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Memo to POTUS June 97 [Global Climate Change] [2]

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Climate Change Roll-Out:

President Engages the American Public

Overall Goal: Show the American public that President Clinton is determined to combat climate change in a way that deserves broad support.

Overall Strategy: 3 Pronged Approach

1. President's Vision Set Forth at UNGASS
2. Engage American Public in National Dialogue
3. Outreach to Policy Community

1. President's Remarks at UN Kick-off 3 Month Campaign

Goal: Set President's vision for approaching climate change and begin national dialogue, drawing business, labor and environmentalists into a cooperative process on how best to move forward.

Message:

- America has played an important role in this century for a peaceful and prosperous world. There are new challenges on the horizon for the 21st century. As America prepares to enter the 21st century, we are committed to improving our public education, advancing free trade, and beginning the transformation to a more sustainable environment.
- Climate is our most important global environmental challenge as we approach the 21st century. Risks of inaction are high and unacceptable: Increased storms, droughts and heat waves; increased sea level rise; more spread of infectious disease; problematic agricultural shifts; loss of forests and ecosystems. Costs of action are low and manageable, provided that policies are flexible and market based and that technology is deployed. Waiting isn't the answer because it makes the job harder to solve.
- I know the economy and how to create jobs. I am going to promote America's economic future and enhance the prospects for American workers. And I am going to find a way to address climate change effectively. We can do both.

- The path forward is clear: we need an effective international policy to control emissions. We're committed to maximum flexibility for businesses so we can achieve the greatest environmental benefits at the lowest cost.
- I need the business community to step forward to work with us to find solutions. We need honest dialogue and a common vision. We need pragmatic steps now and ambitious goals for the future. We need to turn our technological prowess into an engine for change in abating greenhouse gas emissions. We can do this together, if we set our minds to it.
- Today, I'm asking every American to consider being part of this solution. Over the coming weeks, I'm asking the Vice President and my cabinet to engage in a new dialogue with the American public to find a common vision on the policy solutions required. I want them to report back to me at a White House Conference in early September with their findings on how best to move forward. I know that with the strength of the American spirit, the ingenuity of industry and the dedication to our children, we will meet this new challenge.

2. Engaging the American Public in a National Dialogue

Goal: Elevate public understanding of importance of changing climate and build support for national policy priorities developed cooperatively through open dialogue with range of affected constituencies.

Message: We're serious about addressing climate change problems. We can meet the challenge better by working together than apart. We want to share what we have learned about climate science, economic impacts and opportunities, and possible policy alternatives. We want to listen to your views and incorporate them into our decision making.

Strategy:

- POTUS: 3 radio addresses; message-of-the-day events; schedule one time slot per week in July/August/September for briefings and outreach.
- Conduct three regional conferences leading to a White House Conference. Three to five cabinet members and senior White House staff would participate in each. (Include mix of Albright, Rubin, Daley, Browner, Peña, Glickman, Babbitt, Shalala, Richardson, Witt, McGinty, Sperling, Tarullo, Gibbons, Yellin, etc.)
- Conferences conducted in roundtable format, chaired by senior Cabinet members. Each would begin with key presentations, followed by open dialogue. Open to press and encourage live C-Span coverage. Conduct press backgrounders before and after.

- Involve regional corporate CEO's, academics, environmental & labor leaders, governors, other state & local leaders, and members of Congress.

Locations: All conferences would be comprehensive, but each would have a special focus, tailored to region.

East: New Orleans, Charleston, Miami, or the New Jersey shore. Highlight: Coastal storms damage, infectious disease risk and forest system impacts in southern and eastern states.

Mid: Columbus, Detroit, Chicago, or Indianapolis. Highlight: Agriculture shifts, coal community impacts, heavy manufacturing impacts and opportunities.

West: Sacramento, Phoenix, Portland, Seattle or San Francisco. Water resource conflicts, public lands impacts, technology response opportunities.

National: White House/DC, Baltimore, Richmond, New York. Comprehensive integration of concerns into a need and pathway for action. Include panel of Nobel laureate scientists and economists.

Considerations: Regional media, negatively effected communities, progressive business response, environmental impacts.

3. Outreach to the Policy Community

Goal: Engage policy community (CEOs in particular) in design of policies to garner their support.

Message: We need your help. Work with us, and we will work out solutions you can live with.

Strategy: Series of CEO meetings with POTUS, VP, Cabinet members & other senior staff.

- Offer our policy inclinations, get feedback and ask for their ideas on what's missing.
- President and VP should each reserve 10 - 12 slots for climate orientation briefings and meetings with industry leaders between now and labor day, as well as three weekly radio addresses by end of September. Cabinet members should be given key responsibilities for pieces. Should schedule in close coordination with other meetings. Also encourage members to host at least one public meeting and make a major speech.

- We should still consider an open meeting with the Washington, DC policy community on peer-reviewed economic analysis and other information to be used in the regional conferences.

Considerations: Ties to PCAST R&D review, electricity sector restructuring, air quality rules, etc.

Notes:

Resources:

- In order to implement the strategy effectively, we need to significantly upgrade our outreach effort. It will take significant financial and staff resources to conduct preparations and carry out events and follow up. White House communications and advance personnel could contribute expertise in planning this education drive. In addition, principals would need to make time available for preparation, speeches, roundtables, etc.
- Up to \$2 million (rough estimate) would be required for the regional and White House conference. We will need to designate a central coordinating facility to augment the White House Climate Change Task Force on this project.

Orientation: In order to jump start the process, it will be necessary to have a half-day orientation session for principals, perhaps at the Vice President's residence or the Blair House. This would cover science, economics, technology, and policy options. This would happen in early July.

Suggested Timeline:

June 23:	VP hosts Congressional Dinner
June 24-7:	OSTP South East Regional Workshop (Vanderbilt)
June 25:	VP Attends OSTP Impacts Workshop (Nashville)
June 26:	President Speaks at UNGASS
June 27:	President with CEO's of Big 3 automakers
July 9:	Public Release of Analysis
July 14-16:	OSTP North West Regional Workshop (Seattle)
July 27:	Eastern Regional Meeting
August 17:	Mid Regional Meeting
August 31:	Western Regional Meeting
September 3-5:	OSTP New England Regional Meeting (U of New Hampshire)
September 21:	White House National Conference
September TBD:	President's Remarks to UNGA (?)
Nov. 10-12:	OSTP National Impacts Workshop at NAS

Draft Chairman's Statement

Today, we witnessed more good economic news showing that inflation remains low and stable while the economy is settling into a sustainable pace of growth that provides continued real wage gains for workers. We have three releases.

Consumer prices edged up only 0.1 percent in May, held down, in part, by the third consecutive month of sharp declines in energy prices. Over the past 12 months, consumer prices have increased 2.2 percent, down from the 2.9 percent year-earlier pace. Excluding the volatile food and energy components, the May CPI was up only 0.2 percent, and has increased only 2.5 percent over the past year, down from a 2.7 percent year-earlier pace. One dramatic example of the easing of the cost of living, is that prices charged for new motor vehicles have increased only 0.8 percent during the past year. Together with last Friday's report that producer prices excluding food and energy were little changed over the past year, today's news on consumer prices shows that inflation remains well under control.

In contrast, wages--up 3.8 percent over the past year by the payroll measure-- have been increasing faster than prices--so that real wages have increased 1.6 percent for the 12 months ending in May. The gain in real wages most likely reflects and rewards continuing gains in labor productivity.

Industrial production rose 0.4 percent in May after an upward-revised 0.3 percent gain in April. Even without further gains in June, industrial production in the second quarter would be 3.8 percent at an annual rate above the third-quarter average.

Housing starts and permits, also released this morning, are volatile series that affect construction activity with a lag. So far this year, both starts and permits are running slightly below their strong levels in 1996.

Overall, the data released today and over the past week paint a picture of an economy that has slowed from the blistering pace of the first quarter to a sustainable pace in the second. Today's news that inflation remains low and stable shows that this durable expansion continues to be on firm footing.

6/10/97

for example
CEA shares Treasury and OMB's concerns, and believes that Option 2 reduces remissions more rapidly, and hence would be more costly, than the path that optimally balances economic costs and environmental benefits. Nevertheless, CEA believes that solving the global climate change requires participation of both developed and developing countries. For this reason, CEA is willing to accept a more ambitious path if it is absolutely necessary to secure (a) LDC commitment to "evolution," that is, eventual accession to emission limits similar to the Annex I countries; and (b) a flexible international trading system.

ISSUE FOR DECISION

In your trips to the Denver Summit of the Eight (June 20-22) and UN General Assembly Special Session on Environment and Development (June 26), what should you say concerning the U.S. position on emissions levels under the climate treaty?

NEED FOR DECISION

To date, the U.S. has not supported any specific emissions levels under the climate treaty. Other countries and domestic constituencies are calling on us to state our views. At the Denver Summit of the Eight, Chancellor Kohl and others will press you on this issue. At the UNGA Special Session, media and constituency interest in this issue will be high. Both meetings offer important opportunities to advance and explain our position.

I. BACKGROUND

Climate change is an issue of vast scale. **The policies you propose here could have larger effects on our environment, our economy and way of life than anything else in your Administration.** ~~Decisions on the issue posed in this memorandum could have significant environmental, economic and political consequences.~~

The Science

The build-up of greenhouse gases in the atmosphere threatens fundamentally to alter the Earth's climate. Currently, greenhouse gas concentrations are at their highest level in more than 200,000 years. (See Appendix A). Absent policy interventions, concentrations by the end of the next century will reach the highest level in more than 50 million years. Impacts are predicted to include sea level rise, the spread of infectious disease, more frequent and severe droughts and floods, loss of forest cover and shifts in agriculturally-productive regions. Absent policy interventions, global average temperatures by the end of the next century are projected to increase 2-6.5 degrees F., sea-level rise is projected to inundate more than 9000 square miles in the United States (with Florida and Louisiana most vulnerable) and an additional 50-80 million people are projected to contract malaria worldwide. According to a NOAA study, average July temperatures in Washington, D.C. by the end of the next century are expected to increase by 5-15 degrees F. (with greater humidity).

Even the most ambitious policies described below will have only a small effect on the actual concentrations of CO₂, which will continue to rise in any case. Ultimately, far larger reductions will be needed -- by all nations, both developed and developing -- even to slow the rate of growth. However, US policies can be the basis for agreements by other nations.

Economic Costs

The economic costs of reducing greenhouse gas emissions are also large is potentially substantial. The principal source of such emissions is the burning of fossil fuels, which powers the global economy. In order to reduce emissions to the 1990 levels recommended by most of your cabinet would require a new emissions control program on domestic utilities, industry and transportation. Your advisers would recommend doing so by auctioning emissions rights, to minimize the economic dislocations, and by negotiating international agreements that allow international trading of these rights. This approach would raise tens of billions of dollars annually in revenues, which could offset the deficit and encourage economic growth. Even so, our economic modeling to date suggests that stabilizing emissions at 1990 levels by 2010 (ten years later than envisioned in the Climate Change Action Plan) would in 2010 is projected to reduce U.S. GDP by 0.1-0.4% (with somewhat larger reductions in consumption), increase gasoline prices in 2010 by 10-15 cents per gallon and more than double the price of coal. These modeling results are necessarily approximate. Your economic advisers would note that they depend on relatively modest baseline economic growth and uncertain assumptions about the rate of technological change, and that the actual effects might be larger. Furthermore, these effects are national averages: the dislocations would be felt predominately in coal producing and consuming parts of the Eastern US, offset by growth elsewhere.

These projections assume Without a well-functioning system of international emissions trading, which would permit purchase by US users of emissions rights from Russia. Without such trading, the effects of stabilization by 2010 ~~se figures~~ would be even higher -- a U.S. GDP loss of 0.2-0.6% (with slightly larger reductions in consumption), gasoline price increase in 2010 of 20-40 cents per gallon and roughly a tripling of the price of coal. Reaching international agreement on an effective system of trading will be critical, but also complex, and difficult. Furthermore, private capital outflows associated with an international emissions trading regime would themselves be substantial -- one preliminary estimate is are predicted to be roughly \$5 billion per year.

~~These economic estimates assume that revenues raised by auctioning emissions permits are used for deficit reduction -- costs could be higher if implementation programs are less favorable to investment or lower if programs are more favorable to investment. Significantly, modeling indicates that economic losses from some policies are largely transitory: after an initial loss, the economy rebounds and catches up to its original growth path. Costs depend significantly on rates of technological innovation. Effects on some sectors and regions of the economy will be much larger than effects on the economy as a whole.~~

International Negotiations

This administration has been active on this issue since Earth Day 1993, at which time you pledged to return U.S. greenhouse gas emissions to 1990 levels by the year 2000, and then to continue the trend of reduced emissions. In October 1993, we issued the Climate Change Action

Plan, made up of several dozen mostly voluntary programs, designed to meet that goal. (Due to Congressional budget cuts, higher-than-expected economic growth and lower-than-expected oil prices, the goal will be missed by a wide margin). U.S. negotiators have shaped the international climate change negotiations by calling for binding emissions targets, "flexibility" provisions (such as international emissions trading and joint implementation) that would significantly lower costs of meeting those targets, and the participation of developing countries. You have spoken to this issue several times in the past year, including in the 1997 State of the Union, where you called for "reduc[ing] the greenhouse gases that challenge our health even as they change our climate," but the US has as yet made no statements about specific emissions targets or timing.

The views of other countries vary considerably. The European Union has proposed that developed nations cut back 10-15% from 1990 levels by 2010 (and by an as-yet unspecified amount by 2005). Small island nations have proposed both earlier and larger cuts. Other nations, including Australia, Japan and Canada, have expressed concerns about moving too far, too fast, but have not made specific proposals.

Political Issues

The politics of this issue are difficult, at best. Any agreement at Kyoto will ultimately require both ratification by the Senate and passage of implementing legislation by both houses of Congress.

For many environmental groups, strong action on climate change is a litmus test for your environmental policy. If you fail to speak decisively on this issue in Denver (at the Summit) or New York (at the UNGA Special Session), their criticism will be intense.

On the other hand, there appears as yet to be only limited public support for the kinds of measures necessary to reduce greenhouse gas emissions domestically. Much of the business community is strongly opposed to action on climate change. Fossil fuel and heavy manufacturing companies are poised vigorously to attack any policies the environmental community might support. They will characterize any emissions control or trading scheme as a new tax - at \$50 to \$100 billion per year the largest ever enacted. Labor is increasingly opposed to action as well, largely in deference to the concerns of the United Mine Workers. Southern and western Republicans on the Hill are very skeptical about this agenda, as are midwestern and coal state Democrats.

II. OPTIONS

Earlier this week, we identified several options for principals concerning the U.S. position on emissions levels in the international climate change negotiations. Each option was defined in terms of a broad directional statement you might offer at the Denver Summit or

One that will use projected revenues of \$100 billion per year to fund a program to reduce greenhouse gas emissions. This is a very tax increase.

UNGA Special Session. Nonetheless, each is also described by a particular combination of emissions targets and timing, to help clarify the consequences of the position you take.

The meeting produced a considerable convergence of views. Most agencies (State, Commerce, Transportation, Energy, Agriculture, EPA, AID, OSTP and CEA) supported an option in which you would call for "stabilizing emissions in the medium term and reducing thereafter." In the parlance of the climate change negotiations, "stabilizing" means returning greenhouse gas emissions to 1990 levels and "medium term" means 2005-2020.

Several caveats are important:

First, many of these agencies conditioned their support on success in obtaining flexibility provisions (e.g., international emissions trading, joint implementation) and the participation of developing countries. These agencies generally believe that any statement you make concerning emissions levels should be coupled with a strong statement on the importance of these additional provisions. Some agencies believe we should not accept any agreement at Kyoto unless developing countries agree to eventual accession to emissions limits similar to developed countries.

Second, the Treasury Department and OMB have significant concerns about the economic costs and domestic political feasibility of achieving stabilization by in the 2010, the timeframe endorsed by most of your advisors. The Department of State and other agencies, however, believe that a commitment to stabilization by any later date would damage US credibility internationally and impair our ability to influence an international agreement. ~~These agencies note that opponents would characterize domestic emissions trading regime as a tax, with revenues larger than any tax increase yet considered by your administration. Treasury also focused on the potential wealth transfers possible under some control regimes, noting that these transfers could be several times the size of the tax cuts contemplated in the balanced budget agreement. Treasury note that cost estimates are based on the assumption that underlying economic growth rates through 2010 will average just over 2%, and that costs of achieving any target would increase if these growth rates were higher.~~

Third, many participants noted the magnitude of this decision for the second term agenda. There is a widely held view that we cannot take this on without you and the Vice President making this a top tier issue during the next several years. Some agencies think this could be the most significant issue you address in the second term.

Fourth, at least one agency (Energy) linked its support to strong administration backing for increased funding for greenhouse gas-related technology programs in the years ahead. OSTP argued that, with appropriate investments, we can meet both our climate change and economic goals with advanced technologies (such as the 80 mpg "supercar" being developed by the Partnership for a New Generation of Vehicles). Energy, EPA and

OSTP argue strongly that these technologies were not adequately considered in the economic modeling showing GDP and job losses. In contrast, the economic agencies argue that technology assumptions in the modeling are overly optimistic.

Finally, one agency (CEA) stated that if no agreement is reached Kyoto, the U.S. should consider taking relatively small unilateral actions to show good faith internationally, to start educating the American people and to begin creating the incentives for energy efficient investments.

In light of the foregoing, and after further discussions, we are identifying five options for you in Denver and New York. They are:

Option 1: Call for “significantly reducing emissions in the medium term.”

*Comment*¹—Interior Department supports this option, stating that strong measures are necessary to protect the resources it manages. Such a statement would be interpreted to be consistent with the E.U. proposal (a 10-15% cut from 1990 emissions levels by 2010).

Pros:

Environmental benefits could be large. EPA estimates non-climate benefits (such as reducing fine particles and ozone) would be tens of billions of dollars. Many environmental groups would be pleased.

Cons:

Could impose very large costs on the U.S. economy.
Business and labor would be very strongly opposed.
Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be close to zero.

Option 2: Call for “stabilizing emissions in the medium term and reducing thereafter.”
Emphasize that flexibility and the participation of all nations (including developing countries) are essential to addressing this problem.

Comment—This is the recommendation from most of the Cabinet. In making this recommendations, the Cabinet focused on a specific emissions target: stabilizing emissions at 1990 levels. **Most supported doing so by 2010 (although some agencies could support a timeframe stretching later, to 2015 or 2020).**

Pros:

→ *Conclusion support for these emission levels or*

¹ The “comment” label is unnecessary.

Allows you to take the high ground: committing the U.S. to meaningful emissions reductions, while insisting on other principles we consider vital to an agreement. Provides considerable flexibility for future development of our position: consistent with stabilizing emissions at 1990 levels anywhere between 2005 and 2020. Environmental benefits (both climate and non-climate) could be significant. Some environmental groups would be pleased; others would complain of lack of U.S. leadership.

Cons:

Overall economic impacts of this option ~~would be significant. Although the effects might ultimately be offset by investment of the revenues, GDP in 2010 could be reduced by 0.6% percent (\$60 billion) and consumption by 1%.~~ ~~(although GDP impacts could be transitory).~~

The price of gasoline would rise by as much as 40 cents per gallon. The price of coal could rise from under \$30 to over \$100 a ton, and the price of electricity in the Northeast could increase by __.

Dislocation in some sectors and regions (especially coal states and the Northeast) would be large and long-lasting.

Most business and labor groups would be opposed, ~~although some might support if the policy were coupled with other features they find attractive².~~

Without significant changes in the political landscape, the prospects in the next several years for ratification by the Senate and passage of implementing legislation in both houses would be poor.

Option 3: Call for “beginning to reduce emissions ~~growth~~ by 2005 and stabilizing emissions by ~~toward~~ (the end of) the medium term, with a commitment to further reductions thereafter.”

Comment: This option envisions an international regime that mandates starting emissions reductions earlier than Option 2, but reducing emissions to 1990 levels over a longer period of time. While less constraining than Option 2, the rhetoric used to describe this option (other than the 2005 component) could be substantially identical to the rhetoric for Option 2.

Pros:

² What evidence is there for this?

Calling for concrete action before 2010 could be portrayed as more activist and providing greater credibility for our efforts to obtain agreement on trading and developing nations.

Delayed the most stringent reductions would ~~target date~~ reduces economic costs substantially, by allowing capital stock to turn over at a natural rate and technology to improve.

~~Calling for early target date could be portrayed as an activist approach.
more?~~

Cons:

Would be criticized by environmental community as showing lack of leadership by delaying stabilization for more than two decades.

Would be criticized by moderate business groups (e.g. chemical companies, some utilities) who strongly oppose any target before the year 2010.

Would be criticized by more hard-line business groups (fossil fuel producers, heavy manufacturing) and many in organized labor who oppose any action on climate change.

May jeopardizes our ability to achieve flexibility provisions (e.g., international emissions trading, joint implementation) and developing country participation in international negotiations.

Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be poor.

Option 4: Call for “reducing emissions *growth* in the medium term, on the way to stabilization and eventual reduction of emissions.”

~~Comment:~~ For example, emissions would peak in 2010, return to 1990 levels in the longer term (i.e. after 2020) and decline thereafter.

Pros:

Economic costs would be relatively mild. Some economists would view this emissions path as consistent with one that would balance costs and benefits of climate change policy.

Opposition in the business and labor communities would be mild.

There is a chance an option along these lines would be ratified by the U.S. Senate in the next several years without major political changes.

Cons

With this option, there is no chance of obtaining international agreement on our “flexibility” or “developing country participation” proposals.

Criticism from other countries and U.S. environmental groups would be very strong. Environmental groups would equate your performance in New York with George Bush's performance at the 1992 Rio Earth Summit. Environmental benefits (both climate and non-climate) would be modest. Some economists (especially those who emphasize the environmental benefits of climate change policies) would criticize this option as inadequate.

Option 5: Call for "strong action on climate change" and "agreement in Kyoto." Say that the United States is continuing to study the issue of emissions levels and will elaborate on its position at a later time.

Comment: This roughly repeats prior statements by you and other administration officials.

Pros:

Leaves options open for future decisions.
Allows additional refinement of economic modeling runs before our position is announced.

Cons:

Would be strongly criticized by environmental groups, who would equate your performance in New York with George Bush's performance at the 1992 Rio Earth Summit.
Without more definition of our position on emissions levels soon, our ability to achieve agreement to flexibility and developing country provisions in Kyoto will be seriously impaired.

Material analyzing the environmental impacts of these options is attached as Appendix B. Material summarizing the projected economic impacts of Options 1 and 2 are presented in Appendix C. The interagency analysis team has not examined options that stabilize emissions at 1990 levels in 2020 or beyond (e.g. Options 3 and 4). Additional background material on climate change (including a discussion of domestic policy options) is attached as Appendix D.

ISSUE FOR DECISION

In your trips to the Denver Summit of the Eight (June 20-22) and UN General Assembly Special Session on Environment and Development (June 26), what should you say concerning the U.S. position on emissions levels under the climate treaty?

NEED FOR DECISION

To date, the U.S. has not supported any specific emissions levels under the climate treaty. Other countries and domestic constituencies are calling on us to state our views. At the Denver Summit of the Eight, Chancellor Kohl and others will press you on this issue. At the UNGA Special Session, media attention to this issue will be high. Both meetings offer excellent opportunities to advance and explain our position.

I. BACKGROUND

Climate change is an issue of vast scale. Decisions on the issue posed in this memorandum could have significant environmental, economic and political consequences.

The build-up of greenhouse gases in the atmosphere threatens fundamentally to alter the Earth's climate. Currently, greenhouse gas concentrations are at their highest level in more than 200,000 years. (See Appendix A). Absent policy interventions, concentrations by the end of the next century will reach the highest level in more than *50 million* years. Impacts are predicted to include sea level rise, the spread of infectious disease, more frequent and severe droughts and floods, loss of forest cover and shifts in agriculturally-productive regions. Absent policy interventions, global average temperatures by the end of the next century are projected to increase 2-6.5 degrees F., sea-level rise is projected to inundate more than 9000 square miles in the United States (with Florida and Louisiana most vulnerable) and an additional 50-80 million people are projected to contract malaria worldwide. According to a NOAA study, average July temperatures in Washington, D.C. by the end of the next century are expected to increase by 5-15 degrees F. (with greater humidity).

The cost of reducing greenhouse gas emissions is potentially substantial. The principal source of such emissions is the burning of fossil fuels, which powers the global economy. Meeting the emissions targets proposed by the European Union, for example, is projected to reduce U.S. GDP in 2005 by 0.1-1.0%, increase gasoline prices in 2010 by 20-25 cents per gallon and increase coal prices in 2010 by almost 180%. Without a well-functioning system of international emissions trading, these figures would roughly double. Private capital outflows associated with an international emissions trading regime are predicted to be roughly \$5 billion per year. Significantly, modeling indicates that economic losses from some policies are largely transitory: after an initial loss, the economy rebounds and catches up to its original growth path. Costs depend significantly on rates of technological innovation. Effects on some sectors of the economy will be much larger than effects on the economy as a whole.

This administration has been active on this issue since Earth Day 1993, at which time you pledged to return U.S. greenhouse gas emissions to 1990 levels by the year 2000, and then to continue the trend of reduced emissions. In October 1993, we issued the Climate Change Action Plan, made up of several dozen mostly voluntary programs, designed to meet that goal. (Due to Congressional budget cuts and other factors, the goal will be missed by a wide margin). U.S. negotiators have shaped the international climate change negotiations by calling for binding emissions targets, "flexibility" provisions (such as international emissions trading and joint implementation) that would significantly lower costs of meeting those targets, and the participation of developing countries. You have spoken to this issue several times in the past year, including in the 1997 State of the Union, where you called for "reduc[ing] the greenhouse gases that challenge our health even as they change our climate."

The politics of this issue are difficult, at best. For many environmental groups, strong action on climate change is a litmus test for your environmental policy. If you fail to speak

decisively on this issue in Denver (at the Summit) or New York (at the UNGA Special Session), their criticism will be intense. On the other hand, much of the business community is strongly opposed to action on climate change. Fossil fuel and heavy manufacturing companies are poised vigorously to attack any policies the environmental community might support. Labor is increasingly opposed to action on climate change, largely in deference to the concerns of the United Mine Workers. Southern and western Republicans on the Hill are very skeptical about this agenda, as are midwestern and coal state Democrats.

On June 4, the Los Angeles Times wrote "At two international summits this month, President Clinton will no doubt take some heat about U.S. sluggishness in combating global warming... The United States, which produces nearly one-quarter of all fossil fuel emissions and has an environmentally savvy administration, is the logical mediator of a compromise proposal."

II. OPTIONS

Earlier this week, we identified several options for principals concerning the U.S. position on emissions levels in the international climate change negotiations. Each option was defined in terms of a broad directional statement you might offer at the Denver Summit or UNGA Special Session.

The meeting produced a considerable convergence of views. Most agencies (State, Commerce, Transportation, Energy, Agriculture, EPA, AID, OSTP and CEA) supported an option in which you would call for "stabilizing emissions in the medium term and reducing thereafter." In the parlance of the climate change negotiations, this means stabilizing greenhouse — gas emissions at 1990 levels by roughly 2010 and reducing to lower levels thereafter.

Several caveats are important:

First, many of these agencies conditioned their support on success in obtaining flexibility provisions (e.g., international emissions trading, joint implementation) and the participation of developing countries. These agencies generally believe that any statement you make concerning emissions levels should be coupled with a strong statement on the importance of these additional provisions. Some agencies believe we should not accept any agreement at Kyoto unless developing countries agree to negotiate quantitative emissions limits.

Second, the Treasury Department has significant concerns. Larry Summers, in particular, spoke forcefully about the economic and political costs of stabilization and urged a less ambitious approach. Summers noted that cost estimates are based on the assumption that underlying economic growth rates through 2010 will average just over 2%, and that costs of achieving any target would increase if these growth rates were higher. Treasury also focused on the potential wealth transfers possible under some control regimes, noting that

these transfers could be several times the size of the tax cuts contemplated in the balanced budget agreement. OMB expressed similar concerns.

Third, many participants noted the magnitude of this decision for the second term agenda. There is a widely held view that we cannot take this on without you and the Vice President making this a top tier issue during the next several years.

Fourth, at least one agency (Energy) conditioned its support on strong administration backing for increased funding for greenhouse gas-related technology programs in the years ahead.

Finally, one agency (CEA) stated that the U.S. should take unilateral action to reduce greenhouse gas emissions if no agreement is reached in Kyoto. 

In light of the foregoing, and after further discussions, we are identifying four options for you in Denver and New York. They are:

Option 1: Call for "significantly reducing emissions in the medium term."

Comment: Interior Department supports this option, stating that strong measures are necessary to protect the resources it manages. Such a statement would be interpreted to be consistent with the E.U. proposal (a 10-15% cut from 1990 emissions levels by 2010).

This option could impose very large costs on the U.S. economy. Environmental benefits could also be large, especially when non-climate benefits (such as reducing fine particles and ozone) are considered. Many environmental groups would be pleased, but business and labor would be very strongly opposed. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be close to zero.

Option 2: Call for "stabilizing emissions in the medium term and reducing thereafter." Emphasize that flexibility and the participation of all nations (including developing countries) are essential to addressing this problem.

Comment: This is the recommendation from most of the Cabinet. It allows you to take the high ground: committing the U.S. to meaningful emissions reductions, while insisting on other principles we consider vital to an agreement. It lays the groundwork for refusing to sign a treaty in Kyoto, if we are unable to secure agreement on flexibility or developing country provisions.

Overall economic impacts of this option could be significant (although GDP impacts could be transitory). Dislocation in some sectors and regions (especially coal states) could be large. Environmental benefits (both climate and non-climate) could be significant. Some environmental groups would be pleased; others would complain of lack of U.S. leadership. Most business and labor groups would be opposed, although some might

support if the policy were coupled with other features they find attractive. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be poor.

(off or peak in the medium term)

Option 3: Call for “reducing emissions *growth* in the medium term, on the way to stabilization.”

Comment: This is consistent with views of the Treasury Department. Economic costs would be relatively mild, as would opposition in the business and labor communities. Environmental benefits (both climate and non-climate) would be modest. Criticism from other countries and U.S. environmental groups would be very strong. Environmental groups would equate your performance in New York with George Bush’s performance at the 1992 Rio Earth Summit.

With this option, there is no chance of obtaining international agreement on our “flexibility” or “developing country participation” proposals. Emphasizing the importance of these proposals in the context of this option would lead to especially scathing criticism. However, there is a chance an option along these lines would be ratified by the U.S. Senate in the next several years without major political changes.

Option 4: Call for “strong action on climate change” and “agreement in Kyoto.” Say that the United States is continuing to study the issue of emissions levels and will elaborate on its position at a later time.

Comment: This roughly repeats prior statements by you and other administration officials. It would be strongly criticized by environmental groups, who (here too) would equate your performance in New York with George Bush’s performance at the 1992 Rio Earth Summit.

This formulation would allow additional refinement of economic modeling runs before our position is announced. We are currently in the middle of peer review of this modeling. More time would produce additional validation of interagency modeling work, although we do not anticipate significant changes in the results.

*Not a
good reason
to do it*

Material analyzing the environmental impacts of these options is attached as Appendix B. Material summarizing the projected economic impacts of Options 1, 2 and 3 is presented in Appendix C. Additional background material on climate change (including a discussion of domestic policy options) is attached as Appendix D.

9 June 1997

Memo to David Sandalow

From: Alicia Munnell
Jeff Frankel

RE: POTUS memo on climate change

Thanks you for the opportunity to comment on the decision memo before it goes to the principals for review. We are very concerned with the memo as drafted, and cannot sign off without some significant changes that will make it more useful for the President and Vice-President. Our comments fall into four categories.

1. The CEA Position Mischaracterized. The CEA position is described incorrectly in the current draft. CEA believes that Option 2 is an expensive option--more expensive than portrayed in the accompanying tables--and not consistent with an optimal path that maximizes the benefit-cost ratio as recommended by most economists. Nevertheless, we believe that global climate change is a potentially significant problem that can be solved only by the participation of both developed and developing countries. For this reason, we would be willing to go beyond what most economists recommend as an optimal path for efficient emission reduction if, and only if, we could secure (a) LDC commitment to "evolution," that is, eventual accession to emission limits similar to the Annex I countries; and (b) a flexible international trading system. We would like this reasoning spelled out in the discussion of Option 2 in the memo.

Second, our view of unilateral action should be stated as follows:

"If no agreement is reached in Kyoto, the CEA believes that the US should consider taking smaller unilateral actions to show good faith internationally, to start educating the American people, and to begin creating the incentives for energy-efficient investments."

2. Economic impacts of emission restraints understated. The tables presented in Appendix C show the most optimistic plausible outcomes from the alternative emission restraints. As such, they should be included. But to give a fairer sense of the possible economic impacts, the memo also should include a second set of tables that assume (1) a lower rate of autonomous technological change (as suggested by the majority of the outside reviewers); and (2) a less optimal recycling of the domestic permit revenue such as reducing the personal income tax. In addition, all tables should include the decline in consumption as well as the decline in GDP.

3. Option 3 not well-developed. If the President and Vice-President do not want to sign on to a program with the enormous economic and political implications of Option 2, they need to have a viable alternative. As presented, Option 3 does not satisfy that criteria. Characterizing Option 3

as calling for “emission levels peaking at 2010, returning to 1990 levels in the longer term, and declining thereafter” would be more consistent with the international agenda. It would also be useful to spell out the benefits of such a proposal--namely, that its provisions are more likely to be adopted than those of the more ambitious plan.

4. The pros and cons of the options are not clearly spelled out. Each option should have a list of the three or four strongest arguments for and against. These should be more substantive than “take the high ground,” or “would equate your performance...with George Bush’s....” For example, suggested pros and cons for Option 2 would be as follows:

Pros

- Would allow the United States to show leadership on global climate change
- Would increase the likelihood of reaching agreement at Kyoto.
- Would produce substantial collateral benefits such reductions in ozone and PM.
- Coupled with demands for developing country provisions and flexibility, provides a principled way of negotiating internationally.

Cons

- Would dramatically alter the Nation’s fiscal structure, raising \$100-200 billion per year if emission permits were auctioned.
- Would raise the price of gasoline by as much as 40 cents per gallon; would as much as quadruple the price of coal from \$28/ton to \$113/ ton.
- Would reduce GDP by as much as 0.6 percent in 2010, and consumption by as much as y percent.
- Would have enormous regional and industry impacts.

Finally, we have attached some detailed editorial comments.

As we said at the beginning, we view the four points discussed above as being so serious that they preclude sending the memo even to the principals until the issues have been addressed.

Issues for Improving the IAT Modeling Effort

Summary of Reviewer Comments

Summary

The IAT draft report was a worthy first step in analyzing the impact of climate change policies on the US economy. This effort could be improved by using additional models and techniques, more adequately representing international and technological aspects, and by modeling the benefit side of policy options. There are also a number of second order details that could be dealt with in a more rigorous fashion.

First Order Issues

1. *Inadequate Models for the Purpose*

"The suite of models chosen for the analysis is simply inadequate." (Kopp) Specifically, they cannot deal sufficiently well with:

- current domestic policy options (a trading program)
- the effects of international flows on US trade balance and competitiveness
- technical progress and its costs

Reputable and more appropriate models do exist to address these issues, they should be used.

Specifics

- DRI -- This model is not adequate for the long-term economic forecasting being done. Furthermore, since it's treatment of trade and savings is controversial, we should not be overly reliant on its results.

"This model is especially appropriate for projecting the impacts of monetary and fiscal policy over a time frame of approximately two or three years. For longer term projections, however, it is highly inappropriate and has some important limitations that are well known to the community of economic forecasters. For example, the DRI long term projections are extremely sensitive to assumptions about energy prices...." Furthermore, it uses a fixed-coefficient input-output model, which goes against the primary objectives of climate policies. (Nordhaus & Jorgenson)

"The entire issue of the effect of deficits on saving is controversial, to say the least, and there is no agreement among economists that the way these issues are handled in the DRI model is correct." The DRI results indicate the energy intensive Hydraulic Cement and Primary Aluminum industries are among those that will most benefit from emissions reductions -- a very skeptical result. (DeCanio)

- Markal Macro -- "Not an economic model, and suffers from many weaknesses..." Should consider using a more rigorously tested model -- MERGE. (Kopp)
- SGM -- "The biggest limitation of models like SGM is the representation of the energy-economy interface... In particular, the representation of the cost of abatement

as flowing primarily through specific energy sector investments will not capture the other costs arising from changes in the scale and composition of economic activity. In addition, models like SGM may fail to adequately capture the opportunity costs of technical substitution, thus understating the costs of abatement policies. These models are typically based on a careful characterization of potential technical options, but without a full recognition of the tradeoffs faced by real economic agents.” (?)

- “Understanding the long term consequences of GHG accumulation requires a focus on how economic agents respond to market and non-market signals. None of the models you have selected can address this issue... Equally important, an evaluation of the adjustment costs imposed by policy requires a model of short and long term substitution in response to a different set of policy induced market and non-market signals. In this case, as well, the models are incapable of addressing the question.” (Smith)

Next Steps

- Add a computable general equilibrium model -- candidates include models constructed by Jorgenson and Wilcoxon, Goulder, and Harrison and Rutherford; as well as models from EPA. (Kopp)
- Add a trade model – “Until you employ a trade model that incorporates the effect of changing prices both within and across countries, [I recommend] that you drop the section on sectoral detail”. (Kopp?)

2. International Aspects

The analysis to date has ignored the possibly large effects of international flows resulting from an international carbon trading system. These could have a substantial impact on the US current account, which would require currency and/or capital adjustments. This needs to be factored into the analysis and cannot be done with the models currently being used.

Specifics:

- World Trade None of the models includes a sufficiently detailed representation of world trade to study the issue of international implementation and impacts. SGM, for example, models energy utilization in each of the regions included in the model. However trade in goods and services among the regions is not modeled.... This is another crippling deficiency of the analysis.” (N&J)
- Investment Diversion If only Annex 1 nations are included in an agreement, outsourcing and carbon leakage may be a problem. “If US firms move (or build new) factories in Mexico, rather than the U.S., this will reduce investment spending in the U.S. As a result, there will be less demand for investment goods and a smaller manufacturing sector overall. This effect needs to be examined carefully...” (Scott)
- International Emissions Permit Trading “I find it very implausible that allowing for international trades in emissions rights would reduce the price of permits by as much as predicted by the SGM model. Even if permit-selling countries initially have much lower costs of abatement... the marginal costs of abatement can be expected to rise

for the permit-selling countries as they undertake more abatement.” Does the SGM model capture this effect? (??)

Under global trading in emissions rights, what is assumed about non Annex-1 emissions constraints? Modeling this behaviour “will require a model with some ‘look-ahead’ capability.” (Richels)

Next Steps:

- Add a model capable of representing world trade.
- Run an alternative set of scenarios to evaluate the effects of a border equalization tax which could be used to reduce the effects of the cap system on trade and investment flows. (Scott)

3. Technology Change

Most reviewers (6 of 9) were skeptical of the rates of autonomous technological change and the way the “announcement effect” was represented. While most thought these were too high and not justified by the historical evidence, one reviewer believed they are too conservative. There is also concern that none of the models used can represent industry response to government policies and “announcements.” Without such capability, the results are highly suspect. In all, there is little consensus among experts as to how technological change will affect the costs of emissions reduction policies, nor how to model that process.

Specifics:

- Representation in Models -- “None of the models is well suited to take account of the more rapid diffusion of existing technologies that would accompany a clear and unambiguous price-like signal in favor of energy efficiency.” (DeCanio)

“To my knowledge [none of the models used] has any behavioral equations that would permit an anticipated change in energy prices to affect diffusion rates or rates of technological progress. Moreover, to my knowledge, no model has such behavioral links.” (Kopp)

“How is the announcement effect modeled? Do people run an inter-temporal optimization with look ahead to see what people would do now if the cost of using carbon is substantially higher in 20 years?” (Weyant)

“There is considerable confusion as to how the specified E/GDP ratio is actually implemented in each model. How does it affect the definition of the base case in the 1.25 scenario? What is the impact on the base case carbon emissions? Is it uniform across models?” (Richels)
- Assumptions -- “The sets of assumptions regarding energy efficiency trends seem unsubstantiated and to cover only the high end of the distribution.” Work by a number of researchers suggest trends more like .5 to .7. (Weyant)

“...many reviewers will be interested in the empirical support for the values chosen” for the announcement effect. (Richels?)

- Issues of Analysis -- The analysis appears to hold implicitly that both the current level and the current allocation of R&D is optimal. If this is not the case (and several studies indicate we underinvest in R&D), then increasing aggregate R&D would improve welfare. (DeCanio)
- Costs of Technology "It is quite plausible that the announcement of the policy would stimulate greater R&D and an associated increase in energy efficiency. However, such an improvement involves a resources cost: in general, additional resources must be devoted to R&D to generate this improvement. Knowledge-generating resources usually are not unemployed resources that can be obtained at no cost.... The baseline seems to assume that additional technological progress in energy efficient technologies does not involve any resource cost. This seems overly optimistic." (Goulder)

Next Steps:

- Mechanism of the Announcement Effect The announcement effect should not lead to an immediate increase in the rate of improvement in energy intensity. The "starting point" scenario should begin with the 1.0% increase and gradually increase the rate to 1.25% over time. (Kopp)
- Energy Efficiency Trends Use .5 or .7 as baseline and go .5 up and down for optimistic/pessimistic cases. (Weyant)
- "One experiment you may wish to conduct with Markal Macro is to explore the technology assumptions required to produce energy intensity reductions of the magnitudes discussed..." (Richels)

4. Benefits

Nearly every reviewer highlighted the need to examine the benefits as well as the costs of policy options. "Since the overall goal of U.S. policy is fundamental to everything that follows, inattention to the goals of policies is in our view a crippling deficiency..." (N&J)

Specifics

- "None of the models addresses the overall goals of us policy in the international arena or measures the extent to which different policies attain these goals. (N&J)
- The effort should consider the key policy "end states" (ultimate objectives) and evaluate options according to their effect on those end states. (Smith)

Next Steps

- "Inclusion of [the risks of climate change] using probabilistic decision analysis is within the capability of modern econmic analysis, and such calculations are crucial to assessing the full magnitude of the climate problem." (DeCanio)
- "Every effort should be made to quantify the benefits of carbon abatement and to integrate these estimates into a modeling framework that leads to the identification of the target and timetable as well as the cost." (Kopp)

Second Order Issues

Assumptions

- Baseline estimates for energy use and carbon emissions could be improved by running several scenarios of likely growth, especially for the Former Soviet Union. (Kopp) Additionally, the base case carbon emissions growth seem to be on the low side. (Kopp) “Oil and gas prices are assumed to rise, in contrast with the history of declining real prices over the period 1990-95. Coal prices are assumed to fall more slowly than in recent history. What is the basis for assuming faster price increases or slower price reductions than in the past?” (Goulder)
- Price Elasticities for Energy Demand in the DRI model may be on the high side. (Richels)
- Role of Monetary Policy It seems that results are “extremely sensitive to assumptions about monetary policy. The plausibility of these assumptions need to be examined... Is the Fed really going to act as suggested... Can monetary policy have these kinds of permanent effects on the growth rate? What effect does the recent budget agreement have on all of this?” (Richels)
- Nonconventional oil resources “I am hearing more and more talk about the availability of huge supplies of low-cost shale oil and tar sands at prices in the \$15 and \$20 per barrel range. If this turns out to be the case, baseline carbon emissions will be higher than projected as will the cost of a carbon constraint.” (Richels)

Next Steps:

- Considerably more sensitivity analysis is necessary to bound the range of costs. (Richels)
- Use more than one set of baseline assumptions. “We caution you... about the pitfalls in relying on a single set of assumptions for all the models. We recommend having a set of runs in which individual modelers use their own baseline assumptions for economic growth and energy utilization in order to describe the possible range of policy impacts.” (N&J)

Energy predictions could be compared to the poll results of the 1997 International Energy Workshop published by the International Institute for Applied Systems Analysis.

Scope of Analysis

Current modeling runs and efforts have focused on a few limited scenarios. Several reviewers suggested a more comprehensive analysis be undertaken to answer questions of timing and the optimal reduction.

Specifics

- Analysis is insufficient to answer the timing debate. Specifically, “the issues of concern first involve a target later than 2010 and second the idea that it is better to abate later while enhancing technological knowledge now so that the cost of abatement later is lower.” These are not dealt with in the current draft.

- Issues of intertemporal trading should be included in the analysis -- how many years should be in an emissions budget?
- “The [starting point scenario] may represent a reasonable starting point ... the degree to which you experiment with alternative emission constraints seems to be somewhat limited. ... you could examine what might constitute cost-effective strategies for limiting concentrations to alternative levels and *then* explore the implications for near-term mitigation decisions for Annex I nations... Alternatively, you could take an approach favored by many economists and employ cost benefit analysis as a guide to ... identify mitigation strategies that minimize the sum of costs and damages. ... I have seen very few economic analyses that suggest that stabilizing Annex I emissions at 1990 levels in 2010 or 2015 makes sense from the perspective of economic efficiency.” (Richels)
- “Our reading of the evidence is that current assessments do not support the idea of focusing primarily on stabilizing emissions, particularly when stabilization is limited to the high-income countries. Indeed, some analyses indicate that stabilizing emissions is worse than doing nothing.” Further analysis is needed to identify an “optimal” policy, which could serve as a benchmark for comparison. (N&J)

Next Steps

- “I urge those responsible for the IAT to take a careful look at the existing literature on this topic. Most particularly, I recommend the EMF-14 study which contains a wealth of useful information.” (Richels)

Alternative Metrics

- Why the focus on GDP when the report states consumption may be a better measure of consumer welfare? Figures based on consumption look much less optimistic. (Richels) There are alternative metrics for measuring impacts, but their use is not facilitated by the models being used. (Kopp)
- “For ease of comparison, it would be helpful if results were also summarized in terms of discounted present value. Since most of the present values will be negative, this will give some indication of how large the benefits from a climate policy must be in order to outweigh the costs.” (Richels)

Revenue Recycling

- “It is not generally accepted... that it is possible to tax ourselves into prosperity... The balance of evidence suggests that although recycling of pollution tax revenues through reducing other taxes is better than simply imposing the pollution taxes, the pollution taxes are justified only if they do ... produce environmental benefits.” (DeCanio)
- “Most of the policy analysis in the report assume that revenues [will be used to reduce the deficit]. This implicitly assumes that congress will agree to impose a huge tax on the economy... along with the restriction on emissions... For this reason, the best estimates of the effects of the most likely policies is provided in the “auction, 100% returned to consumers” case...” (?) This case, therefore, deserves more attention. Furthermore, to isolate the effect of the carbon emissions restriction

policies, the deficit reduction effect (from the personal income tax case) should be subtracted from the 1990 level case. (Scott)

- More information is needed to evaluate the way revenue recycling was modeled. “The effect of the policy depends critically on which taxes are reduced in the future in the same way that the effect of a policy involving current tax reductions depends critically on which taxes are lowered today.” Assumptions about future tax reductions should be made clearer. (Goulder)
- Theoretical and empirical work [indicates that grandfathered permit] policies are considerably more costly to the economy than if revenues are returned through cuts in other taxes. Yet the results in figure 13 are contrary. “I find this very implausible.” (Goulder)

Other

- The current modeling effort should be placed into the broader spectrum of other modeling being done (Stanford’s Energy Modeling Forum and others)
- “It should be pointed out that delayed implementation implies a smaller reduction in cumulative emissions.” (Goulder)
- “The time frame of analysis is unnecessarily short. The adverse effects of increasing atmospheric concentrations of GHGs occur primarily in the long run, so ending the analysis in the year 2020 necessarily cannot capture these effects.” (DeCanio)
- The models “omit feedbacks from conventional pollutants to the economy... Though far from definitive, modeling work by Jorgenson, Goulder, Boyd and Viscusi suggest that such feedbacks are quantitatively significant relative to other net economic impacts of climate policies.” (Repetto)

Dep Sec of Tr.
1. Help ~~L.S.~~, if asked?

2. If so, what suggestions?

- (i) explain blow up
- (ii) milder path
- (iii) level of language
- (iv) other actions?

3. If so, what should be our relationship to such suggestions?

4. What do we want to convey qua CEA.

Option 2
Concord
OMB

5. At some level +

ISSUE FOR DECISION

In your trips to the Denver Summit of the Eight (June 20-22) and UN General Assembly Special Session on Environment and Development (June 26), what should you say concerning the U.S. position on emissions levels under the climate treaty?

NEED FOR DECISION

To date, the U.S. has not supported any specific emissions levels under the climate treaty. Other countries and domestic constituencies are calling on us to state our views. At the Denver Summit of the Eight, Chancellor Kohl and others will press you on this issue. At the UNGA Special Session, media attention to this issue will be high. Both meetings offer excellent opportunities to advance and explain our position.

I. BACKGROUND

Climate change is an issue of vast scale. Decisions on the issue posed in this memorandum could have significant environmental, economic and political consequences.

The build-up of greenhouse gases in the atmosphere threatens fundamentally to alter the Earth's climate. Currently, greenhouse gas concentrations are at their highest level in more than 200,000 years. (See *Appendix A*). Absent policy interventions, concentrations by the end of the next century will reach the highest level in more than *50 million* years. Impacts are predicted to include sea level rise, the spread of infectious disease, more frequent and severe droughts and floods, loss of forest cover and shifts in agriculturally-productive regions. Absent policy interventions, global average temperatures by the end of the next century are projected to increase 2-6.5 degrees F., sea-level rise is projected to inundate more than 9000 square miles in the United States (with Florida and Louisiana most vulnerable) and an additional 50-80 million people [^] **have been** projected to contract malaria worldwide¹. According to a NOAA study, average July temperatures in Washington, D.C. by the end of the next century are expected to increase by 5-15 degrees F. (with greater humidity).

The **economic costs and domestic political challenges** of reducing greenhouse gas emissions are [^] **also** [^] substantial. The principal source of such emissions is the burning of fossil fuels, which powers the global economy. **Reducing emissions to the levels recommended by most of your cabinet would, for example, require emissions caps for domestic utilities, industry and transportation that would raise the price of gasoline by from __ to __ cents per gallon, could double the cost of coal and increase electricity prices in the Northeast by __%. The effects on coal production and use, especially in the Eastern US, would be**

¹ *Given the possibility that we might find a cure in the next two generations...*

severe. These effects could be cut roughly in half if, as the US has proposed, a Kyoto agreement permits trading of emissions rights with Russia and developed nations; however, the resulting capital outflows would be substantial (far larger than all our current aid to Russia), and it is unclear that such trading will be agreed to. ^ Economic modeling suggests ^ that, if the revenues raised by sale of emissions rights are used to offset taxes and reduce the deficit, overall economic losses will be less than 1% of GDP and ^ after an initial loss, the economy would rebound^ and catch^ up to its original growth path. However, the dislocations in some industries (e.g., coal) and some regions (e.g., New England) would be substantial.
^

This administration has been active on this issue since Earth Day 1993, at which time you pledged to return U.S. greenhouse gas emissions to 1990 levels by the year 2000, and then to continue the trend of reduced emissions. In October 1993, we issued the Climate Change Action Plan, made up of several dozen mostly voluntary programs, designed to **help** meet that goal. ^ Due in part to **substantial economic growth**^4^, the goal will be missed by a wide margin^ . U.S. negotiators have shaped the international climate change negotiations by calling for binding emissions targets, "flexibility" provisions (such as international emissions trading and joint implementation) that would significantly lower costs of meeting those targets, and the participation of developing countries. You have spoken to this issue several times in the past year, including in the 1997 State of the Union, where you called for "reduc[ing] the greenhouse gases that challenge our health even as they change our climate."

The politics of this issue are difficult^ at best. For many environmental groups, strong action on climate change is a litmus test for your environmental policy. If you fail to speak decisively on this issue in Denver (at the Summit) or New York (at the UNGA Special Session), their criticism will be intense. On June 4, the *Los Angeles Times* wrote "At two international summits this month, President Clinton will no doubt take some heat about U.S. sluggishness in combating global warming...The United States, which produces nearly one-quarter of all fossil fuel emissions and has an environmentally savvy administration, is the logical mediator of a compromise proposal."^

On the other hand, there appears as yet to be little public support for the kinds of measures necessary to reduce greenhouse gas emissions domestically. Much of the business community is strongly opposed to action on climate change. Fossil fuel and heavy manufacturing companies are poised vigorously to attack any policies the environmental

² *Since the EU proposal excludes international trading, if we're going to use the EU proposal we should use the "without trading" estimates.*

³ *What the derivation of the \$5b estimate of Annex I transfers? It seems low.*

⁴ *The notion that the difference between proposed and appropriated CCAP levels is responsible for missing the 2000 target is farcical and doesn't stand up to even rudimentary analysis. If you're going to include it, at least note that CCAP's effectiveness is uncertain, and that some agencies believe that economic growth is (by far) the more important factor.*

community might support. Labor is increasingly opposed to action as well[^], largely in deference to the concerns of the United Mine Workers. Southern and western Republicans on the Hill are very skeptical about this agenda, as are midwestern and coal state Democrats. **Your advisors are convinced that, for any proposal successfully to be ratified and implemented by legislation, it will require a major political and educational effort, both by you and the Vice President.**

^

II. OPTIONS

Earlier this week, we identified several options for principals concerning the U.S. position on emissions levels in the international climate change negotiations. Each option was defined in terms of a broad directional statement you might offer at the Denver Summit or UNGA Special Session.

The meeting produced a considerable convergence of views. Most agencies (State, Commerce, Transportation, Energy, Agriculture, EPA, AID, OSTP and CEA) supported an option in which you would call for "stabilizing emissions in the medium term and reducing thereafter." In the parlance of the climate change negotiations, this means stabilizing greenhouse gas emissions at 1990 levels by roughly 2010 – **roughly a 20%-25% cut from where they otherwise might be** – and reducing to lower levels thereafter.

Several caveats are important:

First, many of these agencies conditioned their support on success in obtaining flexibility provisions (e.g., international emissions trading, joint implementation) and the participation of developing countries. These agencies generally believe that any statement you make concerning emissions levels should be coupled with a strong statement on the importance of these additional provisions. Some agencies believe we should not accept any agreement at Kyoto unless developing countries agree to negotiate quantitative emissions limits.

Second, the Treasury Department and OMB have[^] significant concerns **about the political feasibility and economic costs of implementing stabilization in the 2010 timeframe.** ^ These agencies note that opponents will characterize the emissions cap and trading regulatory program as a tax, and that revenues from it will be larger than any tax increase yet considered by your Administration. Larry Summers also noted that the economic modeling's relatively benign effects on future GDP are the result of assumptions about economic growth (just over 2%) and technological improvements (Treasury believes they are optimistic)[^], and that costs of achieving any target would increase if [^] growth rates turn out to be [^] higher or technological development slower. Treasury also focused on the potential wealth transfers possible under some control regimes, noting that these transfers could be several times the size of

the tax cuts contemplated in the balanced budget agreement. OMB expressed similar concerns.

Third, many participants noted the magnitude of this decision for the second term agenda. There is a widely held view that we cannot take this on without you and the Vice President making this a top tier issue during the next several years.

Fourth, at least one agency (Energy) conditioned its support on strong administration backing for increased funding for greenhouse gas-related technology programs (**many of which are operated by DoE**) in the years ahead.

Finally, one agency (CEA) stated that the U.S. should take unilateral action to reduce greenhouse gas emissions if no agreement is reached in Kyoto.

In light of the foregoing, and after further discussions, we are identifying four options for you in Denver and New York. They are:

Option 1: Call for "significantly reducing emissions in the medium term."

^ Interior Department supports this option, stating that strong measures are necessary to protect the resources it manages. Such a statement would be interpreted to be consistent with the E.U. proposal (a 10-15% cut from 1990 emissions levels by 2010).

This option could impose very large costs on the U.S. economy. Environmental benefits could also be large, especially when non-climate benefits (such as reducing fine particles and ozone) are considered. Many environmental groups would be pleased, but business and labor would be very strongly opposed. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be close to zero.

Option 2: Call for "stabilizing emissions in the medium term and reducing thereafter."
Emphasize that flexibility and the participation of all nations (including developing countries) are essential to addressing this problem.

^ This is the recommendation from most of the Cabinet. It allows you to take the high ground: committing the U.S. to meaningful emissions reductions, while insisting on other principles we consider vital to an agreement. It lays the groundwork for refusing to sign a treaty in Kyoto, if we are unable to secure agreement on flexibility or developing country provisions.

Overall economic impacts of this option could be significant (although GDP impacts could be transitory). Dislocation in some sectors and regions (especially coal states) could be large. Environmental benefits (both climate and non-climate) could be significant. Some environmental groups would be pleased; others would complain of

lack of U.S. leadership. Most business and labor groups would be opposed, although some might support if the policy were coupled with other features they find attractive. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be poor.

Option 3: Call for "*beginning to reduce*[^] emissions *growth* by 2005, stabilizing within the medium term, with further reductions thereafter[^]."

[^] T[^]he Treasury Department would argue for a combination of early but more modest initial reductions (starting in 2005 rather than waiting until 2010), deferral of the stabilization date until later in the period (say 2015 or 2020) and further reductions thereafter. Economic costs would be much [^] milder, as would opposition in the business and labor communities. It is possible that such an approach, with a major effort on your part, might win ratification of a Kyoto treaty. However, [^] we think it would reduce the chance of reaching an agreement in Kyoto and that we would lose any opportunity to get a consensus for flexibility or the participation of developing nations. Criticism from other countries and U.S. environmental groups would be very strong. [Environmental groups would equate your performance in New York with George Bush's performance at the 1992 Rio Earth Summit.⁵]

[^]

Option 4: Call for "[^] real action on climate change" and "agreement in Kyoto." Say that the United States is continuing to study the issue of emissions levels and will elaborate on its position at a later time.

This roughly repeats prior statements by you and other administration officials. It would be strongly criticized by environmental groups, who [^] would equate your performance in New York with George Bush's performance at the 1992 Rio Earth Summit.

This formulation would allow **further** [^] economic **analysis** [^] before our position is announced. ^{^6^}

Material analyzing the environmental impacts of these options is attached as Appendix B. Material summarizing the projected economic impacts of Options 1 and [^] 2 [^] is presented in Appendix C; **there has not yet been any economic analysis of Option 3 or any other proposal for stabilization post 2010**. Additional background material on climate change (including a discussion of domestic policy options) is attached as Appendix D.

⁵ *I think that, if the proposal included acting sooner than 2010, this sentence is a bit of overkill.*

⁶ *Since we never completed analyzing the full range of possibilities and since the peer review is relatively critical, I wouldn't suggest that we hang everything on more analysis.*

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I. BACKGROUND

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The build-up of greenhouse gases in the atmosphere threatens fundamentally to alter the Earth's climate. Currently, greenhouse gas concentrations are at their highest level in more than 200,000 years. (See Appendix A). Absent policy interventions, concentrations by the end of the next century will reach the highest level in more than 50 million years. Impacts are predicted to include sea level rise, the spread of infectious disease, more frequent and severe droughts and floods, loss of forest cover and shifts in agriculturally-productive regions. Absent policy interventions, global average temperatures by the end of the next century are projected to increase 2-6.5 degrees F., sea-level rise is projected to inundate more than 9000 square miles in the United States (with Florida and Louisiana most vulnerable) and an additional 50-80 million people are projected to contract malaria worldwide. According to a NOAA study, average July temperatures in Washington, D.C. by the end of the next century are expected to increase by 5-15 degrees F. (with greater humidity).

The cost of reducing greenhouse gas emissions is potentially substantial. The principal source of such emissions is the burning of fossil fuels, which powers the global economy. Meeting the emissions targets proposed by the European Union, for example, is projected to reduce U.S. GDP in 2005 by 0.1-1.0%, increase gasoline prices in 2010 by 20-25 cents per gallon and increase coal prices in 2010 by almost 180%. Without a well-functioning system of international emissions trading, these figures would roughly double. Private capital outflows associated with an international emissions trading regime are predicted to be roughly \$5 billion per year. Significantly, modeling indicates that economic losses from some policies are largely transitory: after an initial loss, the economy rebounds and catches up to its original growth path. Costs depend significantly on rates of technological innovation. Effects on some sectors of the economy will be much larger than effects on the economy as a whole.

This administration has been active on this issue since Earth Day 1993, at which time you pledged to return U.S. greenhouse gas emissions to 1990 levels by the year 2000, and then to continue the trend of reduced emissions. In October 1993, we issued the Climate Change Action Plan, made up of several dozen mostly voluntary programs, designed to meet that goal. (Due to Congressional budget cuts and other factors, the goal will be missed by a wide margin). U.S. negotiators have shaped the international climate change negotiations by calling for binding emissions targets, "flexibility" provisions (such as international emissions trading and joint implementation) that would significantly lower costs of meeting those targets, and the participation of developing countries. You have spoken to this issue several times in the past year, including in the 1997 State of the Union, where you called for "reduc[ing] the greenhouse gases that challenge our health even as they change our climate."

The politics of this issue are difficult, at best. For many environmental groups, strong action on climate change is a litmus test for your environmental policy. If you fail to speak decisively on this issue in Denver (at the Summit) or New York (at the UNGA Special Session), their criticism will be intense. On the other hand, much of the business community is strongly opposed to action on climate change. Fossil fuel and heavy manufacturing companies are poised vigorously to attack any policies the environmental community might support. Labor is increasingly opposed to action on climate change, largely in deference to the concerns of the United Mine Workers. Southern and western Republicans on the Hill are very skeptical about this agenda, as are midwestern and coal state Democrats.

II. OPTIONS

Earlier this week, we identified several options for principals concerning the U.S. position on emissions levels in the international climate change negotiations. Each option was defined in terms of a broad directional statement you might offer at the Denver Summit or UNGA Special Session.

The meeting produced a considerable convergence of views. Most agencies (State, Commerce, Transportation, Energy, Agriculture, EPA, AID, OSTP and CEA) supported an option in which you would call for “stabilizing emissions in the medium term and reducing thereafter.” In the parlance of the climate change negotiations, this means stabilizing greenhouse gas emissions at 1990 levels by roughly 2010 and reducing to lower levels thereafter.

Several caveats are important:

First, many of these agencies conditioned their support on success in obtaining flexibility provisions (e.g., international emissions trading, joint implementation) and the participation of developing countries. These agencies generally believe that any statement you make concerning emissions levels should be coupled with a strong statement on the importance of these additional provisions. Some agencies believe we should not accept any agreement at Kyoto unless developing countries agree to negotiate quantitative emissions limits.

Second, the Treasury Department has significant concerns. Larry Summers, in particular, spoke forcefully about the economic and political costs of stabilization and urged a less ambitious approach. Summers noted that cost estimates are based on the assumption that underlying economic growth rates through 2010 will average just over 2%, and that costs of achieving any target would increase if these growth rates were higher. Treasury also focused on the potential wealth transfers possible under some control regimes, noting that these transfers could be several times the size of the tax cuts contemplated in the balanced budget agreement. OMB expressed similar concerns.

Third, many participants noted the magnitude of this decision for the second term agenda. There is a widely held view that we cannot take this on without you and the Vice President making this a top tier issue during the next several years.

Fourth, at least one agency (Energy) linked its support on strong administration backing for increased funding for greenhouse gas-related technology programs in the years ahead. OSTP argued that, with appropriate investments, we can meet both our climate change and economic goals with advanced technologies (such as the 80 mpg “supercar” being developed by the Partnership for a New Generation of Vehicles). Energy, EPA and OSTP argue strongly that these technologies were not adequately considered in the economic modeling showing GDP and job losses.

Finally, one agency (CEA) stated that the U.S. should take unilateral action to reduce greenhouse gas emissions if no agreement is reached in Kyoto.

In light of the foregoing, and after further discussions, we are identifying four options for you in Denver and New York. They are:

Option 1: Call for “significantly reducing emissions in the medium term.”

Comment: Interior Department supports this option, stating that strong measures are necessary to protect the resources it manages. Such a statement would be interpreted to be consistent with the E.U. proposal (a 10-15% cut from 1990 emissions levels by 2010).

This option could impose very large costs on the U.S. economy. Environmental benefits could also be large, especially when non-climate benefits (such as reducing fine particles and ozone) are considered. Many environmental groups would be pleased, but business and labor would be very strongly opposed. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be close to zero.

**Option 2: Call for “stabilizing emissions in the medium term and reducing thereafter.”
Emphasize that flexibility and the participation of all nations (including developing countries) are essential to addressing this problem.**

Comment: This is the recommendation from most of the Cabinet. It allows you to take the high ground: committing the U.S. to meaningful emissions reductions, while insisting on other principles we consider vital to an agreement. It lays the groundwork for refusing to sign a treaty in Kyoto, if we are unable to secure agreement on flexibility or developing country provisions.

Overall economic impacts of this option could be significant (although GDP impacts could be transitory). Dislocation in some sectors and regions (especially coal states) could be large. Environmental benefits (both climate and non-climate) could be significant. Some environmental groups would be pleased; others would complain of lack of U.S. leadership. Most business and labor groups would be opposed, although some might support if the policy were coupled with other features they find attractive. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be poor.

Option 3: Call for “reducing emissions *growth* in the medium term, on the way to stabilization.”

Comment: This is consistent with views of the Treasury Department. Economic costs would be relatively mild, as would opposition in the business and labor communities. Environmental benefits (both climate and non-climate) would be modest. Criticism from other countries and U.S. environmental groups would be very strong. Environmental groups would equate your performance in New York with George Bush’s performance at the 1992 Rio Earth Summit.

With this option, there is no chance of obtaining international agreement on our “flexibility” or “developing country participation” proposals. Emphasizing the importance of these proposals in the context of this option would lead to especially scathing criticism. However, there is a chance an option along these lines would be ratified by the U.S. Senate in the next several years without major political changes.

Option 4: Call for “strong action on climate change” and “agreement in Kyoto.” Say that the United States is continuing to study the issue of emissions levels and will elaborate on its position at a later time.

Comment: This roughly repeats prior statements by you and other administration officials. It would be strongly criticized by environmental groups, who (here too) would equate your performance in New York with George Bush’s performance at the 1992 Rio Earth Summit.

This formulation would allow additional refinement of economic modeling runs before our position is announced. We are currently in the middle of peer review of this modeling. More time would produce additional validation of interagency modeling work, although we do not anticipate significant changes in the results.

Material analyzing the environmental impacts of these options is attached as Appendix B. Material summarizing the projected economic impacts of Options 1, 2 and 3 is presented in Appendix C. Additional background material on climate change (including a discussion of domestic policy options) is attached as Appendix D.

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Pages (inc. cover): 7

Subject : **Blacklined Version of Revised CC Memo**

See what you could do if you had Word instead of Word(im)Perfect?

ISSUE FOR DECISION

In your trips to the Denver Summit of the Eight (June 20-22) and UN General Assembly Special Session on Environment and Development (June 26), what should you say concerning the U.S. position on emissions levels under the climate treaty?

NEED FOR DECISION

To date, the U.S. has not supported any specific emissions levels under the climate treaty. Other countries and domestic constituencies are calling on us to state our views. At the Denver Summit of the Eight, Chancellor Kohl and others will press you on this issue. At the UNGA Special Session, media attention to this issue will be high. Both meetings offer excellent opportunities to advance and explain our position.

I. BACKGROUND

Climate change is an issue of vast scale. Decisions on the issue posed in this memorandum could have significant environmental, economic and political consequences.

The build-up of greenhouse gases in the atmosphere threatens fundamentally to alter the Earth's climate. Currently, greenhouse gas concentrations are at their highest level in more than 200,000 years. (See *Appendix A*). Absent policy interventions, concentrations by the end of the next century will reach the highest level in more than 50 million years. Impacts are predicted to include sea level rise, the spread of infectious disease, more frequent and severe droughts and floods, loss of forest cover and shifts in agriculturally-productive regions. Absent policy interventions, global average temperatures by the end of the next century are projected to increase 2-6.5 degrees F., sea-level rise is projected to inundate more than 9000 square miles in the United States (with Florida and Louisiana most vulnerable) and an additional 50-80 million people are have been projected to contract malaria worldwide¹. According to a NOAA study, average July temperatures in Washington, D.C. by the end of the next century are expected to increase by 5-15 degrees F. (with greater humidity).

The economic costs and domestic political challenges of reducing greenhouse gas emissions are ~~is also potentially~~ substantial. The principal source of such emissions is the burning of fossil fuels, which powers the global economy. Reducing emissions to the levels recommended by most of your cabinet would, for example, require emissions caps for domestic utilities, industry and transportation that would raise the price of gasoline by from ___ to ___ cents per gallon, could double the cost of coal and increase electricity prices in the Northeast by ___%. The effects on coal production and use, especially in the Eastern US, would be severe. These effects could be cut roughly in half if, as the US has proposed, a Kyoto agreement permits trading of emissions rights with Russia and developed nations; however, the resulting capital outflows would be substantial (far larger than all our current aid to

¹ *Given the possibility that we might find a cure in the next two generations ...*

Russia), and it is unclear that such trading will be agreed to. ~~Meeting the emissions targets proposed by the European Union, for example, is projected to reduce U.S. GDP in 2005 by 0.1-1.0%, increase gasoline prices in 2010 by 20-25 cents per gallon and increase coal prices in 2010 by almost 180%. Without a well-functioning system of international emissions trading, these figures would roughly double². Private capital outflows associated with an international emissions trading regime are predicted to be roughly \$5 billion³ per year.~~ Significantly, Economic modeling suggests indicates that, if the revenues raised by sale of emissions rights are used to offset taxes and reduce the deficit, overall economic losses will be less than 1% of GDP and ~~from some policies are largely transitory~~; after an initial loss, the economy would rebound and catches up to its original growth path. However, the dislocations in some industries (e.g., coal) and some regions (e.g., New England) would be substantial. ~~Costs depend significantly on rates of technological innovation. Effects on some sectors of the economy will be much larger than effects on the economy as a whole.~~

This administration has been active on this issue since Earth Day 1993, at which time you pledged to return U.S. greenhouse gas emissions to 1990 levels by the year 2000, and then to continue the trend of reduced emissions. In October 1993, we issued the Climate Change Action Plan, made up of several dozen mostly voluntary programs, designed to help meet that goal. (Due in part to substantial economic growth ^{Congressional budget cuts⁴} and other factors, the goal will be missed by a wide margin). U.S. negotiators have shaped the international climate change negotiations by calling for binding emissions targets, "flexibility" provisions (such as international emissions trading and joint implementation) that would significantly lower costs of meeting those targets, and the participation of developing countries. You have spoken to this issue several times in the past year, including in the 1997 State of the Union, where you called for "reduc[ing] the greenhouse gases that challenge our health even as they change our climate."

The politics of this issue are difficult, at best. For many environmental groups, strong action on climate change is a litmus test for your environmental policy. If you fail to speak decisively on this issue in Denver (at the Summit) or New York (at the UNGA Special Session), their criticism will be intense. On June 4, the *Los Angeles Times* wrote "At two international summits this month, President Clinton will no doubt take some heat about U.S. sluggishness in combating global warming...The United States, which produces nearly one-quarter of all fossil fuel emissions and has an environmentally savvy administration, is the logical mediator of a compromise proposal."

² *Since the EU proposal excludes international trading, if we're going to use the EU proposal we should use the "without trading" estimates.*

³ *What the derivation of the \$5b estimate of Annex I transfers? It seems low.*

⁴ *The notion that the difference between proposed and appropriated CCAP levels is responsible for missing the 2000 target is farcical and doesn't stand up to even rudimentary analysis. If you're going to include it, at least note that CCAP's effectiveness is uncertain, and that some agencies believe that economic growth is (by far) the more important factor.*

On the other hand, there appears as yet to be little public support for the kinds of measures necessary to reduce greenhouse gas emissions domestically. Much of the business community is strongly opposed to action on climate change. Fossil fuel and heavy manufacturing companies are poised vigorously to attack any policies the environmental community might support. Labor is increasingly opposed to action as well ~~on climate change~~, largely in deference to the concerns of the United Mine Workers. Southern and western Republicans on the Hill are very skeptical about this agenda, as are midwestern and coal state Democrats. Your advisors are convinced that, for any proposal successfully to be ratified and implemented by legislation, it will require a major political and educational effort, both by you and the Vice President.

~~On June 4, the Los Angeles Times wrote "At two international summits this month, President Clinton will no doubt take some heat about U.S. sluggishness in combating global warming... The United States, which produces nearly one quarter of all fossil fuel emissions and has an environmentally savvy administration, is the logical mediator of a compromise proposal."~~

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The meeting produced a considerable convergence of views. Most agencies (State, Commerce, Transportation, Energy, Agriculture, EPA, AID, OSTP and CEA) supported an option in which you would call for "stabilizing emissions in the medium term and reducing thereafter." In the parlance of the climate change negotiations, this means stabilizing greenhouse gas emissions at 1990 levels by roughly 2010 – roughly a 20%-25% cut from whether they otherwise might be – and reducing to lower levels thereafter.

Several caveats are important:

First, many of these agencies conditioned their support on success in obtaining flexibility provisions (e.g., international emissions trading, joint implementation) and the participation of developing countries. These agencies generally believe that any statement you make concerning emissions levels should be coupled with a strong statement on the importance of these additional provisions. Some agencies believe we should not accept any agreement at Kyoto unless developing countries agree to negotiate quantitative emissions limits.

Second, the Treasury Department and OMB have significant concerns about the political feasibility and economic costs of implementing stabilization in the 2010 timeframe. ~~Larry Summers, in particular,~~ These agencies note that opponents will characterize the emissions cap and trading regulatory program as a tax, and that

revenues from it will be larger than any tax increase yet considered by your Administration. Larry Summers also noted that the economic modeling's relatively benign effects on future GDP are the result of assumptions about economic growth (just over 2%) and technological improvements (Treasury believes they are optimistic) ~~spoke forcefully about the economic and political costs of stabilization and urged a less ambitious approach. Summers noted that cost estimates are based on the assumption that underlying economic growth rates through 2010 will average just over 2%, and that costs of achieving any target would increase if these growth rates turn out to be were higher or technological development slower.~~ Treasury also focused on the potential wealth transfers possible under some control regimes, noting that these transfers could be several times the size of the tax cuts contemplated in the balanced budget agreement. OMB expressed similar concerns.

Third, many participants noted the magnitude of this decision for the second term agenda. There is a widely held view that we cannot take this on without you and the Vice President making this a top tier issue during the next several years.

Fourth, at least one agency (Energy) conditioned its support on strong administration backing for increased funding for greenhouse gas-related technology programs (many of which are operated by DoE) in the years ahead.

Finally, one agency (CEA) stated that the U.S. should take unilateral action to reduce greenhouse gas emissions if no agreement is reached in Kyoto.

In light of the foregoing, and after further discussions, we are identifying four options for you in Denver and New York. They are:

Option 1: Call for "significantly reducing emissions in the medium term."

~~Comment:~~ Interior Department supports this option, stating that strong measures are necessary to protect the resources it manages. Such a statement would be interpreted to be consistent with the E.U. proposal (a 10-15% cut from 1990 emissions levels by 2010).

This option could impose very large costs on the U.S. economy. Environmental benefits could also be large, especially when non-climate benefits (such as reducing fine particles and ozone) are considered. Many environmental groups would be pleased, but business and labor would be very strongly opposed. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be close to zero.

Option 2: Call for "stabilizing emissions in the medium term and reducing thereafter." Emphasize that flexibility and the participation of all nations (including developing countries) are essential to addressing this problem.

~~Comment:~~ This is the recommendation from most of the Cabinet. It allows you to take the high ground: committing the U.S. to meaningful emissions reductions, while insisting on other principles we consider vital to an agreement. It lays the groundwork for refusing to sign a treaty in Kyoto, if we are unable to secure agreement on flexibility or developing country provisions.

Overall economic impacts of this option could be significant (although GDP impacts could be transitory). Dislocation in some sectors and regions (especially coal states) could be large. Environmental benefits (both climate and non-climate) could be significant. Some environmental groups would be pleased; others would complain of lack of U.S. leadership. Most business and labor groups would be opposed, although some might support if the policy were coupled with other features they find attractive. Without significant changes in the political landscape, the prospects for ratification by the Senate in the next several years would be poor.

Option 3: Call for "~~beginning to reduce~~*ing* emissions growth by 2005, stabilizing within the medium term, with further reductions thereafter, ~~on the way to stabilization.~~"

~~Comment:~~ This is consistent with views of the Treasury Department would argue for a combination of early but more modest initial reductions (starting in 2005 rather than waiting until 2010), deferral of the stabilization date until later in the period (say 2015 or 2020) and further reductions thereafter. Economic costs would be much ~~relatively~~ milder, as would opposition in the business and labor communities. It is possible that such an approach, with a major effort on your part, might win ratification of a Kyoto treaty. However, ~~Environmental benefits (both climate and non-climate) would be modest~~ we think it would reduce the chance of reaching an agreement in Kyoto and that we would lose any opportunity to get a consensus for flexibility or the participation of developing nations. Criticism from other countries and U.S. environmental groups would be very strong. [Environmental groups would equate your performance in New York with George Bush's performance at the 1992 Rio Earth Summit.⁵]

~~With this option, there is no chance of obtaining international agreement on our "flexibility" or "developing country participation" proposals. Emphasizing the importance of these proposals in the context of this option would lead to especially scathing criticism. However, there is a chance an option along these lines would be ratified by the U.S. Senate in the next several years without major political changes.~~

Option 4: Call for "~~strong~~*real* action on climate change" and "agreement in Kyoto." Say that the United States is continuing to study the issue of emissions levels and will elaborate on its position at a later time.

This roughly repeats prior statements by you and other administration officials. It would be strongly criticized by environmental groups, who ~~(here too)~~ would equate

⁵ I think that, if the proposal included acting sooner than 2010, this sentence is a bit of overkill.

your performance in New York with George Bush's performance at the 1992 Rio Earth Summit.

This formulation would allow further ~~additional refinement of economic analysis modeling runs before our position is announced.~~ ^{We are currently in the middle of peer review of this modeling.}
~~More time would produce additional validation of interagency modeling work, although we do not anticipate significant changes in the results.~~⁶

Material analyzing the environmental impacts of these options is attached as Appendix B.

Material summarizing the projected economic impacts of Options 1 and, 2 ~~and 3~~ is presented in Appendix C; there has not yet been any economic analysis of Option 3 or any other proposal for stabilization post 2010. Additional background material on climate change (including a discussion of domestic policy options) is attached as Appendix D.

⁶ *Since we never completed analyzing the full range of possibilities and since the peer review is relatively critical, I wouldn't suggest that we hang everything on more analysis.*

0 Rings + Low

Rubin P-15

LS + Katie

blow up

LS

never fit

***FRANKEL_J@CEA_2**
Friday June 6, 1997

- 8:00a
- 9:00a CONFERENCE CALL (66755/66-CODE 6826)
- 9:00a
- 10:00a
- 11:00a T1/T2 MTG RE ECONOMIC ASSUMPTIONS TO
BE PUBLISHED IN MIDSESSION REVIEW, RM
314
- 12:00p NEC PRINCIPALS MEETING RE LONG TERM
-12:45 PLANNING, ROOSEVELT ROOM
- 12:30p CEA LUNCH SEMINAR W/HANK FARBER RE
DISPLACED WORKERS
- 1:00p
- 2:00p WEB PLANNING
- 3:00p
- 4:00p FAREWELL PARTY FOR CEA STAFF, OEOB
BOWLING ALLEY
- 5:00p NEC PRINCIPALS MTG ON AFRICA TRADE
INITIATIVES, ROOSEVELT ROOM, W/J
MONTGOMERY
- 7:00p REL: REL: BLUE CHIP (EMB 6/10) (AM),
MARKET MEMO (JAF)

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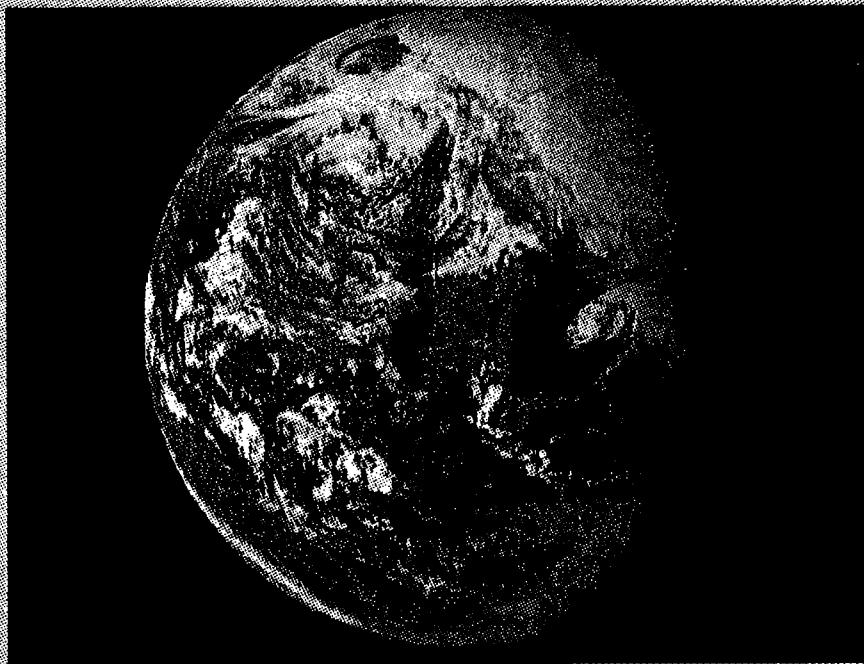
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PRMC + 1 - Dec 18

Climate Change Principals

Decision Memorandum



June 2, 1997