. Most of our negotiating partners will assume that these issues can't be resolved in just one year. Second, the moment for resolution of the flexibility issues could be highly contentious and confront us with decisions that, for domestic reasons, we think would be better confronted in late 2000 than before. In particular, on the toughest issue dividing us and the EU -- whether a country's right to trade or use the CDM should be subject to a cap -- there are three possible outcomes: the EU could accept something short of a hard cap (e.g., qualitative language regarding the obligation of all countries to pursue domestic measures); we could accept a hard cap, provoking sharp criticism from the Hill and from business; or we and the EU could collide head-on, leaving the negotiations at least temporarily derailed. The last two of these outcomes would be quite undesirable.

While it is possible that a few may criticize a COP-6 end date as a go-slow approach, it appears that most business and environmental groups are already expecting such an end date. And we can mute potential criticism by underscoring in the work plan that we will strive to finish as many issues as possible by COP-5.

The UK has floated a different approach on timing -- an end date of April 2000, premised on delaying COP-5 until that time. We don't think this is a good idea. First, it could force a showdown on the trading issue at an unattractive moment in the domestic calendar. Second, it would result in at least one issue of importance for ratification -- sinks -- not being resolved until

after your term. (The sinks issue won't be ripe for decision until some months after the IPCC's May 2000 scientific report. If COP-5 were delayed until April 2000, COP-6 would not occur until April 2001 at the earliest.)

Assuming the work plan sets an end date for COP-6 in late 2000, COP-6 would then loom as the next major Conference of the Parties, where the rules on flexibility mechanisms and sinks would be completed. If adequate progress is achieved between now and then on developing country participation, the stage would be set for submission of the treaty to the U.S. Senate in 2001.

There is one last timing issue. The UN climate change secretariat has tentatively suggested that COP-6 be held October 16-25, 2000. Since this would obviously be a bad time for us, we will press to have the date moved. We think it makes most sense to seek an early December 2000 date, after our election but still during your term in office.

**Agree on December 2000
end date for work plan** ☒

Disagree ☐

Discuss ☐

November 30, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
KATHLEEN MCGINTY
DANIEL TARULLO
JAMES STEINBERG
TODD STERN

SUBJECT: Kyoto -- Negotiating Guidance

As the climate change negotiations begin in Kyoto, we wanted to update you on the current state of play and identify issues on which your chief negotiators need bottom-line guidance. On a variety of issues, significant differences remain between us and other major players, such as the EU and G-77. An agreement at Kyoto is still possible, but it will require key countries to make significant concessions from their stated positions.

Of the many issues to be resolved at Kyoto, four are likely to require decisions from you: emissions targets, joint implementation with developing countries, overall developing country commitments and a national security exemption. On each of these, Stu Eizenstat will need to know where your bottom line is -- the point to which you could move from a current U.S. position, but beyond which you would consider an agreement unacceptable.

This exercise inevitably raises the question of what would happen in the event we refuse to support an agreement we deem unacceptable. The best case would be to negotiate some form of standstill agreement, in which countries would lock in the progress to date and commit to continued prompt negotiations on the remaining issues. This is the "process outcome" our negotiators would seek, but a more problematic result, with the U.S. relatively isolated and portrayed as the bad guy, is possible as well.

Targets

Among industrialized nations, the most significant outstanding issue is the level of the binding target. Key proposals on the table are as follows: EU --15 percent below 1990 levels by 2010; Japan -- 0-5 percent below 1990 levels by 2010, based on a formula that would produce different targets for different Annex I countries within this 0-5 percent range; U.S. -- 1990 levels by

2008-2012; Canada -- 1990 levels by 2010; Australia -- significantly above 1990 levels by 2010. When discrepancies in accounting methods are taken into account (e.g., the treatment of carbon "sinks" or the number of gases covered), we believe our target is somewhat closer to those of the EU and Japan than has been widely reported.

As you know that the EU has been able to be so aggressively green on its target only because of its "bubble". (The bubble allows different countries to have different targets -- the emissions of several EU countries would actually grow compared to 1990 -- so long as the EU as an aggregate reduced by 15 percent. In essence, the entire EU gets the benefit of the special circumstances that have produced significant emissions reductions in the U.K. and Germany.) However, opposition to the bubble is widespread. In order to get the bubble, the EU may well have to give on other points (including, for example, a differentiated regime in which countries without a bubble might get targets somewhat higher than the EU).

To reach a deal at Kyoto containing enough of the key elements of the U.S. proposal (joint implementation, developing country participation), a U.S. target below 1990 levels of greenhouse gas emissions may well be necessary. EU leaders are demanding a reduction below 1990 levels, as are many leaders in the developing world. A "reduction target" -- even a small one -- would allow these leaders to argue more effectively that Kyoto reflects real progress since Rio, where nations agreed to reach 1990 levels by 2000.

Optical reductions. There may be acceptable ways of recharacterizing the U.S. target that would show a reduction but not require greater effort on our part. Your advisors are actively exploring such options now. One such optical change to our target -- agreeing to defer inclusion of certain carbon "sinks" until methodologies improve -- would put us one or two percentage points below 1990 levels without any increased effort, though there could be downsides in such exclusion. In addition, the Japanese have proposed a technical change in the way three of the six covered greenhouse gases are accounted for. EPA is analyzing whether this change is appropriate and how large an optical reduction it could produce (probably no more than one to two percentage points).

Real reductions. You will likely need to decide whether, if it became necessary in the final endgame to get an overall deal, you would be prepared to reduce our target not just in optical terms but in real terms. Such a reduction could in theory come either in a first budget period (2008-2012) or a second budget period (2013-2017), though the EU and developing countries will press much harder for a reduction in the first period.

A. First budget period: The potential real reduction in the first period could be in the 1 to 5 percent range. Any reductions below the target you have already proposed would undoubtedly intensify the criticism by much of industry and many on the Hill. The problem is exacerbated by recent projections from the Department of Energy suggesting that carbon emissions will be 5 percent higher in 2010 on a business-as-usual path than previously thought. However, such

reductions may be necessary to close a deal at Kyoto with other key elements of our package.

B. Second budget period. It is possible that reductions in the second budget period -- presumably 5 percent or more below 1990 levels by 2013-2017 -- could also be helpful. Given the longer time horizon and the likelihood that such a target would be revisited before the second budget period begins, this could be more palatable to constituencies at home. However, other nations seem intent on reductions in the *first* period; it is unclear how much leverage a 5 percent reduction in the second period, or even a 10-15 percent reduction, would provide. Furthermore, committing now to specific reductions in a second budget period could remove leverage in future rounds of negotiations involving developing countries, and we could be criticized for agreeing to two targets before developing countries agree to any.

Joint Implementation

Your recent efforts to gain support for joint implementation have helped to provide momentum for its acceptance, and have sent a strong message to potential supporters that this remains a U.S. priority. Nevertheless, most key developing countries continue to oppose JI, and it remains very vulnerable. The current negotiating text is inconsistent with the U.S. position: it would allow joint implementation only among industrialized countries or with developing countries that voluntarily take on binding commitments under Article 10 (see below), and would postpone any decision on joint implementation with developing countries until after the completion of an ongoing pilot project, in 2000.

We are still working quietly with Brazil on a compromise proposal. However, the prospects for success are unclear.

In addition, you should know that many countries are seeking percentage limits on the use of joint implementation (for example, by limiting credits to 5 percent of a country's 1990 baseline). We have allowed our negotiators to consider qualitative rather than quantitative limits (e.g., "JI credits would be *supplemental* to domestic measures").

Joint implementation remains critically important to those moderate businesses which have been at least tentatively supportive of your plan, such as BP and several major utilities. The importance of JI is further underscored by the difficulty we are having in negotiating developing country commitments (see below). In the absence of strong commitments from developing countries, participation through mechanisms such as joint implementation becomes especially important. In addition, joint implementation and emissions trading are among the key devices that allow us to argue that the overall cost of reaching your climate change goals will be affordable -- well below the \$100-200/ton costs that opponents claim.

The questions for decision are (a) whether we must have joint implementation with developing countries for credit in the treaty; and (b) whether you would, at the limit, accept a quantitative restriction on JI.

Developing country commitments and the two-step process

In your climate change speech on October 22, you said that the "United States will not assume binding obligations unless key developing nations meaningfully participate in this effort." This hinted at, but did not explicitly detail, a "two-step" approach to the developing country issue. Under such an approach, we would reach agreement at Kyoto but not seek to ratify the agreement without further developing country commitments.

You should be aware that Senator Byrd (whose resolution, passed 95-0 by the Senate this summer, lays down a strong marker on this issue) wrote you this week to reject the two-step approach:

"I believe it would be unwise for the U.S. to be a signatory to any treaty that would not be approved by the Senate on its own merits. Those who are concerned about the consequences of climate change should consider that agreeing to only half a loaf --that binds only the Annex I industrialized nations to emissions limitations --will subject a protocol to intense domestic criticism as premature, unbalanced, and inequitable. Further, I believe it would make binding commitments by the developing world less likely as crucial negotiating leverage would have been lost."

Senator Byrd's views notwithstanding, the reality is that there is no prospect for developing countries to sign on to their own binding targets at Kyoto. In fact, the prospects for the strong Kyoto Mandate that our negotiators were once hoping for -- in which developing countries would agree *now* to commence future negotiations over binding targets within some period of time -- are close to nil.

It thus looks increasingly likely that the most we could realistically achieve in Kyoto is an opt-in mechanism (Article 10), under which any developing country could voluntarily accept its own binding target in the months or years ahead, plus a general statement concerning a follow-on process of future negotiations, in all likelihood without any specific reference to binding commitments. At its weakest, this reference to a follow-on process could take the form of a "review of commitments" for the world as a whole, a provision the EU would accept. Such a review could lead to, but would not guarantee, a new negotiation over developing country commitments.

Neither the opt-in mechanism itself, nor a general reference to a follow-on process, would represent "meaningful participation" by developing countries. Those devices are means to the end, not the end in themselves. Consequently, we would need to emphasize that we

would not expect to submit the treaty for ratification until a critical mass of developing countries were participating meaningfully. The reception of such an approach on the Hill and among business would likely be mixed -- but would likely improve a good deal if we had succeeded in getting joint implementation with developing countries.

The issue for decision is whether the two-step approach in this form -- with the Article 10 opt-in plus a general reference to a follow-on process -- is acceptable or falls below your bottom line.

Military/national security exemption

During the past several months, the Department of Defense has expressed several concerns about the climate treaty. DoD is concerned about the impact of emissions restrictions on U.S. military readiness, on basing negotiations with our allies, and on surge operations (e.g., Desert Storm/ Desert Shield and peacekeeping missions such as Bosnia). DoD accepts that its facilities, including buildings and non-tactical vehicles (about 42 percent of its total emissions), should be subject to greenhouse gas limits to the same extent as non-military facilities.

To address these concerns, we have shaped a package under which military operations and training (which account for roughly 0.7% of U.S. emissions) would be held harmless in any domestic emissions trading program. DoD's facilities would be covered by such a program. We have also pursued several issues under the climate treaty, including authority for the United States to take emissions from our military bases overseas into our national totals (which, due to downsizing, would likely make our targets easier to reach). This provision would address concerns about basing negotiations, and now appears achievable at Kyoto.

An outstanding issue, however, relates to surge operations. Our negotiators originally explored a treaty provision exempting emissions from surge operations, but it now appears unlikely that this can be achieved at Kyoto. We are currently exploring a number of weaker procedural devices, including a decision of the parties on this issue and a statement by the chair. Last week, DoD wrote the White House to state that a decision of the parties at Kyoto would address its concerns but that, absent such a decision, the U.S. should not join an agreement. In the event our negotiators are unable to obtain a decision of the parties or other means of addressing this issue, you will need to decide whether to proceed with the treaty nevertheless.

You should know that this issue -- the impact of the climate treaty on the military -- has received growing attention on the Hill and among industry groups opposed to the treaty.

UPDATE ON CLIMATE CHANGE NEGOTIATIONS

Frank E. Loy
Under Secretary of State

GENERAL OVERVIEW

- Hague conference (COP-6) will be the highest profile climate conference since Kyoto in 1997

- 1992 UNFCCC at Rio -- non-binding aim to reduce GHG concentrations; U.S. ratified
- 1997 Kyoto -- binding quantified targets plus general int'l architecture, including emissions trading

- COP-6 will spell out the rules for the Kyoto Protocol

- Critical to knowing what tools are available to meet Kyoto target
- Will affect cost of target

- Facts about Kyoto Protocol

- One of the most complex int'l negotiations ever
- Enormous economic importance
- Very high political importance in EU and Japan
- Many countries expect COP-6 to resolve issues necessary for ratification (EU and Japan pressing for ratification no later than 2002)

STATUS OF NEGOTIATIONS

- Making progress
 - Growing int'l support for emissions trading
 - Hammering out technical details of Kyoto treaty
 - But U.S. has ambitious negotiating objectives for COP-6 with limited support
 - One U.S. objective -- minimizing the cost of Kyoto -- is not shared by many in the EU and G-77.
 - A second U.S. objective -- intensify participation by developing countries -- is shared by almost no other country
- ⇒ Risk of failure at COP-6: U.S. isolated and blamed

SPECIFIC U.S. OBJECTIVES

- Market-friendly rules for Kyoto flexibility mechanisms
 - Unfettered emissions trading
 - Non-bureaucratic Clean Development Mechanism (CDM); this gives us credit for projects in the developing world
 - No exclusions from CDM (nuclear, sinks and clean coal)
- Broad inclusion of carbon 'sinks' -- forests and farmlands take carbon out of the air
- Strong compliance system, but without financial penalties
- No new or very limited financial commitments unless there is tangible progress on developing country participation

LIMITED U.S. LEVERAGE

- Skepticism that U.S. will ratify Protocol, even if others make concessions on the Kyoto rules
- No credibility re international funding (Funding POTUS budget request for the GEF is critical)
- U.S. seen as 'immoral'
 - major cause of problem
 - not doing much at home to reduce emissions
 - looking for 'loopholes'
 - demanding greater action by poor developing countries

COP-6 PACKAGES

- Environmental integrity/economic costs
- Developing country issues

ENV. INTEGRITY/COST

- Qualitative, political commitment to take domestic action, but no binding limit on our use of the Kyoto mechanisms (emissions trading, CDM)
- No exclusions from CDM (nuclear, carbon sinks), but fast track for small projects (renewable energy)
- Some credit for sinks in meeting the initial Kyoto targets
- Keep open possibility of controlling overall cost through future decisions regarding the compliance system

MAJOR POLICY DECISIONS: COST/ENV. INTEGRITY

- How much credit do we seek and demand for our growing forests?
 - Significant credit would reduce the cost of Kyoto enormously
 - Large credit would be very difficult to negotiate
 - Our environmental community would argue that we are attempting to renegotiate the Kyoto target as we are seeking credit for 'business as usual' activities
- How should we react to proposals to create a cost cap or 'safety valve' in the compliance rules? Should we support a placeholder for this option at further COPs?

DEVELOPING COUNTRIES

■ Possible US Strategy

- Offer significant new funding for climate-friendly activities in developing countries
 - Funded how?
 - External funding -- ODA, GEF, new appropriations; questionable credibility
 - Internal funding -- give G-77 some \$\$ generated from within the Kyoto system, such as "Lawrence Fund"
- ... but only as part of 'new dialogue' about greater developing country participation
 - \$\$ would become available only as developing countries take action

■ Default Outcome

- Developing Countries refuse to discuss new commitments by them
- G-77 refuses to close the deal without new \$\$ for them
- If U.S. opposes, U.S. blamed for breakdown
- No compensation to OPEC for lost oil revenues. Non-binding political commitment to reduce fossil fuel subsidies?

MAJOR POLICY DECISIONS: DEVELOPING COUNTRIES

What can we do to entice developing countries into a serious discussion about their responsibilities

- Rule out 1st period targets?

- Offer new financial assistance? How much?

How do we manage the default outcome? (No progress on developing country participation and U.S. isolation in resisting new funding)

- Hang tough and cause a breakdown

- Offer a very modest funding package if it helps us lock in better rules

TWO GREATEST DANGERS

- Unable to reach consensus given the complexity of issues
- EU and G-77 unite against the U.S.
 - G-77 rejects our call for new commitments; EU supports G-77 on the need for new \$\$
 - EU presses for more domestic action by limiting emissions trading and sinks; G-77 supports

THE PRESIDENTIAL TRANSITION

- Outcome of the U.S. election will have an enormous effect on U.S. credibility
 - Bush opposed to Kyoto
- Should the outcome influence our strategy as well? If so, in what way?

Basic Frame/Purpose: To raise the profile of COP6, focusing attention on major issues and organizing Cabinet level actions. Substantively, some aspects of the negotiations are going our way (unfettered emissions trading), while we face difficult challenges on other technical issues (CDM and the role of sinks). We face an enormous challenge to make progress on developing country "participation". On negotiation expectations, there is very significant political commitment in the international community to seek entry into force of the Protocol by 2002.

Agenda:**1. Update on Negotiations:**

Frank Loy would give an overview of where we are in the negotiation process and current dynamic among major negotiating blocks. He would also summarize positioning and approaches to resolving major outstanding issues. Frank could also reference state of higher level diplomacy with key countries (India, China, Nigeria, Russia, Dutch, etc.) with additional comment from Sandy and Leon.

2. Summary of Recent Science:

Neal Lane can quickly touch on several major science stories developments, including IPCC report on sinks, U.S. National Assessment on climate change impacts, Hansen article, algae blooms/ocean sequestration stories, and synergy with ozone hole.

3. Ratification Considerations and Constituency Views:

Roger Ballentine can explain the results of his pre-COP consultations with constituencies and launch a discussion of ratification considerations. Frank Loy can quickly report on the Senate oversight hearing. George Frampton may wish to comment on environmental NGO views. Gene Sperling or Larry Summers may wish to comment on economic aspects.

4. Possible COP6 Endgame Scenarios:

Stemming from the above discussion, Frank Loy can offer at least three scenarios for COP6: (a) easy agreement on main issues and completion of basic Kyoto architecture, (b) breakdown in negotiations over U.S. views on developing country participation, or (c) somewhat more limited progress on key issues with a major carry over agenda for COP7. Discussion.

5. Cabinet Actions:

John Podesta leads a discussion of (a) public diplomacy, which may be limited, (b) greater quiet Congressional consultations, which may be very desirable, and (c) priorities for high level diplomacy, which will be needed -- Sandy, Madeleine or Leon may wish to add additional observations.

Political Status and Ratification Outlook

I. Kyoto Outlook Must be Considered in Light of Dynamism of Climate Issue

- Tremendous movement
- Polls
- Media (Networks, NYT etc., Time Magazine)
- Clearly Kyoto lags behind, but related

II. Corporate Community

- Again, characterized by shifting center of gravity; spectrum, but shifted
- ① • Most Favorable: solutions industry/opportunist industry (Cantor, UT, Bechtel, Honeywell, Enron)
- ~~Constructively engaged~~: Mainstream Industry
 - CC is real; can and should do something
- ② • Defections from GCC (compare to 1997)
 - From "not supportive" of Kyoto to neutral
 - Constructively engaged in Kyoto; working on rules to achieve best possible outcome, without committing to support ratification
 - (BP, Dupont, AEP, Autos, 3M, Whirlpool, Boeing, Lockheed)
- Hard Opposition (smaller; changes only in tactics)
- ③ • Overt and covert obstructionist tactics
 - Exxon, Mining co's, autos?
 - Alliance with unions UMW, UAW

III. NGO Community

- Left. (WWF, Greenpeace, FOE) – Never be satisfied with U.S. position; will be critical; uncertain supporters of ratification
- Center-left to Mainstream (NRDC, UCS, to ED)
 - More pragmatic, will ultimately tolerate some moderation
 - Will likely support Protocol even if we are successful

IV. Congress

- Significant improvement; still well short of votes for Kyoto
- Status:
 - >300 votes in House
 - Bipartisan climate change caucus
 - Roberts, Brownback, Lugar – very constructive
 - Murkowski, Craig – change in tactics
 - GWBush on carbon

- Ratification scenario
 - Can't see in this congress; prob need dem senate
 - Developing country issue is most frequent criticism
 - Cost issue also, but fuzzier
 - Never have strong corporate push for ratification; but we can mitigate opposition from the "mainstream" group.
 - Will likely need more melted North Poles.

Background Paper: COP-6 Sinks Issues

1. Background

In general, the Kyoto Protocol addresses emissions of greenhouse gases, rather than removals by sinks. Except as provided in Articles 3.3, 3.4 and 3.7, sink activities are included neither in calculating a country's target (for the U.S., a 7% reduction from 1990 emission levels), nor in calculating its emissions during the 2008-2012 commitment period.

Sinks activities are addressed in Articles 3.3 and 3.4 of the Protocol as follows:

- Article 3.3 requires that Parties, in meeting their targets, count emissions and removals from three specified land-use change and forestry activities: afforestation, reforestation and deforestation (ARD) since 1990.
- In addition, Article 3.4 allows the COP/MOP to include additional sink activities – for example, conservation tillage or forest management – for the second and subsequent commitment periods. Parties may choose to apply any such decision to the first commitment period, for activities taking place since 1990.

At COP-6, Parties will make decisions regarding:

- definitions and accounting rules for ARD activities under Article 3.3;
- definitions of which additional sink activities to include under Article 3.4, as well as accounting rules for these activities.

The COP-6 package of COP-6 decisions could also include:

- limits on the degree to which Parties may count Article 3.4 activities in the first period
- a process for adding additional sink activities under Article 3.4 after COP-6.

By August 1, 2000, Parties must submit their views and proposals concerning these Article 3.4 and 3.4 issues, including proposed definitions and accounting systems, along with national data and assessments of those proposals.

2. ARD Definitions under Article 3.3

The COP-6 decision package will likely include definitions of ARD activities, perhaps providing Parties the option of choosing among a set of possible definitions or accounting approaches.

(A) Afforestation and Deforestation: The definitions of “afforestation” and “deforestation” are relatively uncontroversial from a political standpoint, but there are important technical considerations that will need to be considered in formulating the U.S. positions on these definitions.

- *Afforestation* is generally defined as a change in land use from non-forest to forest, or a change in vegetative land cover from less dense to more dense.
- *Deforestation* is generally defined as a change in land use from non-forest to forest, or a change in vegetative land cover from more dense to less dense.

A key technical issue in defining afforestation and deforestation involves the definition of a forest, since most definitions of afforestation and deforestation involve a change in land use from non-forest to forest, or vice versa.

(B) Reforestation: Reforestation is the most controversial aspect of Article 3.3. Different definitions (and accounting rules) would have markedly different implications for the United States.

Attention has focused on two possible definitions of reforestation: the IPCC and FAO definitions. The *IPCC definition* defines reforestation as a land-use change from non-forest to forest. Under this definition, reforestation is essentially the same as afforestation; the only difference between the two is that, in the case of afforestation, the land in question is out of forest use for a longer period of time. In contrast, the *FAO definition* defines reforestation as replanting after harvest. Under some accounting rules, the FAO definition would allow countries to count the sequestrations resulting from replanting, but not the emissions due to harvest. (The IPCC definition would avoid the issue of counting carbon sequestered on lands replanted after harvest, since replanting after harvest would not represent a land-use change and hence would not count as “reforestation.”)

Under the IPCC definition, the U.S. would have virtually no net credits from ARD under Article 3.3, assuming business as usual conditions. In contrast, the U.S. would gain a credit of approximately 100 MMTCE (about 7% of our 1990 emissions) under the FAO definition.

The negotiating history of the Kyoto Protocol lends some support to the FAO definition of “reforestation.” However, critics argue that the FAO definition:

- involves “asymmetrical accounting”, since it credits regrowth without debiting the first harvest
- could convert the Kyoto Protocol into an instrument that would damage the environment by giving Parties (and possibly private landowners) an incentive to replace old growth forests with tree farms.

Although there are responses to these criticisms, particularly the latter, environmental groups are mobilized in opposing the FAO definition of reforestation and are already waging a postcard campaign against it.

Thus far, we have not chosen between the IPCC and FAO definitions of reforestation. On the one hand, adopting the IPCC definition could be seen as a significant tightening of our target (a difference of approximately 100 MMTCE). On the other hand, we have never endorsed the asymmetrical accounting reflected in the FAO definition.

3. Negotiating a "package deal" for Articles 3.3 and 3.4

Both during the Kyoto Protocol negotiations and subsequently, the U.S. has supported including sinks in a comprehensive fashion, so as to give Parties the maximum incentive to reduce emissions and enhance sequestration from sink activities. Rather than choose between the IPCC and FAO definitions of reforestation (both of which account for only some of the relevant changes in carbon stocks), we have argued for addressing forestry (and other sink activities) in a more rational, comprehensive manner, through Article 3.4 decisions.

(A) Definitions and accounting for additional activities under Article 3.4

To provide for full carbon accounting, the sink activities included under Article 3.4 would need to be broad activities, and the system would need to count all carbon stock changes on the land during the commitment period. Possible activities include:

1. Forest management
2. Cropland management (agricultural soils)
3. Grazing land management
4. Land degradation and land restoration (possibly a package of activities to be selected together)

With full carbon accounting on managed forests, cropland, and grazing lands, carbon stock changes during the first commitment period are projected to be in excess of 200 MMTCE per year, assuming business as usual. A large majority of those carbon stock increases will be in forests. Although agricultural soils would provide relatively few credits, they may be important to include politically.

(B) Possible "Walkback" for the first commitment period

Most other Parties have opposed full carbon accounting, arguing that:

- carbon stock changes cannot be adequately monitoring and verified
- the comprehensive approach would allow countries to take credit for BAU sequestrations, possibly including the large "missing sink" (an unaccounted carbon sink that some scientists believe could be located in North America)

- broad inclusion of sink activities would undermine the emission reduction objectives of the Kyoto Protocol or create ancillary environmental problems (such as replacement of native habitats with tree plantations).

One means of addressing these concerns would be to propose full carbon accounting for all managed lands in the second and subsequent commitment periods, but claim only a share of the total carbon credits during the first commitment period. This is known as the “walkback option.”

The walkback could be structured several different ways:

- Countries might be allowed to count only sequestrations above a defined threshold (approximating the BAU sequestrations)
- Countries might be allowed to count only a certain percentage of net sequestrations, to factor out sequestrations due to natural effects such as carbon fertilization

Potentially, the walkback could be the same for all Parties and sink activities, or could apply differently to different Parties or activities.

THE WHITE HOUSE

Dinah Nichols

(Alan)

- Part of our developing country package is just to try to get many of them are already doing.
- accelerate developing country solution discussion - maybe start an Umbrella group.
- CDM projects
 - strict list of eligible projects?
 - or just "priority" lists

Michael Roberts (CBI)

- working on trading system.
- worst case scenario is EU ban and U.S. etc. not.
- want developing country action.
- Disagree w/ Mucyo - point that opposition to CDS means wanting to trade for all, b/c some

U.S. firms will want to sell.

- want worksite & lady scheme. Like

Et W report coming today
look at

Bob Twallo to 5 P.M.

Katie

- D.C.'s

- memo

- mercury

~~del~~

60

THE WHITE HOUSE

Developing Country Proposal

- 1) help fight other revenue proposals
- 2) Increase leverage vis a vis other negotiating issues (because we agree that \$ should go to dev. countries)
- 3) Best chance to get progress on our key issue.

DEVELOPING COUNTRY
CLIMATE CHANGE FUND

OBJECTIVE: To provide funds to developing countries for capacity building and other projects to control greenhouse gas emissions, as part of a package in which developing countries take on greater commitments under the Framework Convention on Climate Change.

CAPITALIZATION: Each Annex I country would contribute 0.1% of its assigned amount under the Kyoto Protocol to the Fund. Contributions by each Annex I country would be due within one year of ratification or upon entry into force of the Protocol, whichever is later. Fund managers would sell assigned amount units (AAUs) to capitalize the fund.

Total assigned amount of all Annex I countries under the Kyoto Protocol equals [3,250] MMTCE. A 0.1% share equals approximately 3.25 MMTCE. If the value of carbon emissions on global markets were \$20/ton, this would yield \$65 million.

FUND MANAGEMENT. The Fund would be managed by the Global Environment Facility or other organization agreed by the Parties. (The GEF is currently managing its second tranche of over a billion dollars for global environment projects, including those related to climate change.) Fund managers would be required to work with financial specialists and traders to maximize the value of AAUs contributed to the Fund.

Priority for expenditures would be given to capacity building and projects designed to facilitate the transfer of clean energy technologies, as well as to the development of national inventories and policy reviews that would enable countries to evaluate more effectively what actions they should take to abate emissions.

DISCUSSION: This proposal addresses two elements of the climate change negotiations. First, developing countries are increasingly calling for new and additional resources under the Framework Convention and many industrialized nations, including leading European governments, are inclined to provide them. Many developing countries – including most Africans – expect little benefit from the Clean Development Mechanism due to the difficult investment climate within their borders. Second, there is growing momentum within the negotiations for a tax on emissions trading -- “extending the ‘share of the proceeds’ under the CDM to all mechanisms,” in the parlance of these talks. The G-77 is calling for it, and the EU will likely agree.

We risk isolation at COP-6 as these two issues converge. A few Umbrella Group allies would likely stand with us, but several, including Japan, might be substantially more likely to accept proposals in these areas than we would be.

We must find a way to refocus attention on our earlier call for a "new and creative dialogue" among developed and developing countries. At present, the G-77 is strongly opposed, seeing no upside, and no governments with the possible exception of Australia attach the priority we do to this topic. Without a major, momentum-shifting proposal, we will not only fail to start such a dialogue at COP-6, but risk failure on core issues (mechanisms, sinks, compliance) due to resentment from many G-77 countries that leading EU nations are supporting new resources while we are not.

A US proposal of the type sketched above, conditioned on agreement to a "new and creative dialogue," would alter the dynamic of the negotiations. It could generate considerable good will for the United States, and provide a principled basis for refusing to accept several objectionable proposals.

A Fund of this type is substantially superior to other methods that have been suggested for generating revenues (tax on emissions trading, increased ODA). First, the Fund would not discriminate against or burden those engaged in emissions trading. Assessments would not be transaction-based; all Annex I countries would contribute equally. Second, no appropriations or out-of-pocket expenditures would be required. Countries would contribute an asset created by the Protocol – AAUs.

The Fund would be criticized at home on two grounds: first, it makes the US target more stringent and, second, it gives away money to developing countries instead of insisting these countries do more. On the first point, we would respond that any increase in stringency is trivial (and, perhaps, more than balanced by the credit the US could receive for some business-as-usual sinks under Article 3.4). On the second point, we would respond by making sure that the Fund is a quid pro quo for additional developing country commitments. No new dialogue, no agreement on a Fund. (Down the road: no results from the dialogue, no entry into force of the Protocol, no Fund.)

But we could put conditions on receipt.

"actions"

Several high-level consultations on these topics are imminent (US-Latin American Ministerial, Sept 25-26; US-African Ministerial, October 2-3; Chair's Informal Ministerial, October 4-5; US-EU Ministerial, October 6). There is an urgent need for USG technical and legal experts to further develop this proposal and for senior policymakers to consider its merits.

COP-6

Political Issues

Mechanism Issues

- Domestic Action. The EU insists that countries achieve a minimum level of their Kyoto emission reductions via domestic action. Some, but not all, in the G-77 support this view. We have opposed a domestic action requirement.
- Limits on 'hot air'. The EU wants to limit the sale of Russian and Ukrainian 'hot air.' In general, developing countries view this as an issue for developed countries to resolve.
- Liability. The EU wants 'buyer liability' on the sale of emission credits. We believe seller liability would make the market function better. The G-77 does not have strong views.
- Sinks in the CDM. The EU wants to exclude or severely limit the extent to which credit can be received for sinks projects under the CDM. The G-77 is split. Brazil and China strongly oppose sinks in the CDM (they want high technology investment not trees), while much of Africa and Latin America support sinks in CDM, understanding that other types of investments are less likely to occur in their regions. We have supported sinks in the CDM.
- Sustainable Development Criteria for the CDM. The EU wants to exclude nuclear energy and, to a lesser extent, oil and 'clean coal' from the CDM. They argue that these technologies harm the environment even though they may help abate emissions. Developing countries view sustainable development criteria as a core sovereignty issue and oppose the exclusion of any technologies. We have supported the G-77.

Other Major Issues

- Sinks in Developed Countries. We have proposed comprehensive accounting of sinks. The EU opposes this, and is particularly against allowing countries to receive credit for BAU sink activities. U.S. forests are growing rapidly. Inclusion of BAU sink tons would account for roughly 50% of our Kyoto commitment.
- Compliance. The EU supports mandatory, punitive fines for countries that exceed their targets. We support restoring excess tons to the system in the next commitment period. The G-77 is split, with some countries wanting financial penalties and others fearing the future application of these provisions to themselves. Some key countries are open to the idea of a voluntary compliance fund that would allow countries to remain in compliance with the treaty by making a financial payment, but the major issues (such as how the price would be set and how the money would be used) have yet to receive any serious consideration.
- Funding for Developing Country. The G-77 is pushing for significant new funding for developing country needs (technology transfer, capacity building and climate change adaptation). The EU seems willing, almost eager, to give developing countries 'a share of the proceeds' from emissions trading. We have resisted new financial commitments, as have our Umbrella Group allies, but the United States risks isolation on this issue at COP-6.
- Meaningful Participation. The United States is almost alone in pushing for stronger developing country action to be discussed at COP-6. Absent a bold new proposal, we are unlikely to make much progress on this issue this year. Even raising the idea prominently risks backlash.
- Compensation. Saudi Arabia and its OPEC allies are pushing for compensation for actions that might lower the price of oil. OECD countries are united in their opposition. Other G-77 countries have used OPEC's demands to attract more attention to developing country calls for new financial resources.

Possible Elements of a U.S. Proposal

New Partnership with Developing Countries

- Process for Meaningful Participation. Countries would agree to negotiate the framework for developing country climate change commitments. The terms of reference for this negotiation would focus initially on 'win-win' actions -- those that are good for the environment and would promote economic development. The terms of reference for the negotiation would make it clear that the international community should assist development countries, *as they take actions to abate emissions*. Because assistance would go in tandem with new commitments, the approach would be a true partnership.
- Developing Country Climate Fund. As part of this new partnership, all industrialized countries would agree to contribute 0.X% of their assigned amounts to an international fund, such as the World Bank's Global Environment Facility, which would manage these assets to finance capacity building and climate change mitigation activities in developing countries.

Cost and Environmental Integrity

- Developed Country Sinks. Agreement on comprehensive sinks accounting. For the first budget period only, carbon sequestered in developed country forests would be discounted at a moderate rate. We might propose a 20-25% discount.
- CDM Mini Package. Agreement that CDM should start promptly. The CDM Executive Board would be established immediately, and developing countries and industrialized country businesses would be free to seek project certification right away. The CDM institutions would be instructed to give preference in processing projects to smaller projects (more likely to involve renewable energy), but no technology would be excluded from the CDM.
- Compliance. Agreement on a voluntary compliance fund that would allow countries that fail to meet their targets the option of remaining in compliance by making a financial payment. Key issues (such as the price and use of proceeds) would be identified, but deferred until COP-7.
- Liability. Agreement on a hybrid liability approach. The basic rule would be seller liability for countries that sold credits in line with reasonable emission projections, but buyer liability safeguards would prevent large-scale overselling by rogue actors.
- Domestic Action. Agreement to discuss in a very limited way, possibly in a multilateral 'policies and measures process,' the adequacy of domestic action. Continued rejection of the EU 'concrete ceiling.'
- Note on 'Hot Air'. One might imagine an end-game compromise on 'hot air' by the Russians whereby they would agree to set aside a percentage of the proceeds from emissions trading for climate change-friendly projects and investments.

MIKE ORFINI

Roger —

This is what
I plan on giving
to Leon for
"Dead Head"
for Monday.

OK ?

Mike
69515

~~CONFIDENTIAL~~

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
003. memo	George T. Frampton, Jr. to the Vice President (3 pages)	09/08/2000	P1/b(1)

COLLECTION:

Clinton Presidential Records
Office of Environmental Initiatives
Roger Ballentine
OA/Box Number: 19508

FOLDER TITLE:

[Climate Change] Action

2017-1093-F
ds460

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advice between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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RR. Document will be reviewed upon request.

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- b(1) National security classified information [(b)(1) of the FOIA]
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- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]



**The
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for
Sustainable
Energy**

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By fax, page one of 6

To: Roger Ballentine
From: Michael Marvin
Re: US Baseline methodology paper
Date: Sept. 27, 2000

456-1736

cc: D. GARDNER
x221

Roger, attached is the paper to which I referred yesterday. Four principle problems:

- 1) The proposal gives no credit for fuel switching from coal to natural gas, effectively eliminating an incentive for a country to invest more heavily in its natural gas infrastructure (China is the best example here).
- 2) Because the proposal suggests an added step of efficiency by *technology or fuel choice*, it could create an incentive to move toward high-efficiency coal and away from average efficiency natural gas, despite the fact that average efficiency natural gas is more climate friendly (fewer emissions of CO₂ per unit of energy).
- 3) Under the proposal, the hardest project to get a baseline established for is an off-grid clean energy project, thereby making it unrealistic that smaller, off-grid renewable energy and distributed generation projects would even seek eligibility under the CDM (because the transaction costs of calculating the baseline would be too high as a percentage of the overall project costs).
- 4) Energy efficiency was not included in the proposal. This is not to say that it can't be dealt with, but its omission was not a good sign. Delegation members have indicated that they are willing to consider language for efficiency, and we are happy to work with you and them on that.

From my perspective, this proposal represents a real threat to the development of clean energy technologies. We would be happy to work with you and others to suggest modifications to the proposal that would help address these inequities.

I look forward to talking with you further on this issue.

**Submission by the United States on
Baselines, Monitoring and Related Provisions for
the Clean Development Mechanism
September 8, 2000**

Narrative Description

Article 12.5(c) of the Kyoto Protocol calls for certification of emission reductions under the Clean Development Mechanism (CDM) on the basis of reductions in emissions that are additional to any that would occur in the absence of the certified project activity.

Creating an effective test for whether emission reductions or removals are actually additional to what would have occurred in the absence of the CDM's incentives, and determining the level of additional emission reductions or removals are a central challenge of the CDM. The U.S. acknowledges the inherent difficulty of determining additionality, since it requires knowledge of an alternative future that will never actually take place. Nonetheless, practical tests and proxies must be found. In attempting to determine additionality, Parties should be seeking tests that are robust in their ability to screen out "anyway" tonnes, that recognize a reasonable number of certified emission reductions (CERs), and that are objective and transparent enough to promote participation and investment in project activities that achieve real reductions and support sustainable development.

In the U.S. view, several of the additionality tests that have been proposed do not effectively meet these objectives. Some have supported an "investment" additionality test – i.e., that certified emission reductions should significantly enhance the financial and/or commercial viability of the project. Experience in AII and other "emissions offset" programs, however, indicates that investment additionality is both easy to game and an imperfect proxy for whether a project would have occurred otherwise. Thus, investment additionality has not proven workable in practice. Others have suggested limiting CDM credit to a set of specific technologies. This approach, however, does not address whether the reductions or removals from these projects would not have occurred anyway. Other proposals suggest limiting or discounting the number of credits awarded to projects as a way to reduce (but not eliminate) "anyway" credits. This approach has the drawback of undercutting the incentives for the very projects that the CDM is intended to encourage.

The United States considers that a more effective approach for gauging additionality of emissions reductions or removals would be to require that the project activity achieve a level of performance with respect to emissions reduction or enhancements of removals that is **significantly better than average compared with recently undertaken activities or facilities.**

An approach that uses superior performance compared to recently undertaken, comparable facilities or activities as a measure of additionality can achieve several objectives simultaneously:

- First, it serves as a **reasonable proxy for investment additionality**, since the investment that is required to achieve this level of superior performance would be considerably less likely to have

*if you can't find
you won't get credit*

been made without CDM credits. In contrast, it is much more likely that a project that achieves only average performance is one that would have been built anyway.

- Second, focusing on superior performance compared to **recently undertaken** activities or facilities means that the performance required of CDM projects will continuously improve as more CDM projects are undertaken – projects that are additional now may become normal practice in the future. Such an approach also weeds out older, and potentially ‘dirtier’, technologies and will help **promote cleaner technologies**, thus furthering lower emissions and sustainable development in non-Annex 1 Parties.
- Third, by focusing on comparable activities, the proposal is **practical** in enabling reductions in emissions and enhancements to removals to occur across the variety of project categories that Parties are envisioning and recognizing different conditions among countries and regions.
- Fourth, by promoting an **objective** performance criterion, this approach significantly increases the predictability of CDM decision-making while reducing the cost and time involved making decisions. This will create greater investor certainty than more subjective additionality tests, and will promote more projects.

Therefore, the U.S. proposes that the determination of additionality be comprised of two steps:

1) Determining whether a project activity meets an eligibility threshold: In order to be eligible as a CDM project activity, the activity must meet a level of performance with respect to reductions in emissions or enhancement of removals that is significantly better than average compared to a reference scenario.

- A reference scenario would consist of a set of recent and comparable activities or facilities in a relevant geographic area. The relevant geographic area would normally be the host Party, but a larger or smaller area could be defined to achieve a more representative reference scenario.
- This general standard would be elaborated and made more specific in the context of approved methodologies for defining the performance standard for specific project categories.

2) Determination of the project activity's baseline: Once it is determined that the project meets the eligibility threshold, it is reasonable to grant credit on the basis of what would have happened in the absence of the project activity.

- This general standard would be elaborated and made more specific in the context of specific project categories and regions, but should be both realistic and practical. Any proposed baseline that uses a new baseline methodology would need to be approved by the executive board.

Application to Specific Project Categories

As noted above, in the case of both the eligibility threshold and the baseline, new methodologies would need to be approved by the executive board or a subsidiary body. As the Chair's text envisions, the United States supports allowing the executive board to approve "first of a kind" methodologies for broader application to projects in a specific country, region, or project category. Examples of the preliminary development of such methodologies for several project categories are described below.

Power Generation: In the case of power generation, we envision that the eligibility threshold could be met in one of several ways, depending on the reference scenario used, and that methodologies could be developed by looking at the emissions performance of comparable recently undertaken activities or facilities within the Party or region in which the project activity is occurring. For fossil fuel projects, the performance threshold would be measured in terms of emissions per kilowatt-hour generated, and would be set at the [X] percentile of the recent and comparable activities or facilities and would represent the lowest emissions rates within a reference scenario (for each fuel type). The baseline would be set at the weighted-average emissions rate for each fuel type, fossil component, and sector within the reference scenario. *R.E.?*

Industrial Practices: For energy-intensive industrial practices, performance could be measured in terms of energy use per output of intermediate products. For steel, performance would be measured on the basis of energy use or GHG emissions per tons of "liquid steel;" for cement, the basis could be energy use or GHG emissions per tons of clinker. The threshold would then be analogous to the power sector – the [X] percentile of the lowest energy consumption or GHG emissions per unit of output, for facilities in the reference scenario, with baselines determined as the weighted-average emissions rate per unit of output.

Methane Capture: Methane capture project activities would also be required to meet the "significantly better than average" threshold. For example, if methane capture at landfills was not standard practice – as is the case in many countries – then by definition the threshold would be any capture project that is better than the current situation. The baseline would then be the previously existing condition – i.e., no capture – and the project would calculate credits based on the amount of gas captured.

LULUCF: Sinks projects would be considered better than average if they represent activities that are better than the prevailing conditions within a Party or region. Since performance of individual carbon sequestration areas may vary immensely due to natural variability, the threshold of performance may require demonstrating divergence from a regional trend. Baseline methodologies would then take into consideration the current situation for the purpose of calculating credits. One example might be an afforestation project that is significantly better than current regional practices.

The United States envisions that specific methodologies will be developed over the next several years for major project categories. This can occur through proposals for generally applicable methodologies, or through case-by-case decisions made on individual project proposals. Alternatively, the executive board may develop methodologies on its own where it considers this will facilitate the approval of project activities.

*dirty coal cleaner than
cleanest clean coal. No gtd
0 credits, coal gtd
credits 1.1*

Requirements for the Crediting Period

The United States proposal envisions that project participants must select a crediting period for a proposed project activity during registration. We believe it is reasonable that a project participant have the option of either a stable baseline over a single, fixed crediting period specific to the project type ^{how long?} or a baseline that is periodically revised over a crediting period of indefinite length. For the former, the baseline would be stable for the duration of the crediting period, after which the project would be ineligible to accrue further CERs. For the latter, the project activity would have an indefinite crediting period and would continue to accrue CERs provided that it continues to meet updated threshold and baseline criteria reflecting evolving circumstances.

For project activities designed to enhance removals by sinks, the project participant must also propose a crediting period during which the carbon sequestered by the project activity remains sequestered. Additionally, the project participants must identify modalities to address the possibility that some or all of the carbon sequestered might be released before the end of the crediting period. The United States envisions that the executive board will approve all new methodologies relating to crediting for sink projects, to ensure that crediting reflects real, measurable and long-term benefits to the atmosphere.

Provisions to Address Permanence and Reversibility of Sinks Projects

Provisions are included to address the risk that carbon dioxide removed from the atmosphere and held in forests or soils can be re-emitted prematurely if sinks are harvested, burned or otherwise disturbed. The executive board would be given two key tasks:

- First, the executive board would approve carbon accounting methodologies for determining the climate benefits provided by sequestering a ton of carbon for various lengths of time, in comparison to the climate benefits provided by a ton of emission reductions from the energy or other sectors. Successful sequestration for long periods would provide more climate benefits and should earn more credit than sequestration for shorter periods.
- Second, the executive board would approve modalities to ensure that the credits from sequestration projects reflect the project's actual climate benefits as determined by the carbon accounting methodologies. The methodologies could address the issue of permanence by crediting sequestration fully as it occurs (e.g., on the basis of stock change), but requiring that tons of carbon dioxide released prematurely are made up through liability or insurance measures. Or, they could address the issue of permanence by issuing credits incrementally (e.g., on a ton-year basis) for each year that the sequestration is maintained.

Provisions for Accounting for Leakage

The U.S. proposal provides that the project design document must include a description of potential changes in emissions or removals that are likely to occur outside of the project boundary and within the geographic area of the reference scenario that are significant and reasonably attributable to the project activity. Additionally, those changes in emissions and removals occurring outside the area of the reference scenario that are significant and reasonably attributable to the project activity must be accounted for following guidance developed by the executive board. The

changes in emissions or removals must be monitored and incorporated into the calculation of CERs during certification.

Requirements for Monitoring

During registration, project participants must propose a monitoring plan using either a methodology that has been previously approved by the executive board or an alternative monitoring methodology that is submitted for executive board approval by the operational entity. The monitoring methodology chosen must be sufficiently rigorous to provide an accurate calculation of emissions and/or removals. Where the methodology is not sufficiently rigorous, it must provide a conservative estimate that does not underestimate emissions nor overestimate removals. This approach allows for project participants to use less rigorous monitoring methodologies where rigor is not feasible, but will ensure that crediting for projects does not overestimate emission reductions or underestimate removals.

Monitoring must encompass all emissions or removals occurring within the project boundary, as well as those changes in emissions and removals that are outside of the project boundary but are within the geographic area of the reference scenario that are significant and can be reasonably attributable to the project activity. The U.S. proposal provides that the executive board may develop guidance to account for changes in emissions or removals occurring outside the geographic area of the reference scenario that are significant and are reasonably attributable to the project activity.

THE WHITE HOUSE
WASHINGTON

September 13, 2000

MEMORANDUM FOR DISTRIBUTION

FROM: ROGER BALLENTINE 
Deputy Assistant to the President

RE: COP-6 Meeting -- Mechanisms

We will hold a COP-6 strategy meeting on Thursday, September 14 at 5:00 p.m. in Room 180. At this meeting we will give guidance to our negotiators on a number of issues relating to the Kyoto flexibility mechanisms – emissions trading and the Clean Development Mechanism. These issues are among the most contentious and immediate matters our negotiators face. The business and NGO communities are extremely attuned to the decisions we will make on these issues, many of which they consider dispositive to the Kyoto process. All agree that decisions with regard to the mechanisms will be the central focus of COP-6.

I enclose a background memo for your review prior to the meeting. Given the political sensitivities of these issues, please do not distribute these materials.

Distribution:

David Beier (OVP)
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Mike McCabe/Bob Perciasepe (EPA)
Hattie Babbitt (USAID)
Todd Stern (Treasury)
David Sandalow (State)
Sherri Goodman (DOD)

cc: John Podesta

September 12, 2000

Kyoto Protocol Mechanism
Possible Directions

In the coming weeks, our Kyoto Protocol negotiators will need to discuss with their key counterparts possible outcomes on the Kyoto mechanisms that could be reached at the sixth Conference of Parties (COP-6) in The Hague, November 13-24. Our 'Umbrella Group' partners, including Japan, Canada, and Australia, are looking to us for leadership. The most important political issues on the mechanisms are summarized below. Also presented are possible directions we might take these discussions.

Domestic Action

Perhaps the most pressing negotiating issue is the question of whether countries should commit to achieve a minimum level of their Kyoto emission reductions via domestic action. As you know, we have long opposed EU efforts to place a 'concrete ceiling' on the use of the Kyoto mechanisms, as such a cap would be wrong environmentally and economically. In recent months, the EU has started moving quietly away from its call for a 50% cap on emissions trading. Privately, France, the Netherlands and the United Kingdom have said, that while they are sympathetic to calls for more domestic action, they would prefer to deal with that concern in other ways. While Germany and Denmark continue to support the 50% cap proposal, the German Green party (once vocally in favor) has said publicly that a concrete ceiling would be counterproductive.

For EU governments and their publics, however, success at COP-6 will be determined primarily by whether they win concessions on domestic action. The EU is concerned that the cost for the United States of implementing the Kyoto Protocol will be too low. The EU appears concerned that without a requirement for domestic action the market may not stimulate sufficiently the development of, and investment in, climate friendly technologies. The EU is also concerned about the competitiveness of European companies, which EU states have saddled with high cost regulation and taxes, if American firms are allowed to pursue cost-effective solutions. Some in the G-77 (South Africa, India), but not all, also want to see guarantees of domestic action.

We will continue to resist vehemently a legally binding limit on the Kyoto mechanisms. The EU, however, is unlikely to agree to acceptable outcomes on other issues (such as sinks, CDM, and compliance) if we refuse completely to deal with their concerns about domestic action. Two not mutually exclusive compromises may deserve consideration. First, we might agree that countries that do not achieve 50% of their emission reductions at home must participate in an international process that would review the adequacy of their domestic policies and measures. At the conclusion of this process, an international body would make public, but non-binding, recommendations about how such countries should increase domestic action. Second, we might agree to a non-binding pledge to secure a qualitative level of emission reductions via domestic action. One can imagine numerous formulations: "significant reductions" or "a large share."

NO

Liability

The EU favors making purchasers of emission credits liable if the credits end up being phony (i.e. not corresponding to actual emission reductions). The EU thinks that 'buyer liability' would guard against massive over-selling of credits by rogue actors because U.S. and other companies would have an incentive to exercise due diligence before purchasing credits. Possible overselling by Russian and Ukrainian entities, in particular, causes the EU heartburn. In contrast, we favor 'seller liability', as sellers are best able to ensure that their own emission reductions are real. We also believe that 'buyer liability' would chill formation of an efficient and large-scale market. The G-77 is unlikely to make this issue one of its top priorities. This issue is important to some important elements of our business community.

A number of hybrid approaches have emerged that would establish seller liability as the basic rule, but would switch liability in some circumstances, for example when a country appears to be overselling emission credits. The EU has not endorsed any hybrid approach, nor have we. Securing seller liability as the basic rule would be a big win for our business community. Agreeing to safeguards against overselling would please environmental groups.

CDM - Sustainable Development Criteria

The EU has proposed that the Protocol's Clean Development Mechanism (CDM) run according to pre-determined 'sustainable

development criteria.' In general, the G-77 is strongly opposed to this as they view defining sustainable development a core sovereignty issue. We have supported the G-77, which has led the EU to note the contrast with our position on sustainable development criteria for export credit agencies. The most contentious issues are whether all nuclear energy, 'clean' coal and petroleum investments should be excluded from the CDM, regardless of whether they help fight climate change in a particular circumstance, as the EU proposes. Despite the heavy reliance on nuclear energy by France and several other EU countries, the EU argues in the climate negotiations that nuclear energy is inherently unsound environmentally.

As a possible accommodation, countries might agree at COP-6 to give preference in processing CDM proposals to smaller projects, which are more likely to involve renewable energy. At the same time, they might agree that no technology would be automatically excluded from the CDM.

CDM - Sinks

The EU wants to exclude or severely limit the eligibility of sink projects to qualify for CDM credit. They view sinks as impermanent and difficult to measure. Most importantly, the EU sees sinks as displacing 'real' carbon reductions in the industrial sector. The G-77 is split. Brazil and China strongly oppose sinks in the CDM (they want high technology investment, not trees), while much of Africa and Latin America support sinks in CDM, understanding that other types of investments are less likely to occur in their regions. We have supported sinks in the CDM. Our environmental community strongly opposes sinks in the CDM. The business community is united in supporting the inclusion of sinks.

The negotiations have not coalesced around any particular compromise on this issue. One approach would be to make only certain types of sink projects eligible for the CDM, presumably those that raised the least environmental concerns. Another approach would be to limit the combined size of sink projects in the CDM to a particular percentage of total CDM investments.

Limits on 'hot air'

The EU wants to limit the sale of Russian and Ukrainian 'hot air,' a phrase used to describe the surplus of emission credits that these countries have because of their economic downturn. We argue that 'hot air', to the extent it exists, is not a

structural flaw but a problem that can be addressed when countries set emission targets for the second budget period. The EU has proposed containing 'hot air' by allowing countries to sell at most 5% of their total emission allowance. This proposal, even more than a domestic action requirement, would raise the cost of the treaty for the United States. Many developing countries are unhappy with the targets negotiated by Russia and Ukraine, but few see limiting 'hot air' as one of their highest priorities for COP-6.

The Russian government has expressed privately a willingness to deal with the criticism that the sale of 'hot air' will produce little environmental benefit by agreeing unilaterally to dedicate a portion of the proceeds from emissions trading to climate change-friendly activities. The Russians, however, see this compromise as part of the COP-6 endgame and are unwilling to show flexibility at this time.

Other Issues

Decisions on the mechanisms would surely affect resolution of several other important issues, including sinks in developed countries. Any compromise that addressed EU concerns on domestic action might make it easier to reach a favorable outcome on other issues, like sinks in developed countries, which the EU views as altering the stringency and cost of the Protocol.



Angela C. Mizeur

09/14/2000 01:51:56 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: CORRECTION: steering mtg

McCabe not coming

----- Forwarded by Angela C. Mizeur/WHO/EOP on 09/14/2000 01:51 PM -----



Angela C. Mizeur

09/14/2000 01:41:52 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: steering mtg

CONFIRMED

George Frampton (CEQ) (late)
Mara Rudman (NSC) 6-9471 (Wendy)
Robert Lawrence (CEA) 5-5879 (Lisa Branch)
Mr. David Beier (OVP) 6-9012
Mr. Frank Loy (State)
Mr. Richard Rominger (USDA) 720-6158
Haddie Babbitt (USAID) 712-4070 (Alice)
Michael McCabe (EPA) 564-4711 (Linda)
Bob Perciasepe (EPA) 564-6404 (Terri)
David Hayes (DoI) 208-6291 (Margaret)
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Ian Bowles (NSC/CEQ)
Andy Keeler (CEA)
Nigel
Ms. Linda Delgado (USDA)
Franklin Moore (USAID)

PENDING

Ron Minsk (NEC)

Ms. Rosina Bierbaum (OSTP)

NOT ATTEND

Leon Feurth (OVP) 6-9501 (Anne Woolston)

Stuart Eizenstat (Treasury) 622-1080 (Carolyn)

Dr. Lane (OSTP) 6-7116 (Betty)

Mr. David Sandalow (State)

John Podesta

Mike Orfini 6-9501

David Gardiner (WHCCTF)



"(RIA) Purvis, Nigel H" <n.purvis@state.gov>
09/12/2000 04:47:21 PM

Record Type: Record

To: Roger S. Ballentine/WHO/EOP

cc:

Subject: FW: devel count

Roger,

My comments on this developing country paper are incorporated in the attached text. I have given the paper to Frank. I see no difference between you, Frank and me on the path to meaningful participation, what I call the "offensive" game.

As you may know, however, David is more concerned about the "defensive" game - how to avoid bad decisions on the BA Plan of Action (BAPA). I think he has a point. If you frame the fund idea for Deputies in the purely 'offensive' terms, we might be left wondering at The Hague whether we have authority to accept the fund concept in exchange for good rules on sinks and/or no cap on the mechanisms, for example. David's answer, I think, is that we might want to take that deal too even without a clear path to meaningful participation. Todd and Stu seemed willing to pay for a process leading to meaningful participation, but not for good rules in the BAPA. I'm not sure they would rule out a small new fund if that would get us good rules. Unfortunately, the most likely outcome at COP-6 is that we cannot secure the new process/partnership on developing countries, and we have to decide whether to go along with our funding option anyway to avoid a tax on the mechanisms.

Nigel

-----Original Message-----

From: Roger_S._Ballentine@who.eop.gov
<mailto:Roger_S._Ballentine@who.eop.gov>
[SMTP:Roger_S._Ballentine@who.eop.gov]
<mailto:[SMTP:Roger_S._Ballentine@who.eop.gov]>
Sent: Tuesday, September 12, 2000 4:05 PM
To: n.purvis@state.gov <mailto:n.purvis@state.gov>
Subject: devel count

Nigel(See attached file: DEVELOPING COUNTRY PROPOSAL.doc) -- take a look at this. On thursday's meeting, I will look at what you sent, but I am inclined to hold the deputies meeting on thurs. let's discuss with Frank by COB today. <<Lotus Manuscript 1.0>>

DRAFT TALKING POINTS NUCLEAR POWER AND THE CDM

- The U.S. is opposed to excluding any technologies with low or no greenhouse gas emissions under the Clean Development Mechanism. Under the Kyoto Protocol, developed countries are permitted to use a full range of low emitting technologies, including nuclear power, to meet their emissions targets, and it is unfair to prevent developing countries from using the same technologies.
- The US also believes that developing countries should decide for themselves what projects are consistent with their sustainable development. We reject the efforts of some countries to impose those decisions on developing countries.

Further Background on International Nuclear Programs from DOE, if needed

Construction of nuclear power plants is also subject to international review through the International Atomic Energy Agency (IAEA) pursuant to the Convention on Nuclear Safety. The IAEA also ensures that nuclear material is used only for peaceful purposes under the Treaty on the Non-Proliferation of Nuclear Weapons (NPT).

Countries interact with the International Atomic Energy Agency as a requirement to becoming parties to the NPT (185 members, excepting Cuba, Israel, Pakistan, India). About 65 countries have signed a "full scope safeguards agreement" with the IAEA to make diversion of nuclear materials more difficult. (This includes all non-nuclear countries with significant nuclear power operations). The IAEA is promoting (and the U.S. strongly supports) non-nuclear Parties adopting an "additional protocol" to further reduce the risk of diversion.

IAEA is also the principal participant in the "Nuclear Safety Convention" which entered into force in 1996. There are about 47 signatories, including all of the usual suspects except Iran (!). It is a "best practices" for safety sort of arrangement, and it is U.S. policy to support the agreement and to encourage nuclear operators to join, and to upgrade their safety practices.

THE WHITE HOUSE
WASHINGTON

April 18, 2000

MEMORANDUM FOR JOHN PODESTA
CHARLES BURSON

CC: GEORGE FRAMPTON
LEON FUERTH
JIM STEINBERG

FROM: ROGER BALLENTINE 

RE: COP6: Policy Status and Outlook

*RB.
You've got
the action on
this. Is Todd?
Still in the
JDP*

As we come upon the conclusion of Earth Day, we will begin to focus intently on the Sixth Conference of Parties to the United Nations Framework Convention on Climate Change ("COP6," November 13-24 in The Hague, Netherlands). This Memorandum outlines the issues currently on the table and our plans for preparation.

I. Background

The President and (especially) the Vice President, were responsible for the success at COP3 in 1997 that produced the Kyoto Protocol. The last two meetings of the COP have incrementally addressed open issues with the Protocol. COP6, on the other hand, has been targeted by much of the international community (as well as by domestic NGOs) as the meeting at which a ratifiable Protocol must be finalized. The Europeans and others have rallied around this notion, calling for ratification of the Protocol by 2002.

While we have not voiced such expectations, we too have stated that COP6 is a crucial meeting. Most of the world community considers the U.S. the main obstacle to completion of the Protocol. The U.S. NGO community shares much of this sentiment. Thus it is very likely that the U.S. would be blamed for a "failure" at COP6.

II. Our Goals

Our first preparatory task is to come to some consensus as to what constitutes "failure" and "success" at COP6. Failure would most likely mean that at the meeting's end, much of the world community considers the multi-lateral process over - at least one including the U.S. This suggests that we might define "success" as an ending to COP6 with a consensus that 1) the Protocol is alive and moving toward completion and 2) there remains a chance for U.S. ratification in the near term.

III. The Challenge

Success defined in this way requires a balance between the “rightward” pull of the current U.S. Senate and much of the U.S. business community, and the “leftward” pull of the international community as well as U.S. NGO’s. Conceptually, this is a balance between issues of the *costs* of the Protocol and its “*environmental integrity*”. More specifically, such a balanced result will depend on the resolution of a number of key matters: flexibility mechanisms (such as emissions trading), developing country participation, the role of agricultural “sinks”, and potential new cost-controlling mechanisms (such as a “safety valve”).

For example, much of the developed and the developing world (as well as the U.S. environmental community) resists our efforts to make unlimited use of trading and to get the developing world to “meaningfully participate” in the climate change fight (despite the fact, for example, that we would argue that cost-decreasing flexibility mechanisms add to the environmental integrity of the Protocol; unfortunately, many of those calling for “environmental integrity” are really calling for the U.S. to “pay” for our past emissions). Many see both issues as signs that the U.S. is not willing to seriously address the problem at home. On the other hand, without securing liberal use of flexibility mechanisms and achieving some progress in developing country greenhouse gas abatement, the Protocol would be pronounced dead on arrival by a significant faction in the Congress, and would receive harsh reviews from a wide array of business sectors. Therefore, the negotiations of all of these issues will be roughly defined by these polarized positions.

IV. Preparations

We do not, of course, need to achieve a perfect, consensus balance on each remaining issue to be negotiated. Instead, the political and policy balance we need to achieve is one measured across all of the elements to be worked out at COP6. Working with the State Department and our interagency team, we are addressing each of these issues. We are consulting with stakeholders, the Congress, academics and others to evaluate our negotiating flexibility as to each issue, and exploring how we could negotiate a package of issues that achieves the overall balance we need. Thus, either here or at the State Department, we are holding meetings on sinks, rules for the mechanisms, compliance, developing country participation, and so forth. I can provide details as to the status and outlook for each of these issues at any time.

One important point deserves significant emphasis: to maximize our leverage in multilateral negotiations we need to demonstrate serious domestic actions. Showing a serious intent to take action to reduce emissions in the U.S. will lessen environmentalist criticism of our positions and will give us greater credibility with other nations in our negotiations.

THE WHITE HOUSE

WASHINGTON

June 21, 2000

MEMORANDUM FOR DISTRIBUTION

FROM: ROGER BALLENTINE 

RE: First COP-6 Strategy Meeting

We will be holding our first COP-6 strategy meeting on Monday, June 26 at 3 p.m. in Room 180. This meeting will likely be the first of two meetings on the subject of sinks. The U.S. must make a submission on this highly complicated and politically challenging issue by August 1st. Critical strategic decisions will be put to this group for resolution prior to that time.

I intend this meeting to be mostly informational. The State Department will make a brief presentation on the issue of sinks, and we will then frame issues for decision and identify any additional needed information.

I enclose 1) a background paper on the sinks issue; 2) a context-setting memo on the Kyoto process, and 3) copies of the UNFCCC and the Protocol.

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cc:

John Podesta
Ian Bowles
David Gardiner
Mike Orfini

The Kyoto Protocol and COP-6: Context and Status

June 26, 2000

Background

The Sixth Conference of Parties to the United Nations Framework Convention on Climate Change (COP-6) will be held November 13-24, 2000 in The Hague. In the months ahead, the Administration will need to make several major decisions in preparation for this meeting. This memorandum provides an overview of where we stand in the Kyoto negotiations.

COP-6 will be the most important and highest-profile climate change meeting since the 1997 Kyoto conference. At Kyoto, nations reached an historic agreement to reduce greenhouse gas emissions from developed countries an average of approximately 5 percent below 1990 levels by 2008-2012. The United States agreed to a 7 percent reduction. The President and Vice President were personally involved in the decision-making and diplomacy leading up to Kyoto; the Vice President attended the conference.

The formal agenda of COP-6 will be dominated by decisions on the rules for the Protocol, covering important elements such as the modalities for emissions trading, the role of forests and farmland and the consequences of noncompliance. Many of these issues are enormously complex. Others will involve difficult political debates. Obstructionists (including OPEC countries and perhaps China) may attempt to block any deal. Under any circumstance, reaching agreement on these rules will be extremely difficult. The modest progress made at the most recent negotiating session highlights the real prospect of deadlock or breakdown at COP-6.

Many governments, however, see COP-6 as the last chance for decisions that would allow the Kyoto Protocol to enter into force without renegotiating the agreement's emissions targets or timetables. European governments, in particular, are calling for the Protocol to enter into force by 2002. In addition, our election and Presidential transition may focus attention on the meeting. U.S. environmental groups are framing the outcome of COP-6 as a central part of the Clinton-Gore environmental legacy.

Summary of Major Negotiating Issues

- Market-based Mechanisms

One of the historic achievements of the Kyoto Protocol was agreement on the use of emissions trading and a project-based investment system known as the "Clean Development Mechanism" (CDM). The United States fought to include these market

mechanisms to help countries meet their national emission targets cost effectively. However, market-based tools have only been used on a limited basis internationally, and negotiating the critically important rules under which trading would take place has been extraordinarily complex.

Perhaps the highest-profile open issue is the desire of the European Union to impose “concrete ceilings” on the use of the mechanisms. The EU wants to cap the ability of buyers and sellers to transfer emission credits. European governments view emissions trading as a way for the United States to avoid reducing domestic emissions. They fear that Russia and Ukraine, who negotiated generous emission allowances at Kyoto, will be allowed to sell to the United States what the EU views as phony emission reduction credits (“hot air”). They argue this would further reduce the need for U.S. domestic action and undermine the environmental effectiveness of the Kyoto agreement.

Other political issues involve the CDM. Some Member States in the European Union attach very high priority to excluding nuclear energy projects from the CDM. They view nuclear energy as environmentally harmful and object vehemently to the suggestion that the Kyoto treaty should support nuclear energy even though its nuclear technologies are climate-friendly.

- Forest and Farmlands – “Carbons Sinks”

COP-6 is slated to decide the extent to which countries should receive credit toward their Kyoto targets for carbon sequestration (taking carbon out of the air through, for example, conservation tillage and sound forestry practices), referred to as “carbon sinks”. Not only is the sinks issue environmentally important (to climate change, biodiversity and conservation), but the United States could gain economically from favorable decisions in this area. In addition, many farm-state Senators on both sides of the aisle are eager to reward farmers financially when they help fight global warming. The European Union is united in its desire to strictly limit the role of forests and farmlands, which they see as yet another way for the United States to avoid reducing its emissions.

This issue has three major dimensions. First, in Kyoto we succeeded in getting credit for some forestry activities. Now, however, legitimate environmental concerns about how sinks categories will be defined pressure us to make concessions. Second, Kyoto left open the possibility of adding new carbon sink areas to the treaty, but few if any countries support our call for a generous, comprehensive approach. Third, the EU opposes our effort to allow countries to receive CDM credits for sink investments and projects in developing countries.

- Compliance

Since before Kyoto, the United States has led the world in calling for a strong compliance system. We have seen this as necessary to encourage countries to meet their Kyoto targets and to convince the Senate that there will be a level playing field for U.S. companies. We have advocated requiring countries that exceed their targets in a

particular period to make up the difference in the subsequent period. This idea, commonly called “subtraction of tons” or “borrowing” now has widespread support internationally.

Recently, the EU, some developing countries, and our environmental community have criticized our approach as insufficiently “green”. They fear that countries will defer action on climate change and get farther into carbon debt as time goes on. Once again, the EU and environmental groups favor a compliance regime that could impose financial penalties. Another approach is to require countries to pay a reasonable fixed price for each unit of emissions exceeding their targets. If the price were set lower than the eventual market price for carbon reductions, the compliance payment would act as a sort of price “safety valve”.

- Developing Countries

The United States left Kyoto pledging to secure the “meaningful participation of key developing countries” in the international fight against global warming. Developing country commitments are not formally on the agenda at COP-6 thanks to developing country opposition. At prior COPs, this issue has produced controversy but no progress. The most ambitious goal that stands any chance of success at COP-6 is a mandate for developed and some developing countries to negotiate new commitments, most likely in the second budget period (and such a mandate is a long shot). Some small developing countries may announce their willingness to take on targets at or before COP-6. These countries will not be able to join the Protocol’s target regime or participate in emissions trading until the COP decides by consensus to add developing country commitments to the Protocol, something developing countries have refused to do. We have never stated that “participation” means, necessarily, commitments within the Kyoto framework. Without targets, however, it is difficult to see how developing countries could provide a market for the purchase of emission credits.

Negotiation and Political Dynamics

Politically, decisions at COP-6 are increasingly viewed through a prism that places efforts to contain the cost of the Protocol at odds with maintaining its environmental integrity. Though this perception is widely held and in part drives the negotiations, a good deal of this debate has little to do with the environmental effectiveness of the treaty. The EU and environmental groups paint our policies – our desire to stave off restrictions on the Kyoto mechanisms, to get credit for forests and farmlands, and to involve developing countries – as efforts to avoid domestic action and merely lower the cost of the treaty. We have argued that all of these policies contribute to the environmental integrity of the agreement, while lowering the cost. For example, any approach to climate change that does not include developing country emissions or carbon sequestration would fail to address a significant portion of global greenhouse gases.

The United States risks isolation at COP-6 on these issues. Frustration with the U.S. has led a number of countries to discuss the possibility of ratifying the Protocol without the

United States. Several European governments are now taking steps to reduce domestic emissions that are generally perceived to be aggressive and significant, and therefore they feel ready to adopt Kyoto obligations. Most countries in the world believe that U.S. efforts are, in comparison, minor.

Many believe that there is reason to doubt whether any deal achievable at COP-6 would create a reasonable prospect of our ratifying the Kyoto Protocol in the next few years. These observers note that during the past half-decade the Senate has failed to ratify any significant environmental treaty, and has shown, furthermore, its willingness to flout considerable international pressure in exercising its advice and consent authority (CTBT). This dynamic – a belief that the U.S. is not serious about reducing emissions and is unlikely to ratify a treaty in the near term – contributes to the potential for isolation of the United States at COP-6.

On the other hand, we might view all of these discreet issues to be addressed at COP-6 in light of two principles: 1) the U.S. should show global leadership on this issue and this means insisting first and foremost on a treaty that will yield significant environmental benefits; and 2) ratification of the Protocol will not be considered by this Senate in this current political atmosphere – the political and scientific dynamics of climate change are rapidly evolving and we should not be overly bound by the political setting of the day.

Ultimately, how we deal with all of these issues between now and November depends on how we define “success” at COP-6. Perhaps the most realistic goal for COP-6 is to demonstrate that 1) the Protocol is alive and moving toward completion and 2) U.S. ratification remains possible in the near or medium term. Such a goal for COP-6, in turn, presents a number of tasks in the short term, including determining the acceptable range of outcomes on each of the outstanding issues and then evaluating what combinations of those options yield an overall result that we would find acceptable.

THE WHITE HOUSE

WASHINGTON

June 8, 2000

MEMORANDUM FOR DISTRIBUTION

FROM: ROGER BALLENTINE

RE: COP-6 Deputies Meeting 1

ACM for RAB

We will be holding our first COP-6 Deputies meeting in two weeks. My office will call to schedule. We are hoping hold this meeting June 19-21.

This will be the first of two likely meetings on the subject of sinks. The first meeting will consist of a background and status briefing by the State Department and a description of issues. We will provide some short background materials prior to the meeting. Following the meeting, if necessary, we will prepare a decision memorandum, which we hope to address in a second and final sinks meeting in July, prior to our required submission to the COP on August 1st.

Martin Baily (CEA)
~ Robert Lawrence (CEA)
~ Lael Brainard (NEC)
~ Leon Fourth (OVP)
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~ Jim Steinberg (NEC)
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Bob Perciasepe (EPA)
Richard Rominger (USDA)
Stuart Eizenstat (Treasury)
Todd Stern (Treasury)

cc:

John Podesta
Ian Bowles
David Gardiner
Mike Orfini

04/14/00 18:29 FAX 2024566687

NEC INTERNATIONAL

- LAEL BRAINARD

027/032

31-JAN-2000 15:09 FROM SUMMIT SECTION ERD

TO

BRAINARD

P.02/05



10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

28 January 2000

Dear Toshi,

UK NON-PAPER ON SUSTAINABLE ENERGY

In Kyoto I floated some ideas on Sustainable Energy, under the Environment heading. At your request I am now circulating to G8 colleagues the latest draft of a UK Non-Paper on this theme. I would be grateful if Sherpas would pass to their Sous-Sherpa teams in preparation for their discussions in Nara next weekend.

Toshi,

JEREMY HEYWOOD

Yoshiji Nogami

04/14/00 18:29 FAX 2024566887

NEC INTERNATIONAL

+ LAEL BRAINARD

028/032

31-JAN-2000 15:09 FROM SUMMIT SECTION ERD

TO

BRAINARD P.03/05

G8 SUMMIT, JULY 2000
Non-paper by the United Kingdom

Proposal: To make sustainable energy a theme for the G8 Summit in July 2000.

1. In 1995 the United Nations member states committed to a reduction by one half in the proportion of people living in extreme poverty by 2015. They also committed to ensuring that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015. Since two billion people in the world are still without access to electricity, access to sustainable energy sources will be crucial to meeting these targets. Such energy will help provide employment, and improve their health and their education.
2. Increasing electricity supplies through traditional means will have adverse consequences. There will be huge increases in CO₂ production leading to increased global warming. If all the projected increase in electricity demand from developing countries between 1990 and 2020 were met by fossil fuel plant, CO₂ emissions would increase by between 0.8 and 1.6 billion tonnes of carbon, depending on whether the plant used to generate the electricity were gas or coal fired. For comparison, total anthropogenic carbon emissions in 1990 were about 7 billion tonnes. So we could speak of an increase of up to 20% due to increased demand for electricity from developing countries.
3. We can mitigate these adverse effects if we promote sustainable energy. Sustainable energy covers many possibilities, of which renewable energy is one. There are other ways of providing energy much more sustainably than current practices. These include promoting energy efficiency, market reforms and clean technology for those fossil fuels which would be exploited anyway. Renewable energy sources can provide electricity to the world's poorest people with minimal polluting effects. It is suitable for small scale applications in local communities. It would radically improve the health and welfare of the poorest people and could enhance education by providing facilities for distance learning. A sustainable energy initiative could help meet developing countries' demands for capacity building, technology transfer and clean economic growth which has slowed progress in the Kyoto Protocol negotiations. Running costs are low and the technology exists, but there are substantial market barriers. These include large initial capital costs, both because the worldwide market is not sufficiently large, and the regulatory and infrastructure framework is not in place in many countries to attract large scale private investment.
4. This is an ideal time for G8 to address the problem of sustainable energy. The ninth Commission on Sustainable Development in 2001 will focus on energy, the 10th anniversary of Rio in 2002 is on the horizon, and the European Union has tried to raise support for its call to make this a political deadline for the entry into force of the Kyoto protocol.
5. What can the G8 do? We suggest three ways in which the G8 could significantly accelerate global arrangements to encourage and facilitate clean energy investment.

04/14/00 18:30 FAX 2024566687

NEC INTERNATIONAL

- LAEL BRAINARD

029/032

BRAINARD

P. 04/05

31-JRN-2000 15:10 FROM SUMMIT SECTION BRD

TO

Private Public Infrastructure Advisory Facility (PPIAF)

6. Of \$300 billion current investment each year in infrastructure in developing countries, only 10% comes from official aid flows and 20% comes from the private sector while overall aid flows are static or declining. The availability of a reliable electricity supply is a key factor in improving economic growth and one of the biggest infrastructure demands is for energy. Where possible we need to see this energy demand met from sustainable and, better still renewable sources. Mobilisation of increased private sector investment is crucial to provide the infrastructure needed for economic growth. Potential investors have identified two main areas of constraint:

- Absence of appropriate legislation, regulatory framework, structured utilities and knowledge of public private sector partnerships;
- Non-availability of long term debt facilities.

To overcome these problems, the UK and Japan, with the World Bank, established PPIAF to provide technical assistance to developing country governments to improve the enabling environment for investors. Work is in hand under PPIAF to look at possibilities for tackling long term debt availability, which will require significant capital funding. A pre-feasibility report setting out the possible nature of an appropriate new debt fund has already been issued and a detailed report will be available in March 2000.

7. Canada, Switzerland and Norway have joined the UK and Japan as donors. Italy has shown an interest in joining. The Summit could encourage all G7 Members to join PPIAF and suggest that it undertakes a specific initiative to promote private investment in Sustainable energy supply, especially in poor rural areas. The Summit could also encourage G7 members to support proposals for capital funding, and to jointly examine how existing arrangements for private sector debt funding for infrastructure in developing countries might be increased and better targeted along the lines proposed under the PPIAF study.

World Bank Prototype Carbon Fund

8. The World Bank has established a Prototype Carbon Fund (PCF) to develop, for investors, a portfolio of carbon-saving projects in developing countries and Eastern European economies in transition. The projects would generate carbon credits associated with their CO₂ emissions reductions, and it is expected that these would be eligible under whatever rules are developed in the Kyoto Protocol for the clean development mechanism (for projects in developing countries) and joint implementation (for projects in economies in transition).

9. The aims are:

- To demonstrate that such projects can offer real benefits, to reduce suspicion of CDM-type activities;

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NEC INTERNATIONAL

- LAEL BRAINARD

030/032

BRAINARD P.05/05

51-JRN-2000 15:18 FROM SUMMIT SECTION EPD

TO

- To provide information and experience of real projects, which should help in developing the rules for the Kyoto mechanism;
- To pool the risks over a number of projects, which could help the least developed countries - mainly in Africa - to gain a share of the projects.

10. The Fund has been capitalised through shares of \$10 million from governments and \$5 million from private sector participants and has now been launched. So far four governments and nine companies have participated. This is an excellent start and the PCF should be welcomed as a mechanism to facilitate this kind of investment. G8 members could encourage investment and participation by their private sectors.

Information for Development Programme (INFODEV)

11. INFODEV is a multi-donor funded technical cooperation facility based at the World Bank. It was established in recognition of the fact that advances in information/communication technologies play an important part in sustainable development but that developing countries are likely to miss out. All G7 countries except Japan are members.
12. The G7 Summit in 1994 launched an initiative on how developing countries could benefit from the knowledge age. A World Bank/ Government of Canada Conference (Global Knowledge 1) further developed this in 1997; Global Knowledge 2 is scheduled for Kuala Lumpur in March 2000.
13. Over the past few years, the UK and other donors have been piloting various projects to identify sustainable models for increasing access to information and community communication services for developing countries. One model is the Community Information Technology Centre which delivers ICT services and training locally, and includes a dissemination strategy and an ongoing business plan for sustainability after the end of donor support. The approach has been piloted in South Africa and there is growing demand from other countries. An important requirement for delivering this is the availability of electricity, preferably from renewable sources, to power the technology. This could make the internet and its educational and knowledge opportunities available for the poorest people. G8 Heads could commit to providing increased funding to roll out a programme of community information technology centres in developing countries with a commitment to using appropriate forms of sustainable energy if needed, so that no initiative is inhibited by a lack of electricity.

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1999-012768

The Secretary of Energy
Washington, DC 20585

August 23, 1999

MEMORANDUM FOR THE VICE PRESIDENT

FROM:

BILL RICHARDSON

A handwritten signature in black ink, appearing to be "BR", is written over the printed name "BILL RICHARDSON".

SUBJECT:

Climate Change Strategies for the Next Year

How to proceed over the next year on the issue of climate change is currently the subject of debate among the different agencies with an interest in this issue. In order to get the Kyoto Protocol ratified, we need a dual-track approach -- pursuing effective domestic and international strategies. I believe if we act aggressively now, we could consider submitting the Kyoto Protocol for ratification in 2001 and have a reasonable expectation of success.

As you know, the Byrd-Hagel Sense of the Senate Resolution stated that the United States should not enter into a legally binding agreement to reduce greenhouse gas emissions unless: (1) there would be no serious economic costs to the United States; and (2) developing countries agreed to take substantial steps to reduce their greenhouse gas emissions in the same time period as developed countries (generally viewed by Senators as adopting emissions targets). While the terms of the Byrd-Hagel resolution are not binding on the Administration, it is clear that the hurdle for ratification of the Kyoto Protocol will be quite high unless the conditions of the resolution are adequately addressed.

Domestic Concerns

The main thrust of this portion of the overall strategy is to reduce the cost to the United States of meeting the emissions targets contained in the Kyoto Protocol. We must be able to demonstrate that the United States can meet these emissions targets while maintaining vigorous economic growth. This strategy must involve efforts to address climate change issues during the upcoming budget discussions with Congress, as well as various policy initiatives that the Administration is or soon will be pursuing.

First, we need to be aggressive in our discussions with Congress on budget matters related to climate change. We must not let accusations that we are implementing the Kyoto Protocol prior to ratification deter us from seeking funding for



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important environmental and energy programs. The budget discussions this Fall, covering Fiscal Year 2000, will provide an opportunity to frame the issue of global climate change as an increasingly important matter that should receive an appropriate level of attention from congressional appropriators. At this time, virtually all agencies are looking at inadequate funding levels for their climate change activities. In the Department of Energy, many of our offices have received indications from Congress that FY 2000 funding will be below FY 1999 levels and substantially below levels in the President's Budget Request. This is the year to press Congress to get serious about climate change funding and to support the Administration's request if we think we can successfully seek ratification.

In a similar manner, we need to think strategically about the Fiscal Year 2001 Budget Request. We should pursue increased investments under the Climate Change Technology Initiative (in line with prior year plans) and use the recent report from the President's Committee of Advisors on Science and Technology on International Energy R&D as support for further investments in these areas. This report demonstrates how important it is for the United States to promote the use of our companies' energy technologies in other countries. As in prior years, climate change should be one of the Presidential Priorities that gets specific attention in the Budget Request.

Second, this Fall we need to push our proposal for electricity restructuring legislation. This legislation, among all the policy initiatives we are pursuing, has the best chance of providing significant environmental benefits while making consumers better off at the same time. We estimate that the Administration's proposal would save American consumers at least \$20 billion per year by 2010 while reducing annual greenhouse gas emissions by an estimated 40-60 million tons of carbon equivalent (about 1/10 of the total reductions needed to meet our Kyoto Protocol target) by 2010.

Third, we must show the American public that the Federal government is making serious efforts to address climate change as well. The President has issued Executive Orders to substantially reduce energy use in Federal facilities and to increase use of bioenergy. We have established Energy Saving Performance Contracts for the entire country, so that private companies will invest capital in energy-efficiency projects in Federal facilities and be paid back out of energy savings, leveraging our scarce Federal budget resources. The Federal Energy Management Program at the Department will be a key player in spreading highly

effective energy efficiency techniques throughout the Federal complex. We need to raise the profile of energy efficiency efforts in the Federal government to show that energy savings can come from being smarter about energy use and need not require sacrifices in safety or comfort.

Fourth, we must set ambitious goals for the Nation to increase use of renewable energy technologies and to improve energy efficiency. The President set the tone by establishing the Million Solar Roof program. I have set a goal of generating 5 percent of the Nation's energy from wind power by 2020, an ambitious goal in our Wind Powering America program. And the recent Executive Order seeks to triple the amount of bioenergy used in our economy by 2010. These activities should be fully implemented and elaborated upon where appropriate (by adding new energy sources, for example). We have to show success toward meeting these goals over the next year to demonstrate their credibility.

Finally, we need to more successfully reach out to industry to engage them in taking steps to reduce their net greenhouse gas emissions. In my discussions with major oil and natural gas companies, I have seen a shift in position regarding climate change. Where once there was skepticism over the science, I now detect the beginnings of preparations for reducing emissions both here and abroad. We should be able to build upon the efforts of companies like BP Amoco to measure and reduce emissions in ways that encourage others to follow suit. I am willing to reach out to selected companies in this industry to challenge them to take steps to reduce their emissions as part of our national effort in this area.

If we can pull together these various efforts, we will be well on our way to meeting one of the conditions of the Byrd-Hagel resolution — meeting the emissions targets with “no serious harm” to the United States.

International Concerns

Our work in the international arena focuses on two items: getting the rules right in the Kyoto Protocol negotiating process and ensuring that developing countries “meaningfully participate” in the global effort to reduce greenhouse gas emissions.

Clearly, we need to demonstrate that the specific rules contained in the Kyoto Protocol address our need for market-based flexibility mechanisms. Specifically, we must avoid limitations or caps on international emissions trading and on the use of the Clean Development Mechanism (in which companies or countries can get

credit for deploying projects that reduce greenhouse gas emissions). We also must secure a reasonably expansive definition of sinks (whereby forestry and land management practices that sequester carbon dioxide are counted as reducing greenhouse gas emissions). Equally important is avoiding the addition of any "poison pill" provisions, such as paying compensation to oil-producing nations for reduced demand from activities to lessen emissions. The negotiating team led by the State Department continues to make progress. If we are not successful in this endeavor, however, there is little chance that the Kyoto Protocol can eventually obtain Senate ratification.

Regarding developing countries, we need to develop a "portfolio" of actions on the part of a range of countries to demonstrate their "meaningful participation". We need some, perhaps ten, to voluntarily take on binding emissions targets (perhaps a growth target or an indexed target). Others, including the largest emitters, are unlikely to do so, but virtually all will have taken significant actions that we can point to that improve their environment and reduce emissions. Finally, we need to show that large numbers of countries recognize the problem of climate change and the need to take steps to address it. I have been working aggressively in each of these areas. At present, Argentina and Kazakhstan have announced their intention to voluntarily adopt emissions targets. We are working hard to bring on board a few other countries in the Western Hemisphere and Africa. We can be successful in this regard if we have a concerted inter-agency effort. Of the big developing country emitters, I have targeted India, China, South Africa, Brazil, and Mexico for special attention. In each case, the strategy involves getting the governments to recognize the importance of the energy-efficiency programs we have with them or that they are doing themselves as constituting climate change-related actions. I have used DOE's participation in your bi-national committees to develop this message and I believe we could be ready to make the case that many of these governments are taking significant actions to address the issue of climate change. Finally, as I host regional energy conferences – we just held a very successful Western Hemisphere Energy Ministers Conference in New Orleans and I have plans for similar African and Asian programs – I consider it important to have these regions issue "clean energy statements," similar to the one I signed with South Africa during the binational commission meeting. I was pleased with the language we were able to negotiate with the 30 countries in the Hemisphere in New Orleans, which recognized the right of developing countries to voluntarily adopt emissions targets. These statements will allow us to demonstrate that each

region as a whole is committed to taking actions to address climate change. I believe that, while none of these individual pieces alone constitute "meaningful participation" on the part of developing countries, put together, they make a very persuasive case.

Conclusion

The approach of pursuing dual domestic and international strategies on climate change provides us with the greatest chance of success in the climate change arena. I would be happy to discuss these proposals with you as we develop the Administration's core strategies for this important issue.

cc: The Honorable George Frampton
The Honorable Leon Fuerth
The Honorable Roger Ballentine

TO: G - Under Secretary Loy

FROM: OES - Kenneth C. Brill, Acting

SUBJECT: Some Thoughts on the Warsaw "Extended Bureau"
Ministerial: Background, Objectives, and
Recommendations

BACKGROUND

On Monday, September 20, 1999 in Warsaw, the current president of the Fourth Conference of the Parties (COP-4) to the UN Framework Convention on Climate Change, Argentina's Environment Secretary, Maria Julia Alsogaray, will host a gathering of ministers and other senior representatives to discuss issues related to COP-5 which starts in Bonn October 25. Commonly referred to as an "extended bureau" meeting, it is more accurately "...a meeting of a representative selection of ministers from Parties actively engaged in the UNFCCC process, including Parties represented in the Bureau of COP-4."

You will recall that the first meeting was held on the margins of meetings of the UN Commission on Sustainable Development (CSD) in New York last April. This meeting is being held in Warsaw at the invitation of the Polish Government whose Minister of Environmental Protection, Jan Szyszko, is anxious to get up to speed on the issues and personalities he will have to contend with when he assumes the COP presidency on October 25.

WHO WILL PARTICIPATE?

A total of 38 ministers or senior officials from capitals have been invited to the meeting, along with ten UNFCCC Secretariat staff. The current bureau members include Denmark, Norway, Senegal, the Gambia, Georgia, Poland, Saudi Arabia, Iran, Argentina, Venezuela, and the Marshall Islands. All have been invited. We understand that among the additional "friends" of the President who have been invited are ministers or senior representatives

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from the U.S., Australia, Japan, Canada, New Zealand, Colombia, Brazil, Mexico, Malaysia, Samoa, Georgia, Senegal, Switzerland, China, India, the EC, Germany, the UK, Finland, Slovenia, the Russian Federation, and Ukraine. A complete provisional list of invitees, obtained by Susan Gordon, is attached for your perusal.

It remains to be seen how many countries will actually accept this invitation and actively participate in the gathering, despite the confirmations which have been received. Past experience has shown that relatively few non-Annex I ministers attend the intersessionals to which they are invited, although this meeting could prove exceptional in this regard. It is noteworthy, for example, that India's Environment and Forest Minister Prabhu, has confirmed his attendance (in spite of the on-going Indian elections). We will have to see if, in fact, he shows. Several African Ministers and Saudi Arabia's Petroleum Minister Al-Naimi have also provisionally confirmed their attendance - another first if he actually comes.

U.S. DELEGATION

The invitation is for the minister, plus two. However, we are working with the Poles to ensure that we can have a few others in the room, if not actually at the table. We presume that most other delegations will do likewise and have forewarned the Polish hosts who have taken this suggestion with good grace. At the moment, we anticipate that the U.S. delegation will consist of yourself, David Sandalow (if he is available), Mark Hambley, Jeffrey Miotke, Daniel Bodansky, Susan Gordon, and Nigel Purvis.

PERSONALITY COUNTS

At earlier ministerial intersessionals, progress and outcomes have been driven in large part by the personalities around the table. To be sure, the President of the COP can set the tone for these meetings, as at the conferences in general. Estrada, by his knowledge and force of personality, largely forced through the Kyoto Protocol. Japan (through active MFA, MITI and Environmental Agency stalwarts) brought us up to COP-4. Argentina did less well at COP-4, in part because of poor relations with the UNFCCC

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Executive Secretary. Minister Alsogaray demonstrated, through her handling of the developing country issue, that she can be forceful and productive. However, she will be a distinct lame-duck at this session (although this will not necessarily preclude her effective use of the gavel and the prerogatives of the chair if she is inclined to do so).

Among delegations, personalities often determine the tone, if not exactly the course, of the intersessional meetings. To be sure, the presence on our side of Australia's Senator Hill is a distinct plus; New Zealand's Simon Upton is unfortunately not expected to attend. Canada's Minister Anderson -- if he attends -- will be making his first appearance and hopefully will be more of a stalwart on key issues than was his predecessor at times.

The UK's Prescott has generally been the driving force in EU circles. However, he has been under domestic pressure recently and his place may be taken by Minister Meacher who can be preachy in the best of times. In any case, the UK's influence will be curtailed by the presence of either or both German Minister Trittin and France's Voynet. Both have provisionally accepted.

Other fresh faces who will be joining the climate circuit are the new EC Environment Commissioner at DG-XI and Finland's overtly green Environment Minister, Satu Hassi. Although her Party does not control Finland's domestic climate change policy, Hassi will be leading the EU environmental ministerial until December 31 and has already articulated several unpopular (with the U.S.) ideas about where she wants to see the convention process lead (a new round of commitments for Annex I has been mentioned in the press).

BILATERAL OPPORTUNITIES

There will be few opportunities for bilateral meetings during this rather short meeting. We are trying to set in place a meeting with Brazil's Science and Technology Minister, Sardenberg, on Sunday, September 19. You should take advantage of the social event on Sunday evening and at the lunch on Monday to say a few words to as many of the Ministers as you can. In particular, India's Minister Prabvu, Russia's Bedritsky, Ukraine's Minister Shevshuk (both require translators), Saudi Minister Al-Naimi,

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Argentina's Minister Alsogaray and Kelly, and Senegal's Minister Toure should be picked out for special attention during some point of the meeting.

U.S. PERFORMANCE AT PAST MEETINGS

The U.S. has generally done well at these intersessionals. At the Tokyo ministerial, we successfully pressed the UNFCCC Secretariat into scheduling the business roundtable during prime time at COP-4. In New York, our support for an active role by ministers at COP-5 helped persuade the Subsidiary Body on Implementation (SBI) to endorse the concept of active dialogues during the high level segment.

THE AGENDA FOR THE SEPTEMBER 20th GATHERING

The session actually begins with a reception on the evening of September 19 at which you will have an opportunity to discuss the agenda and raise informally any concerns you may have with the other ministers present. The meetings themselves will take place on September 20.

The agenda for this gathering has largely been determined and currently consists of three basic topics: (a) a stock-taking of developments since COP-4; (b) scenario and possible outcomes for COP-5; and (c) the preparatory process for COP-6 (including timing and venue). Following are some initial reflections on each topic:

(a) Stock-taking and Assessment of the Prospects for COP-6:

This portion of the agenda will be essentially devoted to reviewing developments since COP-4, and especially since the subsidiary body meetings in June, and providing assessments/prospects for progress up to COP-6. Each head of delegation will have an opportunity to comment on this topic, including anything he/she may wish to say about the "politically necessary results" by COP-6 (the Secretariat's language).

In addition, we may hear a report from Alsogaray and from the chairman of the Subsidiary Body on Scientific and Technological Advice, Malaysia's Chow Kok Kee. If the

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latter is invited to speak, we may also receive a report from the Subsidiary Body on Implementation, but it is not clear who will deliver this, as Bakary Kante resigned effective July 1st to undertake a position with UNEP. It would be most unusual if we do not also receive the perspective of the UNFCCC Executive Secretary, Michael Zammit Cutajar, as well.

Action Required: During your opening remarks, you should stress the need to show concrete progress at COP-5. Some Parties and outside observers have been expressing the concern that the negotiations are running out of steam, allegedly because the U.S. has given up hope of ratifying the Protocol. Uncontested, these allegations would put the onus of failure at COP-5 or 6 squarely on the U.S. It is important, therefore, that we push for solid - if unspectacular - results at COP-5.

(b) COP-5: Possible Outcomes and Organization of Ministerial Involvement:

This meeting will try to flesh out the recommendations made at the June SBI meeting. It was agreed there that the COP will open on October 25 with the election of officers and then the subsidiary bodies will pursue their agendas. The high level segment opens at noon on November 2 with short (no longer than five minute addresses from all participants wishing to make them. These will continue until late into the night. The following day, two interactive dialogue sessions will be the focus of attention. One will deal with actions taken by Parties to meet the objectives of the convention while the second will deal, broadly speaking, with the way forward.

Minister Szyszko has told us of the importance he attaches to getting firm guidance from Ministers as to how they would like to see this portion of the meeting organized. We have emphasized the importance of designating forceful ministers to coordinate the discussions. Among the names suggested informally were Simon Upton of New Zealand and Julio Carabias of Mexico. We have since heard, however, that Upton will probably not be attending COP-5.

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Action Required: You may wish to sound out your colleagues on this issue at the September 19th social, reiterating the need for effective facilitators for the discussion. Szyszko was sensitized to this issue during the Hambley/Gordon visit last month, although the Minister indicated that he is considering a more formal role for himself, perhaps as the overall chairman of the dialogue sessions.

Some Specific Issues which May be Raised

Substantively, Ministers on September 20th may be requested to give their guidance on how delegations might address issues requiring decision by COP-6. As noted, some indication has already been provided by the recommendations taken during the June meetings. The issues themselves include:

(1) questions of primary concern to developing countries: (including technology transfer; consideration of initial communications by non-Annex I Parties; and identifying initial actions under adverse effects (Article 4.8 and 4.9);

Assessment: Essentially, ministers will not be in a position to address these issues in any great detail. Processes have been launched to address technology transfer and the Article 4.8 and 4.9 issues, and we will have to see where these processes take us before determining additional courses of action at COP-6. One issue that could use ministerial clarification concerns what to do about the Article 4.2 (a) and (b) debate on adequacy of commitments which will once more be on the agenda. This is the one formal item where we can make arguments about developing country lack of commitments. However, in the past, this debate has led to a somewhat bloody stand-off which, in the view of some erstwhile neutral observers, has been counter-productive to making progress on other agenda items (including, they allege, on the mechanisms).

In light of Canadian and Japanese interest in this topic, we should decide carefully how we wish to proceed, by COP-5 (although there is unlikely to be time to do so prior to Warsaw). Japan has asked for our reaction to a joint Japan/Canada/UK draft text on Articles 4.2(a) and (b) which was discussed but never formally proposed at Buenos Aires.

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Our initial reaction is that it is a weak formulation that lets the non-Annex I Parties pretty much off the hook. We will raise our concerns and solicit the views of other umbrella partners on this general topic at the Oslo umbrella meeting.

The Ministers may also be called upon to discuss how the COP should treat the proposal by Kazakhstan to join Annex I and any announcement of a "third way" target by Argentina. These discussions, particularly in regard to Argentina, are likely to be equally difficult.

(2) Moving ahead on the Kyoto mechanisms: (including closure of AIJ; enabling participation by non-Annex I Parties; and guidance on political aspects (including complementarity; additionality; and adaptation funding);

Assessment: Chow Kok Kee will report on the draft synthesis document on the mechanisms which he is currently circulating for comment and reaction. We do not believe there will be much discussion of the political issues involved (such as "supplementarity"), although we should be prepared to respond to these issues if they are raised. We should press for the earliest possible development of negotiating text, preferably by the end of COP-5.

(3) Enhancing credibility (including advancing the work on compliance);

Assessment: This could be contentious. An intergovernmental consultation on compliance will take place in Vienna on Oct 6/7. Saudi Arabia strongly opposed the convening of this meeting and may use the ministerial as a forum to raise its concerns once more, although this likelihood is somewhat diminished by the expected attendance of Petroleum Minister Ali al-Naimi (in addition to hardened climate change veteran Muhammad al-Sabban). We need to instill in ministers our views about the importance of reaching an effective and tidy solution by COP-6.

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(c) Preparations for COP-6, including Future Consultations in 2000:

The venue and dates for COP-6 were not tied down at the June meetings of the subsidiary bodies in Bonn, so this issue remains open, although the great bulk of the 165 members of the COP favor November 2000. To move this date would presumably require a decision by the conference, although the presumptive Dutch hosts have given the conference an option for doing so if this is decided. The September 20th meeting gives us our last opportunity to signal our desires with regard to the timing issue in a multilateral setting.

DEFINING A "VISION" FOR COP-6

The timing issue is muddying the waters here. A successful outcome for the U.S. at COP-6 continues to look something like this: agreement on the rules and modalities for three of the Kyoto mechanisms; a satisfactory outcome on the supplementarity issue; non-Annex I contentment with our approach to technology transfer and capacity building; integration of favorable results of the IPCC sinks report; satisfactory results on compliance; and tangible movement on global participation.

Given the current state of play both domestically and internationally, achieving these objectives will be very difficult. It is questionable, given timing constraints, if many of the facets for a successful outcome identified above can be concluded if COP-6 is held in November 2000 as is currently being anticipated. There are, after all, only three weeks of formal discussions scheduled between the September 20 extended bureau meeting and the opening of COP-6 for the necessary negotiations to take place.

Some of the reasons for the absence of rapid progress are as follows: The work on the mechanisms is proceeding glacially; the jury is still out on how our approach to tech transfer and capacity building will be received; we do not know what the reaction will be to the IPCC's sinks report and whether or how its conclusions will be absorbed at COP-6; and the compliance negotiations are just now beginning to get into nettlesome issues. Moreover, unless we can minimally roll Mexico and Korea into first budget

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commitments, significant, new, global participation in the form of binding commitments of some kind by several countries will not be achievable until COP-7 at the earliest.

However undesirable it may be, we may have to recast our thinking in terms of looking for favorable outcomes at ~~COP-7 in 2001~~. It goes without saying that we cannot signal publicly that this is the case at the September meeting. However, we should use this occasion to reiterate the point, suggested by us in June, that the sheer workload facing the international community might preclude as effective a conference in November 2000 as we would like and as our publics and NGOs broadly anticipate. This would not necessarily be a bad result for us if we put a good public relations spin on it to begin recasting expectations. No results are better than bad results. In this instance, better or, at least, acceptable results may simply take more time to negotiate.

RECOMMENDATIONS:

- First, we need to implement the diplomatic strategy which has been developed and presented for review and to undertake the actions identified, utilizing the proposed events as "targets of opportunity" within the time-frames suggested; Action by: G and OES with others as identified in the paper.
- Second, we need to signal our position on the timing issue for COP-6 to avoid any misunderstanding. We can position ourselves for this during consultations with both the EU and the umbrella group during the week of September 12, so updated guidance must be prepared prior to this date. Action by: Loy, Sandalow, Ballentine, and Frampton;
- Third, as a related issue, we may want to begin examining whether we can live politically with a COP-7 date for the conclusion of key action items which may not be achievable at COP-6; we will need guidance as to how to proceed regardless of the outcome of this review; Action by: Loy, Sandalow, Ballentine, and Frampton;

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- Fourth, we will want to carefully craft your opening remarks at the meeting to reflect our position on the mechanisms, ~~compliance, and technology transfer/capacity building~~ particularly, **Action by:** OES/EGC, and
- Fifth, we will want to decide how we want to play the developing country card. Again, guidance in this regard should be developed in advance of the meetings taking place in Europe with the EU and the umbrella during the week of September 12. In particular, we should examine carefully how we want to approach the issue of Article 4.2(a) and (b) at COP-5. **Action by:** Loy, Sandalow, OES.

Attachment:

Provisional List of Participants

Drafted:MGHambley(8/13/99)
Extendedbureau.doc (rev-1)

Clearance: OES:DBodansky
OES/EGC:JMiotke
OES:SGordon

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
004. email	Ian A. Bowles to National Security Advisor (2 pages)	05/08/2000	P1/b(1)

COLLECTION:

Clinton Presidential Records
Office of Environmental Initiatives
Roger Ballentine
OA/Box Number: 19508

FOLDER TITLE:

[Climate Change] Action

2017-1093-F
ds460

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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DRAFT DISCUSSION DOCUMENT

Climate Change
Kyoto Protocol Negotiations

The United States risks isolation in the climate change negotiations. Many other Parties appear willing to try to bring the Kyoto Protocol into effect without satisfying core U.S. objectives. This memorandum highlights the difficulty of achieving our objectives and avoiding isolation at the next international Conference of the Parties (COP-6), which will occur in mid-November 2000 in The Hague, Netherlands.

BACKGROUND

We face a difficult choice. Over the next few months we will receive tremendous pressure from the international community and environmental groups to adopt positions that they argue would protect the environmental integrity of the Protocol, but also would raise the cost of implementing it. The negotiating dynamic, therefore, would tend to pull us toward decisions that would move the Protocol to the "left" (on cost) without engaging developing countries. Yet, we know that to secure the support of the U.S. Senate, we will need eventually to move the Protocol to the "right" – i.e. make it more attractive to the business community (by making it more cost-effective) and to the Senate (by addressing cost and involving developing countries). The question we face now is whether to seek decisions at COP-6 that:

- Move more toward our environmental community and the EU, maintain momentum in the international negotiations and lock in an architecture that others view as more environmentally sound, knowing this might make the Protocol even more costly and difficult to ratify, or
- Address more directly Senate and industry concerns about cost and developing countries, knowing that any movement to the "right" will anger the environmental community, could lead to isolation internationally and would make failure more likely at COP-6.

COP-6 will be the highest-profile climate change meeting since Kyoto. Many governments see COP-6 as the last chance for decisions that would allow the Kyoto Protocol to enter into force without renegotiating targets or timetables. European governments, in particular, are calling for the Protocol to enter into force by 2002, and are emphasizing the importance of reaching decisions at COP-6 that would allow key countries to ratify without delay. Most observers understand that early entry into force is essential, as countries need to enact policies soon to ensure they can meet their Kyoto target and many countries are unlikely to adopt these policies unless the Protocol will enter into force.

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In addition, our election and Presidential transition may focus attention on the meeting. U.S. environmental groups are framing the outcome of COP-6 as a central part of the Clinton environmental legacy.

The formal agenda of COP-6 will be dominated by decisions on rules related to elements of the Protocol (emissions trading, the Clean Development Mechanism, the role of carbon sinks, compliance). Many of these issues (such as CDM, sinks) are enormously complex; others (such as caps on emissions trading) will involve difficult political debates. Naysayers (including OPEC countries and perhaps China) may scotch any deal. Under any circumstance, reaching global agreement on these rules will be extremely difficult.

Developing country commitments are not formally on the agenda at COP-6. At prior COPs, this issue has produced controversy but no progress. The most ambitious goal that stands any chance of success at COP-6 is a mandate for developed and some developing countries to negotiate new commitments, most likely in the second budget period (and such a mandate is a long shot). Some small developing countries (Bolivia, perhaps Chile and some FSU) may announce their willingness to take on targets at or before COP-6. These countries will not be able to join the Protocol's target regime or participate in emissions trading until the COP decides by consensus to add developing country commitments to the Protocol; something developing countries have refused to do.

There are different views as to what types of decisions at COP-6 would best promote ratification of the Protocol by the U.S. Decisions that would lower costs (unrestricted trading, expansive sinks) or make them more predictable (a "safety valve") could help gain support in the moderate business community, which would be necessary for any ratification drive. However, many decisions that lowered the cost ("hot air" trading, inclusion of some sink categories, a "safety valve") would be rejected and sharply criticized by the environmental community, whose energy and commitment would be needed for ratification as well. One important cost-reducing measure (the possibility of buying Russian "hot air") would draw significant opposition from the right-wing as well.

Furthermore, there is significant doubt whether any deal obtainable at COP-6 would create a reasonable prospect of ratifying the Kyoto Protocol in the next few years, even under the most favorable conditions. During the past half-decade the Senate has failed to ratify any significant environmental treaty, including those that impose few if any obligations on the United States (such as the Biodiversity Convention), and has shown its willingness to flout considerable international pressure in exercising its advice and consent authority (CTBT). Under no circumstance would the Kyoto Protocol impose obligations less binding, serious or controversial than those set forth in environmental treaties the Senate has long declined to support.

Several European governments, including the U.K., France, Germany and the Netherlands, are now taking steps to reduce domestic greenhouse gas emissions that are generally perceived to be aggressive and significant. Most countries in the world believe that U.S. efforts are, in comparison, minor.

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In part due to the foregoing factors, many governments are increasingly discussing the possibility of ratifying the Protocol without the United States. (The Protocol could, in theory, enter into force with ratification by the EU, Russia and Japan.) Although the prospects for governments actually ratifying without the U.S. may be small, the environment ministers who will represent their countries at COP-6 may tend to believe their own public statements on this topic, which support ratification even without the United States. This dynamic – a belief that the U.S. is not serious about reducing emissions, and a willingness among some negotiators to proceed without us – may isolate the United States at the meeting and make it exceedingly difficult to achieve our goals.

COP-6 OBJECTIVES

Increasingly, the international dialogue related to COP-6 is focusing on ratification. The Dutch chair of the meeting, for example, states that the goal of COP-6 is to arrive at decisions that will allow key countries to ratify the Protocol. We are increasingly being asked (1) whether we share this view, and (2) what decisions would, in our view, be required for ratification of the Protocol in the United States. We will need to address these questions directly in an informal ministerial meeting convened by the climate change secretariat on April 28.

To answer these questions, we need a clear sense of our objectives for COP-6. Two options are considered below:

OPTION 1: MOVE MORE TOWARD U.S. BUSINESS COMMUNITY. Seek decisions that would move the Protocol toward the Senate and industry in the hope of crafting a deal at COP-6 (or soon thereafter) that would stand a reasonable chance of ratification in the next few years under favorable conditions. Possibilities include decisions that would contain cost through:

- (1) Unrestricted trading and expansive sinks (much opposed internationally and by U.S. environmental groups), or
- (2) Perhaps some form of safety valve (a concept not openly discussed among negotiators but that may be gaining support in Europe as a solution to U.S. concerns, and that would be considered by many to alter the core feature of the Protocol – binding, quantitative targets.)

On developing countries, we could push hard for a mandate for accelerated negotiation of new commitments. While we might not get this at COP-6 (and even if we did, a mandate alone would probably not be enough for the Senate), we would have initiated a process that might produce an acceptable outcome at COP-7 or soon thereafter.

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PROS:

We may have the maximum flexibility to shape the Protocol, and maximum leverage with other governments, now before many key issues are decided at COP-6.

If COP-6 does not begin to address the Senate's concerns, the Protocol may appear dead in the water in the United States (momentum on other issues may be irrelevant).

The longer we wait to secure ratification the harder it will be economically to meet our Kyoto target.

A deal or even the outline of a deal at COP-6 would help solidify President Clinton's legacy on climate change.

An acceptable safety valve would allow us to conclude "green" decisions on sinks and the market mechanisms.

CONS:

As noted above, it's not clear that any set of decisions would make ratification possible.

It is unlikely that a comprehensive agreement could be reached at COP-6. We would need a strategy for continuing negotiations through COP-7 or beyond.

Could undercut much needed enthusiasm for the Protocol within the environmental community.

OPTION 2: MOVE MORE TOWARD EU AND ENVIRONMENTAL COMMUNITY:
Maintain momentum in international negotiations by reaching decisions on key elements of the Protocol. For example, we might reach a decision on the mechanisms that required us to accept a qualitative rather than a quantitative obligation to reduce emissions domestically rather than through market transactions abroad. Any compromise by us would be embraced by other countries and by our environmental community as strengthening the Protocol. On sinks, we might agree to a compromise that would give us credit for the most scientifically sound sequestration activities, and give up our claim to count activities whose inclusion might create perverse incentives that harm the environment. We would not push for a comprehensive resolution of our cost concerns and would not block decisions at COP-6 that did not as yet have a mandate for negotiating developing country commitments.

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PROS

Maximizes the chance of success and momentum, and minimizes the risk of U.S. isolation, though an acceptable deal along even these lines would be difficult.

Defers a difficult political decision, potentially to a Republican Administration and maintains the enthusiasm of the environmental community for the Protocol.

Would focus attention at COP-7 on U.S. core concerns if other major issues were resolved at COP-6 (though it's not clear what leverage we would have).

CONS

Could make the Protocol even harder to ratify and would pose a significant risk that United States would need to renegotiate targets or timetables to participate in the Protocol.

Could be criticized at COP-6 by Senate, industry and agricultural sectors as unresponsive to their concerns.

Creates significant risk that other countries would move to ratify the Protocol in 2001-2003 on the basis of these decisions, isolating the United States.

Might require us, during the next several months, to reject ambitious goals for COP-6 stated by many countries. Expectations for COP-6 will be an issue at the April climate change Ministerial and perhaps at the G-8.

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Climate Change
10:00 AM, November 24, 1999

Discussion Questions

1. Do we agree that ratification of the Kyoto Protocol will depend on a means to limit dramatically the cost of implementation? If so, when and how should this issue be presented to Deputies, and/or the VP and POTUS?
2. If we wished to negotiate a cost containment mechanism, how could we do so? How far can we or should we go in this direction before COP-6?
3. Given the above, what would be the best possible overall outcome from COP-6?
4. What are the political and public affairs implications of these questions? On what grounds will others criticize our climate policies over the next year? How can we deal effectively with these charges?
5. Do we need to brief the VP or POTUS on the status and likely direction of meaningful participation by developing countries?

• While there will be benefits w/ business community of achieving some cost control mechanisms, any corresponding environmental sacrifices will cause us ~~to~~ trouble not only from left, but from right, as opponents or surrogates argue that the argument for any action on this issue/for Kyoto are undercut.

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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
005. memo	Madeleine K. Albright to the Vice President (4 pages)	12/20/2000	P1/b(1)

COLLECTION:

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Office of Environmental Initiatives
Roger Ballentine
OA/Box Number: 19508

FOLDER TITLE:

[Climate Change] Action

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

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August 5, 1999

MEMORANDUM FOR JOHN PODESTA

FROM: ROGER BALLENTINE
GEORGE FRAMPTON
JIM STEINBERG

CC: CHARLES BURSON
RON KLAIN

SUBJECT: Climate Change/COP-6

The Sixth Conference of Parties to the Climate Convention ("COP-6") is currently scheduled for November 2000. Because of the obvious awkwardness of this date, we have been seeking to postpone the meeting until 2001. Not only are these efforts proving fruitless to date, they are generating significant criticism from the environmental community. Because of the substantive importance and political implications of this issue, we ask that you convene a meeting to discuss and determine our course of action. We need to decide and engage on this issue soon.

Background

The Parties to the Climate Convention meet annually. Meetings typically last 10-12 days. The next Conference of Parties (COP-5) will be held in late October 1999.

COP-6 will be an important meeting. It is the deadline for further work on the major open issues under the Kyoto Protocol. In the best circumstance, Parties would agree at COP-6 on rules for emissions trading, the Clean Development Mechanism, compliance and the role of carbon sinks (e.g. forests and agriculture). Then, if sufficient progress is also made in engaging developing countries, the treaty could be submitted to the Senate for advice and consent to ratification in 2001.

COP-6 will also be an extremely difficult meeting. We expect tough, last-minute bargaining with the Europeans and others on efforts to restrict emissions trading; resistance from many countries on U.S. efforts to provide an expansive role for carbon sinks; continued efforts by Saudi Arabia and others to block any progress on the treaty; and substantially less engagement from developing countries than certain domestic constituencies have insisted is necessary. To achieve a successful outcome, we must clear significant hurdles.

At the same time, the motivation of many Parties to reach an agreement at COP-6 may be high. Because of the timetables in the treaty, unless key countries (including the United States) ratify

the Kyoto Protocol during the first few years of the next decade, the treaty will need to be renegotiated

Recent Developments

In June, the Dutch proposed to host COP-6. They offered two dates: November 13-24, 2000 and March 2001. The second option was put forward after quiet efforts by the U.S. delegation. The U.S. then publicly supported the March 2001 option.

Several countries reacted strongly against a 2001 date. China and Saudi Arabia argued that the climate convention calls for annual meetings (true, unless the Parties decide otherwise). France, which will chair the EU in November 2000 (but not March 2001), also objected. The EU as a whole did not take a position.

The U.S. environmental community is reacting strongly against a 2001 date, and have been waging a campaign of criticism of the Administration for seeking to delay the meeting (last month, the Boston Sunday Globe's lead editorial echoed this criticism). The primary motivation of the environmental community is to force us to make climate change a major issue in the campaign. Of course, this is one of the reasons that we have resisted the fall date, and is ironically the reason that some of our opponents are joining the environmentalists in pushing for a fall date. The environmental community has written the President to complain and threaten to complain more loudly if we continue pushing for 2001.

Options

A. Fight for March 2001. With a significant diplomatic effort, perhaps involving principals, we could press hard for 2001. Are chances of success are questionable. The environmental community would continue to criticize us for ducking the issue.

B. Accept November 2000. Key positions would need to be developed and worked in September and October 2000 – presumably with little Presidential or Vice Presidential involvement in the run-up to the meeting. In addition, Hill R's have already complained that any meeting during a Presidential transition would be illegitimate.

C. Summer 2000. At least in theory, a meeting could be held in this time frame. This would obviously play into the Presidential election, but dealing with the issue in August might be better than October. It would be difficult to complete all of the work that needs to be done internationally in preparation for the meeting. We could even take the public position of being in favor of *either* summer 2000 or spring 2001; this could mitigate some criticism from the enviros and probably have the same result as pushing for 2001 alone (since summer 2000 is highly unlikely in any event).

Four Big Questions

1. Do we agree that some means of capping the cost is essential? if so, how do we take this issue to Wt principals?

no, "controlling"
- yes
2. What should be our strategy for securing a cost cap?
3. In view of the above, what should be our goals for COP-6? What do we want COP-6 to look like?
4. What are the political implications of these questions/decisions?
How can we manage demands for cost effectiveness, system integrity and short-term emission reductions?

2000 Work Plan

DATE	SUBMISSION	WORKSHOP	OTHER EVENT
Indeterminate			
	Systematic Observation		
	Information on scientific & methodological aspects of Brazilian Proposal		
January			
15	Summaries of papers for PAMs workshop		
17-19		Tech Transfer in Asia/Pacific	
31	Further proposals on Articles 6, 12 & 17		
31	Further views on compliance		
February			
1	Scope of LULUCF workshop		
1	Views on 5.2 adjustments and methodologies for adjustments		
1	7.2 supplementary info; methodological & technical aspects of 7&8 (relation of review to compliance)		
7-11			AIXG
15	New decision tools, models & methodologies to evaluate impacts & adaptation strategies		
March			
1	Capacity building by Annex II Parties		
3-4		Impacts of climate change	
7-8		Impacts of response measures	
13-15 ¹		5.1 national systems and 5.2 adjustments; methodological & technical aspects of 7&8 guidelines	

¹ should immediately precede workshop on compliance with one day joint discussions

15-17 ²		Compliance	
27-31		Kyoto mechanisms	
mid-March			Release of IPCC Special Report on Tech Transfer
mid-March			Release of IPCC Special Report on Emissions Scenarios
15	Estimating & accounting for CO ₂ emissions from forest harvesting & wood products		
31	Proposals to improve AIJ URF		
April			
TBD			CSD-8
TBD			High Level Consultations
TBD		Tech Transfer in Latin America/Caribe	
11-13		Best PAMs Practices	
15	Nomination of experts for inventory review		
15	Further views on adjustments and 5.2 methodologies		
May			
1-6			Release of IPCC LULUCF report at IPCC Plenary
TBD			GEF Council
TBD			Regional meeting of experts on non-Annex I communications
TBD			AIXG
TBD			Release of IPCC Inventory Good Practice Report
TBD			Tech Transfer Friends of the Chair
15-26			CBD COP-5
June			
8-9			Consultative group of experts on non-

² should immediately follow workshop on 5, 7 & 8 with one day joint discussions

			Annex I communications
5-9 ³			Informal meetings
12-16			Subs 12
19 ⁴			High Level Consultations
30	Further AIJ info using URF		
July			
10-14 ⁵		LULUCF special report ⁶	
15	Framework for implementation of meaningful and effective action under 4.5		
17-21			Intersessional meeting on Kyoto Mechanisms
24-28 ⁷		Articles 5.1, 5.2, 7 & 8	
August			
TBD			Regional meeting of experts on non-Annex I communications
TBD			Consultations on Tech Transfer
1	Definitions under 3.3; Methodologies for reporting net emissions and reductions; Assessment of net changes.		
1	Data and info under first sentence of 3.4		
1	Rules, modalities & guidelines for 3.4 activities; List of additional activities; National data for each such new activity		
September			
4-8 ⁸			Informal meetings

³ for negotiation on sinks, mechanisms, compliance, and, as necessary, other issues

⁴ to allow the President, in consultation with Ministers, to take stock of progress and suggest any additional action necessary, as authorized by 1/CP.5, to ensure implementation of the Buenos Aires Plan of Action.

⁵ The workshop on LUCF should take place after the 12th subsidiary body meetings but well before the August 1 deadline for submissions on this subject

⁶ preferably in developing country with strong interest in sinks

⁷ This second workshop on 5, 7 and 8 should be sufficiently before the 13th subsidiary body meetings to have an impact on those deliberations.

11-15			Subs 13
18 ⁹			High Level Consultations
October			
11-15			Intersessional meeting on Kyoto mechanisms
TBD			Regional meeting of experts on non-Annex I communications
November			
7-8 ¹⁰			Consultative group of experts on non-Annex I communications
13-24			COP-6

⁸ for negotiation on sinks, mechanisms, compliance, and, as necessary, other issues

⁹ To allow the President, in consultation with Ministers, to take stock of progress and suggest any additional action necessary, as authorized by 1/CP.5, to ensure implementation of the Buenos Aires Plan of Action.

¹⁰ The second consultative group of experts on non-Annex I communications should occur immediately prior to COP-6 to allow for input from the 3rd regional meeting.