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N60 Mat's

May 15, 2000

Dear Roger,

Thank you again for taking the time for dinner at Senator Kerry and Mrs. Heinz' home last month, and for the follow-up meeting we had shortly thereafter. As promised, we've tried to put together a more formal analysis of some of the issues we discussed with you..

I understand that each major COP-6 issue presents a "rock-and-a-hard" place problem for the U.S. negotiating team. On developing countries, it seems that the Senate wants everything and many other countries want nothing. On compliance, the Administration wants something significant and certain other countries seem unlikely to accept much. The same seems to be true on the issues of sinks. Meanwhile, the E.U. is certainly keeping the "hot air"/cap-on-trading issue very much alive – including through ancillary efforts to put limits on sellers (e.g., the Swiss proposal and its many variants). At the same time, the political pressure in Europe for "ratification by 2002" would seem to put a premium, for the European negotiators, on concluding all issues by COP 6 – or publicly blaming the U.S. for failure to do so.

While each of the U.S. negotiating positions has strong environmental credibility, the "lifts" seem daunting – and U.S. leverage may seem lacking. To make matters worse, as Frank Loy pointed out at our dinner, if the U.S. delegation also approaches COP 6 believing that all issues must be fully resolved at COP 6 at all costs, then other countries will enjoy disproportionately high negotiating leverage, and the U.S., that much less.

All in all we appear to be facing the real possibility of disaster – either COP 6 ends with the Parties provoked into emphasizing their inability to agree and their failure to create forward momentum or COP 6 yields resolutions on issues that are substantively and politically fatal to the Protocol.

I think, however, that there is a third course that the U.S. can steer to avoid either outcome. To that end, the bulk of the balance of this note attempts to sketch out a five-point "progress package" that is gettable and would enable the U.S. to demonstrate success at COP-6. I end the note with a kind of "cautionary tale" about caps on trading and cost caps, highlighting the dangers of reaching for "grand bargains" when mere progress would do just fine.

The package is outlined below, but before getting to it, let me put this "package" in context, and then outline its elements:

<u>The context for success at COP-6:</u> Given the stakes, it is more important for COP 6 – or, if need be, later COPs -- to "get it right" than to "get it done."

- As you know, the reason the Kyoto Protocol is so important is that it provides the critical framework that can enable countries to manage their greenhouse gas emissions effectively. This as we both know too well is a task that will require many decades of concerted action by virtually all major emitting nations. For that reason, the international framework must be supremely durable.

- In order for the Protocol framework both to bring about needed near-term emissions reductions and to be durable over long time horizons, the implementing rules currently under negotiation must reinforce the key elements of the framework - legally binding limits on total emissions, full sovereign discretion, full flexibility and emissions trading, and developing country participation through the CDM and emissions trading. These are the rules that can and must ensure the framework's durability.
- Unlike the U.S., many countries urging 2002 entry-into-force do not need to win 2/3 majority of their domestic legislatures in order to implement the Protocol.
- By contrast, if key issues are resolved in a way that is adverse to U.S. interests, the U.S. Senate will never ratify the pact - and the climate will not be protected.
- In its rush to reach an outcome, COP-6 must be careful not to adopt rules that could compromise the Protocol framework, discourage near-term action, or undermine the Protocol's long-term durability.

Most likely, the Senate will only ratify the Protocol after all major implementing issues are resolved. As we discussed over dinner, however, ratification will be the result of a host of political developments, many of which have very little to do with the international negotiations. So, getting good implementing rules is only one of a number of other conditions that must be fulfilled. In fact, although necessary to ratification, agreement on implementing rules will not drive ratification. Thus COP 6 - while important to demonstrating the momentum of the process - is really just one of several activities that will need to occur in the years leading to U.S. ratification. As a result, given the probable difficulty the U.S. will face in securing COP-6 agreement on each high-profile issue, it may be most prudent for the delegation to aim for a more modest "progress package" at COP 6, even if this "progress package" falls far short of complete resolution of each major issue.

A "Progress Package" for COP-6

To that end, I'd like to suggest that the U.S., and COP 6, aim to produce the following "progress package":

1. Transparency and the Pillars of Accountability. Articles 5 and 7 call for the achievement of reliable national GHG emissions inventories and the creation of national emissions registries, which can also be used to record nations' compliance with their Annex B targets, including emissions trading transactions under the flexible mechanisms. *COP 6 should be able to achieve agreement on the requirements for national registries, including public access for both national registries and the Secretariat's "log" confirming transfers of AAUs and CERs. This agreement can also cover fine details governing information management and data system security.*

   → With these elements in place, governments can fairly present COP 6 as having provided the indispensable building blocks of both nations' compliance and international accountability.

→ And, importantly for the environment, these elements lay a foundation for governments to get their own registries going - which, in turn, will strengthen opportunities for voluntary early action by companies to reduce emissions and register those emissions reductions.

2. "The Hague Mandate": Agreement on Deadline for Second Budget Period Negotiations. The view that the challenge of global climate change demands a multi-decade response is widely shared. For the Kyoto Protocol to be seen as a truly serious response to the challenge of curbing GHG emissions requires that the COP establish targets for the period of time beyond 2012. As a signal of that seriousness, *COP 6 should adopt a decision that targets for the second period will be agreed to prior to the beginning of the first budget period in 2008.*

   → Such an agreement at COP 6 will demonstrate the COP's commitment to the longer term strategy that must be adopted if the Protocol is to be effective in limiting climate change.
   → In addition, this agreement will remove a persistently raised objection to the critically important U.S. proposal that a nation's excess emissions in the first budget period be deducted from its second budget amount. If the second budget is already set prior to 2008, there will be no opportunity for a nation to negotiate an "inflated" second-period budget to offset an anticipated deduction triggered by a first-period emissions overage.
   → While this element of the "progress package" seems at first glance like a "heavy lift," it would be hard for any country to argue against it. From a domestic perspective, clarity on the longer-term obligation would help U.S. industry plan more effective compliance strategies. So, when looked at in context, this element is both do-able and a powerful demonstration that the Protocol process is moving forward.

3. Preliminary Agreement on CDM Rules. As early as COP 4 in Buenos Aires, a bloc of Latin American nations had formulated a proposal for *an interim phase for the operation of the CDM and the initiation of CDM transactions. COP 6 should embrace this launch of the CDM on an interim basis.*

   → Although the CDM is by far only a second-best approach for developing country participation, an early flow of investment to secure GHG emissions reductions in developing countries would create a variety of beneficial diplomatic and, possibly, environment effects.
   → In addition, progress in establishing one of the flexibility mechanisms thought to be a likely source of low-cost reductions for the U.S. and other industrialized nations will help substantiate claims that the Protocol's mechanisms can make compliance affordable. Here, too, were COP 6 to agree upon even an interim approach for the CDM, the U.S. and other governments could point to their success in ensuring progress on yet another vital element of the Protocol framework.
   → A key portion of this element of the package would be interim agreement on crediting for sinks projects in the CDM. Such interim agreement is reachable particularly if the US delegation does not try to negotiate agreement on all

sinks issues. Instead, sinks crediting in the interim CDM can provide learning-by-doing that can inform the negotiations on other sinks rules.

4. "Third Way." COP 6 could also provide a platform for addressing one other issue that is key to ratification. Both environmental science and Senate politics dictate that substantial progress be made on ensuring the participation of developing countries. Obviously, a wholesale rejection of the Berlin Mandate and the adoption of formal participation by developing countries in Article 3 and Annex B are unthinkable at COP 6. Nevertheless, the U.S. can create momentum in this area. Not only does the Republic of Kazakhstan continue to pursue its determination to join Annex I and take on an Annex B target, but a number of newly independent states in Central Asia are signaling interest in unveiling a "third way coalition" as a pathway for following Kazakhstan's example. *With quiet support from the U.S., bringing this coalition forward at COP 6 would represent important progress on the issue of developing country participation.* We are interested in working with you to bring this about.

5. "Business is moving." Finally, COP 6 offers a venue for featuring progress on another critical issue – the need for early action to begin to curb GHG emissions in order to facilitate timely compliance with Annex B obligations. The voluntary GHG commitments made by BP-Amoco and Royal Dutch/Shell are but two of a number of such commitments made by several major multi-national corporations. It is possible that by COP 6 other companies will join their ranks. As a result, by COP-6, hundreds of millions of tons of GHG emissions – perhaps approaching a gigaton – may be "under management" as a result of voluntary corporate actions. In our view, *the government of the Netherlands, as the host country and a leader in encouraging voluntary corporate action, should be asked to convene in a public event all of those companies that have made such commitments for the purposes of showing that even prior to ratification and the implementation of governmental policies, progress is underway to curb GHG emissions.*

With this package in hand by the end of COP 6, the U.S. and other Annex I governments could point to the COP as having produced substantial progress reflecting an underlying willingness by a wide range of governments to reach agreement and to move forward. This outcome would provide an ample basis for advocates of the Protocol to pursue the wider range of developments needed to advance subsequent international negotiations and to secure the consent of the U.S. Senate.

"Progress Package" vs. The Altlernative: Caps on Trading and Cost Caps

There is certainly a possibility that the EU negotiators will be forced to make substantial concessions to the U.S. on most major issues – if they themselves believe that they need agreement at COP 6 at all costs. There is also a very real possibility that they will try to use the threat of publicly decrying the U.S. negotiators as obstructionist to wring concessions from the U.S.

I believe the case for resisting this pressure is strong, and can be illustrated by looking at a hypothetical "grand bargain". In the name of reaching final resolution, for example, negotiators could agree on a cap on trading and on a cost cap in order to offset the economic effects of the cap on trading. As you know, in our view, such an agreement would be disastrous.

The fundamental principle of the Protocol is that all GHG reductions regardless of where they occur globally are environmentally equivalent. To preserve both sovereign discretion and prerogative and each sovereign's ability to minimize its own and its firms' costs, the Protocol provides for the suite of flexibility mechanisms that would create a global GHG emissions trading market. Imposing a cap on trading not only compromises sovereign integrity but it also virtually dictates higher compliance costs. At the same time, if at all implementable, such a cap would put a cumbersome burden on the GHG emissions trading market. As a result, investments in additional or accelerated GHG emissions reductions would be substantially less valuable – and the *environmental* benefits of emissions trading represented by such reductions would be diminished. Finally, a cap on trading most likely would doom the Protocol politically in the U.S., regardless of any devices proposed for mitigating it.

However appealing it might be to speechwriters and economic modelers, attempting to counteract the economic effects of a cap on trading through an internationally agreed upon cost cap would be, in actuality, catastrophically self-defeating. Perhaps first and foremost a cost cap would undermine the capacity of an emissions trading market to reduce costs in the first place. As the sulfur dioxide allowance market has shown, the key to an emissions trading market's success in driving costs down lies in the willingness of firms to spend present-day money to make low-cost reductions and "bank" them for future use when compliance costs may rise. Early-term investment in these low-cost reductions begins the cycle of continuous investment in, and competition for, ongoing supplies of low-cost reductions. A supply of low-cost reductions invites demand, which, in turn, signals other investors to seek out additional low-cost reductions.

A cost cap, in contrast, would be likely to stymie, or even preclude the initiation of, that cycle. If firms can count on their costs being capped at a reasonable level, their incentive for making investments in early, bankable, low-cost reductions is greatly reduced. Instead, firms would leave low-cost reductions unharvested since they could avoid present-day expenditures altogether and count instead on the cost cap to constrain future costs. In the absence of robust investment in early low-cost reductions the market is that much slower in forming. A slowly forming market signals to firms to place their reliance in the future cost-cap and to delay or eschew the search for, and purchase of, near-term low-cost reductions. With the investment in low-cost reductions not being made the market's cost-reducing capacity dwindles. Thus, ironically, a cost cap could make a pollution control program *more* expensive than it would be if it simply relied on emissions trading without a cost cap.

Even in the absence of this substantive case against the negative economic impact of a cost cap, <u>a cost cap itself almost certainly would be a political "poison pill".</u> After all, under a cost cap, <u>emitters and/or fuel-producers simply pay</u> the government what amounts to <u>a tax</u> on their ongoing emissions or production. In fact, it is hard to see in what way a so-called cost cap would be any different from a <u>carbon tax</u> or <u>BTU tax</u> – both of which appear to be anathema to the U.S. political process. The fact that a cost cap would be established through international negotiations would in no way alleviate the domestic resistance, but most likely only intensify it.

Finally, of course, a cost cap would all but destroy the environmental promise and integrity of the Protocol. With a cost cap in place there would be no guarantee whatsoever of achieving Annex B nations' assigned amounts. Not only would a cost cap, in contrast to emissions trading, be a paradoxically ineffective tool for managing cost, but it would all but destroy the primary premise and objective of the Protocol – managing emissions through the allocation of legally binding assigned amounts. Through a cost cap, the Parties would be repudiating their commitment to limit the overall GHG emissions as specified in Article 3 and Annex B.

Roger, I have no idea whether this hypothesized "grand bargain" linking a cap on trading to a cost cap is even conceivable. I laid it out simply for the purpose of dramatizing the risk of fatal damage being done to the Protocol and to its prospects for ratification by negotiators working against an arbitrarily created demand for a full resolution of all issues. This risk is heightened still further if the negotiations move forward without reference to a larger, more highly elaborated and integrated ratification strategy.

In contrast, however, a negotiating strategy that focuses on the objective of making progress and that at the same time is anchored to a clear plan for building the elements that constitute a successful Protocol would seem to be far superior. I hope that the "progress package" outlined above helps inform such a strategy.

I also hope that this note will be part of an ongoing opportunity for us to work together in developing such a strategy.

Thank you for your consideration in this matter.

Best regards,

Joe Goffman

Joe Goffman

Union of Concerned Scientists
Citizens and Scientists for Environmental Solutions

cc: Frampton
√Ballentine.

June 15, 2000

John Podesta
Chief of Staff
The White House
Washington, DC 20500

Dear John:

As you'll recall, when a number of national environmental groups met with you on May 9, we expressed concern about the current stance of the US government in climate change negotiations leading up to the critical COP6 meeting in the Hague. At that meeting, you requested a memo from us elaborating on our concerns.

I am enclosing a memo we have prepared in response. Our fundamental concern is that the aggregate effect of the various US positions could be very little, if any, change in the upward trend of US greenhouse gas emissions. If this were to be the outcome of COP6, it would be difficult for our groups to mobilize support for ratification of the Kyoto Protocol.

As we point out in the memo, our groups are working to identify solutions to the problems we believe are posed by the current US negotiating positions. Some of our staff have discussed these issues with various administration officials. We would be happy to meet with you and any others you suggest to further pursue resolution of our concerns.

Sincerely,

Bud

Howard Ris
Executive Director

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TO: John Podesta, White House Chief of Staff

FROM: Center for International Environmental Law, Friends of the Earth, Greenpeace, National Environmental Trust, Natural Resources Defense Council, Ozone Action, Sierra Club, Union of Concerned Scientists, US Public Interest Research Group, World Wildlife Fund

DATE: June 15, 2000

RE: U.S. negotiating position for the Sixth Conference of the Parties

Thank you for the opportunity to share our initial thoughts with you regarding the U.S. negotiating position for COP6. We were pleased to hear the Administration reiterate its commitment to negotiating an outcome at COP6 that maintains the environmental integrity of the Kyoto Protocol. We remain deeply concerned, however, about the positions the Administration is taking on a number of issues and the trade-off suggested by some between environmental integrity of the Protocol and U.S. ratification. We believe that this is a false choice. Should the U.S. choose not to negotiate sufficiently strong rules for the mechanisms, compliance and the role of sinks, real progress towards the objective of the Framework Convention will not be achieved, and support for the Kyoto Protocol will diminish, in the U.S. and worldwide. Such an outcome would clearly be seen as an environmental failure for the Administration, in the lead-up to, and immediately following, COP6.

The notion that "loopholes," such as those outlined below, are essential to secure ratification by the United States Senate is misguided. Sacrificing environmental integrity will do little to generate political support for the Kyoto Protocol in the U.S. Congress. Rather, it is only through broad-based mobilization of the environmental, religious and other grassroots constituencies, along with increasing public awareness and concerns about global warming, that the political climate will be changed sufficiently to allow Senate ratification. The enthusiastic support of these constituencies for the Protocol, along with that of the growing group of U.S. companies that actually wish to reduce emissions, would be threatened by decisions at COP6 to weaken its environmental integrity.

The groups on this memo will be working very actively in the next months to highlight the risks of the current U.S. position and to identify possible solutions to achieve an environmentally sound Protocol that ensures a sharp downward trend in industrialized country emissions. We look forward to working with you and other members of the Administration on these and other key issues in the lead-up to the COP6 negotiations in the Hague.

THE OVERALL U.S. POSITION

We calculate that the combined effect of proposals advocated, or not opposed, by the U.S. on a range of elements, could result in a Protocol that does not require any change from business-as-usual emission trajectories. These elements include, inter alia:

- broad definitions of additional Land-Use, Land-Use Change and Forestry (LUCF) activities under Article 3.4 that would open the way for crediting business-as-usual LUCF practices;
- unfettered trading of "hot air" tons;
- weak rules for Joint Implementation (JI) and the Clean Development Mechanism (CDM) that would allow crediting of nuclear power, so called "clean coal," large hydro and other dubious projects; and
- "borrowing" from future budget periods as the principal non-compliance remedy.

There is also serious concern that the current position would not only result in an increase in emissions, but would also undermine biodiversity and environmental goals that we have all been working towards for many years, e.g. avoiding a situation where the promotion of nuclear power would come at the expense of renewable energy.

ADDITIONAL DISCUSSION OF KEY ELEMENTS OF COP6 DECISIONS

Land-Use, Land-Use Change and Forestry (LULUCF)

- The treatment of LULUCF under the Kyoto Protocol will have a large impact on a range of sectors. Over the past year and a half we have been drawing the attention of Undersecretary Loy and Roger Ballantine to our concerns regarding the U.S. position. We have yet to receive assurances that the following types of problems are going to be excluded from the U.S. position. We also note a basic disregard for environmental criteria in the U.S. position on any of the LULUCF articles. Such an omission does not seek to balance the potential carbon aspects with others such as biodiversity. The IPCC Special Report on LULUCF includes options to close each of these potential loopholes.
- *Perverse incentives to cut down old growth and native forests before the commitment period begins.* Due to the wording of the Protocol, it may be possible to cut down old growth forests between now and 2008 without a debit, then reforest and start receiving credits in 2008-2012. Such a crediting system would create perverse incentives to harvest old growth forests in industrialized countries.
- *Credit for business-as-usual LULUCF practices in industrialized countries.* Very broad definitions of additional LULUCF activities under Article 3.4 of the Protocol could profoundly influence the net emission reductions required under the agreement. In the case of the U.S., forest inventories project that under current management regimes our forests will uptake about 190 MMT of carbon annually during the first commitment period. If this were to count under Kyoto, the U.S. target would change from –7% to +5% without any incremental action to protect the climate.
- *Impact of additional LULUCF activities on the first commitment period.* Even if activities accepted under article 3.4 are limited to sequestration that is additional to business-as-usual

levels, the Climate Action Network position has been to exclude any new activities in the first commitment period due to a number of concerns. The U.S. has not shown how its position could address uncertainties associated with a broad definition of activities under Article 3.4 related to separating the effect of additional LULUCF activities from natural and indirect factors, monitoring and verification, and reversibility of benefits. Nor has the U.S. indicated how it would ensure that excessive credits from sinks activities during the first commitment period would not undermine technological progress needed to address fossil fuel emissions.

- *Potential loss of biodiversity.* While our groups maintain varying positions on the inclusion of LULUCF in the CDM, we are unified in our opposition to allowing emissions reductions credits for converting native to non-native ecosystems, including draining wetlands, and replacing natural forests, woodlands, and grasslands with plantations. For example, if structured poorly, the CDM could create incentives for clearance of native forests for large-scale industrial plantations. These types of projects have extremely negative environmental and societal impacts that should not be permitted in an environmental agreement.

Emissions Trading

While the positions of groups on this memo on emissions trading range from strong opposition to support, we all stress the importance of including, in any emissions trading regime, provisions to ensure that transactions are credible, transparent and effective. Only if these provisions are included, will some of the concerns regarding this mechanism be assuaged. However, due to these concerns, coupled with the lack of domestic action in the U.S., the vast majority of groups support a quantitative cap on emissions trading.

US Climate Action Network has provided the U.S. delegation with detailed recommendations on how we believe emissions trading could best operate.

- *Early and strong eligibility criteria.* In order to have access to the emissions trading system, by 2004 parties should have in place 1) computerized national registries that can accurately track trades with other Parties, as well as trades by their citizens and companies; 2) a system for quickly and reliably monitoring their emissions and reporting them in their national inventories, including an acceptable base year inventory; and 3) an effective national compliance system capable of enforcing their domestic implementation strategy. This will enable a reasonable tracking of emissions and serve as the foundation for the compliance system. A lack of such criteria would open up the possibility for "cowboy trading," with vast uncertainties and limited capacity to ensure emissions are being reduced.
- *Hybrid or buyer liability for the emissions trading system.* The system should build in incentives for Parties to both sell only "real reductions" that the country has in its assigned amount and to purchase the best available tons on the market. A system that, in cases where the seller of tons has gone over its target, would hold the buyer of tons partially or totally responsible for those tons at the end of the commitment period, would achieve that goal. It seems unlikely that there will be extremely strong compliance penalties under the Kyoto Protocol that would provide disincentives for over-selling (such as those in the U.S. Acid Rain Program). Parties must therefore utilize other mechanisms to promote compliance. The U.S. has not supported such a system.

- *"Hot air"* – The Russian target of 1990 levels in 2012 is much higher than Russia's projected business-as-usual emissions, possibly allowing a large (324 MMTCER for the former Soviet Union, 50 MMTCE for other Economies in Transition) number of "hot air" tons per year into the emissions trading system due to the de-industrialization of the former Soviet Union. Achieved completely independently of climate change policy, entry of these tons into the trading system could potentially obviate the need for domestic action in OECD countries. This could result in Parties meeting their targets on paper, with little benefit to the atmosphere. The EU proposal for a quantitative cap on emission trading is designed, in part, to limit the use of these hot air tons. The U.S. has vigorously opposed such a cap on trading, and has not suggested any alternative approach to limiting hot air.

Compliance

Successful compliance systems have been a vital piece of environmental policies and programs. The Kyoto Protocol is not different in this respect. In order to demonstrate the "seriousness" of the nations ratifying the agreement, a credible compliance mechanism with strong binding consequences should be included. Compliance measures should also be remedial in nature, making the climate whole through their implementation and ensuring that the emissions reductions in the first commitment period are achieved. While the U.S. has been leading the way internationally in the call for binding consequences, the consequences it is proposing fall short.

- *Borrowing part of the assigned amount from the next commitment period, also known as subtraction of tons.* The U.S. position currently proposes that if a Party is over its assigned amount at the end of the commitment period, it be allowed to borrow tons from the next period with a multiplier rate. This approach is inadequate on a number of fronts in that it:
  - allows Parties to defer taking action to eliminate their overage;
  - could lead to Parties inflating their subsequent commitment period budgets;
  - contains the possibility that Parties will repeatedly "roll over" their overage by freely borrowing from commitment period to commitment period, thereby destroying the integrity of the commitment period;
  - may provide an incentive, rather than a disincentive, for non-compliance if the penalty payback rate is set too low; and
  - provides little assurance to other Parties that the environmental harm and economic benefits of non-compliance will be corrected, thus potentially diminishing the will of those Parties to comply with their own targets.
- *Lack of strong binding consequences.* Groups on this letter have put forward the idea of a Compliance Fund which could be paid into, with a surcharge, during the true-up period to avoid a finding of non-compliance. The fund would finance "gold-plated" emissions reduction projects that would have the utmost certainty and integrity, to "make the climate whole" and ensure that the reduction targets would still be met. Coupled with high financial penalties, the fund could also be used after a finding of non-compliance, to ensure that the monetary penalties would fund emissions reduction projects equal to the amount of overage.

Clean Development Mechanism and Joint Implementation

The Clean Development Mechanism (CDM) and Joint Implementation (JI) are project-based mechanisms that could be utilized to help developing countries and countries with economies in transition achieve sustainable development and provide new incentives for renewable energy. It seems rather the case, however, that these mechanisms are being manipulated to both satisfy "dirty" industry and provide the cheapest tons, no matter what the environmental and social costs.

- *No incentives for "dirty technologies."* The CDM should not create incentives for nuclear power, so-called "clean" coal technologies or large hydro. Each of these technologies has specific and large problems and should not be encouraged by the CDM.
- *Promote clean technologies.* The CDM and JI should couple sustainable development with sound, "real" reductions. This could be achieved by prioritizing small-scale renewable energy and energy efficiency projects. Such a strategy would also begin to level the playing field of energy technologies being supported in developing countries.
- *View the CDM and JI in the broader scope of developing country investments.* New reports indicate that from 1994 to 1999 about $100 billion of the $200 billion in private capital flows towards energy-intensive projects in developing countries have been supported by public export credit & finance agencies (ECAs). This results in an alarming amount of greenhouse gas emissions that are being ignored as the participation of developing countries in the Protocol is discussed. Non-governmental organizations from industrialized and developing countries are calling for ECAs to conduct full transparent greenhouse gas accounting for all projects they support and to set up financing mechanisms for solar, wind, biomass, energy efficiency and cogeneration. While we are providing language in the G8 context, others have indicated that this proposal should fall under the Kyoto article on technology cooperation and be reported under countries' national systems for estimating GHG emissions and their national communication. Prior to COP6, we call on the Administration to clearly identify how and where it will bring these issues to the table in a comprehensive manner.
- *Necessary role of public participation in the CDM and JI*: Rule making for the CDM and JI should reflect two main principles: 1) the right of the public and public interest groups to have access to relevant information; and 2) the right of the public and public interest groups to participate in environmental decision-making. These fundamental principles of access to information and public participation must be incorporated into the key stages of the CDM, including project development, Executive Board review and registration, verification, certification, and Operational Entity accreditation.

US CLIMATE ACTION NETWORK

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FAX MEMORANDUM

Please Deliver Immediately

TO: The Honorable Frank E. Loy, Under Secretary of State for Global Affairs
The Honorable David Sandalow, Assistant Secretary of State
John Podesta, White House Chief of Staff
Ambassador Mark Hambley

CC: Dan Bodansky, State Department
Jeff Miotke, State Department
David Gardiner, White House Climate Change Task Force
Ian Bowles, CEQ
Roger Ballentine, White House

FAX: 647-0191, 456-2710

FROM: Nathalie Eddy, USCAN, International Coordinator

DATE: June 2, 2000 PAGES: 6

RE: USCAN letter to Climate Negotiators

Dear U.S. Climate Delegation,

U.S. environmental organizations continue to be deeply concerned about the U.S. negotiating position on key elements of the Kyoto Protocol that will have a direct impact on its environmental integrity. We believe that measures the U.S promotes in the name of "full flexibility" could undermine the environmental effectiveness of the Kyoto Protocol. The U.S. position that such measures are a prerequisite for ratification is misguided. The real risk to ratification lies in weakening the Protocol. If it is not a strong agreement that leads to real reductions of greenhouse gas emissions, it will lack the grassroots support necessary to achieve ratification.

We have expressed our concerns on these matters to members of the U.S. delegation. Additionally, we feel it is necessary to relay these concerns to other negotiators via the attached letter. We are also distributing the attached update on U.S. Domestic Developments highlighting recent support for the Kyoto Protocol and reducing domestic greenhouse gas emissions demonstrated through local, state and national initiatives. This letter and update will be distributed to key negotiators in the next few days, and made available to negotiators attending the current negotiating sessions in
Bonn, Germany.

Global warming is an urgent problem requiring immediate domestic and international action to reduce greenhouse gas emissions. We again urge you to ensure that rules negotiated under the Kyoto Protocol protect the planet by ensuring real reductions in emissions instead of creating loopholes that delay action even further.

Sincerely,

Nathalie Eddy
USCAN, International Coordinator

American Council for an Energy Efficient Economy • Center for International Environmental Law •
Climate Solutions • Environmental Defense • Environmental and Energy Study Institute •
Friends of the Earth-US • Greenpeace-US • Minnesotans for an Energy-Efficient Economy •
Natural Resources Defense Council • National Environmental Trust •
• Ozone Action • Physicians for Social Responsibility •
Sierra Club • Union of Concerned Scientists • United Methodist Church:
General Board of Church and Society • US Public Interest Research Group
• World Wildlife Fund

June 7, 2000

Dear Climate Negotiator,

As members of the US Climate Action Network (USCAN) we are writing to you regarding critical issues underlying the upcoming climate negotiating sessions in June, September and at COP6 in The Hague. These negotiations will do much to determine the long-term environmental integrity of the Kyoto Protocol. Whether the Protocol emerges from COP6 as an instrument that will spur action to reduce greenhouse gases, or as a loophole-ridden agreement that promises such action without delivering it depends on you. Should Parties choose not to negotiate sufficiently strong rules for the mechanisms, compliance and the role of sinks, real progress towards the objective of the Framework Convention will not be achieved, and support for the Kyoto Protocol will diminish worldwide.

The decisions to be taken at COP6 pose substantial methodological, institutional and technical challenges. But perhaps the most serious potential barrier to progress is US demands, in the name of "full flexibility," for concessions that could undermine the environmental effectiveness of the Kyoto Protocol as a pre-requisite for US ratification of the agreement. There is a serious risk that a combination of unfettered trading of "hot air" tons; broad definitions of additional Land-Use Change Forestry (LUCF) activities under Article 3.4 that would open the way for crediting business-as-usual LUCF practices; weak rules for Joint Implementation (JI) and Clean Development Mechanism (CDM) that would allow crediting of nuclear power, so-called "clean coal," large hydro and other dubious projects; and "borrowing" from future budget periods as the principal non-compliance remedy could result in a Protocol that does not require any change from business-as-usual emission trajectories.

The notion that measures like these are essential to secure ratification by the United States Senate is misguided. Sacrificing environmental integrity will do little to generate political support for the Kyoto Protocol in the US Congress. Rather, it is only through our broad-based mobilization of the environmental, religious and other grassroots constituencies, along with increasing public awareness and concern about global warming, that the political climate will be changed sufficiently to allow Senate ratification. The enthusiastic support of these constituencies for the Protocol, along with that of the growing group of US companies that actually wish to reduce emissions, would be threatened by decisions at COP6 to weaken its environmental integrity.

We are attaching a report on a number of encouraging US domestic developments on the global warming issue. We believe the political climate for taking action to reduce US GHG emissions is improving and will continue to improve in the months ahead. It would be short-sighted in the extreme for governments to agree to compromises at COP6 that weaken the Kyoto Protocol out of a mistaken belief that this provides any greater assurance of US ratification. We urge you to hold firm for COP6 decisions that strengthen, rather than undermine, the Protocol's environmental effectiveness.

Sincerely,

Members of US Climate Action Network

UPDATE ON US DOMESTIC DEVELOPMENTS – MAY 2000

In preparing for this important year of climate negotiations, the US Administration is arguing that it needs to take full advantage of several potential loopholes in the Kyoto Protocol, claiming that this so-called "full flexibility" approach is necessary in order to ensure that the US Senate ratifies the treaty. This argument is incorrect.

This report briefly documents two important emerging themes that are being ignored by US negotiators as they argue for "full flexibility." US Climate Action Network (USCAN) offers the following examples to counter the misinformed rationale for a weaker treaty being presented to negotiators and the public by the US Administration.

First, there is growing support among the public, stakeholder groups, and elected officials at all levels for taking action on global warming in general, and specifically for Kyoto Protocol ratification. The Administration has no evidence that weakening the environmental effectiveness of the treaty would increase support for ratification, and USCAN believes that it would in fact weaken support.

Second, businesses, states, and local governments are making real emission reductions now, as they recognize that reducing emissions can save money, create jobs, and generate other important local benefits. In addition, some limited progress is being made at the national level on measures to reduce US emissions, despite the weak Administration leadership. The US Administration cannot credibly claim that it needs full access to potential Kyoto Protocol loopholes when it has not supported the implementation of domestic measures, and when cost-effective emission reduction measures are being implemented by businesses and local governments even in the absence of serious domestic policies.

The brief highlights below demonstrate that what is needed for Kyoto Protocol ratification is not a widening of the loopholes, but movement on the part of the US Administration to recognize and take advantage of both the opportunities to reduce US greenhouse gas emissions and the growing support for those actions by the public, and by many local, state and legislative leaders.

State and Local Action - ***Across the country, state and local governments are taking real action to reduce greenhouse gas emissions despite the lack of action at the federal level.***

New Jersey is the first state to adopt an emissions reduction target, committing to reach emissions 3.5 percent below 1990 levels by 2005. The detailed plan has committed funding for implementation, and broad stakeholder support from industry and businesses in the state. New Jersey joins 25 other states in developing global warming action plans. **Oregon** enacted a groundbreaking law in July 1997 which requires new energy facilities built in the state to have carbon emissions 17 percent better than the most efficient plant currently available, by improving efficiency and investing in offsets. At least 28 states require that some portion of electric power is generated using renewable resources.

The city of **Seattle, Washington** has pledged to become a zero net emitter of greenhouse gases, by relying heavily on renewable energy and investing in forest carbon or other offsets for any remaining fossil fuel use. Under the Cities for Climate Protection Campaign, run by the International Council for Local Environmental Initiatives, over **67 cities and counties** in the US have pledged to reduce their greenhouse gas emissions.

Climate Leadership from US Mayors - *While reducing their own emissions, local elected officials call for leadership by the Administration both internationally and in making domestic reductions.*

In response to deafening silence on global warming from the Clinton/Gore White House, over 580 local elected officials joined together to call for increased leadership from Washington, DC to stop global warming. Citing the fact that "local communities bear the brunt of the human and economic damage" from global warming and associated severe weather, officials from 48 states called on the federal government to make global warming a priority and to reduce domestic greenhouse gas emissions. Included in the prominent signatories were Mayor Daley of Chicago, Mayor Morial of New Orleans, Mayor Harris of Honolulu, Mayor Katz of Portland, OR, Mayor Paul Schell of Seattle and Mayor Brown of San Francisco.

Earth Day 2000 - *The 30th anniversary of Earth Day brought out a record number of supporters for immediate action to stop global warming.*

Event organizers focused on a "Clean Energy Agenda" that calls for significant reductions in U.S. greenhouse gas emissions from cars and power plants and an end to subsidies for fossil fuels. The Agenda was endorsed by hundreds of citizens organizations from all over the U.S. Millions of people took part in Earth Day Clean Energy events on April 22 and a grassroots movement is beginning to push members of Congress to endorse and implement the Clean Energy Agenda.

Power Plant Bills - *Despite almost no Administration support, several pieces of legislation that would reduce emissions from power plants are now being considered by the U.S. Congress, and are receiving significant political and grassroots support.*

There is momentum building in the U.S. Congress to put a cap on carbon dioxide pollution from power plants. A bill in the House of Representatives calls for capping four major power plant pollutants – carbon dioxide, nitrogen oxides, sulfur dioxide, and mercury – and already has the support of more than 100 Representatives. A similar bill has also been introduced in the Senate. Both of these bills have Republican and Democratic support and a strong grassroots movement pushing for passage into law. Speaking at Earth Day, Vice-President Gore was the first Administration official to speak favorably about the four-pollutant emissions reduction approach.

Vehicle Fuel Efficiency Standards: CAFE (Corporate Average Fuel Economy Standards) - *Despite strong public support for and increasing Congressional interest in raising vehicle efficiency standards, the Congressional leadership and the Administration has failed to take the action necessary to increase standards.*

Automobiles account for 20 percent of US greenhouse gas emissions. A critical step the US must take to reduce its emissions of greenhouse gases is to make cars go further on a gallon of gasoline. Raising the CAFE vehicle efficiency standards has been blocked for 5 years by "riders" on the Department of Transportation (DoT) budget that strip the necessary funds. This rider must be removed for the US to raise efficiency standards.

In 1999, over 40 US Senators supported the Senate Resolution to remove the rider, and this year more than 100 House of Representatives members have signed the Clean Car Letter to show support for removing a provision in the DoT's budget (the government agency responsible for setting fuel economy standards) that blocks that agency from even studying the issue. Once this provision is removed, the Administration would be able to begin the process of raising fuel economy standards for cars and light trucks. Newspapers across the country have editorialized on the need to raise efficiency standards. Unfortunately, the Administration declined to veto the bill and fight the rider last year, and appears equally unwilling to act this year.

<u>Appliance Efficiency Standards</u> - ***New appliance standards will save money and reduce emissions.***

Under pressure from clean energy advocates as well as environmental and consumer groups, the U.S. Department of Energy is commited to and moving forward with issuing new mandatory efficiency standards on four products by the end of 2000: water heaters, clothes washers, central air conditioners, and fluorescent lighting ballasts. These new standards taken together are expected to save consumers about $30 billion while cutting carbon emissions about 8 million metric tons per year by 2010 and 20 million metric tons by 2020.

<u>Overall Energy Use and Carbon Emissions Trends</u>

There has been progress in limiting the rate of growth in energy use and carbon emissions in the United States over the past three years. While U.S. economic output expanded 13 percent during 1996-99, total energy use increased only 2 percent and carbon emissions from burning fossil fuels increased about 3 percent. The growth in carbon emissions would have been much greater had the energy intensity of the U.S. economy not declined about 3 percent per year. Of course, the United States needs to do even more to halt growth in carbon emissions and get on a trajectory of declining emissions.

<u>Religious Communities</u>

Ecumenical agencies in sixteen states across the US are forming coalitions of religious people from all faith communities to educate and advocate on the issue of global warming. State-wide training events and campaign announcements from these religious communities have been the subject of over 130 articles, editorials and op-eds over the past year in newspapers such as the Chicago Tribune, Seattle Times, Atlanta Constitution, and the Boston Globe.

The basic message of the local campaign is: Scientists tell us **"global warming is real; the science is sound; and the effects are likely to be severe." We add "this is a religious issue!"** We are called to care for all of God's children, especially the most vulnerable, and to protect and restore God's creation. Climate change is a threat to all people and all of creation.

A.

<u>Global Climate Coalition Disintegration</u> - ***Facing a growing wave of public concern about global warming and corporate misinformation, a series of major US companies have left the Global Climate Coalition (GCC) over the last six months.***

The GCC's tactics of questioning the science supporting global warming and predicting domestic economic disaster if Kyoto is ratified made membership in the coalition a lightning rod of attention. Environmentalists, students, and religious activists nationwide successfully used public education, divestment campaigns, shareholder resolutions and even a jobs boycott to call on corporations to leave the GCC and adopt a more responsible stance on climate change. Starting **with Ford Motor Co. in December 1999, Southern Co, Daimler Chrysler, Texaco, and finally General Motors all abandoned the coalition.** Marginalized in the court of public opinion, the GCC was forced to alter its membership structure to only offer membership to trade associations. While the coalition claims that it will continue to fight Kyoto, its weakened stature can only help the prospects for constructive results coming from COP6.

<u>Shareholder Resolutions</u>

Shareholder Resolutions have been filed by religious shareholders of the Interfaith Center on Corporate Responsibility **at 9 different major US corporations.** The resolutions call on the companies to report on their current emissions of greenhouse gases, determine what it would take to reduce those emissions, and disclose how much money the company gives to global warming skeptic groups such as the Global Climate Coalition. Early reports from the companies annual shareholder meetings with the resolution at Chevron winning a surprising 9% of the vote, accounting for more than 58 million shares.

Also, a Greenpeace/Trillium resolution, signed by other environmental stakeholders, called for BP Amoco to cancel its first offshore drilling project in the Arctic and redirect the funds toward solar power, and to abandon plans to drill in the Refuge. It won nearly 15% of the vote, unheard of for a pro-environment shareholder resolution.

Later this month, a coalition of 42 religious and environmental groups in the US wants to use a shareholder resolution during a May 27 Exxon Mobil shareholder vote to pressure the company to make more investments in renewable energy.

<u>Climate Solutions Tour</u> - ***National Environmental Trust (NET) is generating media attention around products that people can use and actions they can take to increase energy efficiency and decrease their personal contribution to global warming pollution.***

B. The 1999 "Pollution Solutions Tour" visited 34 cities in 14 states in 60 days, and generated over 400 local media hits, including print, radio and TV. The message that purchasing power can help cut global warming has directly reached several thousand people attending NET's events, from elementary school children to state and national policy makers.

C. <u>Business Commitments</u> - ***Examples of businesses that have recently made commitments to reduce their impact on the climate.***

D. **World Wildlife Fund** and the **Center for Energy and Climate Solutions** launched the **Climate Savers program** on March 1 with the announcement of the first two companies making corporate-wide greenhouse gas reduction commitments.
   1. **Johnson &Johnson** will reduce its emissions to 7% below 1990 levels by the year 2010 with an interim goal of 4% below 1990 levels by 2005.
   2. **IBM** made a seven-year commitment from 1998-2004, to avoid 4% CO_2 emissions per year (based on the previous year's emissions).

3. **Climate Neutral Network** announced its first three "certifications" on April 10. The goal is for companies to assess, reduce, and offset the emissions associated with their company or certain products or services provided by the company.
   1. **Shaklee**, a consumer product marketer, has offset the greenhouse gas emissions for their entire enterprise by becoming the first Climate Neutral certified company.
   2. **Interface**, a carpet tile manufacturer, has certified their new Solenium flooring product as Climate Neutral.
   3. **The Saunders Hotel Group** has created Climate Neutral accommodations at their Lenox and Copley Square hotels.