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Climate Change Testimony

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LRM ID: EHF382

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
Washington, D.C. 20503-0001

Wednesday, February 18, 1998

LEGISLATIVE REFERRAL MEMORANDUM

TO: Legislative Liaison Officer - See Distribution below
Ronald K. Peterson

FROM: Ronald K. Peterson (for) Assistant Director for Legislative Reference

OMB CONTACT: Robert J. Tuccillo

PHONE: (202)395-5809 FAX: (202)395-5836

SUBJECT: ADDITIONAL STATE Qs and As on Global Climate Change

DEADLINE: 4:00 PM Friday, February 20, 1998

In accordance with OMB Circular A-19, OMB requests the views of your agency on the above subject before advising on its relationship to the program of the President. Please advise us if this item will affect direct spending or receipts for purposes of the "Pay-As-You-Go" provisions of Title XIII of the Omnibus Budget Reconciliation Act of 1990.

COMMENTS: These questions complete the set coming out of the 7/15/97 Commerce Committee Global Climate hearing. Your agency received the first portion on 9/25/97 as LRM EHF265. Attached are the questions missing from the earlier package.

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LRM ID: EHF382 SUBJECT: ADDITIONAL STATE Qs and As on Global Climate Change

RESPONSE TO LEGISLATIVE REFERRAL MEMORANDUM

If your response to this request for views is short (e.g., concur/no comment), we prefer that you respond by e-mail or by faxing us this response sheet. If the response is short and you prefer to call, please call the branch-wide line shown below (NOT the analyst's line) to leave a message with a legislative assistant.

You may also respond by:

- (1) calling the analyst/attorney's direct line (you will be connected to voice mail if the analyst does not answer); or
(2) sending us a memo or letter

Please include the LRM number shown above, and the subject shown below.

TO: Robert J. Tuccillo Phone: 395-5609 Fax: 395-5836
Office of Management and Budget
Branch-Wide Line (to reach legislative assistant): 395-4588

FROM: (Date)
(Name)
(Agency)
(Telephone)

The following is the response of our agency to your request for views on the above-captioned subject:

- Concur
No Objection
No Comment
See proposed edits on pages
Other:
FAX RETURN of pages, attached to this response sheet

**Questions for the Record Submitted by Chairman Schaefer to
Under Secretary of State Timothy Wirth
House Committee on Commerce
Energy and Power Subcommittee
July 15, 1997**

19. Q: Article 17.4 of the Framework Convention on Climate Change (FCCC) specifies that only "Parties to the Convention may be Parties to a protocol." However, there is no assurance that all or even a majority of the 167 Parties to the FCCC will deposit instruments of ratification, acceptance, approval or accession to any protocol adopted by the Parties by consensus or otherwise in Kyoto. What assurances does the U.S. now have that most, if not all, developing country parties to the FCCC will become Parties to a Kyoto protocol? Why is it in the U.S. interest to agree, without assurances, to a protocol that proposes to set legally binding post-2000 targets and timetables for Annex I Parties only and also imposes on the U.S. new and legally binding commitments to advance implementation of Article 4.1 of the FCCC, such as those prescribed in paragraph 1, 2, 3, and 4 of Article 5 of the U.S. draft protocol?

A: The Kyoto Protocol strengthens the Framework Convention on Climate Change in several ways. It sets legally binding quantified targets for industrialized countries to reduce or limit their emissions of the six most critical greenhouse gases in the period 2008-2012. It contains important flexibility provisions – emissions trading, joint implementation, and a new Clean Development Mechanism – to help industrialized countries meet their targets as cost-effectively as possible. It preserves for each industrialized country the choice, at the national level, of policies and measures it will use to meet its target. It also contains provisions designed to advance the implementation of existing commitments under the Framework Convention, provisions that are legally binding on all Parties that ratify or accede to the Kyoto Protocol, including developing countries.

It is in the U.S. interest – and in the interest of all nations – to advance global efforts to combat the threat of global warming because of the risks involved in failing to act, because acting now can help to avoid significant climate change, because acting now will be far cheaper than acting in the future and because waiting to act will limit the scope of future action. In the

Framework Convention, industrialized countries pledged to lead the global response the Kyoto Protocol makes good on that pledge.

It is in the interest of developing countries to ratify or accede to the Kyoto Protocol for several reasons. First, developing countries are likely to experience the impacts of significant climate change more acutely than developed countries because their economies are more dependent on activities, such as agriculture, that are sensitive to global warming. In addition, significant portions of the population in developing countries live in coastal areas likely to be affected by storm surges, salt-water intrusion and sea-level rise. Consequently, developing countries have an interest in promoting and encouraging further efforts to address this environmental problem. Second, developing countries stand to benefit from investments in project activities under the Kyoto Protocol's Clean Development Mechanism. Third, by ratifying or acceding to the Protocol and taking on quantified emissions limitation commitments by amending the Protocol's Annex B (which lists all such commitments), developing countries may engage in emissions trading. Fourth, by ratifying or acceding to the Kyoto Protocol, developing countries will have a voice in decisions taken under the Protocol – a voice they will not have as non-Parties. And fifth, developing countries want to encourage industrialized countries to implement the commitments they have agreed to in the Kyoto Protocol – the United States has made clear that it will not do so without the meaningful participation of developing countries. While ratifying or acceding to the Protocol does not in itself constitute “meaningful participation,” a failure on the part of developing countries to ratify or accede to the Kyoto Protocol could derail the efforts of industrialized countries to move forward with the Protocol.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

20. Q: In a July 18, 1994, letter to the then House Committee on Energy and Commerce [the State Department] said:

We agree that there are substantial commitments beyond 2000 for all parties to the Framework Convention under Article 4. Article 4.1 (applicable to both developed and developing countries) contains commitments that are not limited by any specific timetable.

- a) Is there any evidence to date that the U.S. is not abiding by these Article 4.1 commitments? If there is none, why should the U.S. voluntarily agree to reaffirm, as required by Article 5.1 of the June draft, to what the U.S. already agreed to when it ratified the FCCC in 1992?**
- b) Is the U.S. asserting that other Annex I Parties are not abiding by such commitments? If so, please identify those Parties.**

A: a) The United States is abiding by its Article 4.1 commitments. However, these obligations are only rather vaguely defined, and implementation of these commitments could be improved with a more detailed definition of the obligations. Furthermore, while under the UNFCCC, Annex I and Annex II Parties have additional obligations (e.g., the "aim" of Article 4.2), such specificity is not provided for developing countries under Article 4.1 provisions. Reaffirming and continuing to advance these commitments provided an opportunity to elaborate on specific provisions and to ensure that a more robust level of action is generated by all Parties to address the threat of global warming.

b) The U.S. is not asserting that other Annex I countries are not abiding by these provisions.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

22. Q: Article 5.3 requires that each Party take "measures to facilitate investment in climate-friendly technologies." What "measures" does the Administration contemplate? How would they be implemented in the U.S.? What are their regulatory and budgetary implementations?

A: A wide range of programs under the Climate Change Action Plan fall squarely within this requirement. For example, "Energy Star" labeling programs facilitate investments in climate friendly technologies by providing information to consumers. The "Green Lights" program provides information and recognition for participants, thus encouraging their investment in climate friendly technologies. Activities under the Climate Change Action plan are included in the budget requests of agencies involved in these programs.

As a first installment on this plan, President Clinton announced in his State of the Union address last month a \$6.3 billion Climate Change Technology Initiative over five years to cut U.S. greenhouse gas emissions -- \$1.3 billion higher than the President announced in his initial plan in October. This vigorous initiative calls for tax cuts coupled with research and development to take cost-effective, practical steps that will position us well to meet the challenge we face early in the next century. We hope the Congress will view the President's initiative favorably and appropriate the funds and enact the tax incentives that he has requested. We look forward to working with you to put the President's proposals into action.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

23. Q: Article 16 of the draft provides that the Parties "shall adopt, by [2005], binding provisions so that all Parties have quantitative greenhouse gas emissions obligations and so that there is a mechanism for automatic application of progressive greenhouse gas emissions obligations to Parties, based upon agreed criteria."

- a) Does this mean that there could be a second protocol or another legal instrument by [2005] which is only 7 years after the December meeting in Kyoto?**
- b) Do the words "all Parties" in this Article mean that only the "Parties" to the U.S. draft protocol would be required to "adopt" by 2005 such an instrument? Unless developing country Parties to the FCCC, such as China, India, and Brazil, become Parties to the Kyoto Instrument (as proposed by the U.S.) prior to [2005], how does this Article address the issue of greenhouse gas emission growth by all non-Annex I Parties?**
- c) Could such a new instrument adopted by [2005] impose new and additional obligations on the U.S. beyond those proposed to be adopted in Kyoto? Why is that possibility a good result for the U.S. economy, trade, and competitiveness?**
- d) What "mechanism for automatic application of progressive greenhouse gas emissions obligations" does the Administration contemplate by this proposal? What are its implications for the U.S., including its sovereignty?**

A:

- a) These questions were based on Article 16 of the U.S. draft protocol text which dealt with the issue known as "evolution." This article, ultimately, was not included in the Kyoto Protocol. However, it may be useful to answer these questions both in terms of the now mooted Article 16 of the U.S. draft protocol and in terms of the actual provisions of the Kyoto Protocol itself. Article 16 of the U.S. draft protocol text would have meant that there would be a second protocol or another legal instrument by 2005 or some other date agreed upon in the negotiations. Article 3, paragraph 10, of the Kyoto Protocol provides for considering**

commitments for periods subsequent to the first commitment period (2008-2012). In particular, it provides for initiating consideration of such commitments at least seven years before the end of the first commitment period – in other words, by 2005.

- b) Yes, the term “All Parties” in the draft U.S. protocol text meant “all Parties to the protocol.” The article in the draft U.S. protocol text did not, itself, address the issue of greenhouse gas emission growth by all non-Annex I Parties – other provisions, such as U.S. proposals governing entry into force of the protocol, addressed this issue.

- c) Yes, Article 16 in the U.S. proposed protocol text could have involved new and additional obligations for the United States beyond those that we envisioned would be adopted in Kyoto. This could have been a good result for the U.S. economy, trade and competitiveness if it had included new and additional obligations for others, particularly for key developing countries and our industrialized country partners.

- d) By “mechanism for automatic application of progressive greenhouse gas emissions obligations,” we sought to promote the concept that countries should be prepared to take on higher levels of commitment for combating global warming as their economies develop. Its implications for the United States, including for our sovereignty, would have been positive - it would have promoted a more ambitious, and more inclusive, global effort to address the threat of climate change, while retaining full national flexibility for each country to determine the policies and measures it would adopt to meet its quantified emissions limitation or reduction commitments.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

26. Q: The Global Climate Coalition sent a letter to the Department of State on February 14, 1997, raising a number of questions about the January 17, 1997, version of the U.S. draft protocol, particularly in regards to trading. The Administration has not yet responded to those questions. Please respond to them as part of your reply to this inquiry.

A: It is our understanding that the questions of the Global Climate Coalition were fully answered during several face-to-face meetings with the Director of the Office of Global Change, the most recent of which took place on 12 September 1997. If the GCC has any remaining questions, it is welcome to contact the Office of Global Change and we will be pleased to address them. The Office of Global Change may be reached at (202) 647-4069.

**Questions for the Record Submitted by Chairman Schaefer to
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House Committee on Commerce
Energy and Power Subcommittee
July 15, 1997**

30. Q: The State Department's September 9, 1996, reply to the Committee stated that the U.S. did not agree to an "EU Bubble in Berlin" and that the U.S. delegation "successfully opposed including language in the Berlin Mandate which might have suggested that any country or group of countries could "bubble" in the post-2000 period." The reply then said:

Clearly, the question of "bubbling" with respect to post-2000 commitments is complex, and one that will be closely scrutinized and carefully considered as negotiations progress. The Administration has consistently and continuously consulted with Congress, as well as with U.S. industry and U.S. NGOs, on all aspects of the negotiations concerning post-2000 commitments and will continue to do so.

The Administration has not yet held meaningful discussions with this Committee on the issue of the EU bubbling to "meet target and timetables," its implications for the U.S., its merits, or its complexities. Given the fact that the negotiations are just approaching a conclusion in Bonn and Kyoto, when do you plan to consult us on this aspect of the negotiations?

A: In the run up to the Kyoto Conference in December 1997, representatives of the Administration testified repeatedly before Congressional committees and spoke frequently with Members of Congress and their staffs. The Administration also invited the leadership of the Senate and of the House of Representatives to set up formal, bipartisan groups to serve as focal points within the Congress and to participate with the U.S. delegation in Kyoto. Both chambers did so, and many members of both the Senate and House groups traveled to Kyoto where the U.S. delegation benefited from their support and advice. Among the issues discussed repeatedly beforehand and in Kyoto was the E.U. bubble. Ultimately, the U.S. delegation accepted the E.U. bubble in the Kyoto Protocol, but only after the European Union clarified the responsibilities that would fall to each of its member states and to the E.U. commission, only after the European Union agreed that new entrants (e.g., Poland) would not affect the quantified emission limitation

and reduction commitments agreed for the first budget period (2008-12) and only after the European Union accepted that an agreement among its member states to jointly fulfill their quantified emission limitation and reduction commitments would remain in operation for the duration of the budget period. By the same token, the United States was able to secure many of its key negotiating objectives, including realistic and achievable targets, the inclusion of flexibility mechanisms (emissions trading, joint implementation and the Clean Development Mechanism) to ensure the most cost-effective reductions, full national autonomy in the choice of policies and measures to meet the targets, etc.

**Questions for the Record Submitted by Chairman Schaefer to
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32. Q: The EU has proposed an amendment to the Convention to provide for a vote to adopt all future protocols by three-fourths if all efforts at consensus are exhausted. The proposed amendment would appear to have a retroactive effect for Kyoto.

- a) Under this proposal, is it possible that three-fourths of the FCCC Parties could vote to "adopt" any Protocol that imposed new obligations for Annex I and/or non-Annex I Parties and then decide not to deposit an instrument of ratification, etc.?**
- b) Does the U.S. support such an amendment to the Convention?**
- c) Has the U.S. changed from its June 19, 1996, response to this Committee in regards to any of these matters? Would the Administration agree to a resolution of one of these matters, namely voting on a protocol, without a resolution of the financial and budget matters for both the Convention and all future protocols?**

A: a) Yes. Under the current Climate Convention, as well as this proposal, Parties could adopt an agreement (pursuant to whatever rule of procedure governs adoption) and then not ratify.

b) We have substantial concerns about the provisional application aspect of the proposal. In effect, it amends the treaty without waiting for the Parties to ratify the amendment.

c) No, the position has not changed.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

33. Q: Does the Administration intend that any international emission trading program would apply in the same way and to the same extent to public and private entities internationally and in the U.S.? For example, would it apply to local governments and to defense or other agencies of each Party and to the emissions of such entities? What will be the impact on the U.S. Defense Department of an international, or, for that matter, a domestic, emissions trading program?

A: The U.S. has proposed international emissions trading as a means of providing for greater flexibility to achieve reductions at the lowest possible cost. No country, nor any entity within a country, would be required to participate in trading. However, having this option for those countries that want to participate offers substantial cost saving opportunities. Implementation of any international trading would be up to rules that individual countries could establish consistent with any requirements set out in the international treaty. The Department of Defense has been an active participant in Administration-wide discussions concerning climate policies and, as clearly stated by Under Secretary of State for Economic, Business and Agricultural Affairs Ambassador Stuart E. Eizenstat in his testimony before the Senate Foreign Relations Committee on February 11, 1998, the U.S. delegation in Kyoto achieved everything outlined by the Department of Defense as necessary to protect our military operations and our national security.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

34. Q: Greenhouse gases not covered by the Montreal Protocol are not pollutants within the meaning of the Clean Air Act and are not subjected to the command and control provisions of the Act or other environmental laws. It is our understanding that although the U.S. has cited (in a September 9th reply to this Committee) authority to implement the Climate Change Action Plan with voluntary measures, the U.S. draft protocol, because it may call for mandatory measures, could not be given full effect in the U.S. without the enactment of new legislation by Congress. Do you share that understanding? Is the Administration considering a domestic emission trading legislative program patterned on the 1990 Clean Air Act?

A: Under Secretary of State for Economic, Business and Agricultural Affairs Ambassador Stuart E. Eizenstat was clear and unequivocal in his testimony on this issue before the Senate Foreign Relations Committee on February 11, 1998 -- the Administration anticipates the need for additional legislation to implement the Kyoto Protocol and will in no way circumvent the Constitutional prerogative of the Congress in this regard. Last October, President Clinton outlined a three-stage approach to addressing global warming here at home. The first stage, he said, would consist of immediate actions to stimulate development and use of technologies that can minimize the cost of meeting U.S. goals in reducing greenhouse gas emissions. Stage two will review options created through ongoing technology development and lead to detailed plans for a domestic, market-based permit trading system for carbon emissions. Stage three will begin to implement a market based emissions trading system. As a first installment on this plan, President Clinton announced in his State of the Union address last month a \$6.3 billion Climate Change Technology Initiative over five years to cut U.S. greenhouse gas emissions -- \$1.3 billion higher than the President announced in his initial plan in October. This vigorous initiative calls for tax cuts coupled with research and development to take cost-effective, practical steps that will position us well to meet the challenge we face early in the next century. We hope the Congress

will view the President's initiative favorably and appropriate the funds and enact the tax incentives that he has requested. We look forward to working with you to put the President's proposals into action.

**Questions for the Record Submitted by Chairman Schaefer to
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July 15, 1997**

35. Q: I understand that the Administration has recently established the White House Climate Change Task Force, a Deputies Group and an Assistant Secretaries group. Please explain the role and purpose of each in regards to the development of the Administration's position and policies for the international negotiations for a protocol or another legal instrument in 1997 and for the development of implementing legislation in the U.S. Please identify the members of each group. Please provide any documents regarding the formation of these groups, their membership, mission, tasks, and/or assignments.

A: The White House Climate Change Task Force was recently established under the auspices of the Council on Environmental Quality and the National Economic Council for the purposes of expanding outreach activities and to encourage input from interested constituencies in the policy development process. The charter of the Task Force is enclosed. Within the Administration, it is common to establish internal coordinating groups at various levels to assist in the policy development process. Such groups comprised of assistant secretaries and deputies are typically established on an informal basis as the need arises to address specific issues. No formal charter or mandate exists for these groups.



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

Attachment to
Q#35

COUNCIL ON ENVIRONMENTAL QUALITY
MANAGEMENT FUND CHARTER

A. IDENTIFICATION OF MANAGEMENT FUND PROJECT:

Title: White House Climate Change Task Force

Task: To coordinate and expand activities among agencies aimed at informing the public and interested parties about climate change and to build support for Administration policy and international negotiating positions.

B. PURPOSE AND AUTHORITY

The authority for this project is derived from Section 102(2)(F) of the National Environmental Policy Act; Section 206 of the Environmental Quality Improvement Act, as amended, 42 U.S.C. Sec. 4375; section 602 of the Economy Act, as amended, 31 U.S.C. Sec. 1535; and the authorizing legislation of the Office of Environmental Quality and the agencies involved. The Task Force was created by the Co-Chairs of the Deputies' Climate Change Committee.

The task force will:

- Coordinate interagency activities related to climate change outreach and communications activities;
- Coordinate interagency activities related to the development of outreach and communications materials related to climate change;
- Coordinate interagency activities to work with and to inform Congress about issues related to climate change;
- Coordinate outreach activities among agencies to key affected groups including the public, industry, environmental groups, labor, and other interested parties;
- Participate in development of policies (at Deputies and Assistant Secretaries levels) and in international negotiations in order to ensure effective coordination with outreach activities;
- Periodically report to the Deputies about its activities.

C. FINANCIAL PLAN

The Project anticipates an expenditure of \$200,000 with funding provided by participating agencies including the Department of Energy, the Department of Interior, the Environmental Protection Agency, the Department of Agriculture, the Department of State, and the Department of Commerce and others.

D. PARTICIPATING ORGANIZATIONS

The Office of Environmental Quality will be the co-chair of the task force along with the National Economic Council. Other White House offices that will participate include the Office of Science and Technology Policy, the office of Management and Budget, and the Council of Economic Advisors. Other agencies participating in Task Force activities will include: the Department of Energy, the Department of Commerce, the Department of Interior, the Department of Agriculture, the Environmental Protection Agency, the Department of Health and Human Services, the Department of Transportation, the Nuclear Regulatory Commission, The National Aeronautics and Space Administration and the National Science Foundation. Other interagency processes that will contribute to the Task Force include the Global Change Research Program and the President's Commission on Sustainable Development, as appropriate.

E. RELATION TO CEQ/OEQ STATUTORY AUTHORITY

The Council on Environmental Quality was established by Title II of the National Environmental Policy Act (NEPA) of 1969. The primary role of CEQ is to implement the policy goals set forth in NEPA. One of CEQ's key roles is to coordinate interagency activities related to policy development and implementation. In addition, Section 102(2)(F) provides that federal agencies shall recognize the worldwide and long-range character of environmental problems and, where consistent with foreign policy of the United States, lend appropriate support to initiatives, resolutions, and programs designed to maximize international cooperation in anticipating and preventing a decline in the quality of mankind's world environment. This particular project will assist in furthering CEQ's role in coordinating such a policy.

F. STAFFING ARRANGEMENTS

Chief Project Officer: David Sandalow, Associate Director for Global Environment, CEQ (202) 456-6543

Administrative Contact: Carolyn Mosley, Administrative Officer, CEQ, (202) 395-5754.

G. DUTIES

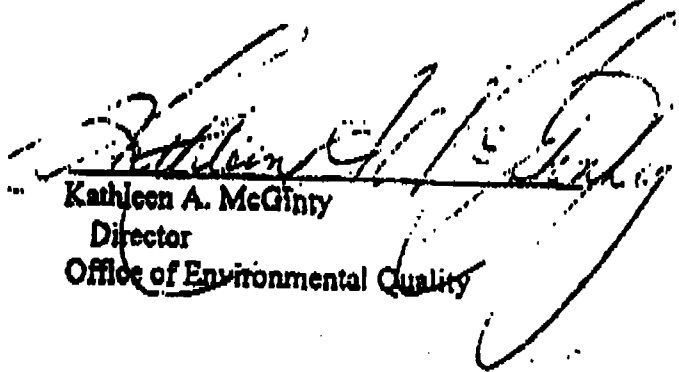
The duties of the task force are advisory in nature.

H. TERMS AND DURATION OF THE PROJECT

The project is scheduled to commence in February 1997 and is expected to last until June 1998. The Task Force will provide periodic reporting to the Deputies' Climate Change Committee.

APPROVED:

2 12 97
Date


Kathleen A. McGinty
Director
Office of Environmental Quality

**Questions for the Record Submitted by Chairman Schaefer to
Under Secretary of State Timothy Wirth
House Committee on Commerce
Energy and Power Subcommittee
July 15, 1997**

36. Q: Please provide a table of all contracts, cooperative agreements, grants, and interagency agreements and any extensions thereof (hereinafter referred to as "agreements") entered into with any individual, agency, or public or private entity (foreign or domestic) by or through any federal Department or Agency, including the Departments of State, Commerce, and Energy, the Environmental Protection Agency, for the period beginning July 1, 1994 to the present that relates to, or includes (directly or indirectly) climate change matters or issues of any kind. These should include matters relating to (a) domestic or international emission trading, including economic and other analysis of such trading, the administration and verification of such trading in the U.S. and elsewhere, (b) public outreach, general and specific public education, grass roots, community outreach, workshops, (c) transportation efficiency, alternative fuels, transportation generally, utilities, impact on pollutants like ozone and particulate matter, and (d) any legal analysis of these matters and of the Convention or of any statutes concerning climate change or trading. Each table should identify the date of the agreement, the agreement recipient, the amount of Federal funds, the term, including extensions, a brief description, the product, and whether it is publicly available, and the status. Please include with each table the applicable "Statement of Work," including any revision thereof, for each agreement.

A: Each Agency will be submitting their data separately.

Contact points for the Agencies:

State - Ms. Susan Wickwire - (202) 647-4069

Energy - Ms. Linda Silverman - (202) 586-3896

EPA - OAR - Ms. Sharon Saile - (202) 564-9156
- OPPE - ?????? - (202) 260-xxxx

Commerce -???? - (202) 482-xxxx

The Protocol

How can you say the Kyoto Protocol is a success if there is no mention of developing countries? The Protocol is severely flawed.

On the contrary, most of the elements of the President's package were put firmly in place at Kyoto. The Protocol includes the market-based mechanisms of international emissions trading (across all six greenhouse gases) and joint implementation among developed countries. Moreover it allows for full flexibility on the kinds of policies and measures a country may enact domestically to achieve compliance, and sets the targets on the basis of a multi-year objective, rather than a single fixed-year obligation. With regard to developing countries, it allows for investment in projects in developing countries to be used as offsets against obligations in developed countries (through the Clean Development Mechanism (CDM)). The Protocol also beefs up all Parties' national communications and gives advanced developing countries the option of adopting an emissions budget and trading under the Protocol – potentially providing more development resources than the project-based CDM. There is of course more work to do, particularly on gaining the meaningful participation of developing countries, and we plan to make bilateral and multilateral efforts to this end.

Institutional/Procedural/signature/ratification Issues

Do you plan to sign the Kyoto Protocol and then ignore Senate advice and consent?

Absolutely not, and we are here today to begin this dialogue. As we have said, U.S. ratification will require the advice and consent of the Senate. The United States may choose to sign the Protocol during the year that it will be open for signature, but that would not bind the United States to the Protocol's requirements.

When do you expect the President to sign the Kyoto Protocol?

The Kyoto Protocol opens for signature in March 1998 and remains open until March 1999. We hope and expect to sign during that period.

When do you expect the President to submit the Protocol to the Senate for its advice and consent? Isn't the President disregarding the Senate's appropriate constitutional role of advice and consent?

As we have said, U.S. ratification will require the advice and consent of the Senate. The United States may choose to sign the Protocol during the year that it will be open for signature but that would not bind the United States to the Protocol's requirements.

If the Kyoto Protocol is such a positive achievement, why has the Administration said it will not submit it to the Senate for its advice and consent to ratification?

The Kyoto Protocol is an historic step forward in the effort to meet the challenge of global warming. We believe it reflects an environmentally strong and economically sound approach to this very difficult problem. But there are details of additional elements we need to work out in order to have a package ready for submission to the Senate. In particular, we have not yet established the mechanism and activities to ensure that the President's requirement for meaningful participation from key developing countries is fully met. Though the Protocol makes a down payment on such participation, more needs to be done in this area. Additional work also needs to be done in fleshing out the rules and procedures for market-based emissions trading. The Administration is working hard to fill in these pieces and looks forward to submitting the Kyoto Protocol to the Senate once these objectives have been achieved.

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

The U.S. entered these negotiations with the very clear position that we did not want to reserve the power to block this important international treaty simply by not ratifying it. It is not in American interests to prevent the international community from acting against the very serious threat of climate change.

Nevertheless, for the Kyoto Protocol to be effective in reducing global emissions, it must apply to the majority of the world's large emitters. Accordingly, to enter into force, the Protocol must be ratified by at least 55 countries including Annex I nations, accounting for at least 55 percent of the total 1990 carbon dioxide emissions of developed countries. We anticipate that to meet this threshold, either the Russian Federation or the United States will have to ratify, even if the European Union and other developed Parties ratify as well as most developing countries. Regardless of when we ratify, we will still participate as a Party under the UN Framework Convention on Climate Change and have significant influence over the related processes.

Science

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

The science of global warming is compelling. A 1995 report, representing the work of more than 2,000 of the world's leading climate change scientists, concludes that "the balance of evidence suggests that there is a discernible human influence on global climate." While a clear empirical relationship between cause and effect is difficult to establish, 1997 is the warmest year on record for average global surface temperatures, and nine out of the last 11 years are among the warmest ever recorded. More record warm years are in the forecast. The Administration does not believe

it is responsible to delay taking preventative action on the climate change issue; however, we recognize that any action must proceed sensibly in a way that is economically sound.

Background: The cost of inaction would be devastating in human and financial terms: a greater incidence of droughts and storms, relocating entire communities because of the inundation of our coastal areas, a higher incidence of tropical disease, and a threat to plant and animal species throughout the United States. Droughts and storms are indeed costly: the Southern Plains drought of 1996 was estimated to cost \$4 billion, and the Northwest floods of 1996-97 about \$3 billion. Although recent examples of severe droughts cannot be unequivocally attributed to global warming, they do indicate a pattern consistent with scientific understanding. Abroad, climate change could devastate the Middle East and Africa, exacerbating political tensions, and the world's poorest countries, already hurt by food production and distribution problems, are expected to suffer more in these areas because their countries will not be able to adapt to further challenges posed by climate change.

We are shown graphs and data depicting global warming, but we have heard reports that say NOAA satellite data refutes this warming; and in fact shows a cooling trend...How do you explain this contradiction?

There is no contradiction. Satellites measure temperature above ground (5,000-30,000 feet), taking into account aerosols and ozone loading (due to volcanic eruptions). Surface measurements are taken at ground and sea levels, where aerosols and ozone loading are not as effective as in the atmosphere. NOAA Satellite data consistently has shown over the past 17 years a global warming trend, when adjusted for the influence of aerosols and ozone loading due to volcanic eruptions such as Mt. Pinatubo. This pattern is consistent with the warming trend assessed from balloon temperature readings and surface temperatures readings.

Is it true that even if all the developed countries complied with their targets that their actions would be just a "drop in the bucket" in addressing climate change? Over what time scale is global action likely to be required?

The Kyoto Agreement is an historic step in the effort to address climate change. The binding targets agreed to by developed nations provide important real reductions and lay the groundwork for additional reductions in the future.

Clearly, however, Kyoto is only one step in a long process. To ultimately stabilize emissions at a safe level in the atmosphere, significant reductions – beyond those agreed in Kyoto – will be needed. Furthermore, developing countries – whose emissions are likely to eclipse those of industrialized nations by 2030 – must also begin to limit their emissions if we are to effectively address the problem. The Administration is firmly committed to working to secure meaningful participation from key developing countries and will not submit the Protocol to the Senate until such participation has been achieved.

Background: Even the most stringent proposal tabled for consideration by the Parties in Kyoto

(that proposed) by the Alliance of Small Island States, requiring developed country Parties to reduce emissions by 20 percent below 1990 levels by 2005) would have had only a small impact on the overall problem. It is anticipated that to maintain global concentrations at current levels, global reduction of approximately 60-70 percent of CO2 emissions would be needed.

How can we trust the data emerging from the Intergovernmental Panel on Climate Change (IPCC)?

The Intergovernmental Panel on Climate Change (IPCC) is the most authoritative body on the science of climate change reflecting the views of the world's pre-eminent climate experts. The more than 2,000 scientists concluded in the IPCC's 1995 Second Assessment that there is a "discernible human influence on the climate system." For the first time, we have a clear scientific indication from experts around the world that human emissions of greenhouse gases are affecting the climate system, and we have ample indications about the potential impacts of climate change.

Enforcement & Compliance/U.N./Sovereignty

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

No, we are not. The emission reduction commitments in the Kyoto Protocol were adopted with the full participation and consent of the Parties to which they will apply. To take effect, each of these Parties must ratify the protocol. In the United States, ratification would occur only after the advice and consent of the Senate under our Constitution. Moreover, under the Kyoto Protocol, we will have full national flexibility in how we meet our emission reduction commitment because we succeeded in Kyoto in rejecting calls for mandatory standardized policies and measures, such as energy taxes. Any change in the emission reduction commitments made in Kyoto could only occur through an amendment to the protocol. Any party that objected to such an amendment would not be bound by it. Thus, decisions that could affect the prosperity of American citizens will continue to be taken nationally by the United States and not by others.

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

No. Any subsequent targets would have to be agreed to by the Parties to whom they would apply.

Is the Kyoto Protocol a threat to U.S. sovereignty?

No, it is not. Under the Kyoto Protocol, individual nations decide for themselves how best to comply with greenhouse gas emissions targets they have agreed to. The Conference specifically rejected proposals which would have imposed mandatory, standardized policies and measures, such as energy taxes. It does not threaten our sovereignty for us to agree to cooperate with other nations in combating climate change. We cannot solve a global problem alone. The Administration believes that the Kyoto Protocol is in the best interests of the United States and will provide important environmental protection while ensuring continued economic growth and competitiveness.

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

The Protocol contains several provisions intended to promote compliance. It calls for each Party to establish a system for national reporting and measurement of greenhouse gas emissions. As a result of a U.S.-proposed provision, a Party not in compliance with its measurement and reporting requirements cannot receive credit for joint implementation projects. Thus, the primary responsibility for enforcement is at the national level, and the will to act is a domestic matter which cannot be imposed by any foreign authority. We will work with other Parties to ensure that future compliance systems, as yet undetermined, will be strong but not overly bureaucratic.

In the Protocol, the Parties sought to use existing institutions and to minimize the creation of new ones. For example, the subsidiary bodies and Secretariat under the Convention will continue their functions under the Protocol. Because the United States contributes approximately one fourth of the Secretariat's budget under the Framework Convention on Climate Change we have considerable influence within the Convention and vis-à-vis its Secretariat. In all of its actions under the Convention, the Secretariat looks to the Parties for guidance, and must answer to the Parties with respect to its activities. If the United States ratifies the Kyoto Protocol, we will have similar influence under that instrument. Furthermore, in the case of the Clean Development Mechanism, the Parties will oversee the mechanism with the help of a small executive board and "operational entities to be designated" will certify emission reductions from specific projects.

What verification procedures are there to ensure that other countries honor their obligations?

There are several examples of different types of verification procedures in the Protocol. In Article 8, expert review teams will assess Parties' implementation of their obligations. These teams, coordinated by the Convention Secretariat and nominated by Parties, would initiate a thorough and comprehensive technical assessment of all aspects of the implementation by Parties. These teams are taken from the model of the existing system of in-depth review teams that examine Parties' national communications. There is also provision for the creation of verification and monitoring systems for emissions trading (Article 16 bis), joint implementation (Article 6), and the Clean Development Mechanism (Article 12). These will be developed in the coming years, beginning at COP-4 this November, as stipulated in the Protocol. The U.S. will use every opportunity to influence their formulation to ensure their acceptability.

How will the Protocol be enforced? Either it will be an honor system, without any real enforcement, in which case the United States will get taken advantage of as we honor our obligations while others ignore their own; or there will be a real enforcement system, in which case international bureaucracies will be able to sit in judgment on whether we are meeting our obligations. Which will it be? And aren't both these alternatives unacceptable?

As with most compliance systems, whether they are legal or regulatory in nature, there is usually some middle ground. There is still a tremendous opportunity to craft the compliance system of the Protocol as effective procedures and a mechanism to determine and address non-compliance are to be decided at later meetings. For both environmental and competitiveness reasons, the United States will be working on proposals to strengthen the compliance and enforcement regime under the Protocol but no international bureaucracy will be able to "sit in judgment" on whether we are in compliance. The primary responsibility for enforcement is at the national level, and the will to act is a domestic matter which cannot be imposed by any foreign authority. We will work with other Parties to ensure that level of responsibility is preserved.

ROGUE NATIONS

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

The Kyoto Protocol is a global effort to reduce the trend of dramatically increasing greenhouse gas emissions. All nations recognized by the United Nations are eligible to join in this effort. Because Iran, Iraq and Libya are oil-producing countries with significant contributions to global emissions, it is especially important to include them in efforts to reduce emissions. The alternative, excluding them from emissions reductions efforts, would allow these countries to be "free riders," that is, to enjoy the global environmental benefits without joining in the global effort. Any possible activities under the Clean Development Mechanism would be governed by existing sanctions or other trade restrictions.

Target/Economic Issues

While the President proposed in October that the U.S. reduce emissions to 1990 levels by 2008-2012, the U.S. agreed in Kyoto to a 7% reduction below 1990 levels in the same timeframe. Why did we accept a more stringent target?

The 7% target is close to the President's initial proposal. It represents at most a 3% real reduction below the target of returning to a composite of 1990/1995 baseline levels by 2008-2012.

The remaining 4 percentage points result from changes in the way certain gases and activities that absorb carbon are counted.

Why did the U.S. support binding emissions limitations? I understand that voluntary programs may be equally as successful.

Two factors prompted the U.S. to propose binding limits for greenhouse gas emissions. First, it became clear that only two industrialized nations would meet the voluntary aim, established in Rio, to reduce emissions to 1990 levels by 2000 (and neither of those for reasons related to climate change). Second, the IPCC's 1995 Second Assessment Report provided important new information on the science of climate change, further underscoring the need to take action.

While binding targets provide greater surety that obligations will be met, they by no means preclude voluntary action. Limited voluntary here in the U.S. have proven effective in cutting emissions, and the Administration has proposed significantly expanding such programs in an effort to meet the Kyoto target. As an example, the Administration will be working with industry over the next nine months to develop voluntary, sector-by-sector initiatives for reducing emissions.

What's all the fuss over "sinks"?

The treatment of sinks in the Protocol altered the accounting method for carbon-absorbing activities, such as planting trees, in the U.S. total: sinks account for about 3% of the 7% reduction. The President's original goal assumed that the 1990 baseline would be lowered by carbon-absorbing activities, but under the method agreed in Kyoto, such activities do not lower the 1990 baseline. Because the 1990 level baseline is thus higher under the Kyoto agreement, the U.S. target becomes somewhat less stringent. Specifically, had the U.S. maintained the same level of effort assumed by the President in October, and no other factors had changed, the shift in the accounting method for carbon-absorbing activities would, alone, have transformed the President's goal of 1990 levels into a goal equivalent to at least 3% below 1990 levels. (As noted above, certain carbon-absorbing activities will count against emission reduction commitments in the budget period.) Despite opposition from a number of countries, the United States insisted that they be included in the interest of encouraging activities like afforestation and reforestation. Accounting for the role of forests is critical to a comprehensive and environmentally responsible approach to climate change. It also provides the private sector with low-cost opportunities to

reduce emissions.

What is the Administration proposing to do to ensure that the United States is not put at an economic disadvantage?

While the U.S. and other industrialized countries would incur some reduction costs that would only gradually be borne by the developing countries, (e.g. higher short-medium term energy costs in the industrialized countries), the weight of the evidence suggests that, in the aggregate, these costs would be insignificant to U.S. competitiveness or exports.

Where the question addresses competitiveness concerns of a few energy-intensive manufacturing industries, such as aluminum, paper, and chemicals, we should consider the following: In her testimony, Dr. Janet Yellen noted the contraction of some industries and the expansion of others that one could expect in any instance of significant structural change to the economy. Some facts, however, provide a perspective on the issue: 1) on average, energy accounts for only 2.2% of total costs to U.S. industry; 2) energy prices already differ significantly between the U.S. and countries such as Venezuela, and yet U.S. industry does not generally flee to other countries; and 3) 2/3 of all emissions are generated by the transportation and "buildings" sectors – not manufacturing. To those observations I would add one more: the U.S. energy efficiency and alternative energy sectors are among the most advanced and competitive in the world. As other countries expand their own domestic climate change action plans, significant export opportunities are sure to open up for U.S. manufacturers in these fields.

How will the Kyoto Protocol impact the U.S. economy?

The President has put forward a comprehensive program that, if fully implemented, can reduce U.S. greenhouse gas emissions to the targeted levels while maintaining economic growth and competitiveness. In Kyoto, the U.S. succeeded in rejecting unrealistic targets proposed by other countries. Furthermore, we won acceptance of key market-based mechanisms, such as emissions trading, which will substantially lower the costs of complying with emissions targets.

But aren't there studies suggesting that the Kyoto Protocol will cost millions of U.S. jobs and tank the economy?

We see these kinds of studies every time this nation takes action to protect our environment. Whether it's climate change, clean air, or clean water, there continue to be those who believe that environmental protection must come at the expense of economic growth. We must look at the record: Today, unemployment stands at less than 5%, inflation is low, investment is booming, real wages are rising, and the economy has generated more than 14 million new jobs since 1993. All this good news despite the doomsday predictions of self-interested economic studies that warned of the disastrous consequences of the Clean Air Act, Clean Water Act, and other efforts to protect the environment.

How do you respond to the serious concerns of U.S. business, agricultural groups and labor about the Protocol?

In the months leading up to Kyoto, the Administration conducted an extensive outreach effort to solicit the views of major interest groups, including the business, labor, agricultural, and environmental sectors. This effort included a White House Conference which brought together leading experts from around the country to explore different aspects of the climate issue. What we learned contributed heavily to the U.S. policy announced by the President in October.

In Kyoto, we succeeded in gaining agreement on the key elements of the U.S. position, including a realistic, achievable, and comprehensive emissions target and flexible implementation mechanisms like international emissions trading and joint implementation. Accordingly, a number of interest groups have been supportive of the agreement. That is not to say that all sides are happy. A wide range of issues have been raised, and we look forward to working with interested parties to address legitimate concerns.

Did the Vice President's visit – with his call for greater flexibility on the U.S. side – diminish your negotiating leverage and help lead to the cave-in of our position of 1990 levels by 2008-2012?

The Vice President's visit injected new life into the negotiations by urging all Parties to seek common ground. Earlier in the meeting, the U.S. signaled its openness to consider differentiated targets for developed countries. This move helped bring on board a number of critical countries and demonstrated that we were serious about obtaining a successful outcome in Kyoto. The Vice President's call for greater flexibility went further in building trust among our negotiating partners. We were able to convince them to lower their expectations of higher, unrealistic targets and include all six major greenhouse gases and carbon "sinks" – elements which they had previously opposed. In the end, the U.S. level of a 7% reduction in emissions actually represents most a 3% real reduction below the President's initial target for stabilization of emissions at 1990 levels by 2012 when the sinks and all six gases are factored in.

Does the Protocol create a perverse incentive for the destruction of rain forests around the world?

No. The Protocol actually creates incentives through the Clean Development Mechanism in developing countries. The CDM will encourage afforestation and reforestation projects, as well as investments in clean technology, and allow these efforts to partially fulfill the emission reduction commitments of industrialized countries. Thus, industrialized (Annex I) countries will see advantages to working with developing countries in these and other areas as a means of achieving cost-effective reductions. Through such projects, developing countries will be able to obtain the financial resources, technology and know-how to promote their own sustainable development. In terms of temperate rain forests in developed countries, the way in which sinks are counted in the budget period actually penalizes countries that engage in deforestation.

Comment: The deforestation or loss of carbon sinks equates to increased emissions. Annex B Parties would have to reduce other emissions to a greater extent in the budget period to meet their targets.

General Implementation

What enabling legislation might be necessary to implement any agreement that would mandate legally-binding emissions reductions on the United States?

Legislation to implement the agreement domestically will depend on the policies chosen to implement it domestically. For example, bringing a domestic carbon emissions trading program into effect – as the President has proposed to start in 2008 – would in all likelihood require legislation. For now, the President has chosen to emphasize those measures that are more voluntary and incentive-based in nature, such as the his five-year, \$6 billion initiative involving tax cuts and R&D aimed at cutting greenhouse gas emissions. The greater the success of these early efforts, the less we will need to rely on tougher measures to bring us into compliance with our emissions target down the road. The Administration will seek Congress's assistance in fully funding these initiatives and is still evaluating a wide range of options for other domestic implementation efforts, and therefore I cannot state with any specificity what implementing legislation might be required.

Will we wait until the Protocol is ratified to take domestic actions to reduce emissions?

No. President Clinton has laid out a comprehensive plan for cutting U.S. emissions of greenhouse gases that will enhance, not diminish, our economic growth and competitiveness. The President's plan includes \$6 billion in tax incentives and R&D spending on energy efficient and low carbon-emitting technologies, restructuring of the electricity industry that will both cut emissions and save taxpayer dollars, overhauling of Federal energy use and procurement practices, and industry-by-industry consultations to develop specific voluntary plans for reducing emissions. We look to the Congress for support in these endeavors.

Taking quick, decisive, and economically sensible action to cut emissions will also send a powerful signal to the rest of the world that the United States is prepared to lead in the effort to address global warming. In particular, this will help in our efforts to recruit developing countries to play a greater role.

Are you planning to implement the Protocol by Executive Order?

The Administration fully recognizes the important role of the Senate in providing advice and consent to ratification of the Kyoto Protocol, and we look forward to working with the Senate, and with this Committee in particular, toward this end. The President has stated that we will

submit the Protocol for ratification once we have secured meaningful participation from key developing countries and further elaborated rules and procedures for international emissions trading.

As the President said in his State of the Union address, there are actions that we can begin taking at home today that will reduce emissions while saving money and making our economy ore efficient. The Administration plans to pursue these initiatives – which began with our 1993 Climate Change Action Plan – with increased vigor in the weeks, months, and years ahead. We look forward to the support of the Congress as we move forward.

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

Absolutely not. The President's recent announcement of a new \$6 billion initiative to address climate change, which includes \$3.6 billion in tax credits and \$2.7 billion in new R & D spending, seeks to place the country on a path intended to reduce emissions before such reductions become binding (if the Protocol is ratified). It is necessary to start this process now, to avoid the much greater costs of starting later. The intent is to build upon the accomplishments of the U.S. Climate Change Action Plan launched in 1993 to meet the voluntary commitments under the UN Framework Convention on Climate Change. Although the Plan is not expected to achieve its stated objective of returning U.S. emissions to their 1990 levels by the year 2000, it has demonstrated that voluntary actions can be effective. As was the case in 1993 and after, the new initiative will require Congressional support to have the widest possible influence.

National Security

Is it true that the Kyoto Protocol's binding emissions limits could compromise our national security interests in some way by limiting our capability to participate in certain military activities?

No. In Kyoto, we got everything that the Department of Defense outlined as necessary to protect military operations and our national security. These objectives deal with the treatment of bunker fuels and with emissions related to multilateral operations pursuant to the UN Charter. Moreover, emissions of greenhouse gases by the U.S. military amount to less than one-half of one percent of total U.S. greenhouse gas emissions. Even if these were to increase modestly because of unilateral military actions, it is simply untrue that such an increase would make military actions politically or diplomatically more difficult. We have ample room within the emissions reductions commitments agreed to in Kyoto to accommodate U.S. military emissions, including any that might result from unilateral military actions.

Background: More specifically, the Protocol exempts from emission limits those emissions from "bunker" fuels (for international maritime or aviation use), emissions from multilateral operations pursuant to the United Nations Charter (i.e., not only multilateral operations expressly authorized

by the UN Security Council (such as Desert Storm, Bosnia, Somalia) but also multilateral operations not expressly authorized that are nonetheless pursuant to the UN Charter, such as Grenada). Countries may also decide, among themselves, how to account for emissions relating to multilateral operations (for example, U.S. training in another NATO country). This provision avoids the need to use emissions trading to allocate such emissions.

Why don't you just exempt the military rather than use this complex formula for bunker fuels in the Protocol and the decision of the Parties to exempt certain well-defined military operations?

We have ample room within the emissions reductions commitments agreed in Kyoto to accommodate U.S. military emissions, including any that might result from unilateral military actions. Emissions of greenhouse gases by the U.S. military amount to less than one-half of one percent of total U.S. greenhouse gas emissions. To exempt the military would overlook opportunities for the Federal government to make its own operations more energy efficient, thereby saving taxpayers' dollars. DoD has already made significant strides in this area, reducing their logistical burden of procuring fuel.

Emissions Trading

Isn't it true that your own analysis showed that reducing greenhouse gas emissions would slow economic growth and raise gasoline prices at least \$0.26 per gallon?

The findings to which you refer are projections of the Interagency Analytical Team's draft analysis completed in June of 1997. Since this did not take into account the specifics of the Kyoto Protocol, or the elements of the President's domestic plan, the Administration is currently completing a new economic analysis. [Preliminary findings of the new interagency analytical effort]

How can the Administration set up a verifiable trading regime anyway?

The Administration will build upon its experience with the SO₂ emissions trading program in developing verifiable domestic and international trading regimes. This coming November in Buenos Aires, the Parties to the FCCC will continue their work on emissions trading to define the "relevant principles, modalities, rules and guidelines" for verification and monitoring of emissions trading.

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

Parties participating in the international emissions trading regime will have to comply with the monitoring and verification procedures to be agreed in future meetings of the Parties. Compliance procedures and mechanisms also to be developed will help ensure that equivalent monitoring and verification procedures are maintained by all trading parties.

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

A number of economic studies, as well as our own experience with domestic emissions trading to combat acid rain, indicate that international emissions trading has the potential to substantially lower the costs of complying with emissions targets.

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

The international emissions trading scheme agreed to at Kyoto will be open to all countries with targets. Countries whose actual emissions are below their allocated emissions can sell the difference to other countries seeking more economical emissions reductions. A country can enjoy excess emissions "credits" because it is more efficient at domestic reductions or, as in the case of Germany or several countries of the Former Soviet Union and Eastern Europe, due to a major economic transition. Allowing these countries to sell some of these credits can both help lower domestic costs of greenhouse gas reductions in the U.S., and provide those countries with the resources that will allow them to invest in the most climate-friendly technologies possible as their economies recover.

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

In funding additional energy research and creating incentives for increased use of renewable and alternative energy sources, the Administration's domestic implementation plan is aimed at creating the domestic capacity to reduce greenhouse gas emissions cost-effectively. However, U.S. firms – not the U.S. government – may also choose to purchase international emissions credits in order to meet their emissions obligations. As with any market transaction, purchases of these credits will have to comply with all U.S. legal and regulatory requirements. At the same time, Russia will have significant incentives to use the revenue generated to invest in the most modern, climate-friendly plants and equipment so that as its economy recovers, it continues to produce emissions credits that it can sell on international markets.

Comment: The Russian Federation will be on a more sustainable path in its use of energy. Initial projections by Department of Energy, Energy Information Administration, indicate that the

countries of the former Soviet Union and Eastern Europe may have up to 800 million metric tons of emissions credits available for sale in 2010. End comment.

You claim that getting emissions trading was a great achievement and you base much of your economic case -- that this agreement won't be too costly -- on trading. But the protocol includes only the most general concept of trading, without the principles in your January 1997 proposal. Haven't we lost our leverage by signing onto a binding target and timetable without achieving the specifics on emissions trading?

Clearly additional work needs to be done in establishing appropriate rules and procedures for emissions trading. We will use every multilateral and bilateral opportunity until the November Conference of the Parties in Buenos Aires, Argentina to develop a consensus on the structure of an emissions trading regime. However, let me be clear. The Protocol locks in the right to trade emissions, and this is not a right that will be surrendered at any future negotiation.

You don't know how trading will be monitored, verified or administered, do you?

The rules and procedures for the international emissions trading regime are to be defined at the Fourth Conference of the Parties (COP-4) in Buenos Aires, Argentina this coming November. Until COP-4, we will work hard to build a consensus on the structure of an emissions trading regime which provides the greatest flexibility for our private sector and domestic implementation.

Can you explain how the system will work if some countries have domestic trading, as is anticipated here, and others, such as the EU, do not? Will U.S. companies trade with foreign countries? Will our trades have to be made through the government?

At this time it is premature to speculate on how foreign governments will choose to design their own domestic emissions reduction programs. From our perspective, however, the private sector will play a critical role; we envision U.S. firms actively participating in our domestic program as buyers, sellers -- and intermediaries -- of emissions trading. We will seek to structure a similar role for the private sector in the international trading regime. One could envision a U.S. company, for instance, purchasing emissions permits from foreign counterparts, or eventually, from private brokers (in the case of a private sector managed program) or dealing directly with a state-run emissions trading office in a foreign country that chooses to maintain more direct government involvement. Of course if need-be, the USG will be prepared to facilitate trades where foreign governments institute public sector managed programs, but we do not envision the USG funding trades directly.

UMBRELLA

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

a block that excluded the EU makes good sense from a broader foreign policy perspective?

We have proposed a meeting of the prospective members of an "umbrella" group -- including representatives from Canada, Japan, Australia, New Zealand, and Russia, among others, -- to discuss the function(s) that the group may have. The umbrella group will serve as a forum to develop consensus among the member countries on important issues involving design of an emissions trading regime leading up to the Fourth Conference of the Parties in Buenos Aires, Argentina this coming November. We will be reviewing other roles of the umbrella group with our partners during this meeting. Whatever function the umbrella serves will be fully compatible with applicable trade agreements (WTO, MAI, etc.) and our broader foreign policy objectives.

THE BUBBLE**If the "bubble" arrangement gives the EU an advantage, as Under Secretary Eizenstat admitted to congressional observers, why did the U.S. agree to it?**

Accepting the European Bubble arrangement was essential in reaching agreement with the EU on a number of elements of the Kyoto Protocol which were key to the US, including international emissions trading, joint implementation, and project-based reductions in developing countries under the "Clean Development Mechanism." While we ultimately accepted their proposal, we succeeded in scaling down the benefits of the bubble by excluding new members to the EU from bubble allocation arrangements during an ongoing commitment period and defining the responsibility of the EU and individual members in case of non-compliance.

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

Agreeing to the European Bubble arrangement was essential in reaching agreement with the EU on a number of elements of the Kyoto Protocol key to the U.S., including international emissions trading, joint implementation, and project-based reductions in developing countries under the "Clean Development Mechanism." Depending upon how the EU decides to allocate EU-wide emissions to its members, several European countries could stand to benefit from reductions generated by the UK and Germany.

These reductions, however, came only at great effort by the UK and Germany, as the UK virtually shut down its coal industry and shifted to natural gas, and Germany's taxpayers funded industrial restructuring and expensive efficiency improvements in the former East Germany. In allowing their reduction to be used to subsidize emissions growth in Portugal, Spain, and Greece, it is the German and UK taxpayers who have "saddled" themselves with paying for it, as these tons will no longer be available for purchase by the U.S. or other potential buyers of emissions credits in an international emissions trading market. At the same time, those same countries will likely be accepting more stringent internal reduction targets which will also have their costs.

Developing Countries

What exactly does President Clinton mean by “meaningful participation from key developing countries”?

Climate change is a global problem that requires a global solution. Current projections show that developing country emissions will surpass those from industrialized countries by 2030 or sooner. The problem of climate change cannot be solved unless developing countries take measures themselves to limit greenhouse gas emissions.

The U.S. will be working bilaterally, regionally, and multilaterally in the coming months and years to promote more active efforts by developing countries to limit their emissions. We will concentrate on key countries and on approaches that are consistent with the economic growth and development of these countries and with other environmental objectives. We will not submit the Kyoto Protocol to the Senate for advice and consent to ratification until we feel we have achieved meaningful participation from key players in the developing world.

We must also recognize that the term “developing country” encompasses a wide range of nations which are at various stages of industrialization and contribute differently to global emissions. Accordingly, there is no one-size-fits-all approach to measuring developing country participation. Clearly, a country with high GNP or one that emits a proportionally large share of global emissions should be expected to do more than one that is poor or whose emissions are negligible.

Can developing countries assume binding targets under the Kyoto Protocol?

Yes, they can. Developing countries seeking access to the benefits of international emissions trading may voluntarily assume binding targets through amendment to the annex of the Protocol that lists countries with targets. They may choose to do so to gain access to the (financial) benefits of international emissions trading.

Despite our efforts and the support of some developing countries, the Kyoto Protocol does not include a separate article for developing nations to assume voluntarily targets.

Did developing countries agree to do *anything* in Kyoto?

Yes. The Kyoto Protocol makes a down payment on the meaningful participation of developing countries.

First, developing countries agreed to the creation of a clean development mechanism through which industrialized and developing countries can establish partnerships to cut emissions in the developing world, to the benefit of both parties. Specific projects – such as construction of a high-tech, low-emitting power plant – can include direct participation from the private sector. Industrialized countries (and firms within those countries) will be able to use certified emissions reductions earned from such projects to contribute to their compliance with greenhouse gas

reduction targets while developing countries get the technology they need for cleaner, more sustainable development.

Second, developing countries also agreed to advance the implementation of their existing commitments under the 1992 Framework Convention on Climate Change. These commitments, which apply to all Parties, include, in particular, more specific reporting requirements on actions taken to reduce emissions and also call for the identification of specific sectors (including the energy, transport, and industry sectors as well as agriculture, forestry, and waste management) in which actions should be considered in developing national programs to combat climate change.

Why did the U.S. agree to delete a key provision on developing countries from Protocol?

Although we would have preferred a free-standing provision permitting voluntary adoption of emissions targets by developing countries, we still succeeded in preserving this option in the emissions trading article. Developing countries may participate in emissions trading provided they take on a quantified emissions limitation or reduction commitment under Annex B.

Why did the U.S. agree to a Protocol which exempts developing nations?

The Protocol does not exempt developing nations from action. In fact, Article 10 of the Protocol includes obligations to advance the commitments of all parties, specifically including developing countries. All parties are obligated to implement national programs that consider actions in the energy, transportation, industrial, and other sectors to mitigate climate change. The Protocol also permits developing countries to participate in emissions trading, provided they adopt legally binding emissions targets under Annex B. We are planning further efforts to secure more meaningful participation by developing countries as we continue efforts to address global warming under the Framework Convention on Climate Change.

Isn't it true that the Protocol will permit developing countries to add new binding limitations on the U.S. by a simple 3/4 vote at future climate change meetings?

No. On the contrary, we would need to agree on new binding limitations that would apply to the U.S. and any such agreement would also require Senate advice and consent before the President were to ratify it.

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

These mechanisms are not simple resource transfers. They will accomplish the two important objectives of involving developing countries in reducing global greenhouse gas concentrations and allowing U.S. companies to achieve emissions reductions at lower cost:

First, by supporting Clean Development projects, they will produce real reductions in global greenhouse concentrations in developing countries.

Second, by participating in the CDM, U.S. companies will be able to partially offset their emissions reduction obligations.

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

In fact, by agreeing in Kyoto, we satisfied the requirements of the Berlin Mandate and can now put it behind us.

Had the Kyoto Conference failed to produce a protocol, not only would international confidence in our ability to achieve an agreement have been eroded, we would still be left with an unfulfilled Berlin Mandate as an excuse for some in the developing world to refuse to take action.

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

Developing countries have plenty of incentive to address global warming – most analyses indicate that it is developing countries that will suffer the most from climatic change and its associated effects.

Within the Protocol itself, the most economically attractive flexibility mechanisms – JI between Annex I countries and emissions trading – are only available to those Parties that have undertaken quantified emission limits.

What is the Administration's strategy doing to get developing countries to participate more fully in the Protocol?

Getting developing countries to participate more fully in the global response to climate change is our objective – this is important, because that participation can be accomplished in a variety of ways. First, developing countries can decide that it is in their own interest to take unilateral action to help avert the potential impacts of global warming. Many are already doing so, and we should not lose sight of the efforts they are already making. They have a strong interest here because most of their economies are highly vulnerable to the adverse consequences of global warming – their populations are located in coastal and low-lying areas that are susceptible to storm surges, erosion, and salt-water intrusion. Many are also heavily dependent on agriculture. Most also lack the resources to cope with extreme weather events, much less to implement the extensive infrastructure changes that could be needed to adjust to significant climate change

impacts such as sea-level rise, increased drought or flood.

Second, we are working extensively with a broad range of developing countries on a bilateral basis to encourage their participation in the global response to climate change. Last year, the President announced a \$1 billion initiative over a five-year period largely involving the U.S. Agency for International Development but also the Department of Energy and the Environmental Protection Agency in cooperative bilateral efforts related to climate change. We are working also in the U.S. Climate Change Country Studies Program with over 55 developing countries and countries with economies in transition to help them inventory their greenhouse gas emissions, assess their vulnerability to climate change and consider the options available to them to respond. In addition, we have initiated many other programs, including the Inter-American Institute for Global Change Research, to support the efforts of developing countries to participate in scientific research related to global warming. We have a series of bilateral "common agendas" with some of the most important developing countries, including India and Brazil, under which we discuss climate change issues and promote cooperative actions. And, under the aegis of Vice President Gore, we are working cooperatively with China on a range of climate change issues.

Third, following the Kyoto meeting in December, we are engaged in a comprehensive review of our strategy with respect to securing the more meaningful participation of developing countries to determine how we can best make further progress. In particular, we are considering ways to encourage advanced developing countries voluntarily to take on quantified emissions limitation commitments, including how to approach such difficult issues as the bases for such commitments, how they would apply and the advantages that might accrue from signing on to them.

You went into the Kyoto conference with very low expectations regarding developing countries – just seeking a provision that would have allowed individual developing countries to opt into the Protocol voluntarily. Even *that* modest provision was denounced and defeated. In light of that reception by the Chinese, Indians, Brazilians, and others, isn't it self-delusion to think that you will draw the key developing countries into the Protocol even in the next few years?

Given the lack of incentive for developing countries to participate and the lack of leverage over them, won't it be years before we can expect enough key developing countries to participate?

Although there clearly was not as much movement in the positions of the developing country blocs as we would have liked, the fact that the Kyoto Protocol includes provisions that many developing countries opposed prior to the conference -- such as emissions trading and joint implementation -- shows that negotiating flexibility does exist.

Many developing country governments stated bluntly before Kyoto that they would not discuss limits on their emissions until the developed world undertook its own commitments. However, we now have an opportunity to lead the global response by our own example – what the U.S. does matters vitally in these discussions, both because we emit around one-fourth of the world's greenhouse gas emissions and because others look to us for innovation and creativity in

confronting problems and resolving them.

If [it does take years to secure meaningful participation by key developing countries], won't it be years before the Protocol is ready to be submitted to the Senate, by your own standard?

Securing more meaningful participation from key developing countries is a top priority for us. Kyoto made a down payment on such participation, and we believe more progress is on the horizon. That said, the President has made clear that the Protocol is a work in progress and that without more developing country involvement, he will not submit it for ratification.

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

Clearly, the sooner the Protocol comes into force the better. That said, we did not accept our target premised on immediate ratification and entry into force. The Protocol is a very complicated document, and many details remain to be worked out – entirely separate from the developing country question.

The President's domestic plan for cutting emissions reflects this by offering a phased-in approach to taking action. In the first few years, the emphasis will be on efforts that reduce emissions through creating incentives for the purchase and use of energy efficient technologies. These measures make sense in their own right – by reducing pollution, lowering energy use, and saving money for consumers.

Before the beginning of the first budget period in 2008, there is a window of several years, and I am confident that within that time we can accomplish what we need to submit the Protocol for your consideration.

Clean Development Mechanism

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

The Clean Development Mechanism provides a means through which industrialized and developing countries can establish partnerships to cut emissions in the developing world, to the benefit of both parties. It was designed to make effective use of existing institutions, not to create a new one. It will be funded from a small share of the proceeds from each project certified to reduce greenhouse gas emissions. It is an arm of the Parties to the Protocol not the World Bank.

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

why transfer resources to them?

Climate change is a global problem that requires a global solution, and the U.S. will be working bilaterally, regionally, and multilaterally in the coming months and years to promote more active efforts by developing countries to limit their emissions. One way is to create partnerships through which we can share our technology and cut emissions. As developing countries understand that they can protect the environment without compromising their economies, they may be more inclined to join us in taking on emission reduction commitments. Developing countries may participate in emissions trading if they adopt binding emissions targets under Annex B which could provide even greater benefits for their economies and for the global environment.

How will this advance “meaningful participation” with developing countries?

The CDM and the projects it will generate will advance the meaningful participation of developing countries by helping those countries to develop in a more sustainable manner. These projects may help them acquire and introduce new, less carbon-intensive technologies and show them that what is good for the environment can also be good for the economy.

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

With the cooperation of private industry in the U.S. and in developed countries around the world, the CDM can play an important role in advancing the mitigation efforts of developing countries. Ultimately, it will take the combined efforts of businesses in developed and developing countries, as well as the governments of both to adopt reasonable rules and efficient procedures to promote the greatest possible number of projects under the CDM.

As in the case of emissions trading, you are claiming the Clean Development Mechanism as a big success and as a key element in keeping costs down for American business, but, once again, the Protocol only includes the general concept, with no clear outline of how it would work. Haven't we lost our leverage by signing onto a binding target and timetable without achieving the specifics on joint implementation?

No, we have not. The creation of the CDM represents a significant success of the Kyoto Protocol. While currently the Protocol contains only a framework for how the CDM would be set up, modalities and procedures designed to ensure transparency will be elaborated at the Fourth Conference of the Parties in November in Buenos Aires. The U.S. will work throughout the upcoming year to ensure that the components of the program in its final form are as flexible as possible.

Can you describe in detail how the CDM would work?

Yes. The CDM largely embodies our ideas on joint implementation. It will enable help

developing countries participate meaningfully in the global response to climate change by encouraging projects in their countries that promote energy efficiency, the diffusion of lower-carbon emitting technologies and the use of renewable forms of energy. The CDM will do so by enabling the private sector in the developed world to share in the greenhouse gas emissions reductions achieved as a result of these projects, either directly as a consequence of their active collaboration and investment in these projects, or indirectly by purchasing the emissions reductions achieved on the open-market. The private sector will then be able to use these reductions to offset greenhouse gas reduction commitments at home.

Background: Parties to the Protocol will form an executive board to supervise the CDM. The will also designate multiple “operational entities” – existing institutions, such as stock exchanges, regional development banks or international agencies -- that will certify the emissions reductions resulting from each project activity on the basis of agreed criteria. Participation in the CDM will be voluntary, and each Party must approve the project activities within its territory. These project activities will be designed to achieve real, measurable and long-term benefits related to the mitigation of climate change, and they will achieve emissions reductions that are additional to any that would occur in the absence of these activities. At their next session in November this year, we expect that the Parties to the Convention will begin elaborating modalities and procedures to ensure transparency, efficiency and accountability under the CDM, in particular through procedures for independent auditing and verification of project activities

A share of the proceeds from these project activities will be used to cover administrative expenses of the CDM as well as to assist developing countries that are particularly vulnerable to the adverse effects of climate change to meet adaptation costs. Importantly, certified emission reductions obtained during the period from the year 2000 up to the beginning of the first commitment period (2008-2012) can be used to assist in achieving compliance in that first commitment period.

The Protocol indicates that the part of a nation’s target that can be met through the CDM will be determined by a later [Meeting of the Parties]. So it is possible that the ability of our companies to use the CDM to meet our target will be very restricted, isn’t it?

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

At present, the extent to which a country’s target that can be met through the CDM is undefined. Our goal is to seek maximum flexibility in this regard.

How will the CDM be financed?

The Clean Development Mechanism is fundamentally a vehicle to allow cost-effective emissions reductions by facilitating private sector investment in clean technologies. Thus, we anticipate that the vast majority of financing for the CDM will be from private sources. Most of this financing will be channeled directly into investments in developing countries. We anticipate that there may

be minor administrative transaction costs associated with using the mechanism. While governments would also be free to purchase credits, there is no obligation for governments to contribute in any way.

How big a share of the proceeds will be devoted to assisting developing countries with adaptation to climate change – 5%? 20%? 50%? Do we really have any idea? Who decides?

The Parties will decide. We anticipate that the “proceeds” to be shared will be derived from the value of the emissions reductions achieved by a project, not the value of the underlying project. The Protocol leaves the distribution of the certified emissions reductions up to the entities involved. We anticipate that this figure will be in the 10% range in terms of the funds collected, depending on projections of the volume of traffic under the CDM. Most Parties in Kyoto indicated that they would be comfortable with this figure.

The OPEC countries actually had the nerve to press for a compensation fund so that we would have to pay them to make up for the reduced use of oil that is likely to result from an effort to cut greenhouse gases. We opposed that demand, but couldn't these proceeds end up being applied, at least in part, to pay off OPEC countries?

Article 12 of the Protocol that establishes the Clean Development Mechanism allows for proceeds to go to Parties that “are particularly vulnerable to the adverse effects of climate change” to meet “the costs of adaptation.” The reference to “adverse effects of climate change,” as opposed to, for example, “adverse effects of response measures to climate change,” makes clear that it is intended to benefit small island states and nations with low-lying coastal areas. This concept differs from the so-called “compensation” fund – whose objective included assistance to nations that would be adversely affected by actions taken by developed countries to mitigate climate change.

Since projects under the CDM will be done in developing countries that do not have emissions budgets, who will monitor and verify that the reductions from a given project are real? Who will decide that those reductions are more than would have occurred anyway, and how will they decide that?

The Parties to the Kyoto Protocol will establish operating entities who will certify emission reductions from projects. This certification will verify that the resulting emissions reductions are real and additional to those that would have occurred anyway. Though the rules have to be fleshed out, the operating entities and their procedures will be subject to the authority of the Conference of Parties.

If credits were given for reductions that would have occurred anyway, then the CDM could turn into another environmental sham, couldn't it? That is, industrialized countries could

be allowed to satisfy their reduction requirements by getting credit for reductions that were going to have to occur anyway in developing countries; and since the developing countries have no budget, there could be no offsetting reduction of their budgets. Isn't that right?

No. The Kyoto Protocol, in defining the Clean Development Mechanism, clearly establishes that CDM projects be certified only if there are "reductions in emissions that are additional to any that would occur in the absence of the certified project activity." Projects will be independently audited to verify that the emissions reductions are indeed additional. Over the course of the next year or so, Parties to the Convention will design procedures to ensure transparency, efficiency and accountability in the CDM processes.

How will the CDM be administered? Are we going to create yet another international institution? Who will control it?

The Parties will oversee the Clean Development Mechanism with the help of a small executive board, and "operational entities to be designated" (not "created") will certify project emission reductions. At this time the details have not been elaborated by the Parties – they will revisit these issues at the Fourth Conference of the Parties in November 1998.

You say that this idea is in effect the same as our idea for joint implementation, but JI would have operated on a company to company basis without new international bureaucracies, while the CDM will require a new bureaucracy, right?

The concept of the CDM is effectively very similar to that of joint implementation, with the crediting of investments for reductions made in another country. We do not envision the CDM as needing an additional bureaucracy. We plan to consult with already-existing organizations who are likely to be asked to serve as "operational entities" in the CDM. Some general types of organizations possible for this role would be: regional development banks or stock exchanges.

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December 10, 1998

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JAMES E. DERDERIAN, CHIEF OF STAFF

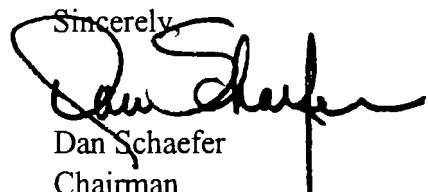
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The Honorable Melinda Kimble
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Dear Dr. Yellen and Ms. Kimble:

I appreciated your testimony at the hearing held by the Subcommittee on Energy and Power on October 6, 1998 regarding the Kyoto Protocol: The Outlook for Buenos Aires and Beyond. Since that hearing, the Administration participated in the Fourth Conference of the Parties to the Framework Convention on Climate Change (COP4) which reached decisions on a number of issues related to the Kyoto Protocol. I am writing to relay a number of follow-up questions from the hearing and COP 4, and would appreciate your reply by December 31, 1998. If you have any questions in this regard, please contact Cathy Van Way of the Commerce Committee staff at (202) 225-2927.

Thank you for your prompt attention to this matter.

Sincerely,


Dan Schaefer
 Chairman
 Subcommittee on Energy and Power

DS/cvw
 Enclosure

Follow-up Questions
Energy and Power Subcommittee

1. What is the status of negotiations to obtain the participation of developing countries?
 - Which countries have expressed a willingness to participate?
 - What will be the nature of their participation (i.e., will they agree to binding emission reductions by the same commitment period as is facing developed countries)?
 - Could a developing country "volunteer" to take on binding emissions limitations that involve significant growth in their emissions (like Australia's 8%) so that they could trade emissions credits?

2. The Kyoto Protocol set a "binding" target of reducing U.S. emissions of greenhouse gases to a level seven percent less than what we emitted in 1990.
 - Who determines whether a particular emissions target has or has not been met?
 - What are the consequences, legal or otherwise, if the United States fails to attain this "binding" target?
 - What are the consequences if other countries fail to meet their targets?
 - What are the mechanisms to enforce compliance, both ours and that of other countries, with these binding targets?

3. The Administration has characterized the Kyoto Protocol as a "work in progress." Can the Protocol be amended before it enters into force?

4. Under the terms of the Kyoto Protocol what issues are still to be negotiated? What issues cannot be reopened in the Kyoto Protocol?

5. If the Protocol cannot be amended prior to ratification, how do you propose to secure their meaningful participation prior to the U.S. ratifying the Kyoto Protocol?

6. Does the Administration consider participation in the Clean Development Mechanism to be "meaningful participation" as promised by the President?

7. One of the stated advantages of the Kyoto Protocol is the amount of lead time it gives industry to prepare; binding commitments don't begin until 2008. However, the Administration has said it won't send the Treaty up for ratification until it has meaningful commitments by developing countries. The Administration has also indicated that it won't seek to implement the Protocol until it is ratified. How long will it take the Administration to secure meaningful participation by developing countries? If it is likely to take years, what will happen to the lead time built into the Protocol? Will the first budget period be extended?

2/2/08

2/2/08

8. In testimony before the Subcommittee it was noted that the Administration is developing a domestic emissions trading system to be in place by 2008. Can you please explain under what authority that program is being developed?

9. The Administration's forecast of "modest" costs of the Kyoto Protocol on the U.S. economy is predicated on the assumption of developing country participation and full use of flexible implementation mechanisms. What would be the total costs to the U.S. economy if those two assumptions are not correct - that is, if the major developing countries do not participate, and if the use of flexible implementation mechanisms is capped at no more than 50% of our 7% reduction target?

10. What U.S. industries and sectors of our economy would be hardest hit by the Kyoto Protocol?

11. Will the combination of tax credits, research and development, and emissions trading be sufficient to meet all of the U.S. target of a 7% reduction, or will additional measures be necessary? If additional measures are likely to be needed, what specifically is the Administration proposing?

12. The Administration is currently undertaking efforts to obtain voluntary commitments from U.S. companies to reduce their emissions of greenhouse gases. What sort of credits are being promised to these companies in exchange for early action?

13. The Administration has been working on a "conceptual agreement" with some countries to pursue "an umbrella group to trade emissions permits." There are no details about the nature of the agreement or what is contemplated. Would this be a part of the Protocol or a separate agreement outside the Protocol? How would it be recognized by the Protocol Parties?

14. Has the Administration offered its economic analysis for peer review?

15. One of the assumptions upon which the Administration's economic analysis is based is "meaningful participation by key developing countries". Could you please explain what that meant for purposes of the economic analysis? For example what was the nature of the commitment that was assumed for countries like China, India, etc.... How are cost estimates impacted if countries like Argentina or South Korea take on commitments but countries like China and India do not?

16. (From Mr. Markey) Dr. Yellen: Most of your testimony was about the costs of reducing greenhouse gas emissions. But you also mentioned that the same measures reduce pollution, thus bringing economic benefits. How can one compare the costs against the benefits of reduced pollution and reduced global warming?

17. (From Mr. Markey) Dr. Yellen: Do you account in your economic analysis for the number of lives saved due to reduced pollution? If not, why not?

18.

(From Mr. Markey) Dr. Yellen: In your testimony you project that the cost per household of implementing the Kyoto Accord will be "nearly fully offset" by price declines from electricity restructuring. You also comment that the electricity restructuring is likely to cause a significant reduction of greenhouse gas emissions. Why is that – where would the reduced emissions come from? How are we going to get lower electricity prices, greater efficiencies, and technological innovations all at the same time?

19.

(From Mr. Markey) Dr. Yellen: The breakup of AT&T was followed by rapid technological innovation and adoption in the telecommunications industry. If the breakup of electricity monopolies also spurs rapid changes in electricity generation, transmission, and distribution technologies, how would that affect the cost predictions of current economic models?

20.

(From Mr. Markey) Dr. Yellen: The second panel presented economic analyses that project higher costs to reduce emissions than the ones you presented. Why do their results differ from the Administration's forecasts?

21.

(From Ms. Furse) Many countries wanted the Protocol to address only the three major greenhouse gases, carbon dioxide, methane, and nitrous oxide. The Administration advocated, and won, inclusion of all 6 categories of greenhouse gases. What are the economic benefits of including 6 kinds of gases, instead of 3?

22.

(From Ms. Furse) You discuss in your testimony the cost-savings possible with effective international trading. Since the rules of international trading have not been agreed to, could you describe what you mean by an effective international emissions market?

23.

(From Ms. Furse) You state in your testimony that the Kyoto Protocol will not affect aggregate employment. However, we have heard from other economists that this agreement could cost the U.S. millions of jobs. Why is the range of estimates so large?

24.

(From Ms. Furse) The Kyoto Protocol does not require countries to meet binding targets until 2008. However, there are certain aspects of the Protocol, such as the Clean Development Mechanism, that allow for emissions reductions to occur as early as the year 2000. Further, the Administration is pushing for tax incentives and Research and Development now. Dr. Yellen, why is it so important to do these things now?

25.

(From Ms. McCarthy) Ms. Kimble: Could you please review the business opportunities that this treaty creates for U.S. firms, both at home and abroad?

26.

(From Ms. McCarthy) In Kyoto, many countries pushed for an early commitment period. The Administration pushed for a later commitment period of 2008-2012, which ultimately was included in the Protocol. What was the economic rationale behind pushing for this later commitment period?

27.

(From Ms. McCarthy) How do we encourage countries, such as Russia, to invest money from emissions credits in clean energy developments?

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October 20, 1998

The Honorable Janet L. Yellen
Chair, Council of Economic Advisers
Executive Office of the President
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Washington, DC 20500

Dear Dr. Yellen:

Paragraph 4 of Decision 1/CP.1 (the Berlin Mandate), adopted in March 1995 by the first Conference of Parties (COP) to the United Nations Framework Convention on Climate Change (UNFCCC), called for an analysis and assessment of the economic impacts of any future protocol. However, none was made by the Parties to the UNFCCC, including the European Union (EU). In the United States, the Administration started an analysis prior to Kyoto, but it was never finished. Although there have been several analyses by the private sector, yours of last March and July, to my knowledge, was really the first by a Government. However, it was not comprehensive and it is still preliminary. It was designed to show that the economic impacts of complying with the Kyoto Protocol "are likely to be relatively modest". Clearly, it was not the broader, independent analysis of the type promised in 1995 but never delivered.

For these and other reasons, this Committee made a bipartisan request to the Administrator of the Energy Information Agency (EIA), for the enclosed report entitled "Impact of the Kyoto Protocol on U.S. Energy Markets and Economic Activity." The report's Preface explains that EIA arranged for nine experts, including William Nordhaus of Yale University and three prominent persons from Resources for the Future, to review and comment on versions of the report.

Nevertheless, I understand that some in the Administration, reportedly including the Secretary of Energy, are critical of the EIA report. In fact, Ms. Kathleen McGinty, Chair of the Council on Environmental Quality, is reported by the October 13, 1998 edition of *The Energy Daily* as disputing the EIA conclusions. She reportedly believes that "several key factors were conspicuously missing from EIA's analysis", including cost savings from international trading of greenhouse gas emissions which she says "has already begun" and is likely to exist on a

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Page two

“broad scale within a decade.” The article quotes her as saying: “Some people try to make the point that this is an expensive endeavor and it isn’t. Those who want to mislead will use this account.”

That is rather harsh criticism of another Administration Agency that long ago was required by section 205(c) of the Department of Energy Organization Act and a 1974 law to provide independent analysis of this kind to Congress and its Committees. Nevertheless, I take this criticism seriously and I request your views and comments on the EIA report, taking into consideration your latest version of your March analysis, which, apparently, was not available to the EIA in preparing this report and those made by the private sector, particularly the analysis made by DRI for the United Mine Workers, and the enclosed article .

I understand from your analysis and your October 6, 1998 testimony before the House Commerce Committee, that your optimism, and that of Ms. McGinty, about the economic impact of the Protocol is largely based on expectations about the availability of so-called “flexible mechanisms” under Articles 6, 12, and 17 of the Kyoto Protocol which, of course, has not entered into force. Additionally, it has not been submitted to the Senate for advice and consent to ratification, nor has it been signed by the Administration on behalf of the Executive Branch.

The EIA report, on page xii, also takes note of these mechanisms and says that they “may reduce the cost of compliance in the United States.” The EIA then adds:

“Guidelines for those provisions, however, remain to be resolved at future negotiating meetings, and rules and guidelines for the accounting of emissions and sinks from activities related to agriculture, land use, and forestry activities must be developed. The specific guidelines may have a significant impact on the level of reductions from other sources that a country must undertake.

“Because the exact rules that would govern the final implementation of the Protocol are not known with certainty, the specific reductions in energy-related emissions cannot be established.”

As the State Department knows, the UNFCCC Secretariat prepared a proposed work plan and schedule relating to these mechanisms, other Protocol provisions, and some UNFCCC provisions for decision of the Parties at the eighth Subsidiary Body session last June (FCCC/SB/1998/1, April 9, 1998). However, there was no progress on that proposal. Instead, on June 12, 1998, Indonesia, speaking for the Group of 77 and China (G77/China), said:

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“The Group of 77 and China maintains that the mechanisms of the Kyoto Protocol have to proceed on a step-by-step basis, as the protocol has yet to enter into force, and that a common understanding has to be reached on the nature of these mechanisms. The study of methodological issues is a first step to be taken. All the mechanisms have to be examined on the basis of the principles of equity, sustainable development, the other principles, and the objective of the Convention. The issues relating to the Clean Development Mechanism (CDM) should be addressed first. The Group further maintains that domestic actions by the developed countries should be their primary means of greenhouse gas limitation and reduction, and that the overseas mechanisms should be supplemental to such domestic actions by developed countries for the purpose of meeting their quantified emissions limitation and reduction commitments.”

It appears therefore that the aim of the developing countries is not only to avoid new commitments to reduce and limit their greenhouse gas emissions, but also to restrict the very flexibility mechanisms that you and Ms. McGinty are counting on to keep the Protocol costs “modest.”

I understand that the UNFCCC Secretariat has prepared a new work plan proposal (FCCC/CP/1998/3, Sept. 9, 1998) for the fourth Conference of Parties (COP-4) in Buenos Aires. However, there is little to suggest that this document or something similar to it will be well received at COP-4. In fact, another group, the European Union Environment Ministers, who were reported to be mellowing in their views on some significant issues in regards to the Mechanisms, met earlier this month and issued on October 6th their “Community Strategy on Climate Change - Council Conclusions.” It appears that, in reality, the EU Ministers who also want a work plan and schedule adopted at COP-4, have not changed their views, but have attempted to “re-package” them. They continue to press for “coordinated” policies and measures “amongst Annex I Parties”, including taxes, “to achieve the targets of the Kyoto Protocol.” As to the mechanisms, they concluded in paragraph 6:

“The Council reaffirms that the flexible mechanisms defined in the Kyoto Protocol are supplemental to domestic action, which should provide the main means for meeting the commitments under Article 3 of the Protocol. The principles, modalities, rules and guidelines for the operation of the mechanisms have to ensure that they do not undermine domestic action or weaken these commitments. In this context, the Council also recalls that a concrete ceiling on the use of flexible mechanisms has to be defined to achieve these aims. It should be defined in quantitative and qualitative terms based on equitable criteria. The Council believes that the discussion between all Parties on the practical elaboration of the complementarity principle has effectively to start at COP-4. This elaboration needs

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to constitute an essential element of the work plan to be adopted at Buenos Aires. The Council urges all Parties to co-operate with a view to reaching final agreement on this issue at COP-5.”

It does not appear that the views and positions of the G-77/China and the EU coincide with those of New Zealand, in reply for the so-called “Umbrella Group” (which includes the U.S.) to questions by the G-77/China on the mechanisms. As the views and positions of these two large groups persist, it becomes more and more difficult to accept your rather rosy economic analysis of the Protocol’s impacts on consumers, business, and jobs. There appears to be broader support among the UNFCCC Parties for the limitations sought by the EU than for the more flexible view urged by the U.S. through the Umbrella Group. It would seem therefore that the EIA’s broader analysis which recognizes these uncertainties about future negotiations, and does not assume their availability without the limits urged by these groups, is more realistic, at least for now, than your analysis. Therefore, in commenting on the EIA report, please explain the basis for your optimism about these negotiations and indicate what your views will be if the EU and G77/China continue to press those views and positions over the next two years of the Administration’s term.

Let me stress that I and many of my colleagues in Congress fully agree that the Administration must continue at all costs to continue to stand firm at COP-4 and thereafter against coordinated policies and measures and the interpretation of “supplemental” urged by these groups if the Administration intends to conform with S. Res. 98 which is your basic “bible”.

In addition, I note that the incomplete version of the Administration’s analysis that was started prior to Kyoto seemed to recognize that the Protocol is not self-executing in the U.S. (even with COP guidelines, rules, etc.) and that, if and when, it is ratified, implementing legislation would be needed. That document also contemplated an emission permit program and the recycling of rather large sums of money. The EIA report also mentions the likelihood of such legislation and recycling. However, your July analysis appears to omit any mention of the need for implementing legislation or discuss the possibility of a domestic emission trading proposal that would generate large sums of money which might be recycled, subject to the provision of 31 U.S.C. 3302 and other applicable provisions of law regarding the disposal of revenues. In your reply, I request that you address the issue of the need for implementing legislation, if and when, the Protocol is ratified and whether the pre-Kyoto analyses about domestic programs and revenue recycling are still under consideration. I recognize, of course, that such matters may only be in the early stages of consideration and, may never be developed if the Protocol is not submitted to the Senate for advice and consent to ratification during the remaining term of this Administration.

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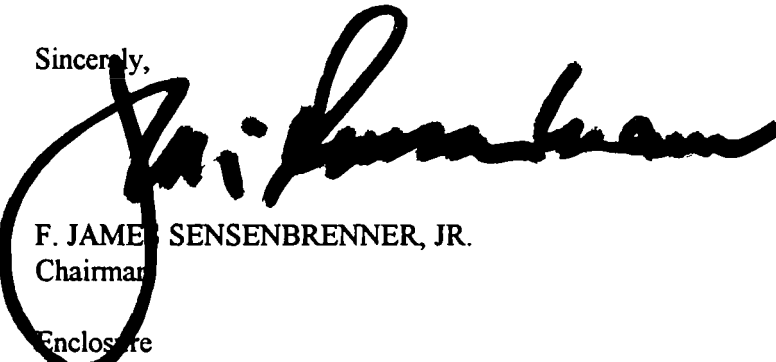
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Finally, your response should identify any "key factors" that are missing in the EIA report. This should include a discussion of the international trade that Ms. McGinty says "has already begun," and an explanation as to how that trade relates to a Protocol that is not in force and is not yet complete in many important details. Specifically, what is that trade, what entities are involved, what are they trading, and for what purpose?

In responding to these matters, please consult, as necessary, with Ms. McGinty and others in the Executive Branch to ensure a full and complete response. Also, so that you may have the benefit of the results of the COP-4 session, I do not expect your comments about the EIA report and these related matters until November 30, 1998. However, if you cannot meet that deadline, please advise in writing and indicate when you will reply before the end of 1998.

Sincerely,

A large, stylized handwritten signature in black ink, which appears to read "F. James Sensenbrenner, Jr." The signature is written over the printed name and title.

F. JAMES SENSENBRENNER, JR.
Chairman

Enclosure

FJS/hlw

cc: Secretary of State
Secretary of Energy Bill Richardson
The Honorable Kathleen A. McGinty, Chair, Council on Environmental Quality