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Memo for Deputy GCC [Global Climate Change] May 1997: Deps [Deputies] Decision Memo

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Deputies / Principals
Decision
Memo
5/19
5/21/97

Deps. Decision Memo

Very moderate option on GCC

- Emission levels should peak by 2010, and begin to decrease thereafter.
- Emission levels should return to 1990 levels in the longer term [e.g., 2030], and continue to decrease thereafter.
- The U.S. is prepared to support some moderate measures immediately, such as a phased-in end to energy subsidies by 2005.

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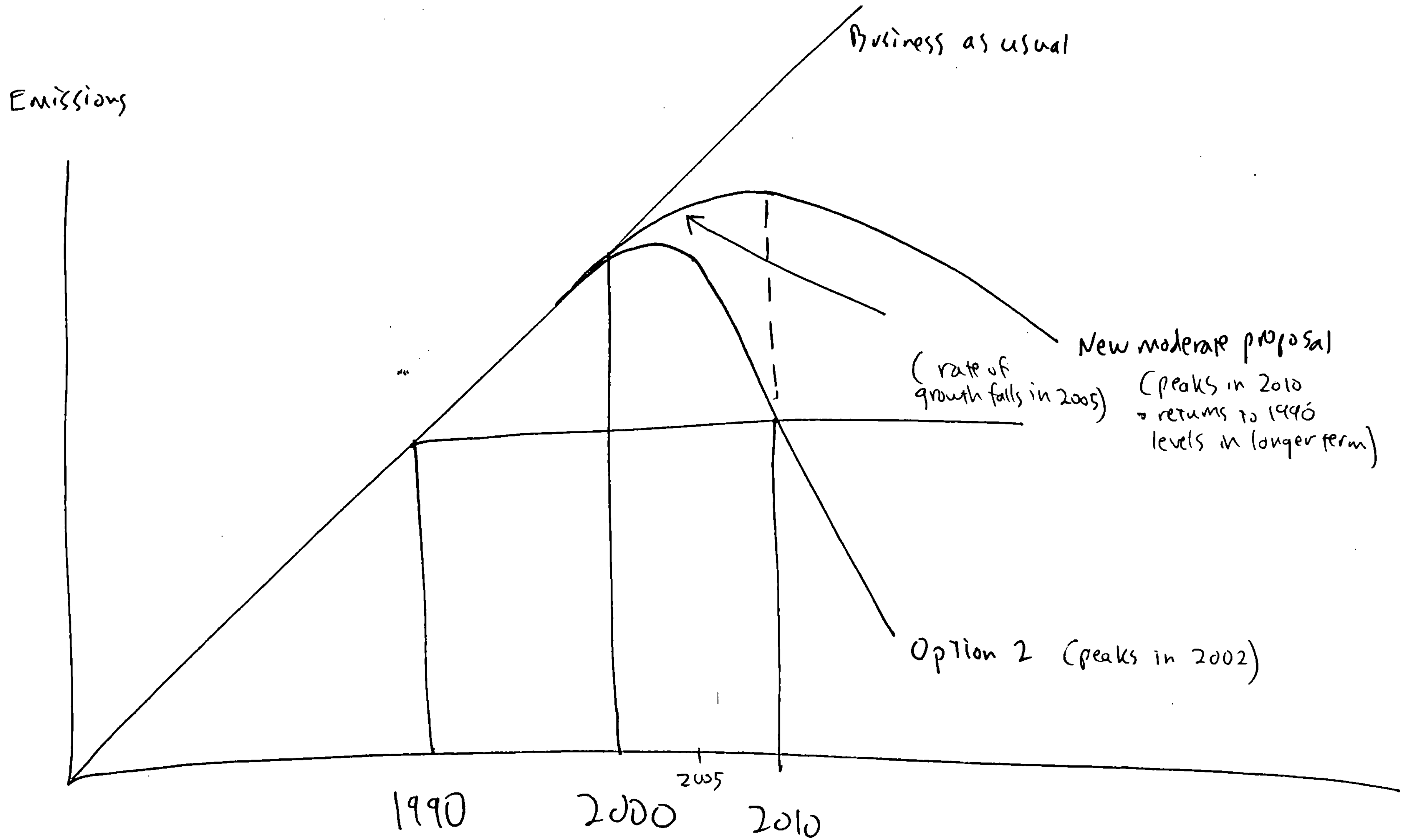
"Emissions should level off in the medium term, and eventually return below 1990 levels."

More specifically, the rate of growth of emissions should begin to diminish by 2005, and they should plateau in 2010-20020, turn down thereafter, reattain 1990 levels in the longer term, and eventually decline further.


Emissions
Business as usual
New moderate proposal
(peaks in 2010
+ returns to 1990
levels in longer term)
(rate of
growth falls in 2005)
Option 2 (peaks in 2002)
1990
2000
2005
2010

5/19/97

Deputies mtg.

Next 2 - 2 ½ war
- principals mtg
- President

1) Budget
2) instruments
3) LDCs

3 flex { Multi-yr banking/borrowing
trading
JI

Eileen budget optn #2 is the only viable one

Mom 10 yr from 2010
CS 3 yr. around 2010

Josh start earlier, but

KT something else beside option 2

LS 2 or betw 1 & 2 best for world.

But even 2 would dwarf anything else USG has done in ec. restructuring. Most radical change of his admin.

need an optn ≤ $15 b/yr.

+ one that is not a tax increase.

{ can't be that only optn sounds like a tax increase, & > than any other

Re above Deputies mtg. 5/22/97

Eileen: I hope people understand

★ :

GCC

6/2/97

Latest possible date for 2nd mtg. Mon for memo to POTUS

June 20 G7 mtg.

core wds "reductn" "stab" = 1990 by 2010 "action"

"st" = 2005 "med" = 2010-2020

T.W. negotns.

- Budget Timetables Eur on L. Can., J., Austra probably to R
- Tradable permits, not harmonized instrumts. + JI. only Austra. w/h us
- LDCs' responsibilities

Tim W, DoS optn 2

Garam, DoI Option 2 insuffict. Need something stronger

Richardson, Amb. optn 2

L.S, DoTr. 1st best without politics, < optn 2, but approaching it. Between 2 and 3. Memo badly underrates political risks 2000 costs [DS + Bu] = $10 b/ton < optn 3 << optn 2.

$5b transfer to Russia too low. "Largest structural ec. policy with possible exc. of health care"

"Tax increase" $110b > anything since Mondale. > budget issues.

memo doesn't adequately treat neg. scenarios.

J. Lew, OMB Elim. jobs on E. coast., create jobs elsewhere... stretching limits of polit. cred.
N.E. to W.Va.

D.T. This is a special issue, involving Pres & VP legacy. Big commitmt of time to educ. public. Diff. from most issues

B. Atwood, AID LDCs'd like opt 1, but not possible

Seth DoJ optn 2 & opt 1 nonstarter. opt. 3 too little. Has to incl. promise of effective compliance mech.

R. Rubin, DoTr. will have firestorm for 3 yrs. Effects come in slowly. Need analysis of cost/benefits of waiting.

Podesta Δ climate effect

Jack Gibbons Optn. 2 + later & more & high tech research initiative

Peña, DOE very much inclined to support optn 2

We need flexibility, JI... & LDCs commitmt otherwise not than sen.

Yellen, CEA Important to ack. magnitude of these measures
Need a higher p to do that. GCC ⇒ wants response
Could argue for less aggressive.
Should show leadership.
Optn 2 only if you absolute insistence on
LDC evolutn, multiyr., banking borrowing
If can't get, fall back. Unilateral measures
Fuerth Europeans haven't analyzed implic. of own posit.
Tarullo 1990 a good base year for Eur. (pre Germ unif.) Fr. nuclear, UK coal ener
solutn with China will take 50 yrs.
Sperling Health care was a good idea too.
Other side will kill us on tax increase. Timing of polit. debate important.
Steinberg
Carol "Agree with Gene, Janet & Federico. = interesting mix of people"
L.S. I'm very troubled.
Optn 2 is only credible place to be, & get what you need on implementn.
"Flexible implementn" LDCs
Commerce comfortable with optn 2. Commitmt to flex.
Jeff USTR Have to ready to turn down this deal
Rom DA Optn 2 with caveats
DoT
L.S. Memo is written with opt 1 & 3 strawmen. Forcg optn 2. not right.
3 out of 5 lead signatories of 2000 think this is too much.
Something less than?
K McG TW Can't get flex. etc. with a goal less than opt. 2
Mondale & Health Care's unfair. Jorg. as a tax shift, get positive
Richardson If we take a dive on GCC, deserts, forests..
J Lew Didn't mean shouldn't have target. But need eyes open. Costs tangible.
even optn. 2

J Gibbons Impact analysis does need more wk.
Can make a more realistic vers'n ~~of~~ of opt'n 2 than what's in Table

Sperling Don't find this clear cut. ~~Not so~~ worth doing something bet
not so comp. opt'n. 2.

Not present set of opt'ns. to Pres. May need to recast.
(i) way in which we speak in n-T

Very moderate option on GCC

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A few things to consider when thinking about climate policy

- **1990 @ 2010 as a focal point emissions budget**. This target was **not** derived from any scientific or economic analysis. From what I can tell it was selected because it was a "medium term" target. Some integrated modeling analyses show that this target is worse than doing nothing. Nordhaus, for example, has estimated that the benefit/cost ratio for this target equals b/c = 0.20. Even with international trading, the b/c = 0.22. A bad idea with trading is still a bad idea. The IAT modeling effort has focused completely on the costs of a carbon policy without considering the benefit side. And while some optimal carbon policy is probably unattainable, it provides a better focal point for discussions of US global climate change policy than does the ad hoc 1990@2010. Nordhaus and Jorgenson's reading of the evidence is that current assessments do not support the idea of focusing primarily on stabilizing emissions, especially when stabilization is limited to developed countries. The preferred strategy should be to decide what concentration level is acceptable, and then work backward from there to decide the most cost-effective path to achieve the concentration. Unlike the Clean Air Act, nothing says that a climate policy cannot be based on sound economics. Plus an optimal path will have lower carbon taxes that will prove more attractive to industry and Congress.

- **Carbon leakage**. The US position seems to be taking a "deep, then broad" perspective by first establishing a narrow coalition of developed nations and then reaching out to the developing countries to join later ("evolution" in treaty protocol language). This approach begins with a narrow participation by a limited set of countries (Annex I) in a relatively ambitious agreement that involves considerable costs and hence requires fairly sophisticated policy instruments.
  This approach, however, runs the risk that the developing countries will not join later because the costs of doing so will be too high. By increasing the relative costs of carbon in the narrow coalition, carbon-intensive industries will move to developing countries, thereby making these economies even more carbon-dependent as they try to grow their way past the real health problems they face now. Their addiction to carbon-based growth increases the costs of "evolving" into the treaty. The suppliers of carbon-intensive energy will look for existing markets and will create new markets. A climate treaty without China or India probably will not work.

  Economists argue that a "broad, then deep" approach to climate policy makes more sense (e.g., Schelling, Schmalensee, Stavins). Broad--bring in all the nations with a low cost agreement, then deep--the agreement can be made more ambitious (and costly) later.

- **Emissions trading, joint implementation, and transaction costs**. It is estimated that any agreement without the cost flexibility provided by trading or JI will at least double the US costs. The key is to distribute emissions internationally so as to minimize the costs of climate policy. But before alternative policies can be usefully evaluated, we need to know how the system would be designed. The US does not have a set position as to what either a domestic or international trading system would look like. EPA has argued for relatively high transaction costs that would limit the cost-savings of a trading system; CEA has argued for a flexible system that allows for banking and borrowing of permits. This is an area that is wide-open, and CEA could play an important role in the design of such a trading system. All this holds for joint implementation as well--vaguely defined but yet a potentially important tool to reduce the costs of climate policy.

- **Impact on international trade flows**. Given that substantial flows of rents will be created by an international or domestic trading system, we still know very little about the impact on international trade flows. In 1992, Manne and Richels estimated that the US might import $50 billion in permits from China--this would have major impacts on trade flows. None of the IAT models can address this issue (the SGM models energy use by region but not trade in goods and services).

- **Positions within the Administration**.

  Tight (option 1): EPA, State, Interior, CEQ

  Loose (option 3 or 4): Agriculture, Treasury, Commerce

  Don't know: SBA, Defense, Transportation, Labor, Justice,

  DOE's position: option 1 (1990@2010) with caveats (the shorter the budget period, the later the starting date; commitment to technology; and commitment to reexamine the reinvent regulations that have not been followed through)

  OSTP: with enough support for technology, OSTP would be willing to delay until 2020

  NEC: DT has wondered whether delaying a year might not be a bad idea

A proposal

- DELAY the agreement for 12-18 months to:
  - Draw the developing nations into the treaty (broad, then deep)
  - Define an emission budget based on science (optimal reduction path)
  - Define the trading systems ex ante (a flexible system in place)

- In return for the delay, the US would commit to a significant domestic action such as
  - domestic carbon trading system — widen SO_2 trdg to include CO_2 trdg
  - increased R&D expenditures
  - removal of fossil fuel subsidies
  - ~~revisit the reinvent regulation~~

After makg clear that 1st choice, absent political constraints, is aggressive Δ P energy, even T. :

Negotiators / env. community

Get people thinkg about it

Option #II

market oriented

insistg on serious LDC participtn etc.

Q: That's "blowing up"

A: No treaty is better than a bad treaty

9709923 XR 9709240

United States Department of State

Washington, D.C. 20520

JLY
AHM
JAF
JS

June 2, 1997

UNCLASSIFIED

MEMORANDUM TO:

MS. JULIETTE FALKNER
Special Assistant to the Secretary and Director, Executive Secretariat
Department of the Interior

MR. WILLIAM NITZE
Assistant Administrator for International Activities
Environmental Protection Agency

MS. BETTIE BACA
Director
Executive Secretariat
Department of Interior

MS. LYNNE F. FINNERTY
Executive Secretary
Department of Agriculture

MR. T. MICHAEL KERR
Executive Secretary
Department of Labor

MR. BRUCE N. REED
Assistant to the President for Domestic Policy
Domestic Policy Council

MR. JAMES N. SOLIT
Director
Office of the Executive Secretariat
Department of Energy

MS. ANNA-MARIE KILMADE GATONS
Director, Executive Secretariat
Department of Justice

MR. J. BENJAMIN NYE
Executive Secretary
Department of the Treasury

MS. JUDITH BURRELL
Director, Executive Secretariat
Department of Transportation

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Executive Secretary
Agency for International Development

MS. MICHELE JOLIN
Chief of Staff
Council of Economic Advisors

MR. FREDERICK MONTGOMERY
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Office of the US Trade Representative

MR. GLYN T. DAVIES
Executive Secretary
National Security Council

LEON FUERTH
Assistant to the Vice President for National Security Affairs
Office of the Vice President

MS. SUSANNE BACHTEL
Special Assistant to the Director
Office of Science and Technology Policy

DR. GORDON ADAMS
Associate Director for National Security and International Affairs
Office of Management and Budget

Subject: Climate Change

The staff of the Vice President has suggested that the attached memorandum be distributed to principals of the Interagency Working Group on Climate.

William J. Burns
Executive Secretary

Attachment:
As stated.

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S/S 9709240

THE SECRETARY OF STATE

WASHINGTON

'97 MAY 24 P1:55

May 23, 1997

UNCLASSIFIED

MEMORANDUM FOR THE VICE PRESIDENT

FROM: Madeleine K. Albright MKA

SUBJECT: Climate Change

I am writing to express my strong view that we must reach closure very soon on how to proceed on the issue of climate change. As you know, the State Department is actively engaged in negotiations to secure an agreement in Kyoto this December. These negotiations are critical if the world is to address climate change in a serious and effective way. Our ability to reach a successful conclusion depends on a set of policy decisions that must be made by you and the President. I am concerned that if some of these decisions are not made and publicly announced in time for the Summit in Denver and the Special Session of the United Nations General Assembly in June, the negotiations are in danger of falling apart. Specifically, I feel we must provide a strong signal on where we stand on the three following issues, so that others with differing views will understand the strength of our commitment to an agreement that is successful for our environment as well as our economy.

1. EMISSIONS REDUCTION TARGET

We have made clear, beginning in Geneva last July, that we believe the developed world must negotiate a serious, realistic, legally binding emissions reduction target. But we have given no sign of what kind of target would be appropriate. In fact, the only clear target that has been submitted recently has come from the European Union (a proposed reduction of 15% below 1990 emission levels by the year 2010). This is not a target that we find either realistic or achievable. While we have stressed the importance of other issues in the negotiations, our ability to negotiate a package of requirements is highly dependent on the kind of target that we are willing to accept. I am not suggesting that we announce a proposed target over the next several months. But I believe we must provide a sense of what might be possible for the United States; in other words, a statement of intent to negotiate a target in Kyoto that would begin to take us below 1990 emission levels. Were we to reach such a conclusion, and then have this conclusion announced this summer, I believe our ability to deal with other critical issues would be greatly strengthened.

2. FLEXIBILITY

We have repeatedly made clear that one of our major objectives in the climate negotiations is to establish a system that is sufficiently flexible so as to allow for maximum cost effectiveness in achieving our targets. Our analysis shows that there will be significant economic costs associated with our effort to protect the climate system, and it is in the world's interest to minimize those costs wherever possible. We have specifically urged the adoption of multi-year targets, a global emissions trading system, and programs to allow for projects that can be implemented jointly with other nations. We must reiterate the importance we attach to these provisions, since they will significantly affect not only our own costs, but also those of others. And the more we can reduce our costs, the more ambitious our targets can become.

3. DEVELOPING COUNTRY PARTICIPATION

This is the most difficult issue we are facing in this negotiation. We cannot avert major environmental impacts from climate change unless all nations participate in this effort. Certainly, we in the developed world have been responsible for most of the emissions to date, and we must play a leadership role in finding alternative technologies and significantly reducing our emissions. But if emissions from developing countries simply grow unabated, our efforts will be for naught. On the other hand, we cannot expect countries whose per capita emissions are from one tenth to one twentieth of ours to take the same steps as we do. What is important is that we strike the right balance - by bringing these countries into the process and insisting that they take some steps now, and making it clear that their obligations will grow over time. Reiterating this view and insisting on its inclusion in the final agreement, is crucial if we are to have an outcome that we can sign on to in Kyoto.

Our position on climate change is a true test of our seriousness on global environmental issues. We must move forward to make the necessary policy decisions as soon as possible so that we can have an opportunity to achieve our objectives in December.

Jeff -

That was very good - why isn't that our position? No options needed.

Tim

cc: JAE
SS
MW

May 27, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: KATHLEEN A. McGINTY, COUNCIL ON ENVIRONMENTAL QUALITY
DAN TARULLO, NATIONAL ECONOMIC COUNCIL

SUBJECT: CLIMATE CHANGE PRINCIPALS MEETING

We will co-chair a climate change principals meeting on **Monday, June 2nd from 2:00 - 3:30pm in room 231 of the OEOB.** Please contact Robert Kapla at 456-6224 for clearance. Materials and an agenda will follow.

DISTRIBUTION:

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Secretary Babbitt, DoI
Administrator Browner, EPA
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Secretary Herman, DoL
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Attorney General Reno, DoJ
Secretary Rubin, Treasury
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Ambassador Barshefsky, USTR
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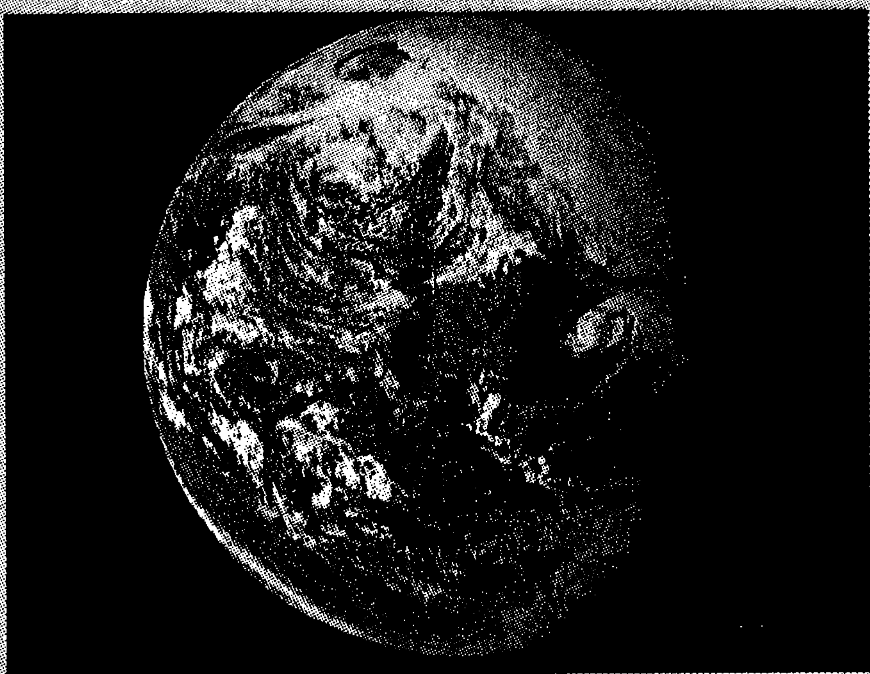
Climate Change Principals

Decision Memorandum



June 2, 1997

5 pr 97

J4 call 1st 986 ham p...

Proposed agenda

1. Wishful thinking (AEETs...)

2. CEA preferred policy, in the absence of political constraints

3. CEA preferred policy, in the presence of political constraints
4. What must be decided this week public mtg.
5. Other major details
   - serious LDC participtn.
   - Banking & borrowing
   - Budget window
     JI
   - int. trading
     enforcemt penalties