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White House Projects Low Cost for Pact On Warming

By JOBY WARRICK
Washington Post Staff Writer

A1

If implemented, the international global warming treaty the United States signed in Kyoto, Japan, could add $70 to $110 to the average American household's annual energy bill over the next 15 years, according to a long-awaited White House economic analysis due to be released today.

In the first official assessment of the cost of December's historic global warming treaty, the Clinton administration forecasts that the agreement would result in, at most, "modest" price hikes for gasoline and other fuels as America's share of the international tab for cutting greenhouse gas emissions. And those increases could be offset completely by lower electricity bills if Congress passes laws to allow utility companies to compete, administration officials said.

But some economists were skeptical, and others who basically support the White House estimates point out that they are based on several shaky optimistic assumptions, including cooperation by developing countries and international acceptance of market-based trading mechanisms that would drastically lower the cost of cutting emissions.

"It's true that the impact can be relatively small—if this is done in the smartest possible way," said Robert Stavins, an economist and professor of public policy at Harvard University's John F. Kennedy

See KYOTO, A6, Col. 1

KYOTO, From A1

School of Government. "But if we don't do it that way it will cost 10 times what the administration is saying."

At the conclusion of the 10-day Kyoto summit, 159 industrialized nations agreed to the first legally binding international protocol to fight global warming. The treaty calls for reducing "greenhouse gas" emissions, which are produced mostly from burning fossil fuels like oil, by an average of 5 percent below what they were in 1990.

The accord has been strongly criticized by some major industries, members of Congress and others who fear it could cripple the economy and require the United States to make greater sacrifices than the rest of the world. As a result, the Clinton administration has said it would not even submit the agreement to the Senate for approval until it won participation by developing countries and took other steps to build support, including releasing an accurate assessment of the treaty's economic impact.

The new economic predictions are scheduled to be unveiled today by White House economic adviser Janet Yellin in testimony before the House Commerce Committee. Based on a months-long study using internationally respected economic-forecasting models, Yellin will project a net increase in the national annual energy costs of $7 billion to $12 billion by 2012, the deadline set in Kyoto for industrialized countries to achieving sharp cuts in emissions.

For American consumers, that translates to about a 4- to 6-cent per gallon hike at the gasoline pump, as well as comparable increases of 3 percent to 5 percent for electricity, fuel oil and natural gas, according to White House sources familiar with the analysis.

The estimates were described as "very conservative" by administration sources, who said that projected increase could easily turn into a wash or even a modest drop in energy prices. For example, if the administration's plans for restructuring the utility industry are approved by Congress, utility bills bills could fall by average $90 per household by 2012, according to White House estimates.

Any increase in energy prices would amount to a small premium for what administration officials called an "insurance policy" against a potentially serious environmental threat: Many scientists say even greater economic disruption is likely if levels of heat-trapping greenhouse gases continue to rise. The resulting increased temperatures could cause widespread flooding, crop failures and other devastating effects, they say.

"The bottom line is, we face potentially catastrophic costs if we do nothing," said a White House official who spoke on the condition of anonymity. "But if we do it right, we can insure against those for a very modest premium."

But the official acknowledged "enormous uncertainties" in predicting future economic impacts, and noted that several key assumptions are based on the willingness of other countries to accept a U.S proposal to cooperate with the West in achieving cuts in greenhouse gases—a prospect that appeared highly uncertain during the Kyoto talks.

For example, the White House analysis assumes that industrial countries will be able to trade emissions credits under an international framework that allows industries to find the cheapest ways to cut emissions of carbon dioxide and other gases. Such a mechanism—which Kyoto negotiators agreed to in principle—could slash the cost of compliance by up to 50 percent.

More than half of the remaining costs would be eliminated if a similar trading scheme is established with "key" developing countries, particularly China, India and Brazil. But those countries flatly rejected the idea during the tumultuous negotiations in Japan.

Some economists who have been critical of the Kyoto accord disputed the White House projections as wildly optimistic.

"It strikes me that the increase in prices are impossibly low," said W. David Montgomery, vice president of Charles River Associates, an economic consulting firm. He said the administration's assessment "shows a great deal of optimism on what it can accomplish in negotiations" with developing countries over the next few years.

FOR MORE INFORMATION
For more information about global warming and the Kyoto pact, click on the above symbol on the front page of the Post's Web site at www.washingtonpost.com

The Washington Post
WEDNESDAY, MARCH 4, 1998

Asked about Jordan's relationship with Clinton, Hundley said, "There is no rift. No rift."

Jordan's appearance also attracted a few bystanders to the courthouse. "Is Vernon Jordan here?" asked Betty Root, 67, a tourist from Mobile, Ala., who along with her son, John Root, 37, managed to find her way to the third floor where the grand jury meets even though court officials do not go out of their way to publicize the location. "I watch C-SPAN all the time, and I just love politics," Betty Root said. "This is just so fascinating. It's the whole Washington mystique."

Among those who have found limits to their fascination are the grand jurors themselves, who have asked for a lighter meeting schedule because they are tired, sources close to the situation said yesterday. The panel will meet just twice this week, instead of its normal three times. From now on, it will rotate three-day weeks with two-day weeks. Starr's prosecutors had actually asked for more meetings, including possibly Saturdays, but the grand jurors objected, the sources said.

Starr's office will take advantage of the break today to go before Chief U.S. District Judge Norma Holloway Johnson to resolve whether it can subpoena Francis D. Carter, Lewinsky's first attorney.

At Jordan's behest, Carter helped Lewinsky draft a Jan. 7 affidavit for the Jones case in which she denied any sexual relationship with the president—an affidavit that was not submitted until Jan. 16, after Lewinsky had secured a Jordan-arranged job offer from Revlon. Starr has subpoenaed Carter's notes, but Carter has asked Johnson to quash the move because of attorney-client privilege.

During the 11 a.m. hearing, Starr's attorneys may cite two arguments that the privilege does not apply, according to a source familiar with the dispute: that Lewinsky effectively waived the privilege by telling onetime friend Linda R. Tripp about her confidential dealings with Carter and that it does not apply when a client intends to commit fraud even if her lawyer does not know it.

Separately, the independent counsel's office decided yesterday not to bring before a Little Rock grand jury two investigators who looked into Starr's private life for the National Enquirer.

The Arkansas investigators were hired by a Grand Rapids, Mich., company—an intermediary used by the tabloid—to check out rumors that Starr had an extramarital affair and one of them took photographs outside the home of the alleged mistress. The tabloid did not turn up anything and ran no story. Starr's deputies interviewed the investigators and concluded they did not need to testify, sources said.

Staff writer Susan Schmidt contributed to this report.

The Washington Post
Wednesday, March 4, 1998

2/2 FINAL

.S. Insists It Retains Right to Punish Iraq

By STEVEN LEE MYERS

WASHINGTON, March 3 — A day after the Security Council stopped short of endorsing an explicit military threat against Iraq, the Clinton Administration defended its stance that the United States has the authority to use force if Iraq does not comply with United Nations weapons inspections.

At the White House today, President Clinton said the Council's resolution on Monday night warning of "severest consequences" if Saddam Hussein defied the agreement brokered last month by Secretary General Kofi Annan sent "a clear message" that Iraq must comply.

"The Government of Iraq should be under no illusion," Mr. Clinton said. "The meaning of severest consequences is clear. It provides authority to act if Iraq does not turn the commitment it has now made into compliance."

His press secretary, Michael D. McCurry, was even more explicit, saying "severest consequences" meant military action. The State Department's spokesman, James P. Rubin, called the phrase the Security Council's strongest warning so far in the confrontation over inspections of Iraq's weapons.

The Administration's interpretation, however, put the United States at odds with other members of the Security Council. In speeches on Monday and in interviews today, diplomats said they supported the resolution only because it did not call for an automatic military strike if Iraq balked again.

Brazil's representative on the Council, Celso Luiz Nunes Amorim, said today that there was "great resistance" to any language that would clear the way for an American military attack. "It is fair to say that the majority of the Council has the view that the authority of the Council is still needed for any military action," Mr. Amorim said.

While the diplomatic concerns remained at the forefront, the Administration submitted the bill to Congress today for the American buildup in the Persian Gulf.

The Office of Management and Budget asked for a supplemental appropriation of $1.36 billion to cover the unanticipated expenses of building up the force since the Iraq crisis flared last November and keeping it in the gulf through September, if needed. The $1.36 billion comes on top of $680 million already budgeted for the annual costs of enforcing the "no-flight" zone over southern Iraq.

The costs cover everything from the fuel to transport troops and equipment to the $150 a month bonus the 36,000 combat and support troops receive for serving in a combat zone.

> *'Iraq's words,' says Clinton, 'must be matched by deeds.'*

The cost would rise even more in the event of an attack.

The Pentagon announced today that it had ordered all troops now in the region to begin immediately receiving vaccinations for anthrax, one of the biological agents Iraq is accused of having developed.

Secretary of Defense William S. Cohen had announced late last year that the Pentagon would give the vaccine to all 2.4 million active duty and reserve forces, but he said he decided to speed up the vaccinations for those in the gulf.

The American commander for the region, Gen. Anthony C. Zinni of the Marines, said he intended to keep the force in the Persian Gulf at its current strength — with more than 300 aircraft and two dozen warships, including two aircraft carriers — until the accord with Iraq can be tested.

"I think we need to look at the first inspections and to see the results," he told the Senate Committee on Armed Services today.

In addition to the costs for Iraq, the Administration's request included $487 million more to keep American troops in Bosnia after June.

The President's budget director, Franklin D. Raines, said the $2.49 billion request also included money for emergency disaster relief for the flooding in California, tornadoes in Florida and ice storms in New England.

In addition, the President is seeking two items opposed by many in Congress: $18 billion for the International Monetary Fund and nearly $1 billion in back dues the United States owes the United Nations.

Last year money for the I.M.F. and United Nations was bogged down in an unrelated dispute over abortion, but Mr. Raines said tonight, "I don't believe that the Congress would let an extraneous issue prevent them from providing the funds necessary to support our military operations."

Although Mr. Annan's agreement averted military action, officials in Washington have remained skeptical that Mr. Hussein will comply with the weapons inspections, including those of "presidential" sites he had declared off-limits. The reaction among the Administration's critics in Congress has been outright hostile.

In his remarks, though, President Clinton said the Security Council's resolution put Iraq on notice. "No promise of peace and no policy of patience can be without its limits," he said. "Iraq's words must be matched by deeds."

General Zinni also defended the agreement before the Senate's Committee on Armed Services, saying that only the threat of a military strike had forced Mr. Hussein to back down. Even so, he predicted that Mr. Hussein would challenge the inspectors again. It was also he who asked the Pentagon to speed up the vaccinations for anthrax, suggesting he and other military commanders still suspect Iraq might someday retaliate against American forces.

Climate Pact Unlikely to Hurt U.S., Panel Finds

WASHINGTON, March 3 (Reuters) — An international treaty to fight global warming and reduce heat-trapping fossil fuel emissions would have little effect on United States employment and a fairly modest effect on energy prices, according to a new White House analysis.

The United States would spend just a tenth of 1 percent of its projected gross domestic product in 2010 to reduce fossil fuel emissions under the treaty, said the analysis obtained today by Reuters.

Janet Yellen, the chairwoman of the White House Council of Economic Advisers, is to explain the analysis in testimony on Wednesday before the House Commerce, Energy and Power Subcommittee.

The treaty would raise household energy prices by 3 percent to 5 percent from 2008 to 2012, and would raise the average household's energy bill by $70 to $110 annually within 10 years, the analysis said.

Gasoline prices would increase by 3 percent to 4 percent, or 4 to 6 cents per gallon, and electricity prices by the same amount. Fuel oil prices would increase 5 percent to 9 percent, and natural gas prices by 3 percent to 5 percent, the analysis said.

But Ms. Yellen said the price increases "may not be observable because they would be small relative to typical energy price changes and nearly fully offset by electricity price declines from Federal electricity restructuring."

The analysis assumes that there will be a system to trade emissions credits, gains from carbon-absorbing "sinks," like forests, and broad restructuring of the electric power industry to increase competition.

Yellen said the agreement was also based on the the participation of developing countries and she said the Administration will not ask the Senate to ratify the treaty unless developing countries agree to join.

How developing countries would be involved and other key issues were not resolved by the deal struck in Kyoto, Japan, in December under which industrialized countries agreed to meet targeted cuts of heat-trapping emissions by about 2010.

The New York Times

WEDNESDAY, MARCH 4, 1998

U.N. Chief Invites Iraqi to a Talk About Oil

By BARBARA CROSSETTE

UNITED NATIONS, March 3 — Secretary General Kofi Annan today invited the Iraqi Foreign Minister to New York to talk about problems with the program that allows Iraq to sell limited quantities of oil to buy food and medicine.

Discussions on the "oil for food" program have normally been conducted in Baghdad by lower-level officials.

The Foreign Minister, Mohammed Said al-Sahaf, could arrive as early as next week, shortly before the United Nations sends a team of experts to Iraq to assess the country's ability to pump and export more oil.

The Security Council last month agreed to allow Iraq to sell $5.2 billion every six months; Iraq says it can produce only $4 billion and wants money to repair its equipment.

Iraq has also complained that the United Nations is meddling with Iraqi prerogatives in plans it has drawn up for an enlarged oil-for-food plan, including a proposal to increase supply of electricity to Kurdish-held areas of the country. All United Nations-supervised imports and improvements in the country are intended to relieve the suffering of Iraqis who have lived under sanctions for more than seven years.

Mr. Annan's willingness to hear out Iraq's many grievances about United Nations programs is a departure from earlier practice, when the Security Council — under urging of the United States — sought to isolated Iraq, demanding that Baghdad abide by the rules and not try to change them.

The Secretary General, taking a different line, has spoken of the need to not humiliate Iraq but to draw it back into the community of nations. His comments here and in Baghdad about understanding and respecting the Iraqis are at considerable variance with the more punishing language often used in Washington.

Iraq has been under a comprehensive economic embargo since its 1990 invasion of Kuwait and must be certified free of all weapons of mass destruction before those sanctions can be lifted. Even then, it will be subject to extensive monitoring.

In the last year, however, Iraq has experimented with a variety of tactics for evading the arms inspection system that is closing in on some of President Saddam Hussein's most sensitive properties, where arms inspectors believe that documents and possibly weapons or their components may be hidden.

After threatening in recent months to end cooperation with the inspectors of the Special Commission, Iraq scored a diplomatic point when Mr. Annan went to Baghdad last month to broker an agreement that averted American military action. Some members of the Council, in particular Britain and the United States, would have preferred that the Iraqis did not get the opportunity to deal directly with the Secretary General.

On Monday, British and American diplomats hailed the Security Council resolution endorsing Mr. Annan's agreement because it returned the initiative to the Council's control even though the document did not authorize the use of force against Iraqi violations.

Today Mr. Annan was completing plans for a new kind of inspection system to be used at eight Iraqi "presidential sites," a departure Baghdad demanded. The Secretary General met with Richard Butler, executive chairman of the Special Commission; Hans Corell, the United Nations legal counsel, and Jayantha Dhanapala, Under Secretary General for Disarmament Affairs and leader of the group of diplomats and inspectors who, working under the commission, will visit the sites together.

Vienna to Go Ahead With Holocaust Shrine

By JANE PERLEZ

VIENNA, March 3 — After two years of argument, mainly within the small Jewish community, the Mayor announced today that Vienna is going ahead with construction of a Holocaust memorial.

The memorial, designed by a British artist, Rachel Whiteread, is a large gray concrete block with lines resembling books on its exterior. It has been the subject of heated debate.

At the heart of the furor has been the fact that the memorial, to commemorate the 77,000 Austrian Jews who died at the hands of the Nazis, is to be placed above the excavations of a medieval synagogue in Judenplatz, in central Vienna. A small, graceful square, Judenplatz is where the first pogrom against Viennese Jews occurred, in 1421, when the synagogue was burned with Jews inside it.

The Mayor, Michael Haupl, said the objections had been overcome by moving the memorial three feet so it would not rest above the bima, or pulpit, of the synagogue, the remains of which are underground.

But several leading Jews said they were still opposed or had only reluctantly given up the fight. Moving the memorial, which measures 24 feet wide and 33 feet long, is an unhappy compromise, they said.

"I'm fed up with the whole issue," said Ariel Muzicant, a leading figure in the Jewish community, which numbers 12,000. "One part of the Jewish community is for building it, the other half is saying yes but not on the synagogue. You can't blame the Mayor, you can blame us."

Mr. Muzicant said the chairman of the community, Paul Grosz, had agreed in a letter to the city that the memorial should go ahead, but "not right on the synagogue."

The upshot is that the memorial would be "half on the synagogue," Mr. Muzicant said. But he added, "I don't want to be blamed for its not being built."

The idea for the memorial was generated by the Nazi hunter Simon Wiesenthal, and the historic and emotionally important Judenplatz was chosen as an appropriate site.

A jury organized by the city, which included Mr. Wiesenthal and art curators from Europe and the United States, unanimously chose Ms. Whiteread's proposal in early 1996. Her design alludes to Jews as "people of the Book."

But as more remains of the medieval synagogue were unearthed by archeologists, who started work in 1995, opposition by Jews to the bulky design increased. Further, Mr. Wiesenthal is not uniformly popular among Jews here, and his attachment to the project became another reason to oppose it.

"The Jews don't need the monument," said Rita Koch, a Holocaust survivor and implacable critic of the project. "Only Wiesenthal needed it for his ego."

By insisting that the memorial be placed in Judenplatz, the city is at the same time insisting that the remains of the synagogue will be out of sight, she said. This, she said, is a victory "for the anti-Semites."

Access to the synagogue's remnants would be by stairs from one of the buildings in the square.

For some, today's decision marked a sensible compromise.

"In the end, the city of Vienna has the right to build the memorial," said Gerald Matt, the director of the Kunsthalle, a contemporary art museum where designs for the memorial competition were displayed. "The city has tried very hard to win over the Jewish community. The Jewish community does not lose face, and the city can tell people it's based on the will of the Jewish community."

The New York Times

WEDNESDAY, MARCH 4, 1998

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SCIENCE

SUITE 2320 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6301
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February 5, 1998

The Honorable Stuart E. Eizenstat
Under Secretary of State for Economic, Business
and Agricultural Affairs
U.S. Department of State
2201 C Street, NW
Washington, DC 20520

w/ Janet Yellen

Dear Under Secretary Eizenstat:

The Committee on Science will be holding a hearing on Thursday, March 5, 1998 at 12:00 noon in Room 2318 of the Rayburn House Office Building on the results and implications of the recent climate change negotiations concluded in Kyoto, Japan in December. In my capacity as head of the Speaker's House Observer Group and as Chairman of the Committee on Science, I would like to invite you to testify at this hearing.

We look forward to hearing your first-hand account of the Kyoto negotiations. In particular, we will want to consider the following:

1. Written or oral understandings or commitments of any kind that were made by the President, the Vice President, or other Administration officials, including yourself, with any other Party to the Convention prior to, or during or after, the Kyoto negotiations in efforts to adopt a protocol and to ensure its ratification by developed and developing countries;

2. The Administration's plan regarding signature and ratification during or after the open period for signature established in Article 23, paragraph 1 of the Kyoto Protocol;

3. Why the Administration agreed to a protocol that does not conform to S. Res. 98 that was passed by the Senate by a unanimous vote of 95 to 0 on July 25, 1997;

4. What, if any, projections and analyses were relied upon in connection with the President's statement of October 22 and the Kyoto negotiations concerning the impact on the U.S. economy, including projections of gross and net greenhouse gas emissions and energy prices and use before, during, and after the Protocol's first commitment period, and an explanation of the basis for those projections and analyses;

5. The extent to which the Protocol provides flexibility in meeting the applicable target for the United States in the first commitment period of 2008-2012, taking into consideration Article 16 bis., and other provisions requiring rules, guidelines, and other actions prior to exercising that flexibility;

6. What legislative, appropriation, regulatory, and voluntary actions pursuant to the President's October 22 statement or in anticipation of potential entry into force of the Kyoto Protocol the Administration plans (prior to any ratification effort by the Administration and the Senate) for fiscal year 1999 and thereafter to control, limit, or reduce greenhouse gas emissions and to provide assistance and incentives for industry, agriculture, consumers, and others to address increases in greenhouse gas emissions that are projected by the Energy Information Administration or by any Federal agency;

7. The Administration's plans to obtain a decision at the Fourth Session of the Conference of Parties to the United Nations Framework Convention on Climate Change in Buenos Aires to amend the Kyoto Protocol, to adopt a second Protocol, or to initiate a process for, establishing legally binding commitments for "key" developing countries to limit or reduce their greenhouse gas emissions; and;

8. In the absence of obtaining or seeking such a decision, what other plans the Administration has to obtain such commitments from such "key" countries.

To facilitate preparations for the hearing, I would appreciate receiving a facsimile copy of your draft testimony *and all written materials used in developing and providing the projections and analysis referenced in item 4* above by 3:00 p.m. on Tuesday, March 3, 1998. The Committee fax number is: 202-225-3170. In addition, please provide 150 copies of your written testimony by 3:00 p.m. on Wednesday, March 4, 1998 to the Committee on Science, attention: Ms. Cheryl Faunce, 2320 Ford House Office Building, Washington, DC 20515. Should you intend to introduce a published document or report as part of your written testimony, please provide 30 copies for the hearing as well as ordering information including, where appropriate, INTERNET or Web site references for public on-line access to the publication. The Rules of the Committee on Science also require you to submit a *curriculum vitae.*

Please note the Committee on Science is attempting to reduce the number of printed pages required to complete our reports. To accomplish this, any publications included to supplement written testimony or responses should not be printed in the report, but given a citation referencing where to find it. Therefore, it would be of great assistance to us if--in cases where a document is reasonably accessible to the public—you provide a citation (e.g. web address or, agency and document number) where the material may be found.

In order to publish your written statement on our Web site, the Committee requests a copy of your testimony, including your *curriculum vitae* and any supporting graphs or charts, saved on a DOS formatted 3.5 inch diskette, in either Word Perfect, Word or ASCII text, to permit electronic distribution. Either a correctly formatted disc or an E-mail submission to "cheryl.faunce@mail.house.gov" is necessary. If this is not possible, the Committee will publish on its Web page (under testimony) a phone number and/or E-mail address of the appropriate contact in your office for public access to your testimony.

The Honorable Stuart E. Eizenstat
February 5, 1998
Page three

Your written statement will be included in the official hearing record. Your oral statement, which I request be limited to no more than 10 minutes, and answers to questions will be printed as part of a verbatim record of the hearing; only transcription errors will be edited. If you have any questions concerning your testimony or your appearance before the Committee, please contact Dr. Harlan Watson of the Committee staff at 202-225-9816.

I look forward to your participation in the hearing.

Sincerely,

Jim Sensenbrenner

F. JAMES SENSENBRENNER, JR.
Chairman

FJS:hw

TOTAL P.04

Global Climate Change: Basic Talking Points
February 1998

Core Message

Global climate change is a key environmental challenge for the 21st century. The world's best scientists tell us that this problem is real and that the threats it poses -- like increasingly frequent and severe storms and droughts and rising sea levels -- are too serious to ignore. It is our responsibility to take vigorous, sensible steps to solve this problem. If we fail to do so, our children and grandchildren will pay the price.

Over the course of the next year, the Clinton Administration will be working hard at home and with our partners abroad to address climate change. Domestically, we will begin implementing the President's plan for reducing greenhouse gas emissions. Internationally, we will build on the historic agreement reached in Kyoto, Japan last December.

President Clinton's Domestic Plan for Reducing Emissions

In October 1997, President Clinton outlined a comprehensive and economically sound plan for reducing U.S. greenhouse gas emissions. This plan emphasizes win-win initiatives designed to cut emissions by increasing energy efficiency; developing new, cleaner energy technologies; working with industry and others to promote sensible solutions; and relying on market-based mechanisms to ensure cost-effective reductions. The plan includes:

- **Tax cuts & research R&D**. The President's plan includes a vigorous program of tax cuts and R&D aimed at cutting greenhouse gas emissions. The package amounts to $6.3 billion over 5 years -- $3.6 billion in tax cuts and $2.7 billion in new investment.

  -- The **tax cut package** includes tax credits for fuel efficient cars of up to $4,000 to consumers who purchase highly efficient vehicles. Also included are credits for rooftop solar electricity and hot water systems, for energy efficient homes and appliances, and for several forms of advanced power generation.

  -- The **investment package** includes research and development spending in the three major carbon-emitting sectors of the economy -- buildings, transportation, and industry. Among projects to be expanded is the Partnership for a New Generation of Vehicles, a government-industry effort to develop super-efficient cars that are attractive, affordable, and meet all applicable safety and environmental standards. Substantial funds will also be invested in research partnerships for key renewable energy technologies.

- **Industry-by-industry partnerships**. A second component of the President's plan includes building partnerships with key energy producing and emitting industries to develop sector-by-sector initiatives to cut emissions. These partnerships will identify opportunities for working together to remove barriers to the development and widespread use of energy efficient technologies and practices.

- **Federal energy use and procurement**. A third element of the President's plan is to substantially reduce the Federal share of U.S. greenhouse gas emissions by improving the energy efficiency of Federal facilities and activities and by overhauling procurement practices. While achieving important reductions and cost savings in their own right, these actions can also set a powerful example for the private sector.

- **Electricity restructuring.** Another core element of the President's plan involves restructuring the electricity industry in such a way as to reduce greenhouse gas emissions while saving consumers millions on their energy bills.

- **Domestic emissions trading**. After a decade of experience in reducing emissions, the President has proposed a domestic emissions trading system beginning in 2008. The goal of such a regime is to ensure that further cuts are achieved as cost-effectively as possible. The U.S. has used emissions trading successfully to reduce the pollution that causes acid rain -- exceeding environmental objectives at costs far lower than anticipated.

The Kyoto Protocol on Climate Change

The Kyoto Protocol is an historic step toward building an effective international response to the problem of climate change. In key respects, the Protocol embraces U.S. proposals -- most notably bringing the power of the free market to bear in protecting the global environment. The essential elements of the Kyoto Protocol include binding emissions targets for industrialized nations and flexible market mechanisms for achieving those targets. Our work over the coming year will focus on achieving meaningful participation from developing countries and on establishing rules and guidelines for putting agreed market mechanisms into practice.

- **Emissions Targets.** The U.S. proposal entering Kyoto was for realistic and achievable emissions targets that were credible in reducing the dangerous buildup of greenhouse gases yet measured enough to safeguard U.S. prosperity at home and competitiveness abroad. We succeeded in achieving this goal by reaching agreement on:

  -- The President's concept of a **multi-year time frame** for emissions reductions rather than a fixed, single-year target. The multi-year time frame will allow nations greater flexibility in meeting their targets.

  -- The President's **specific time frame of 2008-2012**, rather than earlier periods favored by the European Union and others, giving us time to gradually phase in change and deploy new technologies cost-effectively.

  -- **Differentiated targets** for the key industrial powers ranging from 6% to 8% below baseline levels of greenhouse gas emissions, with the U.S. agreeing to a 7% reduction. When changes in accounting rules for certain gases and offsets for activities that absorb carbon dioxide are factored in, the level of effort required by the U.S. is actually quite close to the President's original proposal to return emissions to 1990 levels by 2008-2012. The Kyoto target is at most a 3% real reduction below that proposal.

-- **Coverage of all six greenhouse gases** (the EU and Japan favored counting only three) **and of activities that absorb carbon dioxide**. Including the additional three gases and so called carbon "sinks" provides for more comprehensive environmental protection while also allowing for cost-effective measures to combat climate change.

- **Flexible Market Mechanisms.** Central to making the Kyoto Protocol a comprehensive, global, and cost-effective agreement are several market mechanisms that will provide U.S. companies with real flexibility in how they achieve emissions reductions. These include:

  -- **The U.S. proposal on international emissions trading.** Through our domestic program to reduce acid rain, we have proven that emissions trading is an effective way of achieving environmental objectives at low cost.

  -- **A Clean Development Mechanism** (CDM) establishing the right for U.S. companies to participate with developing countries in specific projects to cut emissions. The CDM encompasses the U.S. proposal on joint implementation and will provide companies with relatively low-cost emissions reduction opportunities overseas while offering developing countries the double benefit of foreign investment and clean technology.

- **Meaningful Participation from Developing Countries.** President Clinton and Vice President Gore have called for the meaningful participation of key developing countries in reducing emissions and will not submit the Kyoto Protocol to the Senate until such participation is achieved. The Kyoto Protocol makes a down payment on meaningful participation (principally through the CDM), and the Administration plans to focus extensive diplomatic efforts over the coming year on securing additional commitments.

- **Economic Implications.** Through our success in achieving realistic and achievable emissions targets (rather than the more extreme proposals of other nations) and in establishing cost-effective market mechanisms (rather than the mandatory, standardized policies and measures favored by others), the U.S. helped craft an agreement that is both environmentally strong and economically sound. Those who claim that addressing global warming will send energy prices soaring and damage the economy ignore key provisions that will dramatically reduce costs, such as international emissions trading, and also ignore the important effects of the President's plan for reducing emissions at home.

Remember: the naysayers have told us for the past 25 years that taking action to protect our environment would hurt the economy and they have been wrong over and over again. Today we have the cleanest environment in a generation and the strongest economy in a generation. Environmental protection and economic growth *have* gone hand in hand and they will in the case of global climate change as well.

The Kyoto Protocol on Climate Change
State Department Fact Sheet
January 15, 1998

BACKGROUND

- At a conference held December 1 - 11 1997, in Kyoto, Japan, the Parties to the UN Framework Convention on Climate Change agreed to an historic Protocol to reduce greenhouse gas emissions by harnessing the forces of the global marketplace to protect the environment.

- The Kyoto Protocol in key respects – including emissions targets and timetables for industrialized nations and market-based measures for meeting those targets – reflects proposals advanced by the United States. The Protocol makes a down payment on the meaningful participation of developing countries, but more needs to be done in this area. Securing meaningful developing country participation remains a core U.S. goal.

EMISSIONS TARGETS

- A central feature of the Kyoto Protocol is a set of binding emissions targets for developed nations. The specific limits vary from country to country, though those for the key industrial powers of the European Union, Japan, and the United States are similar – 8% below 1990 emissions levels for the EU, 7% for the U.S., 6% for Japan.

- The framework for these emissions targets is based largely on U.S. proposals:

  - **Emissions targets are to be reached over a five-year budget period as proposed by the U.S., rather than by a single year**. Allowing emissions to be averaged across a budget period increases flexibility by helping to smooth out short-term fluctuations in economic performance or weather, either of which could spike emissions in a particular year.

  - **The first budget period will be the U.S. proposal of 2008-2012.** The Parties rejected proposals favored by others, including budget periods beginning as early as 2003, that were neither realistic nor achievable. Having a full decade before the start of the binding period will allow more time for U. S. companies to make the transition to greater energy efficiency and/or lower carbon technologies.

  - **The emissions targets include all six major greenhouse gases.** The EU and Japan initially favored counting only three gases – carbon dioxide, methane, and nitrous oxide. Ensuring the inclusion of the additional gases (synthetic substitutes for ozone-depleting CFCs) that are highly potent and long-lasting in the atmosphere provides more comprehensive environmental protection and lends more certainty concerning the treatment of the additional gases.

- Under an emissions trading regime, countries or companies can purchase less expensive emissions permits from countries that have more permits than they need (because they have met their targets with room to spare). Structured effectively, emissions trading can provide a powerful economic incentive to cut emissions while also allowing important flexibility for taking cost-effective actions.

- The Kyoto Protocol enshrines emissions trading. Rules and guidelines – in particular for verification, reporting, and accountability – are to be discussed at the next meeting of the Parties at Buenos Aires in November 1998.

- The inclusion of emissions trading in the Kyoto Protocol reflects an important decision to address climate change through the flexibility of market mechanisms. Led by the United States, the Conference rejected proposals to require all Parties with targets to impose specific mandatory measures, such as energy taxes.

- The United States also reached a conceptual agreement with a number of countries, including Australia, Canada, Japan, New Zealand, Russia and Ukraine, to pursue an umbrella group to trade emissions permits. Such a trading group could further contribute to cost-effective solutions to this problem.

JOINT IMPLEMENTATION AMONG DEVELOPED COUNTRIES

- Countries with emissions targets may get credit towards their targets through project-based emission reductions in other such countries. The private sector may participate in these activities.

- Additional details may be agreed upon by the Parties at future meetings.

CLEAN DEVELOPMENT MECHANISM

- Another important free market component of the Kyoto Protocol is the so-called "Clean Development Mechanism" (CDM). The CDM embraces the U.S. proposal for "joint implementation for credit" in *developing* countries.

- With the Clean Development Mechanism, developed countries will be able to use certified emissions reductions from project activities in developing countries to contribute to their compliance with greenhouse gas reduction targets.

- This Clean Development Mechanism will allow companies in the developed world to enter into cooperative projects to reduce emissions in the developing world – such as the construction of high-tech, environmentally sound power plants – for the benefit of both parties. The companies will be able to reduce emissions at lower costs than they could at home, while developing countries will be able to receive the kind of technology that can allow them to grow more sustainably. The CDM will certify and score projects. The CDM can also allow developing countries to bring projects forward in circumstances where there is no immediate developed country partner.

- Countries may 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.

COMPLIANCE AND ENFORCEMENT

- The Protocol contains several provisions intended to promote compliance. These include requirements related to measurement of greenhouse gases, reporting, and review of implementation.

- The Protocol also contains certain consequences for failure to meet obligations. For example, 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.

- Effective procedures and a mechanism to determine and address non-compliance are to be decided at a later meeting. For both environmental and competitiveness reasons, the United States will be working on proposals to strengthen the compliance and enforcement regime under the Protocol.

ENTRY INTO FORCE

- The Kyoto Protocol will be open for signature in March 1998. To enter into force, it must be ratified by at least 55 countries, accounting for at least 55 percent of the total 1990 carbon dioxide emissions of developed countries. U.S. ratification will require the advice and consent of the Senate.

MJ

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

SENIOR ECONOMIST

February 26, 1998

MEMORANDUM FOR JANET YELLEN

FROM: **KEITH FUGLIE** Keith Fuglie

SUBJECT: **Q&A's on Agricultural Policy**

These Q&A's provide some background on current agricultural policy issues. Additional Q&A's specifically about the implications of climate change policy for agriculture will be forthcoming.

Q. The 1996 Federal Agricultural Improvement and Reform Act (FAIR Act) established new policies for agricultural commodities through 2002. How has the agricultural economy faired under the FAIR Act reforms?

A. The principal effect of the FAIR Act was to delink the level of farm income support from commodity prices and to encourage farmers to be more responsive to market forces. For example, it gave farmers more flexibility to increase soybean production in response to high soybean prices last year. Partly as a result, farmers increased soybean plantings and produced a record crop in 1997.

Due to relatively strong demand for agricultural products, so far farmers have done better under the new farm policy than they would have done if the old policy had been continued. Net farm income (gross farm receipts plus direct government payments minus changes in farm inventories, cash expenses and capital consumption) is forecast to be around $46 billion in 1997 and 1998, above the average of 1990-1995 ($43 billion) but below the all-time record of $52 billion in 1996.

Q. What steps are being taken to help farmers manage increased exposure to risk in the new, more market-oriented farm economy?

A. One concern regarding the new farm policy is the extent to which farmers are subject to increased price risk. By no longer receiving higher income supports in years when prices are low, farmers could experience larger year-to-year fluctuations in their earnings from crop production. However, the FAIR Act still provides for minimum support prices for major commodities through nonrecourse loans (nonrecourse loans are loans provided to farmers based on the size of his/her crop times a legislated minimum support price - the loan price. The farmer can choose either to pay back the loan in full or forfeit the crop to the government. Thus, if the market price falls below the loan price, farmers can still earn the loan price through forfeiture).

Nevertheless, farmers need to develop and use new tools for managing risks in the new market-oriented environment. Traditionally, farmers have used production and income diversification, on-farm storage, and deferral of large capital purchases in years of low income as ways to managing risk. Farmers also build up cash savings or retain unused lines of credit to carry them through poor years. In addition, there are an assortment of modern marketing strategies farmers can use to reduce price risk, such forward contracting, hedging through options and futures contracts, and by purchasing crop insurance.

The USDA offers substantial assistance to farmers for risk management. The USDA subsidizes about 60 percent of the average cost of crop insurance, and the range of commodities covered by crop insurance is being expanded. Most recently, the USDA announced new insurance programs for dryland forage crops and dairy prices. The USDA is also developing crop revenue insurance, which manages both price and production risk.

Q. The USDA recently announced proposals for reforming dairy milk marketing orders. Which of the options do you think makes most economic sense?

Background. In January, 1998, the USDA announced proposals for reforming the Federal Milk Marketing Orders (FMMO). The proposals are currently open for public comment.

The proposals would maintain the basic milk pricing scheme in which processors pay different prices for fresh milk depending upon its end use. The highest price is paid for milk used for fluid milk products (Class I), and successively lower prices are paid for milk used for soft products such as yogurt and ice cream (Class II) and hard products such as cheese and nonfat dry milk powder (Class III). Farmers receive a "blend price," or a price based on the weighted average of the Class I, Class II, and Class III prices in their FMMO region. This price discrimination scheme serves to raise producer revenues above what they would be if all milk were priced the same (i.e., the demand for Class I products is more inelastic than demand for Class II or Class III products, so gains in revenue from higher Class I prices offset losses in revenue from lower Class II and Class III prices).

Currently, milk prices vary across FMMO regions. The Class I price increases according to the distance from Eau Claire, Wisconsin, while Class II and Class III prices are fairly uniform nation-wide. As a result, farmers in the dairy heartland of Minnesota and Wisconsin receive lower prices for their milk compared with farmers in southern states such as Texas and Florida (California has its own marketing order system outside of the Federal system, in which farmers face prices similar to those in the Minnesota-Wisconsin region). This pricing system has come under challenge in the Minneapolis District Federal Court.

Answer. The USDA has proposed to reduce the number of federal milk marketing orders from 31 to 11, which would simplify their operation and reduce regional differences in milk prices somewhat. In addition, the USDA has presented two major options for reforming the milk pricing scheme. The first option would basically maintain the status quo. The second option, which the USDA designated as its preferred option, would establish a more uniform price for Class I milk across FMMOs. This would result in somewhat lower milk prices for farmers (and consumers) in some regions. The USDA has also proposed some variations to the second option in which farmers in regions affected by lower prices would temporarily receive higher prices to help them prepare for subsequently lower prices. Overall, the USDA preferred option proposes a modest change to dairy policy but one that is in the spirit of the policy reforms initiated by the FAIR Act.

Q. An alternative arrangement for dairy policy is to move toward regional compacts such as the Northeast Dairy Compact? How does the CEA view this proposal?

A. The Northeast Dairy Compact raised the price of Class I milk above the price allowed by the Federal milk marketing order in order to increase returns to dairy farmers in the New England region. One concern with the Compact is the potential adverse affects of higher milk prices on vulnerable, low income consumers (especially children, who happen to be the largest consumers of fresh milk). The Northeast Compact compensates the Supplemental Nutrition Program for Women, Infants and Children (WIC) for additional expenses incurred for fresh milk purchases (the WIC program offers food assistance to pregnant and postpartum women and children under 5 who meet eligibility requirements). The regressive implications of the Northeast Compact could be further offset if compensation was also offered to other food assistance programs, such as to Food Stamp recipients and to the School Lunch Program.

Q. What are the anticipated effects of the Asian economic crisis on U.S. agriculture?

A. One primary effect of the Asian economic crisis on the U.S. economy will be to reduce our exports to Asia and to increase our imports from Asia. A secondary effect will be somewhat slower growth in the domestic economy.

U.S. merchandize exports to Asia account for about 30 percent of total U.S. exports and 3.4 percent of GDP. A 10-percent decline in total U.S. exports to Asia would translate into a drop in U.S. GDP growth of about one-half percent. This is one estimate of the effect of the Asian economic crisis on U.S. GDP growth in 1998.

Regarding agriculture, Asia accounts for nearly half (47 percent in 1996) of U.S. agricultural exports. Japan is the largest Asian market, receiving nearly 20 percent of all U.S. agricultural exports, followed by other East Asian countries excluding China (14 percent), Southeast Asia (5 percent), and China (3 percent).

The impact of the Asian crisis will be smaller on U.S. agriculture than on many other sectors because foreign demand for food products is less sensitive to changes in incomes and relative prices compared with other products such as textiles and durable manufactures. Moreover, to assist Asian countries import essential foodstuffs, the USDA has extended more than $2 billion in new commercial credit guarantees to these countries.

The USDA forecasts that the Asian crisis will reduce U.S. agricultural exports by 3-6 percent during 1998 and 1999. Lower domestic growth will also slightly reduce demand. Slower growth in demand for U.S. agricultural products is forecast to leave net farm income in 1998 at about the same level as in 1997, a 2-3 percent decline in real terms.

Q. The President has indicated that he would seek to help farmers who may be adversely affected by a settlement with the tobacco industry. What approaches are the Administration considering?

Background. The current tobacco program supports tobacco growers through a system of supply controls and import constraints to limit supply and raise market prices. Growers must possess a production quota in order to grow tobacco. Quotas can be leased, bought, and sold, although the transfer of quotas is restricted to within a county or a state. Annual rental values for production quotas range in value from about 0 to $1.00 per pound/year, depending upon the location. The direct beneficiaries of the program are quota owners, who may or may not be actual growers. To producers who rent their production quota, the quota represents an added cost of production.

The USDA uses a formula to annually adjust the aggregate production quota in order to maintain a target price. The amount of quota held by an owner is then either increased or decreased in a proportional manner to meet the aggregate amount. Without new legislation, the proposed tobacco settlement would cause demand to fall, and accordingly, a reduction in the aggregate tobacco quota.

Several bills are before Congress that propose various compensation schemes for tobacco quota owners, renters, and the communities in which they live, for the likely decline in production that would result from a tobacco settlement. The flavor of some of the key senate bills are:

Senator Lugar's (R-Indiana) bill: would abolish the tobacco program outright and move to a market-based production system, and compensate current quota owners $8/pound paid over a three-year period. Estimated cost: $15 billion over 3 years.

Senator Ford's (D-Kentucky) bill: would maintain the tobacco program but compensate quota owners, quota renters, and tobacco communities annually over the next 25 years for the decline in production anticipated from the settlement. Estimated cost: at least $25 billion over 25 years, plus the economic inefficiencies of maintaining the program.

Senator Robb's (D-Virginia) bill: like Lugar, Robb would compensate existing quota owners $8/pound of quota, paid out over 5 years, and offer annual "transition" payments to tobacco growers. In addition, it would maintain supply controls through a licensing scheme. Tobacco licenses would only be given to actual growers, and licenses would be forfeited if an individual stopped growing tobacco. It also includes funds for affected communities. This appears to be the most expensive and least efficient option being considered.

Senator Conrad's (D-North Dakota) bill: sets aside $2 billion/year for the next 5 years to compensate tobacco farmers, but doesn't specify how this would be allocated.

Tobacco producers/quota owners are divided on what option they prefer. North Carolina flue-cured tobacco growers appear to favor eliminating the tobacco program because the program has made them less competitive in global markets (most foreign grown tobacco is of the flue-cured type). Burley tobacco growers in eastern Kentucky appear to favor maintaining the program, because they are high-cost growers and fear that tobacco could no longer be profitably grown in their area if the quota system is not maintained. Quota owners who rent out their quotas probably prefer Ford's bill to Lugar's, because it is more generous in what it offers them.

Answer: The Administration is committed to helping tobacco farmers who may be adversely affected by the proposed tobacco settlement and is exploring several options in consultation with members of Congress. We've haven't yet taken a position on a specific approach, however.

cc Michele Jolin, Rebecca Blank

OPINION

7-16-98

Janet Yellen's magic

BY RAYMOND J. KEATING

In this era of "reinventing government," the ugly hands of big government often are cloaked by the attractive gloves of business terminology. Words like "efficient," "flexible," "market based" and "global" are brandished. But no matter how you disguise them, statist schemes still strangle our economy, slowing, if not cutting off, the lifeblood of entrepreneurship and investment.

The latest of these grand schemes is the Kyoto Protocol, more commonly known as the global warming treaty. The treaty was agreed to by the Clinton administration in December, but the Senate has yet to ratify it. If implemented, it would require the United States to reduce its greenhouse-gas emissions (mainly carbon dioxide) to 7% below 1990 levels by 2008. Meanwhile, "developing" nations, like China, Mexico, India and 139 others, wouldn't be bound by similar commitments.

Given that America's greenhouse-gas emissions are expected to grow by as much as 40% over the next 10 to 15 years, drastic reductions in energy consumption would be necessary. This means jacking up energy prices through massive tax increases and more regulation.

The overwhelming majority of economic reports analyzing the impact of the Kyoto treaty are forecasting huge costs. By 2010, annual losses in output and services would be on the order of hundreds of billions of dollars. Hundreds of thousands to millions of jobs would be lost.

(Those estimates reflect the research of organizations and firms like Wharton Econometric Forecasting, Consad Research Corp., DRI-McGraw Hill, the American Petroleum Institute, Resources Data International Inc., the Center for the Study of American Business and the American Council for Capital Formation.) Increases in energy costs would run anywhere from 36% to better than 200%. At least three studies emanating from the Clinton administration in 1997 predicted big losses in output and significantly higher energy prices.

However, in an amazing feat of regulatory prestidigitation, the White House officials claim these huge costs can be turned into tiny ones. The magic of David Copperfield has nothing on these folks.

The lead magician in this global-warming show has been our Earth-first vice president, Al Gore. Famous magicians have lovely assistants, and the vice president is no exception. His assistant is Janet Yellen, chairwoman of the Council of Economic Advisers. But Ms. Yellen does far more than merely saw the projected costs of the Kyoto treaty in half. She makes them almost disappear.

In her testimony before the Small Business Committee in the House of Representatives on June 4, Ms. Yellen declared that "the net costs of our policies to reduce emissions are likely to be small."

Amazingly, energy price hikes will seem insignificant, as Ms. Yellen estimated them to be "small relative to the year-to-year real energy price changes experienced by U.S. consumers since 1960."

As for lost jobs, Ms. Yellen noted: "Although there may be job gains in some sectors and job losses in others, we do not anticipate any significant aggregate employment effect."

What accounts for this miracle? Well, of course, government's implementation of the global-warming treaty will be, according to Ms. Yellen, "efficient," "flexible," "market-based" and "global."

In reality, because government action is never efficient, flexible, market-based and is quite frightening when global, it must be magic. Voila!

Like other magicians, Ms. Yellen is reluctant to reveal the true secrets of her thaumaturgy. Hence she couldn't or wouldn't answer questions from the chairman of the Small Business Committee, Jim Talent, regarding the details of the economic analysis supporting her conclusions.

During her testimony, Ms. Yellen even acknowledged that she did not know how an emissions trading system (a scheme whereby emission permits are auctioned by the government and then traded among companies and nations) would actually work or how developing-country participation would be guaranteed — even though these are key foundations of her magical estimates.

Obvious questions regarding how emissions limits would be enforced nation by nation went unanswered as well. After all, what's to stop a developing nation from selling trading permits to the United States for billions of dollars and then simply ignoring emission limits?

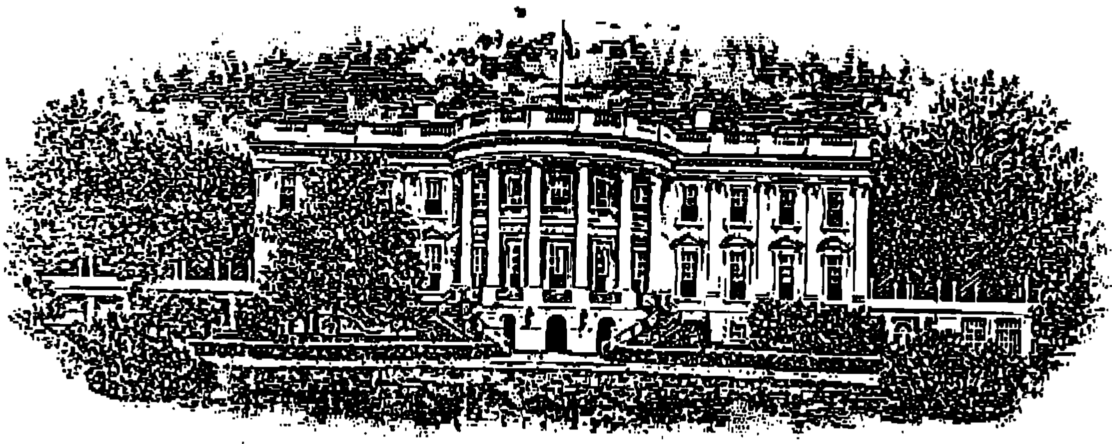
Listening to Ms. Yellen's performance before the Small Business Committee, one had to wonder whether she aspires to be a well-grounded economist or a master illusionist, whether she feels more at home wrestling with economic reality or doing a stage show in Las Vegas. But politics is often merely a show, and the global warming treaty ultimately is about politics.

In the end, as both economist and magician, Ms. Yellen has failed miserably, as anyone willing to look closely can see through her illusory projections.

Indeed, the Kyoto treaty would be black magic for the U.S. economy.

Raymond J. Keating is chief economist for the Washington-based Small Business Survival Committee.

The White House



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THE WHITE HOUSE

WASHINGTON

September 2, 1998

MEMORANDUM

TO: Distribution

FROM: Robert N. Weiner, Office of Counsel to the President

RE: Status of Responses To Congressional Inquiries on Climate Change

In order to obtain accurate information about the status of responses to Congressional climate change inquiries and the resources expended in responding to these inquiries, we ask that you complete the attached survey. **The firm deadline is COB Tuesday, September 8.** We will follow up by telephone this week to resolve any questions, but in the meantime, please feel free to call Rob Weiner at 456-6297.

White House Climate Change Task Force

734 Jackson Place, N.W. • Washington, DC 20503

FAX

To: Michelle Jobin

Organization/Title:

Fax: 56958 **Phone:**

Pages (including cover): **Date:**

From: Julie Anderson

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Message:

Agency		Number of **Letters/ Verbal Subcommittee Requests**				**Number of Questions and Document Requests**				**Status of Response**		

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						Produced			

Preliminary and incomplete: Draft 6, 3/3/98

ORAL TESTIMONY OF DR. JANET YELLEN
CHAIR, COUNCIL OF ECONOMIC ADVISERS
BEFORE THE HOUSE COMMERCE COMMITTEE
ON THE ECONOMICS OF THE KYOTO PROTOCOL
MARCH 4, 1998

Thank you, Mr. Chairman. The President has said that we can work to avert the grave dangers of climate change, while at the same time maintaining the strength of our economy. I agree and am pleased to have this opportunity to appear before the Committee to elaborate on the Administration's views on these issues.

The international agreement that was reached in Kyoto this past December is a crucial step forward in addressing global climate change. But it is only one step in a long journey. Since the international effort to reduce greenhouse gas emissions is still in some respects a work-in-progress, it is not yet possible to provide a full authoritative analysis of it. In my testimony today, I will attempt to identify key elements of the agreement and the Administration's policy, such as international emissions permit trading, meaningful developing country participation, the inclusion of land-use activities that absorb carbon ("sinks") and six categories of gases, as well as domestic initiatives, that can ensure that reductions in global greenhouse gas emissions are consistent with continued strong economic growth.

Effects of Climate Change

The Intergovernmental Panel on Climate Change (IPCC) jointly established by the World Meteorological Organization and the United Nations Environment Programme, concluded in 1995 that "the balance of evidence suggests that there is a discernible human influence on global climate." Current concentrations of carbon dioxide, methane, nitrous oxide, and the other so-called greenhouse gases have reached levels well above those of preindustrial times. As a result of the increased concentration of greenhouse gases, the IPCC estimates that global temperatures will increase by between 2 to 6 degrees Fahrenheit in the next 100 years, with a best guess of about 3.5 degrees Fahrenheit. The IPCC reports that a doubling of carbon dioxide levels would lead to approximately 10,000 additional deaths per year for the current U.S. population from higher summer temperatures, even after netting out the effects of warmer winters and acclimatization. The IPCC also predicts sea level increases of about 20 inches by 2100, with greater increases in subsequent years. Despite the difficulties of deriving quantitative assessments of the damages from climate change, researchers have nonetheless developed monetary estimates of damages that prompt substantial concern, and range in tens of billions of dollars per year for temperature changes projected to occur in the next century. If left uncontrolled, disruption of the Earth's climate may thus pose substantial costs in terms of harm to commerce and the environment alike. These costs--and they are significant--provide the primary motivation for actions to reduce greenhouse gas emissions.

These estimates do not, and cannot, accurately reflect the value of reducing the unknown risk of large-scale and potentially irreversible events with potentially catastrophic consequences, such as warming of the Northern tundra sufficient to release very large amounts of methane from the permafrost and thereby leading to accelerated warming. There is thus a strong argument for the Kyoto Protocol as a form of insurance against a serious environmental threat.

Kyoto Protocol

To address climate change, the United States and approximately 160 other nations agreed in negotiations held in Kyoto, Japan, last December, to reduce emissions of greenhouse gases. The Kyoto Protocol, which requires the advice and consent of the Senate, would place binding limits on each industrial country's combined emissions of the six principal categories of greenhouse gases. These limits apply to the 38 so-called Annex I countries, which are the industrialized countries, defined to include Russia, Ukraine, and most Eastern European countries.

In taking action to reduce emissions, economic analysis suggests that two elements are absolutely essential: the effort must be flexible and market-based, to ensure that we reduce emissions in the most efficient way; and the effort must be global, for without global emissions reductions the effort would be ineffective. The nature of the climate change problem--that greenhouse gas emissions have the same effect on the climate regardless of how, where, and, within limits, when they occur--suggests three basic approaches to lower the cost of achieving given levels of environmental protection. We term these "when", "what", and "where" flexibility.

As a result of U.S. diplomatic efforts, all three forms of flexibility are broadly reflected in the Kyoto Protocol. The choice of a multi-year budget period, ending later than many countries proposed, with allowance for "banking" of emissions reductions, constitute key elements of "when flexibility." These provisions mitigate costs by permitting reductions at times when they are less rather than more costly. The inclusion of all six greenhouse gases and certain sink activities that promote removal of carbon from the atmosphere provide substantial "what flexibility". The U.S. succeeded in having the Kyoto Protocol stipulate that countries with binding targets are to reduce total greenhouse gas emissions by certain percentages, but does not require specific reductions for specific gases. Moreover, sinks can be used to offset emissions targets. The inclusion of international emissions trading among countries that take on binding targets, coupled with an agreement allowing industrial countries to receive emissions reduction credit for certified investments in "clean development" projects in the developing world, are the critical forms of "where" flexibility incorporated in the Kyoto Protocol. Although details of these provisions need to be finalized in negotiations in Buenos Aires later this year, we believe that these mechanisms can produce substantial reductions in the costs of attaining our environmental objectives.

The problem of climate change is global and so requires a global solution. Around 2030, under a continuation of business as usual, a majority of world emissions are projected to come from developing countries. Without developing country participation we cannot achieve adequate climate protection. In addition, developing country participation would permit relatively low-cost emissions reductions to be internationally recognized as a substitute for more expensive reductions in many industrial countries. The President has made clear that he will not submit the Kyoto Protocol to the Senate without meaningful participation from key developing countries (who are not included in Annex I).

Economic Effects

An economic analysis of climate change faces three broad categories of difficulties. First are the uncertainties that still remain over the terms of the ultimate treaty. Second are the inherent limitations of available models to analyze even short-term costs and benefits. And finally is the impossibility of putting a single monetary number on the long-term benefits of climate change mitigation.

Mindful of the limitations of any single model as a tool for evaluating the economic impact of the Kyoto Protocol, we have employed a broad array of techniques to assess the various possible costs and non-climate benefits of the Administration's emissions reduction policy. Ignoring the benefits of mitigating climate change itself, our conclusion is that the net costs of our policies to reduce emissions are likely to be small if those reductions are undertaken in an efficient manner and we are successful in securing meaningful developing country participation as well as effective international trading and clean-development mechanisms in future negotiations. As I explain in my written testimony, this conclusion is not entirely dependent on, but is fully consistent with, formal model results. For example, given the factors, such as trading, delineated above, but excluding the benefits of acting and the impact of electricity restructuring, estimates derived using Battelle's Second Generation Model suggest that the resource costs of attaining the Kyoto targets for emission reductions might amount to just $7 to $12 billion per year in 2008 to 2012 -- or just 0.1 percent of projected GDP. That small net premium, in effect, purchases a partial insurance policy against a serious environmental threat.

A comprehensive economic evaluation of the Administration's climate change policies must also take into account the potential payoffs from the full package of proposed Administration climate change initiatives. As you know, the President's FY 1999 budget includes a $6.3 billion package of tax cuts and R&D over the next 5 years; this package makes good sense in terms of energy policy and will jumpstart our efforts. A second responsible step entails industry-by-industry consultations to prepare emission reduction plans in key industrial sectors. A final component of the President's climate change policy is his support for electricity restructuring in a manner that will offer approximately $20 billion in cost savings to electricity consumers, while offering modest reductions in greenhouse gas emissions.

I look forward to continuing to work with members of this Committee, as well as other interested parties, in further analyzing the Kyoto Protocol and evaluating the effects of reducing greenhouse gas emissions.

I welcome your questions.

U.S. House of Representatives
Committee on Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515–6115

February 17, 1998

The Honorable Janet Yellen
Chair
Council of Economic Advisors
Old Executive Office Building
Washington, D.C. 20502

Dear Ms. Yellen:

I am writing to confirm the invitation for you or your designees to testify before the Subcommittee on Energy and Power on Wednesday, March 4, 1998, at 10:00 a.m. in Room 2123 Rayburn House Office Building. The topic of the hearing will be the "Kyoto Protocol and its Economic Implications." The focus of this hearing will be the overall terms, objectives, and implementation of the Kyoto Protocol.

Your testimony should address the international agreement recently reached in Kyoto, Japan to limit greenhouse gas emissions ("Kyoto Protocol"). Special attention should be given to the agreement's domestic and international economic implications, including its impact on the global competitiveness of American industry. In addition, please be prepared to discuss the Administration's plans for implementing the agreement. In your testimony, please highlight those actions the Administration believes it can, or is planning to, take using its existing authority to reach its greenhouse gas emissions reduction goals. Please contrast those actions with any additional legislative authority the Administration believes it needs, or is planning to seek, in order to reach its goals under the Kyoto Protocol. Given the broad scope of this hearing, please ensure the presence of the appropriate Administration witnesses to testify on the above-stated topics.

You are requested to submit a written statement which may be of any reasonable length and may contain supplemental materials; however, the Committee cannot guarantee that all such material will be included in the printed hearing record. Your written statement should be typed, double spaced, and should include a one-page summary of the major points you wish to make. To allow sufficient time for Members to ask questions, your oral presentation should be limited to five minutes.

Rule 4(b)(1) of the Committee rules requires that you provide the Committee with 75 copies of your written statement at least two working days in advance of your appearance. This will allow Members and staff the opportunity to review your testimony. On the day you appear before the Subcommittee, please bring an additional 75 copies of your testimony to satisfy anticipated interest in this hearing.

Rule 4(b)(1) also requires that, to the greatest extent practicable, you submit a copy of your testimony in electronic format. The testimony will be converted to HTML or Adobe Portable Document Format and posted to the Committee Website at "http://www.house.gov/commerce/welcome.html" after the hearing. Electronic submittal will increase public access to your testimony, and reduce Committee printing costs. Submission of testimony in electronic form does not relieve a witness of the obligation to submit the requested number of printed copies of his or her testimony. Guidelines for submission of testimony in electronic format are enclosed.

Please send the electronic and printed copies of your testimony needed two working days before the hearing to the attention of the Legislative Clerk for the Committee on Commerce in 2125 Rayburn House Office Building, Washington, D.C. 20515.

If you have any questions concerning the scope of this hearing for purposes of designating appropriate Administration witnesses, please contact Ms. Catherine Van Way of the Commerce Committee staff at (202) 225-2927. My staff will be happy to work with the Department to ensure adequate coverage of all relevant issues by the Administration's witnesses.

Sincerely,

Dan Schaefer
Chairman
Subcommittee on Energy and Power

Attachment

THE HOUSE COMMITTEE ON COMMERCE

Guidelines for the Electronic Submission of Congressional Testimony

The Rules of the House Commerce Committee require each witness, to the greatest extent practicable, to submit a copy of their testimony in an electronic format prescribed by the Chairman. Testimony submitted in electronic form will be used to produce the printed hearing record, and also may be converted to HTML or Adobe Portable Document Format and posted after the hearing to the Committee on Commerce website at http://www.house.gov/commerce/welcome.html. Your compliance with this requirement will facilitate the distribution of your testimony, and help the Committee to minimize the costs of printing the hearing record.

Materials submitted to the Committee for electronic publication must be formatted in one of the formats listed below.

1. <u>Windows Environment</u>

   a. 3.5 disk DOS/Windows format disk, either 720k of 1.44MB format
   b. The following file formats will be accepted:
      1) Word 7.0 or earlier;
      2) WordPerfect 6.1 or earlier; and
      3) ASCII or ANSI text files.

2. <u>Macintosh Environment</u>

   a. 3.5 inch Macintosh high-density format disk
   b. The following file formats will be accepted:
      1) Word 6 or earlier;
      2) WordPerfect 3.5 or earlier; and
      3) Macintosh text file.

Please label your disk with the following information: 1) Witness Name; 2) Witness Organization; and 3) Name and Date of Hearing.

In addition to submitting testimony in the two formats listed above, witnesses may also submit a second copy of their testimony in Hypertext Markup Language (HTML) or Adobe Portable Document Format. Testimony submitted in HTML may <u>not</u> include external hypertext links in the testimony.

The submission of testimony in HTML format does not relieve the witness of their obligation to submit electronic versions in one of the Windows or Macintosh formats, or to submit written testimony as prescribed in the letter of invitation.

QUESTIONS FOR DR. JANET YELLEN
TESTIMONY ON ECONOMIC IMPACT OF KYOTO PROTOCOL

In your testimony, Dr. Yellen, you note that no economic model takes into account all of the parameters of the Kyoto Protocol. Why is it so difficult to assess this policy using an economic model? Why is it so difficult to estimate the economic effects of climate change policies?

In your written testimony, you provide some preliminary estimates of the costs of achieving our greenhous gas emissions target under the Kyoto Protocol. However, you state that it is virtually impossible to quantify the climate benefits of the Protocol. Why is it nearly impossible to do so?

We have heard numerous times -- and you have emphasized again today -- that international trading in emissions rights will lower the costs for the United States. Could you please explain why international trading is so beneficial? Could you also give an example or two of what private firms in other countries might do to lower their emissions so they may sell inexpensive emissions rights to American companies?

In your testimony, you note that emissions trading among the so-called "umbrella" countries could yield greater cost-savings to the United States than trading among all Annex I countries. Why would the costs be lower for the U.S. under this umbrella arrangement?

Last week, Dr. Robert Stavins, an economist at Harvard, gave a briefing on the Kyoto Protocol. He pronounced the Kyoto Protocol as flawed but fixable. Dr. Yellen, from an economic perspective, what do we need to do to fix the protocol and what would be the likely economic effects of achieving these fixes?

In Kyoto, many countries pushed for an earlier commitment period than the one the Administration advocated. In the end, the Administration position of a commitment period starting in 2008 was included in the Protocol. What is the economic rationale for pushing for a later commitment period?

Some countries wanted a single year target, while the Administration advocated for a five-year commitment period. What are the economic benefits of a five-year average relative to a one-year target?

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?

In addition to the emissions of greenhouse gases from industrial activities, the climate can be affected by activities that take up, or sequester greenhouse gases. These so-called "carbon sinks" remove some of our emissions of carbon dioxide and can mitigate the effects on the climate. Some countries opposed the inclusion of sinks in the Protocol, but the Administration fought for the right to include the effects of some carbon sinks on achieving our emissions target under the Protocol. Dr. Yellen, why does the inclusion of carbon sinks help lower our costs of complying with the Kyoto Protocol?

The Administration has proposed a domestic permit trading system to reduce emissions of greenhouse gases based on the country's experience with the acid rain trading program. Could you explain why a system of tradeable greenhouse gas permits is superior to other approaches?

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?

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?

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 that could be used over the 2008-2012 period. Further, the Administration is pushing for funding for tax incentives and R&D to spur the adoption of energy efficient technology now. Dr. Yellen, why is it important to do these things now?

You state in your testimony that the need to bring developing countries into the Protocol is not based on competitiveness concerns. Could you explain why your analysis indicates that developing countries operating without binding commitments will not adversely affect U.S. competitiveness? Could you then further discuss the reasons why these countries should participate?

MJ

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

SENIOR ECONOMIST

March 3, 1998

MEMORANDUM FOR JANET YELLEN

FROM: **KEITH FUGLIE** Keith Fuglie

SUBJECT: **Q&A's on Agriculture and Climate Change**

In preparation for your testimony before the Senate agricultural committee, here are some Q&A's relating specifically to the implications of the Kyoto agreement for U.S. agriculture.

Q. Several farm groups have raised concerns about the Administration's climate change policy. A recent study sponsored by the American Farm Bureau Federation found that higher energy prices resulting from a Global Climate Treaty could raise U.S. farm production expenses by as much as $20 billion, reducing net farm income by one-half. What is your assessment of the short-run impact of the Treaty on agricultural income?

A. Until specific elements of the Kyoto agreement are worked out, such as the terms under which international trading would take place and developing nations would participate, it is premature to develop economic forecasts for specific sectors. Nevertheless, as I stated in my testimony, we believe the economic costs of the climate change treaty will be modest given the provisions the President has insisted upon.

It is true that agriculture is a relatively energy-intensive sector, particularly in its use of inputs such as fertilizers that use relatively large amounts of fossil fuels in their manufacture. Thus, increases in energy prices could raise production costs in agriculture by a larger percentage than for the economy as a whole.

However, in assessing the impact of energy price changes on a particular sector, it is important to consider several factors. First, farmers will be able to pass on some of the increase in production costs to consumers in the form of higher commodity prices. While an individual farmer has little or no ability to influence commodity prices, when farmers as a whole reduce production in response to higher input costs, commodity prices are likely to increase. Moreover, farmers in other industrial nations will face similar circumstances.

Second, farmers can be expected to adjust their production methods to take advantage of lower-cost technologies. For example, farmers could increase their use of no-till cultivation methods to save energy costs, as they did following the oil price shocks of the 1970s. Recent advances in "precision-agriculture" (which combines detailed soil maps with a global positioning system to fine-tune fertilizer and chemical application rates) may also help farmers increase the efficiency of their fertilizer and chemical use, further lowering production costs.

These two factors, the pass-through of higher inputs costs to higher commodity prices, and input substitution possibilities to lower production costs, can significantly reduce potential adverse impacts of higher energy prices on farmers. A recent study funded by the EPA found, for example, that a modest increase in energy prices would have little or no effect on net farm income in the United States. (The study considered scenarios where the permit price of carbon emissions ranged from $25-$100/ton.) The study found that most of the effects would be passed on to the food industry or to final consumers, and not borne by farmers, although even the costs to consumers were likely to be relatively small. The study also concluded that higher energy prices may result in additional environmental benefits, such as reduced soil erosion as farmers adopt less-intensive tillage methods to save fuel costs.

Q. Some economic assessments of climate change, including a recent study by USDA's Economic Research Service, concluded that the potential adverse effects of climate change on U.S. agriculture are likely to be small, and even possibly positive. How will the proposed Climate Change Treaty benefit U.S. agriculture?

A. The consequences of climate change on agriculture or other human activity are difficult to predict with a great deal of confidence, but the risks from inaction are large. One well-respected study that I referred to in my testimony (Cline) estimated that a temperature increase of 4.5 degrees Fahrenheit could result in lost U.S. agricultural production of $22 billion per year. Other studies have estimated higher or lower potential losses. Some studies have even suggested that by adapting to climate change, such as by switching to new crops or farming systems, farmers could offset many of the negative consequences of climate change on agriculture.

One of the major limitations of present models is how they account for adaptation to climate change. Models have often assumed, for example, that farmers can adapt instantaneously and costlessly to major changes in their farming systems. We know this is not the case, and, therefore, these models may seriously underestimate the long-run cost of climate change to agriculture. The economic models have also probably underestimated the risks posed by an increase in the frequency of extreme weather events, which is another predicted consequence of climate change.

What we are really proposing is an insurance policy: we know that climate change entails potentially large future costs, costs which we believe could be avoided by taking the kind of action agreed to in Kyoto. Furthermore, the capacity of our agricultural research system and of farmers to respond and adapt to the effects of global warming will depend on the rate at which climate change occurs. By slowing down, if not halting altogether, the climate change effects of greenhouse gas emissions, we can significantly reduce these future uncertainties.

cc: Rebecca Blank, Adele Morris, Joseph Aldy, Randy Lutter, Michele Jolin

I Mock Hearing

Call. Victoria Wong
Rosina Romerez
Sue

II AG Letter

III Courtesy Calls

Randall W. Lutter
02/19/98 01:14:41 PM

Record Type: Record

To: Michele Jolin/CEA/EOP

cc:

Subject: Re: Assignments for Janet's mock hearing

Michele; Hope this is still timely. I have intentionally included some redundancy.

-RL

Stern: Ratification, consistency with other statements of Administration policy, voluntary industry initiatives
Sandalow: international trading, consistency with other statements of Administration policy; ~~voluntary initiatives~~ benefits of acting
Orszag: intenational competitiveness, cost estimates, job loss, Climate change policy package; tax cuts; R+D
Gruber: Cost estimates, international trading, capital flows abroad, technology optimism
Frankel: international competitiveness, distribution of costs, permit trading, oil shocks, job loss.
Lutter: Ancillary and climate benefits, electricity restructuring, developing country participation; CAFE standards, regulations
Aldy: Cost estimates, comparisons with other models,
Morris: Sinks, permit trading
Greenfield: developing country participation, international trading, umbrella with and without EU - transfers to Russia, paper tons

Paper tons; international ~~trading~~ transfers to Russia
Climate Change Policy Package? R+D taxcuts voluntary initiatives
CAFE standards / regulations - mkt mechanisms

HEALTH Benefits - one study

Schaefer
Hall
Markey
Waxman

Caplan

Q and A's on sinks and forestry industry

The climate policy concerns of the forest products industry derive from several special features of the industry:

- The industry has an obvious role in carbon sequestration.
- Their plants experience especially slow capital stock turnover.
- The industry is very energy intensive.
- Some subsectors use biomass energy extensively (up to 43% of total energy)
- The industry is already facing significant burdens of new environmental regulation, e.g. the Cluster Rule, NAAQS standards, MACT standards for Wood Manufacturing Facilities, etc. for a total of $5.8-$9.8 billion in capital costs in 1998-2008, according to industry documents.
- Parts of the industry are at best only marginally competitive with developing counties.

Won't the U.S. emissions commitment damage the competitiveness of our timber and wood products industries vis a vis those in developing countries?

[Refer to general answer on competitiveness and what we say to energy-intensive sectors.]

Much of the energy used in the forest products industry is biomass, such as wood wastes and pulp liquors. Will the burning of biomass be treated like other carbon emissions under the treaty?

Biomass is one of a number of sink-related activities that must be addressed as we prepare an accounting system under the treaty. The U.S. and our treaty partners will have to develop a system that sets out how to account for the carbon stored in growing biofuel and the carbon emitted when it is burned. No decisions have been made as to the exact methodology that will be used for biomass.

How is the Administration going to interpret afforestation, reforestation, and deforestation? Since parties aren't explicitly penalized for harvesting and they are credited for replanted forests, doesn't the treaty language create a perverse incentive to cut down forests?

Our position has been that carbon effects from land use changes and forestry activity should be counted in the emissions calculations. The treaty reflects this position, which makes scientific and economic sense. Only by including both emissions and sequestration in the accounting system will parties face the proper incentives to sequester greenhouse gases through their land use activities. In fact, forestry initiatives may provide some of the most cost-effective opportunities to meet our emissions targets, and we have and will continue to encourage land stewardship that is environmentally sound.

That said, there are many technical details of a carbon accounting system to work out, and we have technical experts working hard to develop a scientifically, environmentally, and economically responsible approach. If a careful analysis indicates that the activities included in the list under Article 3.3 are not sufficient to properly account for significant carbon influences, under Article 3.4 the parties may add other human-induced land use changes and forestry activites to the list. We will be coordinating a carbon accounting system with other parties so as to ensure two things: (1) that emissions targets are met equitably and (2) that the international permit trading system and Clean Development Mechanism will promote cost effective and environmentally beneficial land use activities.

Dr. Yellen, my state is blessed with abundant forests, and timber sales are an important part of our economy. You've mentioned that the Administration fought for and won inclusion of forestry activities in the calculation of net emissions in the treaty. What does the Kyoto Protocol mean for the forest products industry?

Forests play an important role in sequestering carbon from the atmosphere. We expect that some of the most cost effective means of reducing net emissions and meeting our treaty targets may come from additional sequestration in land use changes and forestry. While our economic analysis has not singled out individual sectors of the economy, it is safe to say that afforestation and reforestation can ease the U.S. commitment, and the Administration looks forward to working with the forest products industry to identify cost effective strategies to encourage those activities.

I understand that according to the Administration's math, 3% equals 7%. How is this possible?

In negotiations under the Kyoto Protocol, the US agreed to a commitment of a 7% reduction below base period emissions. The U.S. accepted changes in calculation of the obligation for synthetic gases, forests and land use change that allowed the US to deepen its numerical target for the same level of effort. Moving to a 1995 base year for synthetic gases (alternatives to ozone depleting gases and other synthetic chemicals e.g. HFC, PFC, and SF6) reduced the US commitment by 1%. Removing a penalty in the accounting system for forests and land use change reduced the US commitment by 3%. In addition, the US agreed to 3% additional reductions over our initial position of stabilizing emissions at 1990 levels.

Will farmers/utilities/companies be able to receive credit for improving agriculture soil carbon, forest conservation, or forest management?

The language of the Protocol limits carbon sequestration activities to afforestation and reforestation, but provides for this list of activities to be amended at the next negotiating session. The inclusion of afforestation and reforestation will allow the US to take advantage of low cost carbon sequestration projects that result in verifiable changes in stocks. The US recognizes that the list of activities to receive credit is limited, and will work with key environmental and business constituencies to develop a strategy to ensure that verifiable and cost-effective carbon sequestration projects and actions receive credit under the Kyoto Protocol. We will continue to work on these elements as we move forward with developing and implementing other key provisions of the agreement, including the rules for international trading and the Clean Development Mechanism.

The Washington Times
THURSDAY, MAY 14, 1998

White House not letting public see warming papers

Documents include objections

By Patrice Hill
THE WASHINGTON TIMES

The White House will not allow the public to see documents revealing the serious objections raised by Clinton economic advisers to the global warming treaty, top officials testified yesterday.

Janet Yellen, chairman of the Council of Economic Advisers, dismissed private forecasts predicting millions of job losses and skyrocketing utility bills and prices at the gas pump as a result of the sharp energy and greenhouse emissions cuts required by the treaty.

In testimony before the House International Relations Committee, she said the administration sticks by its forecast that the damage will be only "modest," but she declined to provide any of the econometric models or other materials documenting that conclusion requested by several committees of Congress.

"The White House counsel has made a determination that some material reflects the internal deliberations of the executive branch and could affect ongoing negotiations," she said, referring to State Department efforts to get Third World countries to agree to mandatory emissions cuts like those required of the U.S. and other developed nations under the treaty.

"This is not an assertion of executive privilege," she added, saying that members of Congress and their staffs could review the withheld documents in the White House counsel's office if they want.

Before the treaty was drafted last December in Kyoto, Japan, some Clinton economic advisers made little secret of their concerns that the sharp increase in energy prices that could result from the treaty would cause substantial job losses in energy-intensive industries, slow economic growth and cut into Americans' buying power.

More recently, in internal deliberations some advisers have warned that zealous attempts by the Environmental Protection Agency to start implementing the treaty raise constitutional separation-of-powers questions, since it faces almost insurmountable obstacles to ratification in the Senate.

"The economics staff has occasionally raised that issue, but it doesn't seem to touch any hot buttons or get any reactions that register," said one Clinton official.

This official described the administration's assessment as "optimistic" because it assumes that a complicated system allowing businesses to trade permits that limit carbon dioxide emissions worldwide will be in place in time to dramatically lower the cost of complying with the treaty.

That analysis was driven by a political decision to sign onto the Kyoto treaty, rather than by an objective assessment of the costs and benefits, he said.

"The assumptions were generally favorable," he said. "I thought that was unrealistic." This administration official added that "there's a lot of dissension" in the documents requested by Congress, so it is no wonder that the White House is dragging its feet.

Private economists say the treaty will force up the price of gas by up to 50 cents a gallon, add hundreds of dollars to home utility bills, cause up to 3 million of job losses and lower the American standard of living.

Janet Yellen, chairman of the Council of Economic Advisers, dismissed forecasts predicting job losses.

Robert N. Burt, chairman of FMC Corp. and the Business Roundtable's Environment Task Force, said that many U.S. industries that are intensive users of energy would move their plants to the Third World to avoid the treaty's restrictions, including oil and petrochemicals, steel, aluminum, cement, paper and feedstocks.

Legislators pointed out that all the pain would come despite the administration's own assessment that the treaty would do little to slow the buildup of greenhouse gases in the atmosphere as long as it exempts developing countries.

"We must ask whether the administration accomplished anything meaningful in Kyoto," said committee Chairman Benjamin A. Gilman, New York Republican. "Maybe we need a treaty with the agencies to get information."

"What's very worrisome about this proposed treaty is we are putting ourselves at an unfair disadvantage to other countries," said Rep. Jo Anne Emerson, a Missouri Republican who was an observer at the Kyoto talks.

McIntosh Hearing

Republican Subcomm Staff
Larissa Dobriansky 225-4407

Dem Subcomm Staff
Elizabeth Mundinger 225-5051

Cong John Tierney
Randi Woods 225-8020

Cong Kusinnish
John Edgell 225-5871

United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000
202-224-2035

Reminder for Michele — This is due 4-29

April 6, 1998

Ms. Janet Yellen
Chairperson
Council of Economic Advisors
Old Executive Office Building
Room 314
Washington, D.C. 20502

Dear Ms. Yellen:

The following questions have been submitted for response on the record from the Senate Agriculture Committee hearing on March 5, 1998 regarding the Kyoto Treaty on Climate Change. Please respond to each and return to the committee by Friday, April 29, 1998 to the attention of Chris Salisbury, Hearing Clerk. Should you have any questions regarding this matter please have your staff contact Chris Salisbury at (202)224-7187.

Sincerely,

Dick Lugar

Richard G. Lugar
Chairman

RGL/csc

Talk to Al

QUESTION TWO

Issue: Misrepresentation of the implementation costs of the Kyoto Protocol by industry groups.

Goal: Give Ms. Yellin an opportunity to explain why the predictions of industry are false.

Question: Ms. Yellin, a study by the American Farm Bureau estimates 25 to 50 percent increases in energy costs for farmers due to actions to reduce greenhouse gases. Your estimates are significantly less. **How do you reconcile the Administration's numbers with the doomsday reports we are hearing from industry?**

United States Department of State

Bureau of Oceans and International Environmental and Scientific Affairs

Washington, D.C. 20520

JLH
JAF
JA
RL
AM

Date: 9/24/97
Time:

FAX Cover Sheet

To: Michelle Julen
Org.: CEA
FAX: 395-6958
Phone:

From: Linda Strachan / Franz Wuerfmannsdobler
FAX: 202-647-0217
Phone: 202-647-3550 / 202-736-7781

Number of pages to follow: 14

****

Memo: Current Q's and A's per our conversation today. They are being circulated to OMB. We still have Q's and A's to fill in.

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

1. Q: **Please identify each member of the Interagency Analytical Team (IAT) from the date of its inception to the present time, any other participants inside or outside the Administration, and specify their responsibilities.**

A: Attached is former Under Secretary Ehrlich's list of people to call regarding IAT meetings Members of the IAT had varying levels of participation and responsibility.

2. Q: **When was the IAT formed and what were the IAT's instructions? Please provide any documentation regarding the formation of the IAT and its mission, responsibilities, membership or assignments.**

A: Previously, Agencies worked independently on climate change economic analysis. Beginning in February 1996, however, the Department of Energy and the Environmental Protection Agency began to work together on global climate change analysis and called it the IAT. Their joint efforts provided the analytical foundation for the Springfield Global Climate Change Workshop in June 1996.

Former Under Secretary Ehrlich joined the Administration's climate change analysis effort shortly after the June 1996 Climate Analysis Workshop. He oversaw the analysis from mid 1996 to May 1997. Under Secretary Ehrlich's instructions were to use the IAT to provide a set of analytic tools that would allow the Administration to better understand the economics of the climate change issue.

3. Q: **Please indicate the total costs of the IAT's efforts and the share paid annually by each Department or Agency that was involved and please identity the source of the funds within each Department or Agency.**

A: Costs for the IAT were primarily for personnel. No effort was made to accumulate costs related to the IAT activities. DOE and EPA, who had primary responsibility for the analysis efforts, did have some contract costs for modeling.

4. Q: **Is the IAT still in existence? If so, what are its current responsibilities?**

No IAT economic analysis of global climate change is underway.

5. Q: **Please provide a copy of all drafts of the IAT report in addition to the May 16th and 30th, 1997 drafts, both earlier and later.**

A: Enclosed with this response are photocopies of the May 12th, May 16th, and May 30th drafts of the IAT paper. The May 12th draft was circulated among members of the IAT and senior members of the Administration involved in climate change policy. The May 16th draft was circulated to the peer reviewers, members of the IAT, and senior members of the Administration involved in climate change policy. The May 30th draft was released to the public on July 15th.

6. Q: **Please explain how the peer reviewers were selected? What instructions were those peer reviewers given? Please provide copies of any correspondence or instructions that were sent to the peer reviewers.**

A: The peer reviewers were selected based on recommendations from senior IAT members. Former Under Secretary Ehrlich made the final selection after consultation with the IAT and members from the White House Task Force on Climate Change.

Former Under Secretary Ehrlich sent letters and attachments to each of the reviewers as well as personally contacting each of them. The letter dated March 20th is a copy of the initial letter sent to Professor Jorgenson. Identical letters were sent to the other peer reviewers over a period of weeks. Enclosed with this letter were a technology note and information on the IAT models and baseline. The undated letter is a copy of the letter that was sent to all reviewers on May 16th with copies of the May 16th draft of the IAT report. Copies of materials sent to the reviewers are enclosed.

7. Q: **If the IAT effort is in fact a "failed" project as indicated in Administration testimony at the Subcommittee hearing how will the Administration determine the appropriate level of future international climate change commitments for Kyoto and later?**

A: The IAT effort generated much useful information about how to model constraints on greenhouse gas emissions and their potential economic effects. However, the IAT process was unsuccessful in providing a sufficiently narrow range of estimated economic effects to support the Administration's overall decision-making process. As part of the ongoing Administration decision process, a number of different economic and other analyses are being evaluated as guides to the likely effects of reducing greenhouse gas emissions.

8. Q: **As late as last May when Dr. Ehrlich and others in the Administration held briefings on the then draft analysis and assessment there was no hint that the Administration considered this effort a failure and the models to be unreliable. What occurred since May that caused the Administration to apparently reach a different conclusion from that of Dr. Ehrlich?**

A: When the Administration provided briefings on the work being done by the IAT, the focus was on determining baselines for emissions levels, economic growth, and other key variables. and for explaining the different models that were being used. As the work done by the IAT proceeded, the wide range of economic outcomes called into question the benefits of continued IAT work on these economic models, given the many other competing claims on agency resources.

9. Q: **The IAT draft Analysis referred to three scenarios which resulted in costs of future climate commitments of approximately $200, $100, or $50 per ton carbon tax equivalent. Has the Administration concluded that a $200 per ton carbon tax equivalent cost will not harm the U.S. economy, jobs, and global competitiveness? Has the Administration concluded that a $100 per ton carbon tax equivalent cost will not harm the U.S. economy, jobs, and global competitiveness? Has the Administration concluded that a $50 per ton carbon tax equivalent cost will not harm the U.S. economy, jobs, and global competitiveness. Please provide the basis for any of the above conclusions. If the Administration does not support any of the above costs, what analysis or other information does the Administration intend to rely on to support a different amount?**

A: The implicit price of carbon for the Unites States reported by the IAT ranged from $9 to $145, depending on the situations models, and the assumptions and models used. Similarly, the impact on the U.S. gross domestic product spanned a wide range. The IAT found that the estimates of the costs to the U.S. economy of a carbon emissions reduction policy depended on factors, including targets and timetables, technology assumptions and the implementation of international emissions permit trading. As Dr. Janet Yellen remarked in her July 15,1997, testimony to the House Commerce Subcommittee on Power , "It boils down to this: if we do it dumb, it could cost a lot, but if we do it smart, it will cost much less, and indeed could produce net benefits in the long run."

10. Q: **Is the paper prepared by the IAT both an analysis and an assessment? How does it relate to the "analysis and assess merit" referred to in Paragraph 4 of the Berlin Mandate? Has the Ad Hoc Group on the Berlin Mandate provided an analysis and assessment as required by the Berlin Mandate?**

A: The IAT analyzed a wide range of emissions targets and timetables as well as a range of implementation plans (such as international emissions trading and joint implementation). The IAT analysis does not have any direct relationship to the cited paragraph from the Berlin Mandate.

11. Q: **The IAT draft states that the central policy modeled for the analysis "is aimed at reducing carbon and other greenhouse gas emissions by stabilizing them at 1990 levels" and that policy would be "announced in 2000 and its restrictions are phased in over a ten year period, so that the policy would take full effect In 2010." Reports in the media after the Denver Summit that President Clinton attended also referenced this date of 2010. In light of EIA's projection of emissions 22% above 1990 levels by 2010, is the Administration considering a target and timetable that calls for stabilization at 1990 levels by 2010?**

A: The IAT's analysis focused on a standard emissions target widely used in the academic literature. The Administration is in the process of determining its position on targets and timetables. The Administration's negotiating position is still in development.

12. Q: **The Administration frequently cites the 2000 economists who say they support controlling greenhouse gases. Their statement supports as the mechanism either carbon taxes or emissions permits. In the past, the Administration has said it opposes the use of taxes. Is that still the Administration's position?**

A: The Administration's position on implementation options or strategies relating to greenhouse gas emissions reductions is still under development. This position will be determined in conjunction with a position on targets and timetables, which is also under development.

13. Q: **The IAT draft explains that these emissions reductions to achieve stabilization would be through "issuing tradable permits at the earliest point of energy production or when imported into the U.S." and that the permits "are initially auctioned in a way that is revenue neutral: i.e., all revenues generated would be recycled through the economy.". Would these revenues be deposited in the treasury as miscellaneous receipts under the Economy Acts? Would they then**

have to be recycled through changes in the tax laws or by appropriation? How would they be recycled?

A: The IAT considered a range of revenue recycling possibilities at a very abstract level. The IAT did not examine the legal framework under which these abstract options might be implemented in the United States.

14. Q: **Does the Administration believe that permit auctions are the equivalent of a new tax? If not, please explain.**

A: In general, they are not equivalent. Auctions focus on fixing quantities and leave prices free to fluctuate, while taxes focus on prices and allow quantities to adjust to changed price levels.

15. Q: **The IAT draft states that "among fuels, demand for coal bears the brunt of greenhouse gas stabilization." What is the impact on the U.S. economy as a whole and on the relevant coal regions of this policy towards coal? What will be the job impact? Is the Administration adopting an anti-coal policy? How is the policy consistent with President Clinton's 1995 reply to Mr. Dingell that the U.S. will not agree to any protocol that harms our economy and jobs or our competitiveness?**

A: The IAT analysis found that the implicit price of carbon would range from $9 to $145 per ton depending on the model and assumptions used and the specific scenario analyzed. Economic and job impacts would similarly span a range depending on the factors such as the rate of technological change, targets and timetables, and international emissions permit trading.

It is important to stress that the IAT analysis is just that – analysis – and not policy, as the question suggests. The IAT examined a wide variety of different analytic scenarios as part of its work, and explicitly was not charged with making policy recommendations.

16. Q: **How long after December 1997 does the Administration think it will take to obtain Senate advice and consent of any Kyoto agreement, to ratify that agreement, and to enact implementing legislation?**

A: There is little information on which to judge the timeframe for the advice and consent process, or for the enactment of implementing legislation in the climate arena. The U.N. Framework Convention on Climate Change was ratified by the Senate in October 1992, only four months after it was signed by President Bush at the Earth Summit in Rio de Janeiro in June 1992. That Convention required no implementing legislation. However, other Conventions, such as the Law of the Sea, have yet to be ratified, more than a dozen years after signature.

17. Q: **Which agency or department would be responsible for implementing the provisions of any agreement reached in Kyoto, including provisions relating to joint implementation, emissions trading and advancing Article 4.1?**

A: It is anticipated that several Departments and agencies would have a role in the implementation of provisions related to joint implementation, emissions trading and Article 4.1, including the Department of State, the Department of Energy, The Department of Justice, the Treasury Department, the Department of Agriculture, the Agency for International Development, the Environmental Protection Agency, and possibly the National Oceanographic and Atmospheric Administration and the National Aeronautics and Space Administration. The precise role of each could only be determined once specific provisions had been decided upon.

18. Q: **What consideration has been given or plans made regarding passage of legislation necessary to implement any agreement reached in Kyoto?**

A: While some consideration has been given to the activities required under various agreement provisions (particularly those introduced by the United States), the lack of general acceptance of any of these provisions in the international negotiations makes the development of any specific legislative proposals premature. The Administration would intend, as part of its package of material to be sent to the Senate, to include it proposals for legislation that would be required to fully implement any agreement.

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 fo Article 5 of the U.S. draft protocol?**

A: [EGC]

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: [EGC]

21. Q: **Paragraph 2 of Article 5 of the U.S. draft Protocol mandates each Party to "strengthen its legal and institutional framework to advance implementation" of Article 4.1 commitments. What "framework" does the Administration have in mind? Does this suggest a new Federal or international agency or program? Would this be done through new legislation? If not, how would it be achieved in the U.S.?**

A. The Berlin Mandate calls for the negotiating process to "continue to advance the implementation" of Article 4.1 commitments, which also apply to developing countries. The primary U.S. objective, in proposing paragraph 2 of Article 5, was to encourage developing countries with inadequate legal and institutional frameworks to strengthen such frameworks so as to improve implementation of Article 4.1. However, it was considered that there was no reason why such an obligation could not apply to all Parties, namely that all Parties could reasonably be asked to do something to strengthen their frameworks. Even the United States, with its highly developed legal and institutional system, could, for example, enhance its existing administrative abilities to collect and report on inventories of greenhouse gas emissions. It was not intended that any international institutions or processes would be needed to implement such a provision.

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: [Seidel]

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: [EGC]

24. Q: Article 16.1 of the Convention provides that "annexes shall be restricted to lists, forms, and any other material of a descriptive nature that is of a scientific, technical, procedural or administrative character." The U.S. draft protocol states, that it may not be "appropriate" to adopt the Article 16.1 Convention example.

Please explain why. Does the U.S. support annexes that would be substantive and mandatory?

A: You correctly note that Article 16.1 of the Convention limits the use of annexes to certain types of material. This is not because there is any inherent reason why annexes should be so restricted. Rather, it is because Article 16 goes on to provide an entry-into-force procedure for annexes (and amendments to annexes) under which an annex (or amendment to an annex) enters into force for a Party unless a Party affirmatively does not accept it. (Other modifications to the Convention must be affirmatively accepted by Parties to be binding on them.)

In the context of the Convention, as well as other treaties, the U.S. insisted that the quid pro quo for such a "tacit" amendment procedure with an "opt-out" provision was that annexes be limited to material of a technical (scientific, etc.) nature. This view is consistent with views expressed by the Senate. The purpose of the U.S. comment with respect to the climate change protocol was to flag that annexes are not automatically entitled to "opt-out" procedures; rather, it depends on their context.

25. Q: **Article 9 of the U.S. draft provides that Parties "shall cooperate" in establishing a "long-term goal" regarding concentrations of gases. Article 10 calls for meetings at "regular intervals" to, among other things "periodically review the adequacy" of the Protocol and Article 8 calls for periodic review of the Protocol and guidelines "in light of evolving scientific knowledge related to climate change." Article 2 already suggests a minimum of two budget periods. Article 16 tells the parties to adopt "binding provisions" by [2005] for progressive "obligations." Does the State Department contemplate, over the next several decades a continuing process of meetings of both the protocol and Convention Parties annually and a series of IPCC assessments, special reports and technical papers leading to a series of protocols or other legal instruments that are likely to have significant economic impacts on the Parties and their people? Why is there a need for such frequent meetings and reviews?**

A: The U.S. has proposed a periodic review of the agreement to insure that any changes in the science are fully taken into account by the Parties. Such flexibility insures that if new information emerges indicating a reduced need to act, the agreement could be modified; conversely, if additional actions needed to be taken to address the threat of climate change, appropriate action would not be delayed. The U.S. proposal also seeks to insure that Parties would be fully informed regarding the compliance of all other Parties – thus removing a potential problem of one Party gaining a competitive advantage though not fully meeting its obligations, while other complying Parties might be penalized. Finally, the U.S. proposal, while setting specific commitments for developed countries, recognizes the need for all Parties to participate. It therefore calls for the negotiation of a new agreement by [2005] that would require all countries – including developing countries – to adopt legally binding limits on their emissions. We assume that at each stage of the process, a full assessment of the costs and benefits of action would be taken prior to committing the United States to any new legal obligation.

The U.S. proposal for an agreement does not specify the frequency of IPCC Assessments. These reports (the third of which is anticipated to be released in late 2000 or early 2001), have so far been scheduled on a five year cycle – long enough to allow new scientific information to develop, but frequently enough to provide the policy community with regular updates on the state of knowledge regarding the climate change issue.

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: [EGC]

27. Q: **The EU proposal made recently in Denver was developed last March as an EU "negotiating position for the ongoing negotiations on the Berlin Mandate" and it includes burden-sharing of a 10% reduction among EU members of the "overall emission reduction objective by the Community as a whole." This appears to be a form of differentiation, a concept the U.S. is not supporting. The existing FCCC bubble applicable to the EU presumably only covers policies and measures and, when adopted, it only covered the 12 Parties that were members of the EU in 1992. Does the U.S. understand that the EU is seeking, by its submissions and discussion with the U.S. delegation, to extend a form of the FCCC bubble to a protocol and another legal instrument that may be adopted in Kyoto, to expand the bubble to cover any target and timetable or financial obligations and not just policies and measures, and to expand the bubble to include all present and future members of the EU, such as countries from Central and Eastern Europe? Why is such an expanded bubble in the economic and competitive interests of the U.S.?**

A: The EU has made clear that it believes the bubble covers not only policies and measures, but also any target and timetable. IT has argued that it may use the bubble not only in meeting the non-binding aim of the Convention, but also in meeting any new obligations established under the protocol or other legal instrument. To date, the EU has not discussed with us whether it also covers financial issues. They have also indicated they have not yet determined how or under what circumstances the bubble would apply to new member states.

The United States believes it is the interest of a stable Europe that the European countries continue to develop economically, and has so far been disinclined to intervene in the domestic affairs of any European nation. However, in the context of any new agreement under the Climate Convention, we have not yet accepted that the European member states should be allowed to "bubble" their obligations, nor would we support their doing so unless we were satisfied that such an agreement would not disadvantage the United States.

28. Q: **What is the potential impact of such an expanded EU bubble on the U.S. proposal for international emissions trading? Would it ensure that the EU would get the benefit of any emissions deficit derived from such Central and Eastern European Members and deprive the U.S., Japan, Australia, and Canada of that deficit? Would the U.S. then have to rely primarily on Russia's emissions deficit in order to derive any of the benefits of trading?**

A: The impact of an expanded EU on any emissions trading provisions is dependent on the level of the target, and the restrictions placed on a trading regime. If country targets or trading restrictions were set so that they required "real" reductions, no specific benefit would necessarily accrue to the European Union, and any reductions would entail real costs. Neither is it clear that the European Union would necessarily claim all the benefits of an expanded membership – emissions trading should in theory equalize the price of reducing a unit of emissions regardless of whether it is in Europe or Russia or the United States. Most analysis does suggests that if the U.S. is to use emissions trading to substantially offset its domestic emissions, even the entirety of the Eastern European country emissions would not suffice; Russia is the only country large enough to accommodate our current levels.

29. Q: **Article 22.3 of the FCCC requires that regional economic integration organizations must declare the "extent of their competence" with regard to obligations under the FCCC. Does the U.S. believe that the EU has the competence to carry out legally binding targets and timetables and to enforce any differentiated targets for its members if they fail to achieve them?**

A: It is not yet clear how the EU competence will be applied in its implementation if any new obligations under a new legal instrument. We, along with others (e.g., Australia and Japan) have insisted that the issue of EU competence be made fully transparent and provisions for compliance be made acceptable to all Parties before we would agree to allow the EU to undertake its commitments as a single entity rather than individually through each member state.

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: [EGC]

31. Q: **Since 1992, the composition of the only "regional economic integration organization," namely the EU, has grown from 12 to 15 members and several countries want to expand it further. Under what circumstances would the U.S. agree to an EU bubble that is or could be expanded?**

A: The U.S. has made it clear throughout these negotiations that there is no EU entitlement to a so-called "bubble" in the Kyoto agreement. Indeed, how a bubble would operate upon EU expansion is one of the many concerns that we and others (for example, the Japanese) have raised in connection with the EU proposal.

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) [Unsure of response to Committee in July 1996 – must cross-reference.]

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: [Seidel]

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: [Seidel]

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: [Seidel]

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: [Interagency]

POTENTIAL SUPPORT FOR CLIMATE CHANGE TESTIMONY

SUPPORTER	STUDY SENT	STATUS OF PHONE CONVERSATION	MISCELLANEOUS
4 Ev Ehrlich ESC Company Twelfth Floor 818 Connecticut Ave., NW Washington, D.C. 20006 phone: (202) 347-3200 fax: (202) 347-4334	7/22 via Fed Ex	7/23: will call back	
Robert Repetto * Hagler-Bailly P.O. Box Drawer O Boulder, Colorado 80306-1906 phone: (303) 417-8226 fax: (303) 443-5684			
1 Richard Sandor Chairman Environmental Financial Products, LOC 111 West Jackson Boulevard, 14th Floor Chicago, Illinois 60604 phone: (312) 554-3350 fax: (312) 554-3373			
Alan Blinder Department of Economics Princeton University Princeton, New Jersey 08544-1021 phone: (609) 258-3358 fax: (609) 258-5398	7/22 via Fed Ex	JY talked to him.	
2 Joe Stiglitz Sr. Vice President and Chief Economist The World Bank, Room MC 4315 1818 H Street, N.W. Washington, D.C. 20433 phone: (202) 473-3774 fax: (202) 522-1158	7/22 via Fed Ex	7/23: will call back	
Ken Arrow Department of Economics Stanford University 579 Serra Mall Stanford, California 94305 phone: (650) 723-9165 fax: (650) 725-5702			

***cc any correspondence to Repetto's office at:** Senior Fellow, World Resources Institute, 1709 New York Ave, N.W. Washington, D.C. 20006; phone: (202) 662-3482, fax: (303) 638-0036

SUPPORTER	STUDY SENT	STATUS OF PHONE CONVERSATION	MISCELLANEOUS
Paul Krugman Department of Economics MIT, E52, Room 383A 77 Massachusetts Avenue Cambridge, MA 02139-4307 phone: (617) 253-1551 fax: (617) 253-1330			
Steve DeCanio Department of Economics 3019 North Hall U of California, Santa Barbara Santa Barbara, CA 93106 phone: (805) 893-3130 fax: (805) 893-8830	7/23 via Fed Ex		
Mike Toman Resources for the Future 1616 P Street, N.W. Washington, D.C. 20036 phone: (202) 328-5091 fax: (202) 939-3460	7/22 via Fed Ex	7/23: JAF talked to him.	
William R. Cline Institute for Internl Finance Suite 8500 2000 Penn. Ave., N.W. Washington, D.C. 20006 phone: (202) 857-3651 fax: (202) 775-1430	7/24 via gov't messenger		
Professor Henry D. Jacoby Alfred P. Sloan School of Management MIT 50 Memorial Drive, Room E53-321 Cambridge, MA 02139 phone: (617) 253-6609 fax: (617) 258-6855			
Paul Portney Resources for the Future 1616 P Street, N.W. Washington, D.C. 20036 phone: (202) 328-5103 fax: (202) 939-3460	7/24 via gov't messenger		

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Professor Robert Stavins JFK School of Government 79 John F. Kennedy Street Cambridge, MA 02138 phone: (617) 495-1820 fax: (617) 496-3783	7/22 via Fed Ex	7/23 JAF talked to him	
Professor John Weyant Energy Modeling Forum Stanford University Terman Engineering Center, Room 406 Stanford, CA 94305-4023 phone: (650) 723-0645 fax: (650) 723-4107			
Mr. Tom Casten President/CEO Trigen Energy Corporation One Water Street White Plains, NY 10601 phone: (914) 286-6600 fax: 1-800-948-9157/ 9190			
Jae Edmonds Battelle/Pacific Northwest Laboratories 901 D Street, S.W., Suite 900 Washington, D.C. 20024 phone: (202) 646-5243 fax: (202) 646-5233	7/22 via Fed Ex	7/23 JAF talked to him	
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Policy Briefings

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Energy and Environmental Policy

Is Clinton Selling Out America With the Kyoto Protocol?

By Rep. David McIntosh

The global warming treaty negotiated last December by the Clinton Administration in Kyoto is a very bad deal for America. This treaty could potentially have a devastating impact on American lives. Moreover, it is essentially ineffective and patently unfair. The Kyoto Protocol should not be signed by the President, nor should this Administration take any unilateral executive branch actions in furtherance of the treaty's targets.

By obligating the US to reduce greenhouse gas emissions to a level 7 percent below that of 1990 during the period from 2008 to 2012, President Clinton and Vice President Al Gore committed the US to assuming the greatest burden among developed nations.

Compliance with the treaty could result in energy rationing on a scale not seen since the stagflation and gas lines of the Carter presidency. Experts agree that there is little likelihood that our emissions can be reduced by 35 percent from their current level, in time for the Kyoto deadline, without significantly raising the cost of energy. Essentially, economic analyses indicate that taking early actions to reduce emissions dramatically would have significant, adverse impacts on our economy, trade competitiveness and jobs.

For American families, enacting this treaty would mean higher costs for housing, heating and air conditioning, lighting, transportation, food and all consumer products. Electricity costs could increase by almost 50 percent, household fuel prices could jump by 50 percent and gasoline prices could rise by 36 percent.

While all consumers would be affected, the hardest hit would be senior citizens on fixed incomes and the poor, who pay a larger share of their income for utilities, gasoline and food. These groups would not be able to afford the higher energy costs without cutting back on essentials.

Finally, the Administration's climate change strategy would significantly divert our nation's resources away from savings and investments for the welfare and care of our children and future generations. For example, resources would be diverted from saving Social Security and funding health care and education.

Bert Bolin, the former chairman of the Intergovernmental Panel on Climate Change, has stated that emissions reductions only by developed nations would not be detectable on projected temperature increases -- regardless of the level of commitments undertaken by the US and other developed countries. By exempting such huge emissions producers as China, India, South Korea, Brazil and Mexico, this treaty effectively prevents any net reduction of greenhouse gases in the atmosphere.

Also, the Kyoto Protocol will most assuredly accelerate the flight of American companies to these developing countries to take advantage of cheap labor, lower capital expenses and production costs, and lack of enforcement of labor and safety laws. In turn, this exodus will take many American jobs overseas and cause even greater emissions of greenhouse gases.

The architect of the Kyoto Protocol, Raul Estrada_Oyuela (the Argentine ambassador to China), recently made clear what's in store for America under this treaty. He remarked that Congress is out of touch with the rest of the world.

In other words, Estrada is telling the US to leave it to United Nations bureaucracy and the non_participating developing countries to resolve all of the matters that remain undefined by the Kyoto treaty. These issues include such fundamental matters as the workings of the international emissions trading system, the joint implementation program and the Clean Development Mechanism -- not to mention our future emissions reductions obligations.

In hearings before Congress, the Administration itself has repeatedly admonished us that resolution of these matters is critical to our economic well_being. However, the deciding vote on these issues will be made by the developing countries, which are not under any restrictions under the Kyoto Protocol.

Clearly, this treaty is fundamentally flawed and should not be signed by the President. Moreover, this Administration should not be allowed to do an end_run around our constitutional ratification process, by taking unilateral executive branch actions in furtherance of the treaty's targets. Nor should this Administration be allowed to set critical policies without analyzing their economic consequences. In this regard, my subcommittee has sent oversight letters to more than 20 federal agencies involved in climate change activities and is planning a series of hearings to investigate the Administration's actions.

It is extremely disturbing to hear the statements of numerous Administration officials about the need to jump_start our efforts under the Kyoto Protocol. A prime example was the testimony of Undersecretary of State Stuart Eizenstat before the Senate Foreign Relations Committee on Feb. 11.

Eizenstat stated that the President's $6.3 billion budget request for tax incentives and significant research and development funding for his Climate Change Technology Initiative is necessary to place the US in a position where we will be further down the road and won't have to make the kind of drastic reductions that otherwise might be called for.

This request, which is an integral part of the President's climate change agenda and is specifically designed to alter market behavior in furtherance of the treaty's emissions reduction targets, represents de facto implementation.

But even these efforts will not be sufficient to minimize the costs of complying with the Kyoto treaty. There are no easy technology fixes for the Kyoto restrictions. Research and development takes time. While today's R&D may be worth pursuing, it is extremely unlikely to produce technologies that will be in wide use by the 2008_12 Kyoto deadline.

Even the Administration has admitted this. The much_touted Department of Energy Five National Laboratories study on technological fixes states that technology breakthroughs will require a certain degree of luck to be achieved by 2010. It is hard to believe that the Administration is planning to rely on luck alone. Given how unrealistic the treaty's targets and timetables are, the backdoor route for implementation seems almost inescapable for the

Administration.

Eizenstat has indicated recently that the only new implementing legislation the Administration intends to seek is that which authorizes emissions trading and that otherwise, the US can rely on existing legislation. There is good reason to believe that this Administration already is relying on existing statutes and is fashioning regulations, such as particulate matter, ozone and regional haze, with climate change and Kyoto very much in mind.

Indeed, in his June 26, 1997, remarks to the U.N. Special Session on Environment and Development, President Clinton referred to the new and revised air quality standards for ozone and particulate matter as a positive first step in addressing greenhouse gas emissions.

My subcommittee's letters of inquiry have asked the Administration to inventory all of the environment and energy regulations recently issued, newly proposed and under development that will coincidentally have the effect of reducing greenhouse gas emissions, whether or not that is the primary purpose of the regulation. My subcommittee also has asked for an assessment of the cumulative effects on the US economy and energy system of these regulations. We are especially interested in the cumulative effects of such Clean Air Act rulemakings as the particulate matter/ozone National Ambient Air Quality Standards, regional haze, and the Ox State Implementation Plan, combined with the President's Climate Change Initiative.

In addition, my subcommittee is investigating various activities by the Environmental Protection Agency. Among other things, the subcommittee has raised questions about the EPA's efforts to develop a program to reward early greenhouse gas emissions reductions.

Under Section 1605(b) of the Energy Policy Act of 1992, Congress already has charged the Department of Energy with the responsibility for setting up an emissions reductions reporting system to serve as a basis for crediting/rewarding voluntary efforts. Apparently, the EPA, without any statutory authority, is seeking to displace the system that Energy has set up.

Finally, while the Administration has been aggressively pursuing its global warming policies, it has hardly been aggressive and forthright in backing up its positions with analyses and enlightening the public about the potential economic and environmental impacts of the Kyoto treaty. In a hearing before the House Commerce Committee on March 4, Dr. Janet Yellen, chair of the Council of Economic Advisers, presented the Administration's economic forecasts concerning the potential impact of Kyoto.

In her testimony, Yellen communicated the Administration's position that the impact on the US economy of complying with Kyoto are likely to be modest. She supported that conclusion only with other very optimistic conclusions about the potential effects of the Kyoto treaty flexibility mechanisms, that is, international emissions trading and joint implementation, the potential effects of US electricity restructuring, and the potential effects of US technological progress.

However, when Commerce ranking member John Dingell (D-Mich) asked about receiving the Administration's economic analysis to back up these conclusions, Yellen told him that her testimony was the Administration's analysis. Moreover, the Administration has failed to submit, along with its climate change budget request, any Environmental Impact Analysis under the National Environmental Policy Act.

Eizenstat has repeatedly disavowed any intention of the Administration to implement this Kyoto treaty without it first being ratified. However, these protestations of innocence don't square with the actions of the Administration. Instead, these actions are consistent with Gore's statement at the time of the Kyoto Conference, when he said, "Whether there is an agreement in Kyoto or not, the US is prepared, under President Clinton's leadership, to unilaterally take steps that we believe should be taken to deal with the problem [of global warming]."

Not only is the Administration pursing these unilateral actions, it is doing so recklessly without adequate economic and environmental analysis. In proceeding in this way, it is evident that this Administration is not putting the interests of the American people, our children and future generations first.

Rep. David McIntosh (R-Ind) is chairman of the Government Reform and Oversight subcommittee on national economic growth, natural resources and regulatory affairs.

Policy Briefings

Energy and Environmental Policy

Republicans Are Stuck on Environmental 'Status Quo'

EPA's Carol Browner Sounds Off on Superfund, Kyoto, Clean Water and Sen. Bob Smith

ROLL CALL: What do you expect Congress to get done this year on the environment? What do they have to do? What do you hope they'll do?

CAROL BROWNER: The most important thing is Superfund. We have worked very hard over the last five years to get Congress to rewrite the law. Unfortunately we haven't been able to find a resolution of two fairly significant issues: who pays to clean up the sites, and how the public health and environmental protections will be guaranteed.

The second issue will be funding for a variety of important programs, including climate change and expanding the work being done, particularly at the [Environmental Protection Agency] and the Department of Energy.

There's also the President's Clean Water plan, which builds on the work that's been done over the last 25 years in terms of clean water and really targets the polluted runoff challenge that we now recognize to be the most significant water problem we face.

ROLL CALL: Starting with Superfund, are you any more optimistic that it's going to pass this year?

BROWNER: I think it's important to mention that we haven't simply pursued reauthorization, we've also changed in very, very important ways the day-to-day operation. I've probably spent more time trying to get this law rewritten than anything else I've done in five years.

In fact...there was one week I think we counted 30 hours in four days trying to get a bill, negotiating with [Rep. Sherwood] Boehlert [R-NY] and [Rep. Robert] Borski [D-Pa]. And what I found is on the issues we talk about, we make progress. And then unfortunately, for whatever reason, the discussions don't continue and there's essentially an impasse. There's a whole group of issues we never get to.

So we're ready, we're willing, we'll be there to meet with anyone who wants to try and advance the bill. Obviously, the number of days left are short.... At this point in time, I don't know where Congress is on it. They're not meeting with us, and I think that's unfortunate.

ROLL CALL: Why are they not meeting with you?

BROWNER: I think they decided to move bills and see what kind of support they could get. But they're not bills...in their current form that we can support. They have made adjustments in those bills, the ones where we've had extensive meetings, and those sections that we met on are much more within an area of agreement. The problem is there are sections we never met on.

ROLL CALL: What will it take to actually get this legislation passed?

BROWNER: I think it's been the same for five years. One is ensuring that the largest responsible parties, the largest polluters, pay their fair share. That's all we're asking for: their fair share. That we not invest huge resources, time and money in reopening closed cases, which is one of the proposals that's been put on the table in the last two Congresses.

And finally, that there is a guarantee of public health and environmental protection. One of the areas of disagreement, for example, is over uncontaminated ground water, and some of the proposals would allow that water to become contaminated. We think that's a step backward, not a step forward.

ROLL CALL: In this policy briefing, Sen. Bob Smith [R-NH] says that Superfund has become the classic example of a federal program awash in red tape, litigation and gold-plated spending.

BROWNER: That's the program of 10, 15 years ago, I would agree. That's not the program of today, and I think Bob knows that.

ROLL CALL: Senator Smith's other major problem is that all too often, sites that are destined to become industrial parks or parking lots are required to be cleaned up to the standards compatible with school playgrounds.

BROWNER: That's simply not the case and he knows that. What we do, and this is something this Administration has really delivered on time in and time out, is take into account the future land use. You can provide an equal level of protection by making adjustments based on the future land use. So if something's going to become a parking lot, then you might not have to haul out all of the contaminated soils that you would haul out if it's going to be a playground. We make those adjustments on a site-by-site basis....

One of the problems with the whole Superfund debate is the rhetoric and the statements that get made, and I think they're well intentioned. And I know Bob Smith well, and we've worked closely on this, but nevertheless they are based on the program ten years ago, they're not based on the program today.

ROLL CALL: He's also claiming the General Accounting Office is finding that the pace of cleanups is dropping - from 3.9 years in 1989 to 10 years in 1996 to 11 years in 1997 - so that the project is getting bigger and bigger and the pace is getting slower and slower.

BROWNER: No, that's not true. We've been very clear on the problems with the GAO study. There are actually two studies that are problematic. One of them they refer to as their "pace of cleanup" study. They picked a particular year and only looked within the confines of the year, and in picking the year they missed the administrative reforms. That may or may not have been intentional.

Now the second study they did raises questions about how much money is being spent on cleanup. What GAO did is they ignored all of the costs associated with designing the cleanup. It'd be like if you were building a house and all you wanted to do was count the cost of the windows and the wood and the bricks and the mortar and not the architect who designed it.

That part of the cost of the house is the architect, and I think we would all agree with that, and yet in the GAO study they very conveniently pull all of that money out as if it has nothing to do with cleanup.

ROLL CALL: Let's go to global warming. Does the Administration intend to meet the Kyoto standards by 2012?

BROWNER: As we've said before, we think the Kyoto agreement is a responsible agreement. We think that it is something that can be achieved through cost-effective, common-sense solutions. It will take all of us working together; it is a global problem and important to the United States....

And as the President has said, he does not intend to send the agreement to the Senate for ratification until we have worked with other developed countries to establish a program whereby developing countries will become part of a solution.

ROLL CALL: We have a piece from Rep. David McIntosh [R-Ind] that quotes Vice President Al Gore saying that whether or not there is an agreement in Kyoto, the United States is prepared under the leadership of President Clinton to unilaterally take the steps we believe should be taken to deal with the problem of global warming.

BROWNER: The Administration since day one - in fact if you go back and look at the President's first Earth Day speech - I think what you see is an ongoing commitment to begin the steps, begin the process of reducing the generation of greenhouse gases. There's been no secret in that, and every year the EPA budget and others have sought funding and Congress has provided portions of that funding.

I'm not familiar with the quote McIntosh is using, but I would guess that what Mr. Gore is speaking to is expanding those sorts of programs, something which we seek to do in this year's budget and something which unfortunately Congress has declined to fund.

Many of these programs, interestingly enough, were started under Republican administrations. For example, many of the energy efficiency programs at the EPA were started by [the Bush Administration]. They've been very successful. They've frequently been premised on partnerships with the business community, which is something that people like Mr. McIntosh have been, I think, supportive of.

ROLL CALL: But are you trying, by the Kyoto standards, to reduce greenhouse gas emissions 7 percent a year until 2012?

BROWNER: Yes, it would be 7 percent a year off the 1990 baseline through 2012. What we're doing is expanding the programs in terms of what kind of reductions you would get at the various funding levels. For example, this year's appropriations request from EPA to DOE and others does not put you on that track. It does build on efforts under way.

ROLL CALL: The Republicans claim that the only way you can get that kind of reduction is by considerable, costly measures that would slow down the economy.

BROWNER: I would certainly agree that the magnitude of the challenge when it comes to greenhouse gases is far greater than anything we've attempted before. I still think history provides a very valuable lesson, and each and every time as a country we have made strides and made a commitment toward addressing very real and very pressing environmental problems, there have been those like Mr. McIntosh who have said, "Forget it, the economy's going to go kaput, we can't do it."

The truth has been far from that. Take the acid rain program, and that's the kind of model we're recommending here, which is an emissions credit trading program that allows industry to determine where the most cost-effective reductions can be achieved. That program, when it was first proposed ten years ago, was studied by some who opposed it, and they said it was going to cost $1,000 per ton of pollution reduction. EPA actually did its own study and it said $600. Well, today on the Chicago Board of Trade you can buy a ton credit for $78. This fear that somehow or another we cannot rise to the challenge and that our abilities to meet the challenge will fail for the first time is not helpful to the debate.

If you look at some of the energy efficiency stuff that's available today, you could achieve a 30 percent reduction in energy use, for example, in the average household through available technologies, and save the consumer money. We're not talking about things that are pie-in-the-sky. The President has said, "Let's have a technology program." Unfortunately, Congress doesn't want to fund it.

ROLL CALL: McIntosh also claims that, because countries like China, India, Mexico and South Korea are not bound by these standards and don't apparently plan to meet them, that American companies will go off shore and we'll lose the jobs.

BROWNER: Well, first of all, we've been very clear, both before and after Kyoto, that developing countries need to be a part of this. It is a problem of global proportions, and obviously if you look at the growth that is anticipated in both China and India, they need to be a part of this. In fact, I just came from the G-8 environment ministers' meeting. It was hosted by Great Britain this year, and we formed a working group on developing countries as part of this effort. We have the Buenos Aires meeting coming up in November. I hesitate to say this, but I think this may be an area where we and Mr. McIntosh agree, in that developing countries have got to be a part of it.

Now I don't agree with his statement that we'll see things go off shore. One of the programs that we've proposed is the idea of emissions credit trading, country to country, as a way to find the more cost-effective reductions and, hopefully, to generate demand for American environmental technology. It can be win-win.

ROLL CALL: What is your vision of the danger if the world doesn't significantly reduce greenhouse gasses? What kind of time frame are we talking about where there's real trouble?

BROWNER: Unfortunately, this is an area where our science cannot be as precise as perhaps we would all like our science to be, but nevertheless, science is very clear in telling us that this is real.

The truth of the matter is, if we wait till every single effect or some great number of effects that the scientific community tells us will flow from greenhouse gases and climate changes...they will be of such a magnitude that they will be irreversible. This is not about going out and cleaning up a toxic waste dump - taking the barrels and properly treating them. This is about areas flooding, this is about the spread of disease, this is about tremendous changes in agricultural production. They're not things that are fixed. You can't simply send a bulldozer out and remove something. You're talking about a legacy to our children that is in many ways irreversible.

ROLL CALL: Do you have any sense about what time frame we're talking about? BROWNER: Well, some in the scientific community would say you'd begin to see some effects relatively soon; others say it would play out over a longer period of time. There are even those who have raised questions as to whether or not this year's El Nino, which is obviously very different from prior years' El Nino, may in part be affected by climate change.

The problem with science in this area is that what science counts on is patterns and you have to wait for the event to occur three, four, five, six times to determine if you have an anomaly or you have a pattern.

ROLL CALL: What about clean water and your legislative agenda? What's your aim and how successful do you think you'll be?

BROWNER: Well the most important thing is to fund the President's Clean Water Action plan. We did submit to Congress several years ago a very lengthy set of recommendations on strengthening and reauthorizing the Clean Water Act. There appears to be little or no effort [by Congress]. But by providing additional dollars, much of which would flow to the states and to farming communities, to really address the challenge of polluted runoff we can make a tremendous amount of progress.

The President has put forward a plan, a very good plan, and unfortunately the Senate in its budget resolution declines to fund it. It's a modest amount of money in the scheme of a balanced budget, $568 million in 1999 to deal with these sorts of non-point source pollution.

ROLL CALL: In the beginning of the Republican revolution they were going to cut back on the EPA dramatically. What are they doing? Are they just keeping you flat and not allowing you to do what you do?

BROWNER: They're not recognizing the challenges of the next century. They're essentially saying that the job is done and you can maintain the status quo, but [they] don't really want to see [us] take on the next generation of public health and environmental problems. And there still are those efforts.

For example, the takings legislation has now passed the House and Senate Judiciary [Committees], although I guess [Senate Judiciary Chairman Orrin] Hatch [R-Utah] agrees that there are problems even with his own bill. There's regulatory reform, the McIntosh limitation on enforcement. I mean you still see efforts out there to limit our authority to act in certain instances, or to create a hugely cumbersome system before safeguards can be put in place.

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United States Senate

COMMITTEE ON
AGRICULTURE, NUTRITION, AND FORESTRY
WASHINGTON, DC 20510-6000
202-224-2035

February 18, 1998

Ms. Janet Yellen
Chairman
Council of Economic Advisors
Old Executive Office Building
Room 314
Washington, D.C. 20502

Eizenstadt
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Yellen

Dear Chairman Yellen:

The Senate Committee on Agriculture, Nutrition, and Forestry will hold a hearing on Thursday, March 5, 1998 at 9:00 a.m. in SR-328A. The purpose of this hearing is to examine the Kyoto Treaty on Climate Change and its potential effect on the agricultural economy. I invite you to present testimony to the Committee.

Please limit your oral testimony to 7 minutes, summarizing your written statement. Your full statement will be submitted for the hearing record. Please arrange for the delivery of 100 copies of your testimony to the Committee, SR-328A, no later than 9:00 a.m. Tuesday, March 3 to the attention of Chris Salisbury, Hearing Clerk. Also, please provide the hearing clerk with a diskette containing your statement in ASCII or WordPerfect text, if possible. One copy of your testimony should be a single-spaced original.

If you have any questions regarding the hearing, please have your staff contact Jeff Burnam at (202) 224-7443. I look forward to receiving your testimony.

Sincerely,

Dick Lugar

Richard G. Lugar
Chairman

RGL/csc

- CC can be done at medical cost

United States Senate
WASHINGTON, DC 20510

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May 22, 1998

The Honorable Bill Clinton
President
The White House
Washington, D.C.

Dear Mr. President:

The latest protocol to the climate change treaty that was negotiated in Kyoto was an important step towards international collaboration in addressing the environmental effects of rising concentrations of greenhouse gases in the atmosphere. It could be improved, however, by encouraging investment in the natural mitigation capacity of forestry and agricultural sinks. In a market-based system that encourages the most cost-effective methods for reducing net emissions of carbon, forestry and agricultural carbon sinks are a profitable pathway to reducing excess atmospheric concentrations of greenhouse gases.

Forestry and agriculture play a significant role in sequestering atmospheric carbon and economic analysis shows these strategies to be cost-effective. With costs of $2-$20 per ton of carbon, domestic forest conservation and management strategies achieve not only greenhouse gas mitigation but, a host of other environmental benefits such as protection of watersheds, water supplies, and critical wildlife and fish habitat, increased soil conservation, and reduction of storm water runoff and landslides.

Unfortunately, ambiguous language in the Kyoto Protocol appears to foreclose the highly effective, credible, and low-cost option of reducing carbon dioxide emissions through improved forestry and agricultural management and conservation practices. Without clarifying existing language, the treaty may have unintended negative impacts on vital forest resources and actually increase forest-based carbon emissions, both in this country and abroad. Such incentives are contrary to a number of national policies and international programs such as the Northwest Forest Plan, the Clean Water Act, the Endangered Species Act, the International Tropical Timber Agreement, the Montreal Process, the Gore-Chernomyrdin agreements and the recently convened Intergovernmental Forum on Forests. Consequently, the effectiveness of the treaty can be enhanced by simplifying the language to enable the use of forestry and agricultural practices.

We urge you to promote domestic policy initiatives and seek clarifications to existing Protocol language that would establish comprehensive accounting for forestry and agriculture and enable the issuing of credit for domestic forest and agriculture management and conservation strategies. Furthermore, we recommend directing the Environmental Protection Agency and the Department of Agriculture to work with forest products, agriculture, research, and conservation groups to help develop standardized carbon stock methodology and accounting principles for carbon sequestration which are key to establishing the credibility of any action undertaken to mitigate excess atmospheric greenhouse gases. To this end, we strongly encourage development of pilot projects investigating the effectiveness of management approaches in selected forests and fields of the United States. As reflected by the sense of the United States Senate and expressed in a Wyden amendment to the FY 1999 Senate Budget Resolution, these elements should be among our initiatives to foster cost-effective and performance-based methodologies to reduce greenhouse gasses.

We appreciate your attention to our call for expanding the role of forests and agriculture in the scientific strategy for mitigating atmospheric greenhouse gases and look forward to working with you on this important matter.

Respectfully,

Ron Wyden
Senator Ron Wyden

Patrick Leahy
Senator Patrick J. Leahy

Dick Lugar
Senator Richard G. Lugar

Tom Harkin
Senator Tom Harkin

Jim Jeffords
Senator James M. Jeffords

Bob Kerrey
Senator J. Robert Kerrey

Barbara Boxer
Senator Barbara Boxer

Dianne Feinstein
Senator Dianne Feinstein

Tim Johnson
Senator Tim Johnson

Tom Daschle
Senator Thomas A. Daschle

Patty Murray
Senator Patty Murray

J Lieberman
Senator Joseph I. Lieberman

John H. Chafee
Senator John H. Chafee

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U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SMALL BUSINESS
2361 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515
(202) 225-5821 fax(202) 225-2934

FACSIMILE TRANSMITTAL SHEET

TO: Honorable Janet Yellen	FROM: Peter Brechtel
COMPANY: White House	DATE: 5/22/98
FAX NUMBER: 395-6947	TOTAL NO. OF PAGES INCLUDING COVER: 3
PHONE NUMBER:	SENDER'S REFERENCE NUMBER:
RE: Formal Invitation	YOUR REFERENCE NUMBER:

☐ URGENT ☐ FOR REVIEW ☑ PLEASE COMMENT ☐ PLEASE REPLY ☐ PLEASE RECYCLE

NOTES/COMMENTS:

JAMES M. TALENT, MISSOURI
CHAIRMAN

NYDIA M. VELÁZQUEZ, NEW YORK

Letter to Kuarner
→ Peter Greenberger

Congress of the United States
House of Representatives
105th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

May 22, 1998

Honorable Janet L. Yellen
Chair
Council of Economic Advisors
OECB 17th & Pennsylvania Ave., N.W.
Washington, DC 20500
(202) 395-6947

Dear Dr. Yellen:

I am writing to invite you to testify before the Committee on Small Business at a hearing to be held in room 2360 of the Rayburn House Office Building on June 4th, 1998. The hearing will begin at 10:00 a.m. I welcome your participation in this important hearing.

This hearing will focus on the Kyoto Protocol to the United Nations Framework Convention on Climate Change, negotiations for which were completed December 11, 1997, committing the industrialized nations to specified, legally binding targets for emissions of six "greenhouse gasses." The United States has agreed to a target of reducing greenhouse gasses by 7% below 1990 levels during a "commitment period" between the years 2008 and 2012. Specifically, we would like you to testify on the economic impact the Kyoto Protocol will have on the small business community across the nation.

Same testimony & Q-A on small buss

At the hearing, witnesses will be asked to summarize their written testimony in oral presentations of approximately 5 minutes. Questions from Committee Members will follow after the testimony of each panel of witnesses for this hearing.

I would appreciate it if you would provide the Committee 100 copies of your testimony 48 hours in advance of your participation. In addition, the Committee will need a copy of your written testimony on a 3.5" computer disk in Word 7.0 or a similar format. Please deliver your testimony to the Committee office, Room 2361 of the Rayburn House Office Building.

Again, I appreciate your participation in this important hearing. We look forward to your testimony and to your giving the Members an opportunity to meet you and discuss matters of vital interest to this country and especially to small businesses.

Should you have any questions regarding this invitation or hearing, please contact Peter Brechtel or Paul Denham of the Committee staff at (202) 225-5821.

Sincerely,

Jim Talent

James M. Talent
Chairman

JAMES M. TALENT, MISSOURI
CHAIRMAN

JOHN J. LAFALCE, NEW YORK

Congress of the United States
House of Representatives
105th Congress
Committee on Small Business
2361 Rayburn House Office Building
Washington, DC 20515-6315

David
Dick
Shelly
Wes
Katie
Dinah
Judy
Robert

March 2, 1998

The Honorable Kathleen A. McGinty, Chair
Council on Environmental Quality
Executive Office of the President
360 Old Executive Office Building
Washington, DC 20500

Dear Ms. McGinty:

As you are aware, the Third Session of the Conference of Parties to the UN Framework Convention on Climate Change (COP-3) was held in Kyoto, Japan from December 1-11, 1997. On December 11, COP-3 adopted the Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC), which sets binding greenhouse gas (GHG) emissions targets for developed nations.

Due to the potential economic impact of this Protocol, the House Committee on Small Business is reviewing this agreement, pursuant to its oversight jurisdiction, based on the accord's perceived economic impact on small business.

Please provide the Committee with the following information regarding the Kyoto Protocol:

1. Any and all regulatory impact or economic analyses performed by federal agencies, contractors or grantees regarding the implementation of the Kyoto Protocol in the United States; CEA
2. Any and all activities and/or plans for federal agency implementation of the Kyoto Protocol; State
3. Any and all evidence, documentation, or scientific bases for the existence of the phenomenon described as Global Warming; OSTP
4. Any known or perceived specific time frame for signing of the Kyoto Protocol by the President of the United States; and

State

5. Copies of any side agreements, memoranda, protocols or other documents concerning the Kyoto Protocol entered into or contemplated between the Executive Branch and other nations, parties or non-governmental entities.

Please deliver these materials to the Committee on Small Business, Room 2361 Rayburn House Office Building, by March 18, 1998.

If you have any questions regarding this request, please contact Peter Brechtel of the Committee staff at 225-5821.

Thank you for your prompt attention to this matter.

Sincerely,

Jim Talent

James M. Talent
Chairman

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

March 6, 1998

BY FACSIMILE

The Honorable Franklin D. Raines
Director
Office of Management and Budget
Washington, D. C. 20503

The Honorable Kathleen A. McGinty
Chair
Council on Environmental Quality
Washington, D. C. 20502

Dear Director Raines and Chair McGinty:

The Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs is conducting an inquiry concerning the economic, legal, and regulatory implications of the Administration's efforts to jump-start the process of reducing greenhouse gas emissions under the terms of the Kyoto Protocol.

Pursuant to the Constitution and Rules X and XI of the United States House of Representatives, please provide the Subcommittee with detailed information in response to the attached questions. In responding to this inquiry, please restate each question and subpart with each of your answers, and please follow the definitions and instructions concerning the production of records on the attached page.

Please provide your responses to the written questions and requests for production of records by March 20, 1998 to the Subcommittee's office in Room B-377 Rayburn. In addition, please contact Larisa Dobriansky, Senior Counsel, at (202) 225-4407 as soon as practicable to coordinate the timely production of the information to the Subcommittee.

Thank you for your cooperation in this matter.

Sincerely,

David McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs

cc: The Honorable Dan Burton, Chairman
Committee on Government Reform and Oversight

The Honorable John Tierney, Ranking Member
Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs

The Honorable Henry Waxman, Ranking Member
Committee on Government Reform and Oversight

Questions on the Administration's Global Climate Change Policy Actions

IMPLEMENTATION WITHOUT RATIFICATION

"We have no intention through the back door or anything else, without Senate confirmation, of trying to impose or take any steps to impose what would be binding restrictions on our companies, on our industry, on our business, on our agriculture, on our comerce, or on our country, until and unless, the Senate of the United States says so."

Statement of the Honorable Stuart E. Eizenstat
Under Secretary of State for Economic, Business, and Agricultural Affairs
Before the U.S. Senate Committee on Foreign Relations
February 1998

"Whether there is an agreement in Kyoto or not, the United States is prepared, under President Clinton's leadership, to unilaterally take steps that we believe should be taken in order to deal with this problem."

Statement of Vice President Gore
December 1997

Unilateral Executive Actions on a Global Issue.

1. Given that the Kyoto Protocol seeks to address a <u>global</u> issue, isn't it harmful to U.S. interests to proceed without the full participation of developing countries? State

2. Besides being unconstitutional, isn't it also premature and possibly counterproductive for the United States to take unilateral executive branch action, without ratification, when the Administration has characterized the Protocol as a "work in progress"? State

A Budget Request without Justification or Ratification.

3. How can the Administration claim that its proposed Climate Change Technology Initiative (CCTI) is not intended to implement the Kyoto Protocol, when this initiative has been made an integral part of the President's Global Climate Change Initiative, and the initiative is specifically designed to alter market behavior in furtherance of the treaty's emissions reductions targets? CC Task Force

4a. In a hearing before the Senate Foreign Relations Committee on February 11, 1998, Under Secretary of State Eizenstat testified that the tax incentives and research funding that the President requested in his Fiscal Year (FY) 1999 Budget proposal are necessary to place the U.S. in a "position where we will be further down the road and won't have to make the kind of drastic CEA

~~NEC?~~

reductions that otherwise might be called for." Please provide all of the economic data and analyses upon which the Administration relied for this determination. As to any analysis, please identify who prepared it and provide all records containing comments by other federal agencies on the drafts.

4b. Explain why the President decided to request $6.3 billion in his budget proposal instead of the $5 billion that he stated he would seek at the time that he announced his Climate Change Action Proposal on October 22, 1997. Was this decision affected by the fact that the Administration agreed at Kyoto to commit the U.S. to reducing greenhouse emissions by 7% below 1990 levels rather than stabilizing emissions at 1990 levels? OMB

5a. Article 3.2 of the Kyoto Protocol states: "Each Party included in Annex I, by 2005, shall have made demonstrable progress in achieving its commitments under this Protocol." Please explain how the Administration is interpreting this provision of the treaty. State

5b. Does the Administration believe that its Global Climate Change Initiative, including the CCTI, will enable the U.S. to make demonstrable progress in achieving its commitments under the Kyoto Protocol? CC Task Force

5c. Please provide and document the Administration's annual performance measures for its 5-year Climate Change Technology Initiative (CCTI). In this regard, provide the following: the 1990 U.S. emissions level, data on actual emissions reductions for Fiscal Year 1997, and then projected emissions reductions beginning with Fiscal Year 1997 and then for each year up to and including Fiscal Year 2003. OSTP

5d. Please specify the annual greenhouse gas emissions reductions that the Administration estimates will occur between FY 1999 and FY 2005 from implementing each element of its Global Climate Change Initiative. OSTP

6a. The Administration has maintained that the CCTI is a "no-regrets" proposal; that is, regardless of whether or not there is a real threat of global warming, this proposal is justified on its own merits as good energy and environmental policy. In view of this claim, please demonstrate the need for this initiative based on reasons other than facilitating greenhouse gas emissions reductions. CEA

6b. In this regard, provide the environmental and economic data and analyses that support this request on its own merits. CEA

6c. Can the Administration point to a significant market failure or demonstrate a compelling public need that necessitates $3.6 billion of new tax incentives and a 73 percent increase in funding to accelerate the development and diffusion of more energy efficient technology? According to OECD data, U. S. energy efficiency since 1980 has improved more than that of most industrialized countries. CEA

6d. Please provide a detailed explanation of and produce all records indicating the alternative policy options that the Administration analyzed, including more broadly-based options, such as integrated pollution prevention, performance-based regulation, and multi-media regulation. In this regard, did the Administration evaluate whether existing regulation may be a significant barrier to improving energy efficiency and the environment? CEA

6e. Please explain in detail and fully document the cost-effectiveness of the Administration's proposal when compared to other available options for improving energy efficiency and the environment. CEA

6f. Please explain in detail and fully document the opportunity costs of committing such a significant amount of our nation's resources in this manner. CEA

6g. As to any analysis provided, identify who prepared it and provide all records of comments by other federal agencies. CEA

7. How realistic and achievable are the targets and timetables that the U.S. delegation agreed to at Kyoto, if it is necessary to take unilateral executive branch actions prior to Senate ratification in order "to get us in a position where we will be further down the road and won't have to make the kind of drastic reductions that otherwise might be called for"? CEA

8. Under section 102 of the National Environmental Policy Act, the federal government is required to provide a detailed environmental impact statement (EIS) and to follow specified procedures for review and comment whenever it is recommending to Congress legislation that "affects the quality of the human environment". Please provide any EIS (or draft EIS, if not finalized) that was prepared in connection with the Administration's requests for tax incentives and research funding to facilitate greenhouse gas emission reductions. With respect to any EIS, identify who prepared the document and provide all records of written and oral comments from other federal agencies. CEQ

The Inescapable Regulatory Backdoor.

9. In its 1997 U. S. Climate Action Report under the current Framework Convention on Climate Change, the Administration made this statement: "Recognizing that even the most draconian measures would likely be insufficient to reverse the growth in greenhouse gases and return U.S. emissions to their 1990 levels by the year 2000, new U.S. efforts are focusing most intensively on the post-2000 period." Based on this assessment, how can the President assert that the U.S. commitments under the Kyoto Protocol are achievable with minimum economic costs? Provide any economic and legal analyses that demonstrate that U.S. obligations can be met without constraining U.S. economic growth and without imposing onerous and costly regulation. Also, please provide two copies of the 1997 U.S. Climate Action Report. CEA

POLICIES WITHOUT ECONOMIC ANALYSIS

"By providing incentives for early action to reduce emissions, attacking domestic energy inefficiencies, and putting in place a market-based emissions trading system, we can reach [our emission reduction targets] with minimum economic costs."

Statement of President Clinton
Climate Change Proposal
October 1997

The Administration's Repeated Failure to Conduct Economic Analysis.

14a. Given the significant economic costs projected by private sector studies, why did the Administration abandon a year and a half-long effort to develop cost estimates of the President's proposed policies to reduce greenhouse emissions? In testimony before the House Subcommittee on Energy and Power on July 15, 1997, the Chair of the Council of Economic Advisers, Dr. Janet Yellen, stated that President Clinton's top priority since his first days in office "has been revitalizing the U.S. economy, creating jobs, and investing in people and technology to enhance long-term growth." CEA

14b. How can the Administration defend its policy actions based on the results of climate models that must take into account significant uncertainties surrounding the effects of human activities on the climate, yet nevertheless consider economic modeling to be "futile" (Dr. Yellen's expression at the House Commerce hearing on July 15, 1997)? CEA

15a. In testimony before the House Commerce Committee in 1997, former Under Secretary of State Timothy Wirth stated that an interagency "economics team" was formed to analyze the impacts of climate change policies.

15b. Please provide the following background information regarding that group: when it was formed, the names of the participants and their agencies, the head of the team, the scope of the group's responsibilities, and to whom the group reported. CEA

15c. Please produce records of all meetings of this group and information on any workshops conducted. Also, produce all analyses performed by the group and provide all records of written or oral comments from other federal agencies on the team's analyses and advice. CEA

16. In developing its positions for the Conference in Kyoto, did the Administration at any point renew its efforts to estimate the costs of various policies to reduce greenhouse gas emissions? If so, please provide all economic analyses that were prepared for the Administration and the U.S. delegation to review. As to each analysis, please indicate who prepared the analysis CEA

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No Cost/Benefit Analysis of the Kyoto Treaty.

24a. Please provide any and all analyses that the Administration or any federal agency prepared (or is preparing) of the costs and benefits of imposing on the U.S. the binding targets and timetables set forth in the Kyoto Protocol for reducing greenhouse gas emissions, taking into account the global implications of the way in which this agreement is structured. Also, please analyze and document the following: CEA

24b. Whether the benefits of implementing this Protocol are justified by the costs; CEA

24c. Evaluate the effectiveness of this agreement by comparing the marginal abatement costs of the most plausible alternative scenarios for meeting the Kyoto targets, given the way in which this agreement is structured, with the marginal costs of other reasonable alternative compliance schemes; CEA

24d. With respect to each scenario that is analyzed, identify the assumptions used, explain any uncertainties concerning the assumptions, and examine the sensitivity of net benefits to the different compliance strategies, using a range of plausible assumptions about future economic development and about fundamental climate processes; CEA

24e. Evaluate the opportunity costs of pursuing the Administration's strategy for the abatement of greenhouse gas emissions under the terms of the treaty; and CEA

24f. Evaluate how the benefits and burdens of complying with this treaty would be distributed on the national and household levels, describing, among other things, the disparate regional and industrial sector impacts, and the effects on different income levels. CEA

25a. In evaluating alternative scenarios, please examine the following:

25b. Compare the economic and environmental effects of not including developing countries in the effort to reduce global emissions (with the potential for binding developed countries to even greater obligations, without limiting developing countries) against the effects of addressing greenhouse gas mitigation on a global scale by the international community. CEA

25c. Compare the economic and environmental effects of complying within the timeframes set forth in the Kyoto Protocol with the effects of complying over a longer time period. CEA

25d. Compare the impacts of reducing greenhouse emissions using international emissions trading, joint implementation, and the Clean Development Mechanism with the impacts of relying upon domestic emissions permit trading. In this regard, evaluate alternative international trading scenarios: trading only between Annex I countries, trading that extends to a number of "key" developing countries, and trading in which all countries are fully participating. CEA

26. With respect to any analysis provided, please identify and explain the basis for assumptions used regarding such factors as the rate of improvement in energy efficiency, the effectiveness of market incentives in increasing the market share of fuels that emit less carbon, and economic and demographic growth. Also, explain fully any assumptions on how emissions reductions will be achieved, as for example, through the early retirement of coal plants or nuclear plant life extensions. CEA

27. In considering the opportunity costs, evaluate the extent to which the Administration's climate change strategy will require the diversion of funds from savings and/or investments which would have provided other benefits, such as saving social security, or more funding for education, health care, etc. CEA

28. In assessing the impacts on the U.S. of complying with the Kyoto targets and timetables, please explain in detail the potential effects on the following indicators of economic performance: gross domestic product (GDP), per capita GDP, unemployment, income and real wages, trade competitiveness, and energy prices. CEA

29. In assessing the benefits of complying with the Kyoto treaty, please evaluate fully the potential offsetting negative effects of exempting developing countries and of "carbon leakage." Also, if the economies of developed countries experience reductions in economic growth, evaluate the impact that this will have on the ability of emerging countries with export markets to transition to more energy efficient technologies. CEA

30. President Clinton has suggested that the U.S. economy can continue to grow under this agreement. Please indicate at what rate the Administration expects that the economy will continue to grow during the next ten to 20 years if the treaty is ratified and at what rate it is expected to grow if the treaty is not ratified. CEA

31. Have any of the cost/benefit analyses performed by the Administration or any agency been peer-reviewed? If so, please identify the reviewers provide their comments on the analyses. If not, does the Administration plan to do so? Please describe fully the steps that the Administration plans to take. CEA

32. Please describe in detail the strengths and weaknesses of the methodology of any economic models used. Also, indicate the differences between the models used in any of the cost/benefit analyses performed post-Kyoto and those used in any prior analyses performed by the Administration. CEA

33. In connection with these cost-benefit analyses, fully explain how the baseline(s) against which costs and benefits were calculated was determined. CEA

34a. Please provide all records of written or oral comments from other federal agencies on each of the cost/benefit analyses that were performed. CEA

34b. Please provide all records of comments submitted by federal agencies on Dr. Janet Yellen's draft testimony about the economics of Kyoto for the hearing before the House Commerce Committee on March 4, 1998. CEA

International Emissions Trading: Not a Panacea.

35. As a practical matter, until the Conference of the Parties makes all of the decisions that it is empowered to make under Article 17 of the Kyoto Protocol concerning the establishment of rules and procedures for international emissions trading, isn't it premature for the Administration to forecast definitively that the agreement would result in, at most, modest energy price hikes? CEA

36a. With respect to the rules and procedures for international emissions trading that have yet to be developed, what are the minimum requirements that the Administration is seeking to assure an efficient and effective system for lowering the costs of emissions reductions? CEA

36b. Does the Administration intend to confer with Congress and obtain comments from Congress and the public in developing negotiating positions for Buenos Aires on rules and procedures for an international emissions trading system and for obtaining joint implementation project credit, including the Clean Development Mechanism? State

37a. Why does the Administration believe it can obtain meaningful participation by developing countries and what steps is the Administration taking to achieve this? What indications of potential meaningful participation have been shown by developing countries that prompt this optimism? State

37b. In particular, what are the steps being taken with respect to China, India, Mexico, Brazil, and South Korea and what indications of potential meaningful participation has the Administration received from these countries? State

37c. Which countries does the Administration consider "key," in assuring that "meaningful participation" is secured? State

38. Why does the Administration maintain that the U. S. acid rain program experience "clearly demonstrates how programs like international permit trading, joint implementation and the Clean Development Mechanism will lead firms to find cheaper ways of reducing emissions that can lead to unexpectedly low costs"? Is it appropriate for the Administration to extrapolate from that experience to the global arena? Won't the effectiveness of the international system, joint implementation, and the Clean Development Mechanism depend on such factors as the rules and procedures governing these mechanisms, the extent of participation by other countries, including developing countries, etc? CEA

39a. Even assuming that effective rules and procedures can be developed for an international emissions trading system and for joint implementation projects and that key developing countries agree to participate, isn't there a real risk that these mechanisms could effect an enormous transfer of wealth and jobs out of this country overseas, especially to the countries of the former Soviet Union and emerging countries (i.e., that this system would be essentially a foreign aid program)? Some studies have estimated that more than 50% of our reductions would have to be purchased from other countries. CEA

39b. Please provide and document estimates of the percentage of U.S. emissions reductions that might have to be purchased from other countries to minimize the costs of reducing emissions and which countries likely would be the beneficiaries. CEA

U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON SCIENCE

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February 26, 1998

The Honorable Kathleen A. McGinty
Chair
Council on Environmental Quality
Room 360
Old Executive Office Building
Washington, D.C. 20503

Dear Ms. McGinty:

I wish to express my sincere appreciation for your testimony during the February 4, 1998 Committee on Science "The Road from Kyoto—Part 1: Where Are We, Where Are We Going, and How Do We Get There?" hearing.

Enclosed are additional questions from Members of the Committee, as well as a copy of the hearing transcript. Your responses will be published as part of the official record of the hearing. In addition to a hard copy of your answers, the Committee requires an additional copy, including any supporting graphs or charts, saved on a DOS formatted 3.5 inch diskette, in either Word Perfect, Word or ASCII text. Please send your responses to Ms. Sarah Monahan of the Committee staff. If you prefer, you may E-mail your responses to sarah.monahan@mail.house.gov.

I would appreciate receiving your responses to the enclosed questions by **Thursday, March 19, 1998.**

Also enclosed is a copy of the verbatim transcript for your review. The Committee's rule pertaining to the printing of transcripts is as follows:

> *The transcripts... shall be published in **verbatim form**, with the material requested for the record, as appropriate. Any requests to correct any errors, other than transcription, shall be appended to the record, and the appropriate place where the change is requested will be footnoted.*

The complete revisions to the transcripts submitted for the record must be received by Thursday, March 12, 1998, and should be sent to Ms. Sarah Monahan, Subcommittee on Energy and Environment, H2-389 Ford House Office Building, Washington, DC 20515. If you have any questions, please contact Ms. Monahan at (202) 225-9662.

The Honorable Kathleen A. McGinty
February 26, 1998
Page two

Thank you again for making this hearing successful. Once the transcript has been completed and published, a copy will be forwarded to you.

Sincerely,

F. JAMES SENSENBRENNER, JR.
Chairman

FJS:hlw

COMMITTEE ON SCIENCE
U.S. HOUSE OF REPRESENTATIVES

Hearing
on

The Road from Kyoto—Part 1:

Where Are We, Where Are We Going, and How Do We Get There?

Wednesday, February 4, 1998

Post-Hearing Questions
Submitted to

The Honorable Kathleen A. McGinty
Chair
Council on Environmental Quality

Post-Hearing Questions Submitted by Chairman Sensenbrenner

Documentation of 1997 Temperature Statistics

6STP

1. On page 1 of your written testimony, you state:

"Based on extensive ground-based measurements, the National Oceanic and Atmospheric Administration (NOAA) -- our lead national agency for collecting weather statistics -- reported that 1997 was the warmest year based on records that date back over a century. While the temperature in any one year cannot prove or disprove anything about global warming, this year's statistics, further confirmed by two other sources of information about global surface temperatures (the Goddard Institute for Space Studies/NASA and the researchers at East Anglia University in the U.K.), follow a clearly emerging pattern. The nine warmest years of the century have occurred in the past 11 years."

1.1 Please provide a copy of NOAA report and accompanying data/statistics referred to in your statement above.

1.2 Please provide a copy of the Goddard Institute for Space Studies/NASA confirmation and accompanying data/statistics referred to in your statement above.

1.3 Please provide a copy of the East Anglia University confirmation and accompanying data/statistics referred to in your statement above.

1.4 Please document your statement that "The nine warmest years of the century have occurred in the past 11 years."

Temperature Record: Land-Based Versus Satellite Data

OSTP

2. Your testimony refers to the recent announcement that 1997 was the warmest year in the temperature record. However, the land-based temperature data do no comport with satellite data, which show a slight cooling trends (-0.05°C per decade) over the last 19 years. In fact, 1997 was the 8th coolest year in the satellite record, just slightly less than the 19-year average. How do you explain the discrepancy between these two data sets?

The Lancet Study on Particulate Matter-Related Health Impacts of Greenhouse Gas Mitigation and Reduction in Deaths and Greenhouse Gas Emissions Doe to EPA's Recently Promulgated Fine Particulate Standard

OSTP / EPA · OAR

3. On page 2 of your written testimony, you state:

"A second development relates to a study published in November in the medical journal Lancet. Most studies have examined the impacts of climate change on human health in terms of increased fatalities due to heat stress or the spread of infectious diseases. While by themselves, these areas represent considerable human health risks, this new study by the Working Group on Public Health and Fossil Fuel Combustion looked at the short-term impacts on mortality from air-borne particulate matter assuming no changes in estimates of energy use from fossil fuels. The analysis found that an estimated 8 million deaths globally due to exposure to fine particulates could be avoided between 2000 and 2020 if substantial steps were taken to limit greenhouse gas emissions from burning fossil fuels. In the United States alone, the study reports that thousands of deaths annually could be avoided during the 2000-2020 period. This study presents an important near-term benefit from actions to reduce greenhouse gas emissions that must be considered in addition to the long-term benefits of avoiding climatic disruptions. EPA's recently promulgated fine particulate standard begins to address this public health concern and should result in both some reductions in greenhouse gas emissions along with reducing the number of deaths associated with exposure to fine particulates."

3.1 Please provide a copy of *The Lancet* article referred to above.

3.2 What level of reductions in greenhouse gas emissions and in the number of deaths associated with exposure to fine particles will result from EPA's recently promulgated fine particulate standard. begins to address this public health concern and should result in both some reductions in greenhouse gas emissions along with reducing the number of deaths associated with exposure to fine particles."

3.3 Please document the figures provided in the response to question 3.2 above.

The Kyoto Protocol and the Rate of Increase of the Build-Up of Greenhouse Gases in the <u>Atmosphere and the Corresponding Temperature Changes</u>

4. On page 2 of your written testimony, you also state: OSTP

"Although the agreement reached in Kyoto will not reverse the build-up of greenhouse gases in the atmosphere, it will begin slowing the rate of increase."

4.1 How much will the Kyoto Protocol slow the rate of increase of the build-up of greenhouse gases in the atmosphere?

4.2 What is the estimate of the atmospheric concentrations of each of the six greenhouse gases in each of the years 2050 and 2100, and what is the estimate of the corresponding warming due to those increased concentrations in the absence of the Kyoto Protocol?

4.3 What is the estimate of the atmospheric concentrations of each of the six greenhouse gases in each of the years 2050 and 2100, and what is the estimate of the corresponding warming due to those increased concentrations if the terms of the Kyoto Protocol are met?

<u>Submission of the Kyoto Protocol to the Senate for Ratification and "Meaningful Participation by Key Developing Countries"</u>

State

5. On page 2 of your written testimony, you also state:

"The President has made it clear that he does not intend to send the Kyoto Protocol to the Senate for ratification until we have achieved meaningful participation by key developing countries."

5.1 Which developing nations are "key?"

5.2 What does "meaningful participation" mean and what will the United States seek from developing countries? Please be specific about the kinds of limitations, reductions, or other obligations that the United States will be seeking in negotiations and discussions.

5.3 Please explain all of the considerations that bear on the issue of when the President will submit the Kyoto Protocol to the Senate for ratification.

5.4 Before the President submits the Kyoto Protocol to the Senate for ratification, do "key" developing countries have to make legally binding, quantitative commitments to limit the growth of their greenhouse gas emissions, and if so, which countries would have to make such commitments?

5.5 Whatever it is that "key" developing countries have to do before the President submits the Kyoto Protocol to the Senate for ratification, will it satisfy the Administration's requirement if it is done by means of a bilateral or multilateral agreement with the United States that is not in the form of a new protocol or an amendment to the Convention or to the Kyoto Protocol?

Signing of the Kyoto Protocol

State

6. Will the President, or the Vice President, or another person with the authority to do so sign the Kyoto Protocol as it currently exists and if so, when the signing take place?

7. If your answer to question 6 above is not definitive, please explain all of the considerations that bear on the issue of whether or when the President, or the Vice President, or another person with the authority to do so will sign the Kyoto Protocol.

U.S. Reductions of Greenhouse Gas Emission Required by the Kyoto Protocol/Emissions Trading

8. On page 3 of your written testimony, you state:

CEA

"Ultimately, the U.S. agreed to a target of a 7% reduction from baseline levels. Given the changes in the definition of the baseline for the three long-lived chemical compounds (HFCs, PFCs and SF6) from 1990 to 1995 combined with a change in the way sinks are accounted for in the baseline, the actual reduction required in the U.S. is no more than 2-3% more than the President originally proposed as the U.S. negotiating position."

Please provide a detailed calculation, including a listing of all assumptions that verifies your statement that "the actual reduction required in the U.S. is no more than 2-3% more than the President originally proposed as the U.S. negotiating position."

9. What is the actual reduction in emissions within the borders of the United States would have to be to meet the U.S. obligation as outlined in the treaty and what data uncertainties still exist with respect to calculating this number?

10. Article 6.1(d) of the Kyoto Protocol states that "The acquisition of emission reduction units shall be supplemental to domestic actions for the purposed of meeting the commitments under Article 3 [of the Protocol]"

State

10.1 What does this mean?

10.2 Since Russia and the Ukraine will be substantially below their emission targets in the Protocol, they can sell large amounts of emissions credits. Why should the American public be willing to underwrite the transfer of what could be billions of dollars to those nations so the United States could reach its emissions reduction targets?

10.3 What is the Administration assuming about the proportion of our reductions that can be met through these means, and what is the limit acceptable within the terms of the Protocol?

<u>International Emissions Trading and the Costs of Kyoto Protocol Compliance</u>

CEA / DOE / EPA

11. On page 4 of your written testimony, you state:

"A number of studies have suggested that the costs of compliance can be significantly reduced if flexible implementation is permitted."

Please provide for the record a copy of each of the studies referred to in your statement"

<u>Clean Development Mechanism</u>

State / DOE / EPA

12. On page 4 of your written testimony, you also state:

"Clean Development Mechanism: Under this innovative provision, developed countries will be able to use certified reductions from project activities in developing countries to contribute to compliance with greenhouse gas reduction targets. This provides both a mechanism to secure low cost reductions throughout the world and a powerful economic incentive to lead developing countries toward more climate-friendly technologies. This represents an important avenue for developing country actions to reduce emissions in cooperation with U.S. private sector firms that have the technology, resources and know-how to make such reductions in ways that save energy, reduce emissions and improve performance. This provision effectively embodies the U.S. proposal for joint implementation with credit for activities in developing countries. It also provides, again at U.S. insistence, an incentive for early action by permitting credit for reductions that occur beginning in the year 2000."

12.1 Article 12 of the Kyoto Protocol, which establishes the Clean Development Mechanism, appears to have potential for creating a huge bureaucracy inserted between the investing and the recipient countries. Why did the Administration agree to such an arrangement?

12.2 Why is there a need for such an institutional mechanism for joint implementation (JI) projects?

12.3 Under the Kyoto Protocol, what would be the status of existing and pending bilateral JI projects promoted by the U.S. Initiative on Joint Implementation?

12.4 What is the Administration's position on JI going into the November 1998 negotiations with respect to how this Clean Development Mechanism should work?

12.5 What criteria would you expect for projects that qualify for Clean Development Mechanism financing?

12.6 How would emissions credits under the Clean Development Mechanism be allocated to contributing/investing countries or entities?

12.7 Isn't Clean Development Mechanism another form of foreign assistance by another name, only funded by the private sector, and if not, why not?

Emission from the Military

13. On page 4 of your written testimony, you also state: State

"Emissions from the Military: The U.S. obtained agreement on its proposal for an exemption for emissions from multilateral operations pursuant to the United Nations charter. This decision will ensure that nations do not hold back from participating in humanitarian, peacekeeping and other operations due to concerns about greenhouse gas emissions."

13.1 Please cite the specific text of the Kyoto Protocol that provides such an exemption.

13.2 Are unilateral operations subject to the terms of the Kyoto Protocol? If your answer is no, please cite the specific Protocol text that provides that unilateral operations are not subject to the Protocol.

13.3 To be more specific, if the Kyoto Protocol was in force would unilateral military action by the United States against Iraq be subject to its terms? If your answer is no, please cite the specific Protocol text that provides that unilateral military action by the United States against Iraq would not be subject to the Protocol.

13.4 If unilateral military action were subject to the terms of the Kyoto Protocol, what would be the national security implications?

13.5 Will domestic emissions from military training exercises be counted against the U.S., and if so, what are the implications for our military readiness?

13.6 Concerning U.S. troops stationed overseas, will emissions from training and operations be counted against the host country or the U.S.? And if the host country, does that mean that U.S. troops overseas will be subjected to greater control by the host country, and how will this affect readiness?

<u>President's FY 1999 Budget Tax Credits for Highly Fuel Efficient Vehicles</u>

Treasury

14. On page 5 of your written testimony, you state:

"Tax credits for highly fuel efficient vehicles: This credit would be $4,000 for each vehicle that gets three times the base fuel economy for its class beginning in 2003. A credit of $3,000 would be available beginning in 2000 for vehicles that get double the base fuel economy for its class. These credits would be available to jump start these markets and would be phased out over time."

Please specify—by year—the greenhouse gas reductions expected to be achieved through the application of the tax credit for highly fuel efficient vehicles.

<u>President's FY 1999 Budget Tax Credits for Energy Efficient Equipment</u>

Treasury / DOE

15. On page 5 of your written testimony, you also state:

"Tax credits for energy efficient equipment: These credits (all of which are subject to caps) would include a 20% credit (subject to a cap) for purchasing certain types of highly efficient building equipment, a 15% credit for the purchase of solar rooftop systems, and a 10% credit for the purchase of highly efficient combined heat and power systems."

Please specify—by year and by tax credit—the greenhouse gas reductions expected to be achieved through the application of the tax credits for energy efficient equipment.

President's FY 1999 Budget Proposal for Two New Partnerships for Heavy Trucks and Light Trucks, including Sport-Utility Vehicles

16. On page 5 of your written testimony, you also state: CEQ - Linda Lance

"Two new partnerships are proposed for heavy trucks and light trucks, including sport-utility vehicles."

Please describe these two new partnerships in detail, including funding, duration, participants, and cost-sharing requirements.

Fuel Efficient Vehicles

CEQ - Linda Lance

17. On page 6 of your written testimony, you state:

"Fuel Efficient Vehicles: At the recent automobile show in Detroit, General Motors (GM) announced four passenger hybrid electric and fuel cell vehicles that can achieve fuel efficiency of up to 80 miles per gallon – production prototypes of which could be available in 2001 and 2004. Ford also unveiled a prototype of a mid-size high efficiency sedan that achieves 63 miles per gallon using an advanced diesel engine. Ford also plans to develop hybrid electric and fuel cell versions of this prototype. Chrysler unveiled its full-size experimental hybrid electric vehicle with a projected 70 miles per gallon fuel economy. These technological advances were made possible through the efforts of the Partnership for a New Generation of Vehicles between the Administration, U.S. auto companies, and their suppliers."

Please document your statement that "These technological advances were made possible through the efforts of the Partnership for a New Generation of Vehicles between the Administration, U.S. auto companies, and their suppliers."

Compressed Air Challenge

18. On page 6 of your written testimony, you also state: DOE.

"Compressed Air Challenge: Air compressors represents about 3% of total industrial electricity use and 1% of total U.S. electricity consumption. In mid-January, DOE and major equipment manufacturers announced a new agreement aimed at significantly enhancing efficiency in this sector. Under the agreement, changes in equipment and operating practices are anticipated to reduce energy use in this category by 10% by 2010 at a cost savings of $150 million per year while reducing greenhouse gases by 700,000 metric tones of carbon."

Definitions and Instructions for the Production of Records

1. When a request calls for the production of records, the Subcommittee requests all responsive records that EPA has in its possession, custody, or control through the date of the final submission of records to the Subcommittee, unless the request clearly states that the Subcommittee is only interested in records EPA received during a particular time period.

2. Please sequentially number all records that you produce to the Subcommittee, and indicate the source of any record if the source is not accurately reflected on the record itself. Please submit all records on single-sided paper and submit an inventory of records produced if the volume is more than 100 pages.

3. To the extent practicable, please organize the records or documents in tabbed binders or folders that indicate which records are responsive to which requests for information.

4. For the purposes of this and related requests in the future, the word "record" or "records" shall include any and all drafts, originals, and non-identical copies of any item whether written, typed, printed, electronically recorded, transcribed, punched, or taped, however produced or reproduced, and includes but is not limited to any writing, transcription, or recording, produced or stored in any fashion, including any and all computer entries, memoranda, notes, talking points, letters, journal entries, reports, studies, calendars, manuals, press releases, opinions, documents, analyses, messages, summaries, bulletins, e-mail messages (in hard copy and electronic forms), disks, the text of any alphanumeric messages or other electronic paging devices, briefing materials, cover sheets or routing cover sheets and any other machine readable material of any sort whether prepared by current or former officers and employees, agents, consultants or by any non-employee without limitation. "Record" or "records" shall also include redacted and unredacted versions of the same record.

18.1 Please provide a listing of the participants of the Compressed Air Challenge.

18.2 Please provide the FY 1998 and proposed FY 1999 funding for the Compressed Air Challenge.

18.3 Please document your statement that "Under the agreement, changes in equipment and operating practices are anticipated to reduce energy use in this category by 10% by 2010 at a cost savings of $150 million per year while reducing greenhouse gases by 700,000 metric tones of carbon."

<u>BP Solar Opening</u>

19. On page 6 of your written testimony, you also state: CEQ

"BP Solar Opening: Last Friday, BP Solar opened its first manufacturing plant in the United States. Located outside San Francisco, the Vice President flipped a switch to start the plant. This facility will produce a new generation of thin film photovoltaic cells. Spurred by DOE's recently announced Million Solar Roof Initiative, planned plant expansions and openings by other solar cell manufacturers, as well as the President's budget request for enhanced funding for renewable technologies, demonstrate that efforts to increase market penetration based on harnessing the sun's energy are now making significant advances. In fact, the Vice President was able to announce that the private partners in the Million Solar Roofs Initiative have already announced plans for well over half the solar panels needed to get to our goal--a full ten years early."

19.1 Why did the Vice President "flip the switch" to start a foreign-owned manufacturing plant? Has the Vice President ever "flipped the switch" to start a domestic-owned manufacturing plant?

19.2 Please provide documentation for your statement that "the private partners in the Million Solar Roofs Initiative have already announced plans for well over half the solar panels needed to get to our goal--a full ten years early."

19.3 If indeed "the private partners in the Million Solar Roofs Initiative have already announced plans for well over half the solar panels needed to get to our goal--a full ten years early" in the absence of taxpayer subsidies, then why is the Administration proposing that taxpayers now subsidize that effort?

VCR/TV Energy Star Program

DOE

20. On page 6 of your written testimony, you also state:

"VCR/TV Energy Star Program: TV and VCRs represent one of the fastest growing sources of electricity demand. Consumers spend over $1 billion annually to power VCRs and TVS that are switched off. In early January the Vice President announced a pathbreaking partnership between EPA and the major manufacturers of these electronic goods. The program is quite ambitious with a goal of achieving up to a 70% reduction in energy use when the equipment is turned off without sacrificing product quality, utility or increasing costs. The average household could cut its energy bills by 30% or $400 per year by switching to the full line of Energy Star products."

20.1 Please identify the TV and VCR manufacturers participating in this partnership.

20.2 Please document the statement that "The average household could cut its energy bills by 30% or $400 per year by switching to the full line of Energy Star products."

Administration's Economic Analysis of the Impact of the Targets Reached in Kyoto

CEA

21. Finally, on page 6 of your written testimony, you state:

"The Administration is working on a more detailed economic analysis of the impact of the targets reached in Kyoto. Council of Economic Advisers Chair Janet Yellen will be prepared to discuss the analysis at a hearing next week before the Senate Foreign Relations Committee."

Please provide a copy of that "more detailed economic analysis" for the record.

Administration Plans for Legislation and Regulations

cc Task Force

22. In the President's State of the Union Address and in the Budget he submitted to the Congress on February 2, there were provisions for federal research and development expenditures and for certain tax incentives for the purpose of reducing U.S. greenhouse gas emissions.

22.1 What is the reason the President has made those proposals prior to his signing the Kyoto Protocol and prior to his submitting the Protocol to the Senate for its advice and consent?

22.2 Is the Administration contemplating submitting to Congress any other legislative proposals, or is it contemplating proposing any new or amended regulations, any of which are intended to reduce U.S. greenhouse gas emissions, prior to the President's signing the Kyoto Protocol and submitting it to the Senate for its advice and consent? If so, please describe the substance of any such legislative or regulatory proposals that are being contemplated?

23. Has any Department or agency of the Executive Branch, or any interagency body, been given the responsibility to develop potential proposals for legislation or regulations that would be intended to facilitate compliance by the United States with the Kyoto Protocol if the Protocol ever were to become binding on this nation?

CC Task Force

23.1 If your answer is yes, please identify the Departments, agencies, or interagency body; and, if it is an interagency body, who is the head of it.

23.2 If there is no interagency body, who in the Executive Branch has the responsibility to coordinate or review these efforts for the purpose of making recommendations to the President?

<u>Entry Into Force</u>

State

24. It will require ratification by 55 countries, representing 55% of developed country greenhouse gas emissions, for the treaty to enter into force. The United States accounts for nearly 40% of these emissions.

24.1 Do you see any chance that the treaty would enter into force if the United States does not ratify it?

24.2 Do you expect other countries ratify the treaty if the United States does not, and if so, which countries?

24.3 What is the earliest you would expect the treaty to enter into force if the United States does not ratify it?

24.4 If there is a prolonged delay in entry into force, what are the consequences for this treaty? For climate change?

Contradictions between the Kyoto Protocol and the Montreal Protocol State

25. Among the six gases to be limited under the Kyoto Protocol are substitutes for chlorofluorocarbons (CFCs) that deplete the stratospheric ozone layer. Therefore, the world's nations have agreed under the Montreal Protocol (to reduce ozone depleting chemicals) that they will seek the use of these substitutes, yet under the Kyoto Protocol they seek to limit use of the substitutes.

    25.1 How will this contradiction be dealt with?

    25.2 What will the United States do to reconcile these opposing goals?

Electricity Restructuring and Emissions Reductions CEA

26. The Administration has suggested on several occasions that electricity restructuring is one of the means by which the United States will reduce its emissions of greenhouse gases because it will result in greater efficiency and therefore lower emissions of greenhouse gases. However, the October 1997 report by the Energy Information Administration (EIA), *An Analysis of Carbon Stabilization Cases*, projects more emissions of carbon dioxide—not less—as a direct result of currently developed state restructuring efforts.

    26.1 How do you explain this apparent direct contradiction?

    26.2 If the Administration had counted on reductions in emissions from electricity restructuring, and if on the other hand, EIA is right that state restructuring efforts will result in higher levels of emissions, then how will this affect your calculus of how the United States will meet emission reduction targets?

    26.3 When is the Administration releasing its electricity restructuring proposal?

Compliance and Enforcement State

27. The Kyoto Protocol is very vague with respect to compliance and enforcement.

    27.1 Is the November 1998 meeting in Buenos Aires going to address these issues" Will specific compliance guidelines result from that meeting?

    27.2 What is Administration's position on what those guidelines should be?

27.3 How does the Administration propose to enforce any such compliance guidelines in the United States, ad how can verification and enforcement in other countries be achieved?

Greenhouse Gas "Sinks" CEA

28. It seems unclear in the Kyoto agreement what will qualify as a greenhouse gas sink—what kinds of forests, forest projects, land use changes or management, etc.

28.1 Please explain the U.S. position on what could constitute a sink, and how they should be counted in assessing our reductions in the greenhouse gas emissions.

28.2 What proportion of U.S. emissions could be offset by these sinks?

Roles of the Council on Environmental Quality (CEQ) and the Chair of CEQ in the Development of the Administration's Climate Change Policy and in the Kyoto Protocol Negotiations

29. Please describe the roles played by the Council on Environmental Quality (CEQ) and the Chair of CEQ in developing:

CEQ

29.1 The statement of the Administration's climate change policies in the President's October 22, 1997 speech at the National Geographic Society.

29.2 The Administration's policy approach to, and strategies concerning, the international climate-change negotiations during the period between the President's October speech and the first day of the Kyoto Conference (December 1, 1997); and

29.3 The Administration's policy approach to, and the strategies concerning, the international climate-change negotiations in Kyoto.

White House Task Force on Climate Change cc Task Force

30. When was the White House Task Force on Climate Change established and what its purpose?

31. Please provide a list of all staff and members of the White House Task Force on Climate Change—including detailees from other Executive agencies, consultants, etc.—from its date of establishment to the present.

Post-Hearing Questions Submitted by Representative Roscoe G. Bartlett (R-MD)

Role of Nuclear Power in Reduction of Carbon Dioxide Emissions

DOE

1. It the Administration feels that carbon dioxide (CO_2) production is such a menace to our society, why is it not more vigorously proposing an increase in the use of nuclear power production, since that produces no CO_2?

Global Warming

OSTP

2. Why does the Administration believe that the modest increase in mean global temperatures over the past century (about 1 degree) is not due to normal fluctuations in the Earth's climate, rather than signaling a permanent "global warming"?

3. If we're moving to global warming, so what? In the past, the Earth has been much warmer than today, and Russia and Canada may not be all adverse to a bit of global warming. There will be winners and losers, but in terms of a global perspective, so what if we're having a bit of global warming?

4. The oceans are enormous sinks for CO_2. What can be done to enhance the effectiveness of oceans as carbon sinks?

Post-Hearing Questions Submitted by Minority Members

Discrepancies Among Economic Analyses of the Costs of Complying with the Kyoto Protocol

CEA

1. Most of the witnesses today have cited various economic studies that purport to show the cost of complying with the Kyoto Protocol. Some of these studies seem to suggest that the costs will be minimal and painless, or even result in net economic benefits. Other studies cited seem to show just the exact opposite: that compliance costs will be staggering and result in job losses and economic stagnation. What accounts for such wide discrepancies in these economic analyses?

Relationship of U.S. Commitments Under the Kyoto Protocol to Changes Caused by Electricity Restructuring and Implementation of the New, More Stringent, Clean Air Act Requirements

EPA

2. The energy industry is already facing challenges in meeting changes caused by electricity restructuring and implementation of the new, more stringent, Clean Air Act requirements. How will the proposed U.S. commitments under the Kyoto protocol relate to those on-going efforts?

State

Military/National Security Implications of the Kyoto Protocol

3. Does the Kyoto agreement in any way interfere with the ability of the U.S. military to carry out any military mission or protect our national security?

Administration's Intentions to Implement the Kyoto Protocol in the Absence of Senate Ratification

CC Task Force

4. The President has proposed a $6 billion R&D and tax credit program to begin to reduce greenhouse gas emissions. Does this mean that the Administration intends to proceed with implementation, even though the treaty by the Administration's own admission does not meet the President's requirements, and despite the lack of Senate ratification?

05/12/98 10:01 ☎ 002

cc: MJ

ONE HUNDRED FIFTH CONGRESS

Congress of the United States

House of Representatives

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

2157 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6143

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May 12, 1998

BY FACSIMILE

The Honorable Janet L. Yellen
Chair
Council of Economic Advisers
Old Executive Office Building
Washington, D.C. 20500

Dear Chair Yellen:

This letter is to confirm that on Tuesday, May 19, 1998, at 10:00 a.m. in Room 2154 Rayburn House Office Building, the House Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs will hold a hearing on the potential impact of the Kyoto Protocol on the U.S. economy and energy system.

On behalf of the Subcommittee, I want to thank you for accepting our invitation to testify at this hearing. At that time, we would like you to present and discuss the Administration's analysis to date of the potential economic effects of implementing the Kyoto Protocol.

In connection with the upcoming hearing and in response to our inquiry of March 13, 1998, your Chief of Staff, Michele Jolin, has indicated that the Council of Economic Advisers will be submitting on Friday, May 15, 1998 analyses and supporting documentation concerning the testimony you presented on March 4, 1998 before the House Subcommittee on Energy and Power.

In addition, pursuant to committee procedures, please provide 25 copies and a disc of your written testimony by 5:00 p.m. on Friday, May 15, 1998. Please provide 75 more copies of the testimony at the time of the hearing for distribution to the public and the press. If you have any questions, please contact Senior Counsel Larisa Dobriansky at 225-4407.

25
50

Thank you for your courtesy and attention to this matter.

Sincerely,

David McIntosh

David M. McIntosh
Chairman
Subcommittee on National Economic Growth,
Natural Resources, and Regulatory Affairs

cc: The Honorable Dan Burton
The Honorable John Tierney

Author: Christopher Walker at foreign-rel
Date: 5/11/98 05:14 PM
Priority: Normal
TO: Patricia McNerney, Garrett Grigsby, Michael Westphal, Marc Thiessen, Bud Nance
bject: Kyoto Primer - FYI

I thought you'd be interested in Rep. Gilman's press release regarding the terms under which the Kyoto Treaty would be considered.

Notice the words "...before the Congress considers the treaty", not "the Senate".

Forward Header

Subject: Kyoto Primer - FYI
Author: "Kirk; Mark" <Mark.Kirk@mail.house.gov> at house
Date: 5/11/98 12:42 PM

The Chairman of the International Relations Committee, Rep. Benjamin A. Gilman (R-NY), announced that he would ask ten top questions that need to be answered before Congress considers the Kyoto climate change treaty. The hearing will be held at 10:00 am, Wednesday, May 13 in room 2172 Rayburn. Witnesses include Under Secretary of State Eizenstat, Janet Yellen, Chairman of the White House Council of Economic Advisors, and Robert Burt, Chairman and CEO of FMC representing the Business Roundtable. The Roundtable will release a major report on the Kyoto Treaty at the hearing.

"The Senate passed the Byrd-Hagel resolution by a vote of 95 to zero, outlining two major issues: the lack of participation in the treaty by 129 countries and the huge potential cost of implementing this treaty," man stated. "I will seek the answers to ten key questions that the nistration must answer before we consider the Kyoto proposal."

The Top Ten Gilman questions were as follows:

1. The White House Council for Economic Advisors stated Kyoto would increase taxes on Americans by four cents on a gallon of gas. Three U.S. government labs said the tax would be eight to 36 cents a gallon. A Wharton Econometric study indicated the tax would total 40 cents a gallon. What did the White House discover that lowers the tax needed to implement this treaty below its own Department of Energy studies?

2. Based on the DOE study, implementing Kyoto will cost $600 billion. The Vietnam War cost Americans $481 billion. Does the Administration believe that Americans will pay such a high price to implement a U.N. treaty?

3. China is the second largest producer of greenhouse gases and will be the number one producer by 2015. So far, China has announced a climate change policy of "Three Nos":

1. No signature of the Kyoto Protocol,
2. No voluntary implementation of stabilization targets, and
3. No future commitments to limit greenhouse gas production.

What good is a treaty the Chinese will not sign?

The Danish Meteorological Institute recently published an article ing that the Earth's temperature owes everything to long-term ges in the sun's output, not CO_2 produced by man. They noted the global cooling trend between 1945 and 1970 when carbon dioxide emissions by man were rapidly increasing. Ben Santer, the Lawrence Livermore National Laboratory lead writer of the U.N. Intergovernmental Panel on Climate Change (IPCC) noted the evidence points "either way" on climate a huge tax increase to implement this treaty?

5. Under the Administration's proposal to trade carbon credits, Russia will have 800 million metric tons of carbon credits to trade. The White House estimated that each credit (using optimistic assumptions) will cost $23 per metric ton. Given the common assumption that the U.S. will buy nearly all of the Russian credits at this low cost, that means America's utility and gasoline consumers will be taxed to provide over $18 billion in new foreign aid projects for Russia. These monies will be sent directly from consumers in the form of higher prices and will not be linked to any conditions such as nuclear non-proliferation, cooperation on anti-narcotics, anti-terrorism or human rights concerns. Is this treaty a huge hidden indirect tax on Americans to provide large amounts of unrestricted foreign aid to Russia?

6. Under the proposed trading scheme, any nation that is emitting CO2 below its 1990 level will be able to sell carbon credits on a U.N.-managed market. Key countries that are significantly below their 1990 emissions are: Lybia, Iraq, Iran and North Korea. None of the U.N. drafts prohibit rouge nations from benefiting under this treaty. Why?

7. The implementation of this treaty will require the establishment of a new U.N. bureaucracy. If this new bureaucracy orders the closing of an American plant or blocks the construction of a new American factory, will the Administration abide by that ruling? If the Administration finds the U.N. staff is using its power to help our competitors, will it block implementation?

8. Under the treaty, the domestic operations of the DoD are limited. While the DoD originally sought a blanket waiver of the treaty's application, the White House ordered the DoD to back down and only exempted overseas operations consistent with the U.N. charter. U.S. forces are the best in the world because they train and operate more than anyone else. This treaty will now exert a strong pressure on future Administrations to keep our forces grounded and in port to meet our emissions targets. How can this be changed without incurring the objection of the Iraqis and Libyans who have an equal voice to the U.S. in climate change negotiations.

9. The U.S. completed negotiations and signed the Kyoto pact but refuses to submit it to the Senate for ratification as the Constitution requires. Why?

10. Legislation has been introduced to block funding for the implementation of the Kyoto treaty before it is ratified. Does the Administration oppose this? Why?

The following is a summary of the key decisions made by the Administration at Kyoto:

TOP TEN U.S. GIVEAWAYS AT KYOTO

Since Vice President Gore told U.S. negotiators at the Kyoto Climate Change Conference to show "increased negotiating flexibility" to achieve an agreement, the United States surrendered its position on ten critical issues. The U.S. negotiating positions surrendered since the Vice President's visit include:

1. Involvement of Developing Countries: U.S. Position: the U.S. called for the "meaningful participation" of "key" developing countries such as China, Mexico, India and Brazil in the emission reduction limits of the Protocol. CAVE: No developing countries agreed to be bound by emission limits in the Kyoto Protocol. Provisions permitting voluntary commitments by developing countries were also eliminated.

U.S. Loses X U.S. Wins ___

2. Future Developing Country Commitments: U.S. Position: the U.S. called for developing countries to agree to binding emissions limits for developing countries by the time the protocol began to bind the U.S. (Scheduled for 2008). CAVE: Despite a brave effort by New Zealand (who proposed a deadline for developing countries to agree by 2002 to cut the rate of growth of their emissions), this modest proposal was rejected.

U.S. Loses _X_ U.S. Wins ___

3. Cuts in Emissions: U.S. Position: the Clinton-Gore Administration called for the U.S. to stabilize U.S. emissions at 1990 levels by 2012. CAVE: Under pressure from the E.U. and Japan, the U.S. agreed to further cuts in emissions. Absent an economic analysis, the Administration could not explain how these deeper cuts will affect the U.S. economy and unemployment.

U.S. Loses _X_ U.S. Wins ___

4. Policies & Measures: U.S. Position: the U.S. opposed the inclusion of a long list of specific policies and measures the E.U. wanted specified and mandated in the protocol. The U.S. wanted parties to the protocol to achieve their emissions reductions in flexible ways, to be determined by each country. CAVE: the U.S. agreed to the inclusion to a suggested list of policies and measures to be used to meet emission limits. This is a first step toward compromising U.S. economic sovereignty by giving the U.N. the power not only to set emissions limits but also to control how those limits will be met.

U.S. Loses _X_ U.S. Wins ___

5. The E.U. "Bubble": U.S. Position: the U.S. opposed the creation of a European "bubble" that would combine the total emissions of all E.U. members. The bubble will ease the burden for E.U. members thanks to [illegible]er emissions from the former East Germany and the conversion of the [illegible]. from coal-fired power to natural gas-fired power. It would allow some E.U. members to increase emissions, while others decline. CAVE: the U.S. accepted the E.U. bubble and only prevented new E.U. members from being covered.

U.S. Loses _X_ U.S. Wins ___

6. Joint Implementation: U.S. Position: the U.S. proposed giving American companies that are required to reduce emissions an opportunity to invest in emission-reduction projects in other countries. Each company would have controlled the location, duration and cost of the project. CAVE: Under pressure from developing countries, the U.S. agreed to a proposal by Brazil to establish a centrally-managed U.N. "Clean Development Mechanism." U.S. companies required to pay for projects abroad will now face greater U.N. management and control.

U.S. Loses _X_ U.S. Wins ___

7. Domestic Military Operations: U.S. Position: until just prior to the Kyoto Conference, the Defense Department called for excluding all emissions by the armed forces from the limits set by the protocol. CAVE: Under pressure from China, Iran and Russia, the U.S. agreed to include all domestic military operations and training in the emissions limits. The U.S. may now have to cut critical military training and operations to meet emission limits.

U.S. Loses _X_ U.S. Wins ___

[illegible] Developing Country Reporting and Mitigation: U.S. Position: the U.S. called for developing countries to make efforts to report on their emissions and mitigate emission growth. CAVE: under the protocol, developed countries, including the U.S., must pay the full cost of mitigation effort.

U.S. Loses _X_ U.S. Wins ___

9. New U.S. Commitments: U.S. Position: in order to give industry, labor and agriculture clear guidance on what the U.S. commitments will be, the U.S. called for clear commitments and procedures to be negotiated in Kyoto. The U.S. did not want to be subject to future conferences with potentially new and unclear commitments offered. CAVE: the U.S. agreed that once the Protocol enters into force, developing countries, using a 3/4 vote of all parties, can add new binding commitments on the U.S. and other developed countries.

U.S. Loses _X_ U.S. Wins ___

10. Entry Into Force: U.S. Position: the U.S. originally called for a large number of countries representing a very large part of world carbon emissions to ratify the Protocol before its entry into force. CAVE: the draft protocol will now enter into force when countries representing a much lower percentage of total world carbon emissions ratify the treaty.

U.S. Loses _X_ U.S. Wins ___

thervane

FEATURE

Estimating the Costs of Kyoto: How Plausible Are the Clinton Administration's Figures?

By Raymond J. Kopp and J.W. Anderson

MARCH 12, 1998 -- In its defense of the Kyoto treaty to control global warming, the Clinton Administration argues that the economic costs of compliance would be modest. Since the Administration has disclosed much of the methodology it is using, it is possible to arrive at a judgment on the plausibility of these cost estimates.

They are reasonable, if one accepts all of the assumptions that the administration is making. But those assumptions require careful inspection.

Janet Yellen, chair of President Clinton's Council of Economic Advisers, gave the Administration's cost estimates on March 4, 1998, in testimony before the House Commerce Committee. Compliance with Kyoto, she said, would mean an emissions price in the range of $14 to $23 per ton of carbon equivalent. In other words, the cost per ton of the GHG gas reductions discussed in the testimony would amount to $14-$23.

"This increase in energy prices at the household level would raise the average household's energy bill in 10 years by between $70 and $110 per year," she said. Overall, for household consumers, it would mean an increase of 3 to 5 percent in energy costs in the years 2008-2012 or, for example, an increase of 4 to 6 cents a gallon of gasoline.

Analysis indicates that these figures are not impossibly low. But it is essential to recognize that they are based on an assumption that the United States will not drastically reduce energy consumption, or decrease its own greenhouse gas emissions by anything approaching the 30 percent from the present trend that the Kyoto treaty would seem, at first glance, to require.

Rather, it assumes that the United States will reduce its annual emissions in the period 2008-2012 by a modest 3 percent from the trend line and make up most of the rest of its commitment by paying other countries to reduce their emissions through a system of tradable emissions credits.

What Models Were Used?

Dr. Yellen did not provide in her testimony any detailed economic calculations to support her conclusions. But she was fairly explicit in describing the key assumptions and the economic models on which they were built.

The administration has drawn on a wide range of models of the energy sector and of the economy over the next 25 years, she said. No model has yet been constructed to analyze the Kyoto treaty specifically, since it was written only in December.

"Our thinking has been informed, however, by simulations conducted with the Second Generation Model of Battelle Laboratories, one of the leading models in the field," she told the Commerce Committee. "The SGM is one of the models best positioned to analyze the role of international trade in emissions permits, which we consider to be a critical element of the Kyoto Treaty."

The Second Generation Model is one of three used in the Administration's earlier Interagency Analytic Team (IAT) study, for which model results are publicly available. Battelle researchers have also used the SGM for additional work that is also in the public domain. Using the assumptions stated in Dr. Yellen's testimony and the results available from the SGM, we can draw reasonable conclusions about the validity of the cost estimates and the greenhouse gas emissions on which they are based.

The Administration's work on the Kyoto issues has made clear, Dr. Yellen testified, the importance of flexible, market-based trading mechanisms.

"Within the Kyoto Protocol, this means an insistence on international trading, joint implementation, the clean development mechanism, and, ultimately, on meaningful developing country participation," she testified.

In the context of the Kyoto treaty, Dr. Yellen's insistence on international trading means that a company wanting to expand operations (and emissions) could buy the permits on a worldwide market at the lowest bid from another country, or a company in another country, that would reduce its emissions by the same amount. As it stands now, provisions for international trading are limited to developed economies -- the so-called Annex 1 countries. Joint implementation and the clean development mechanism refer to a system of bilateral agreements in which companies or countries could accomplish the same thing but could obtain the permits from developing countries (non-annex 1).

The Kyoto treaty permits trading only among industrialized countries. The United States' insistence on bringing the developing countries into a system of worldwide trading is highly controversial.

The Clinton Administration is assuming that it can get worldwide trading into the treaty, and that it will be highly efficient -- as efficient as the New York Stock Exchange.

The Second Generation Model results show why the Administration is putting such heavy emphasis on the necessity and efficiency of trading. When analyzing the costs of complying with an emissions reduction scenario similar, although not quite the same, as the Kyoto treaty, researchers at the Pacific Northwest National Laboratory last October used the SGM to work out the numbers for three scenarios.

In the first, the United States could not trade emissions permits with any other country, and the implicit cost of emissions reduction came to $108 per ton of carbon. If the United States and its companies could trade with their counterparts elsewhere in the industrial world, costs would fall to $72 per ton. With full worldwide trading, the costs fell further to $26 per ton. That is virtually the same as the upper bound on Dr. Yellen's estimates.

This study by the Pacific Northwest National Laboratory also sheds light on the CO2 reductions that would have to be met domestically and those that could be purchased abroad under these three scenarios. With no trading of emission reductions obligations across borders, all of the reductions would have to be made in this country -- causing the high estimated price. If there was trading with other industrial countries, the study showed, slightly less than half of the American quota of reductions would be made in this country and the rest could be purchased abroad. With worldwide trading, it added, only about 15 percent of the American obligation would be met by reductions in this country, and the rest abroad.

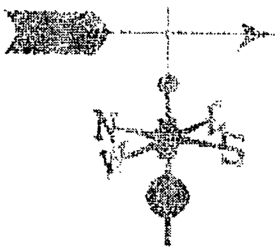
Dr. Yellen's testimony implied that, with no international trading, the cost of emissions reduction in this country would run to $125 per ton. With trading among the industrial countries including Russia and eastern Europe, it would drop to $30 to $50 per ton. With worldwide trading, she said, it would drop still farther to $14 to $23 per ton.

The Clinton administration has said repeatedly that it will not send the Kyoto treaty to the Senate for a ratification vote until it is changed to provide for participation by the big developing countries, and for worldwide trading in emissions permits.

But even setting aside the imprecision of all models, which Dr. Yellen acknowledged, there are several further assumptions in the Administration's calculations that deserve attention.

They assume that there are vast opportunities for cheap emissions reductions to be had, particularly in the developing world -- enough of them to satisfy European and Japanese demand as well as American.

They also assume that the trading system will work with near-perfect efficiency. It might be noted that the Kyoto conference put into the clean development mechanism a provision for a transaction tax "to assist developing country parties that are particularly vulnerable to the adverse effects of climate change to meet the costs of adaptation." The imposition of any substantial tax on trading would change all the figures.

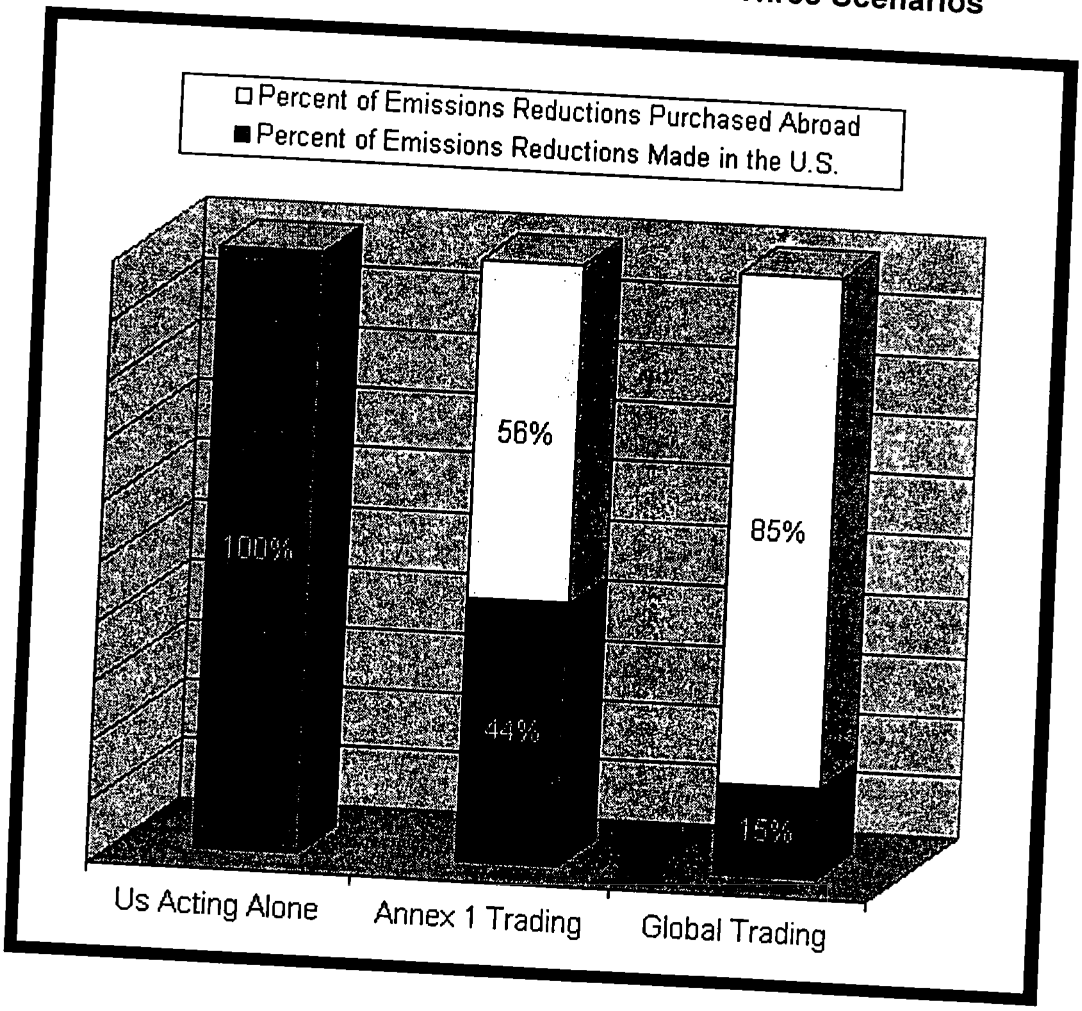


That raises a final question: Is there the political will, here and abroad, to sustain a free market in permits? One issue is whether environmental organizations will support a system that would result in the reductions falling disproportionately in the Third World. Another is whether the Third World and its leaders will permit it. The basic reason for their current opposition to trading is the widespread fear that the rich countries will use their financial power to buy their way out of emissions limits, while limits grow tighter on the poor. It is possible that developing countries with low-cost emissions reduction opportunities might band together to force up the price artificially through an OPEC-like cartel. It is also not clear that the U.S. Congress will support a system that envisions large outflows of investment capital to the poor countries for emissions permits. Some influential congressmen have already begun to refer to emissions trading as foreign aid.

Dr. Yellen's cost estimates have a respectable analytical base. But to turn them into economic reality will require satisfactory answers to a lot of outstanding questions, of which many are essentially political.

Raymond J. Kopp *directs RFF's Quality of the Environment Division.*
J.W. Anderson *is RFF's Journalist-In-Residence.*

An Estimate of the Proportion of Emissions Reductions that the U.S. Would Buy Abroad Under Three Scenarios



Annex I trading refers to trading restricted to the industrial, or Annex I, countries and excluding the developing countries.

Source: Adapted from "Return to 1990: The Cost of Mitigating United States Carbon Emission in the Post-2000 Period," Edmonds, et al, October, 197 Pacific Northwest National Laboratory, PNNL document number 11819.

toward economic development

Opening Up the Chinese Box

~~economic~~

China is engaged in a momentus transformation. The drive toward a free market economy that began twenty years ago has lifted over 200 million people out of abject poverty and thrust China ~~to the forefront of world attention~~ with head-spinning rapidity. By some measures, the absolute size of China's economy is now second only to the US, ~~and if recent growth rates continue, sometime~~ [in the next twenty years] China's economy ~~will outweigh even the US.~~ And

is expected to . . .

~~Some observers have found~~ China's rapid growth ~~ominous~~, ~~because of China's troubling record on human rights, problematic past foreign policy stances, and disregard for intellectual property rights and other rules of international trade.~~ ~~But~~ my meetings with Chinese economic leaders last week ~~convinced me that~~ China understands that it must accept the responsibilities that go with membership in the community of leading nations. Those discussions also convinced me that dialogue and engagement are the best ways to speed China along the path toward the policies the West would like to see.

has come

economic

will be fostered

In the long run, economic progress ~~is not~~ sustainable unless citizens are given the rights and responsibility to make their own decisions and choices. It is not an accident that the richest countries in the world are those that accord their citizens the most freedom. Long-run progress on human rights may therefore hinge on continued economic advances. And China cannot hope to achieve a world-class standard of living for its people without becoming a responsible partner ~~in both~~ on international trade and ~~foreign affairs~~.

this

protection of intell prop rights,

There are many signs that China is beginning to accept its new responsibilities. One that stands out clearly is China's determination to join the World Trade Organization. Membership in the WTO will require major changes in Chinese trade practices to bring it into compliance with the established rules for international trade, but the Chinese leadership recognizes the inevitability, and ultimately, the desirability of those changes in the long run, and is committed to making them.

China also played a constructive role in the recent East Asian crisis. China resisted the temptation to devalue its currency in response to devaluations by most of its competitors; because a Chinese devaluation could have further destabilized the already-shaky economies in the region, China's restraint was very helpful. Furthermore, China contributed significantly to the IMF rescue package for Indonesia, a clear sign that China recognizes the value and importance of multilateral international institutions like the IMF. The East Asian crisis has provided salutary lessons for China's own internal economic policies as well. The crisis illustrated the paramount importance of an open, transparent, and honest financial system in which information is freely and widely available. The crisis has given new urgency and direction to efforts that were already underway to clean up

Jay Edmonds
RFF

→ STAVINS

① Dave Sandalow

China's troubled banking industry, where in the past loans were often made more on the basis of political connections than economic prospects. And the woes of Korea's *chaebols* have illustrated the importance of sound corporate governance principles, a lesson that the Chinese will need to take to heart as they prizvatize hundreds of thousands of state owned enterprises in the next few years. Finally, and perhaps most critically, the crisis illustrates the profound importance of the rule of law in building a long-term healthy economy. Until both businesses and private citizens can count on impartial enforcement of contracts and laws, investment and economic progress remain perpetually in jeopardy.

One of the most important upcoming tests of China's commitment to fulfilling its international responsibilities will be the stand it takes on participating in efforts to curb global climate change. This should be an easy ...[Something about how everybody benefits if they participate].

Both China and the world stand to gain immeasurably if China fulfills its promise and recognizes its responsibilities as a leading nation of the world. ... [Something about how dialogue and engagement are the best way to make sure that things turn out as we wish rather than as some fear].

COMMITTEE ON COMMERCE
U.S. HOUSE OF REPRESENTATIVES
2125 RAYBURN HOUSE OFFICE BUILDING
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(202) 225-2927
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FAX TRANSMISSION

To: The Honorable Janet Yellen 395-6958

From: The Honorable Dan Schaefer

Date: October 8, 1997

Number of Pages (including cover sheet): 10

Notes:

U.S. House of Representatives
Committee on Commerce
Room 2125, Rayburn House Office Building
Washington, DC 20515–6115

October 8, 1997

The Honorable Janet Yellen
Chair
Council of Economic Advisors
Old Executive Office Building
Washington, D.C. 20502

The Honorable Timothy E. Wirth
Under Secretary for Global Affairs
U.S. Department of State
2201 C Street, N.W.
Washington, D.C. 20520

Dear Ms. Yellen and Under Secretary Wirth:

Last week I received your initial responses to a series of questions I sent to the Department on August 22, 1997. On behalf of the Energy and Power Subcommittee, I have attached the questions, and once again, commend them to your attention. Not only is the joint submission I have received from your offices late and incomplete, but most of the responses are wholly inadequate.

In the past weeks, you were apprised by my staff as to the time-sensitive nature of our correspondence. An extension was requested by your staff, which I granted on the promise that the extension would allow for a more complete and responsive submission. I hardly need to emphasize the urgency with which the Congress views preparation for the final negotiating session on the future climate change treaty. As the last negotiating meeting grows nearer, we are justifiably anxious to have whatever benefit can be derived from the Administration's thinking on this issue. Any agreement that the Administration signs could bind the U.S. well into the next century and have a profound impact on U.S. industry, jobs, and lifestyle. Thus, I believe you will understand my disappointment at the responses that were received yesterday.

To highlight all of the specific examples from your letter that I find incomplete, would be counterproductive. I shall only point out two instances where the Administration appears to obfuscate and obscure rather than use the opportunity to clarify its position on climate change which was my intention and the goal of the Subcommittee with respect to these follow-up questions.

The Honorable Janet Yellen
The Honorable Timothy Wirth
October 8, 1997
Page 2

For example, in response to Question 12, addressing whether the Administration still opposed the use of taxes to address climate change. You can understand my frustration, and that of the Subcommittee Members, upon reading a response that essentially said the Administration was still developing its policy. This is disturbing not only because it may indicate a change in Administration position on this issue, but also because we now don't know what the Administration position is on this critical issue less than eight weeks away from the start of the final negotiating meeting.

Similarly, when asked the cost of the Interagency Analytical Team the response was "no effort was made to keep track of costs..." and the Administration "did have some contract costs for modeling." The question asked "what were the costs?" not, "did the Administration keep track of the costs?"

I am hopeful that you will attend to this matter as a priority and that more complete responses will be forthcoming at your earliest convenience. To that end, I ask that your staff meet as soon as possible with Commerce Committee majority and minority staff to specify the questions that need more complete responses. I would like all of your amended responses prior to the start of the next negotiating session in Bonn, Germany which is scheduled for October 20, 1997.

Thank you for your prompt attention to this matter.

Sincerely,

Dan Schaefer
Chairman
Subcommittee on Energy and Power

Attachment

cc: The Honorable Tom Bliley, Chairman
The Honorable John Dingell, Ranking Member
The Honorable Ralph Hall, Ranking Member
Subcommittee on Energy and Power

SUBCOMMITTEE ON ENERGY AND POWER
HEARING ON GLOBAL CLIMATE CHANGE
FOLLOW-UP QUESTIONS

Interagency Analytical Team Report

1. Please identify each member of the Interagency Analytical Team (IAT) from the date of its inception to the present time, any other participants inside or outside the Administration, and specify their responsibilities.

2. When was the IAT formed and what were the IAT's instructions? Please provide any documentation regarding the formation of the IAT and its mission, responsibilities, membership or assignments.

3. Please indicate the total costs of the IAT's efforts and the share paid annually by each Department or Agency that was involved and please identify the source of the funds within each Department or Agency.

4. Is the IAT still in existence? If so, what are its current responsibilities?

5. Please provide a copy of all drafts of the IAT report in addition to the May 16 and 30, 1997 drafts, both earlier and later.

6. Please explain how the peer reviewers were selected? What instructions were those peer reviewers given? Please provide copies of any correspondence or instructions that were sent to the peer reviewers.

7. If the IAT effort is in fact a "failed" project as indicated in Administration testimony at the Subcommittee hearing how will the Administration determine the appropriate level of future international climate change commitments for Kyoto and later?

8. As late as last May when Dr. Ehrlich and others in the Administration held briefings on the then draft analysis and assessment there was no hint that the Administration considered this effort a failure and the models to be unreliable. What occurred since May that caused the Administration to apparently reach a different conclusion from that of Dr. Ehrlich?

9. The IAT draft analysis referred to three scenarios which resulted in costs of future climate commitments of approximately $200, $100 or $50 per ton carbon tax equivalent. Has the Administration concluded that a $200 per ton carbon tax equivalent cost will not harm the U.S. economy, jobs, and global competitiveness? Has the Administration concluded that a $100 per ton carbon tax equivalent cost will not harm the U.S. economy, jobs, and global competitiveness? Has the Administration concluded that a $50 per ton carbon tax equivalent cost will not harm the U.S. economy, jobs, and global competitiveness. Please provide the basis for any of the above conclusions. If the Administration does not support any of the above costs, what analysis or other information does the Administration intend to rely on to support a different amount?

10. Is the paper prepared by the IAT both an analysis and assessment? How does it relate to the "analysis and assessment" referred to in Paragraph 4 of the Berlin Mandate? Has the Ad Hoc Group on the Berlin Mandate provided an analysis and assessment as required by the Berlin Mandate?

11. The IAT draft states that the central policy modeled for the analysis "is aimed at reducing carbon and other greenhouse gas emissions by stabilizing them at 1990 levels" and that policy would be "announced in 2000 and its restrictions are phased in over a ten year period, so that the policy would take full effect in 2010." Reports in the media after the Denver Summit that President Clinton attended also referenced this date of 2010. In light of EIA's projection of emissions 22% above 1990 levels by 2010, is the Administration considering a target and timetable that calls for stabilization at 1990 levels by 2010?

12. The Administration frequently cites the 2000 economists who say they support controlling greenhouse gases. Their statement supports as the mechanism either carbon taxes or emission permits. In the past, the Administration has said it opposes the use of taxes. Is that still the Administration's position?

13. The IAT draft explains that these emission reductions to achieve stabilization would be through "issuing tradable permits at the earliest point of energy production or when imported into the U.S." and that the permits "are initially auctioned in a way that is revenue neutral: i.e., all revenues generated would be recycled through the economy." Would these revenues be deposited in the treasury as miscellaneous receipts under the Economy Acts? Would they then have to be recycled through changes in the tax laws or by appropriation? How would they be recycled?

14. Does the Administration believe that permit auctions are the equivalent of a new tax? If not, please explain.

15. The IAT draft states that "among fuels, demand for coal bears the brunt of greenhouse gas stabilization." What is the impact on the U.S. economy as a whole and on the relevant coal regions of this policy towards coal? What will be the job impact? Is the Administration adopting an anti-coal policy? How is this policy consistent with President's Clinton 1995 reply to Mr. Dingell that the U.S. will not agree to any protocol that harms our economy and jobs or our competitiveness?

Kyoto Agreement

16. How long after December 1997 does the Administration think it will take to obtain Senate advice and consent of any Kyoto agreement, to ratify that agreement, and to enact implementing legislation?

17. Which Agency or Department would be responsible for implementing the provisions of any agreement reached in Kyoto, including provision relating to joint implementation, emissions trading, and advancing Article 4.1?

18. What consideration has been given or plans made regarding passage of legislation necessary to implement any agreement reached in Kyoto?

U.S. Draft Protocol

19. 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 such 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?

20. 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.

21. Paragraph 2 of Article 5 of the U.S. draft Protocol mandates each Party to "strengthen its legal and institutional framework to advance implementation" of Article 4.1 commitments. What "framework" does the Administration have in mind? Does this suggest a new Federal or international agency or program? Would this be done through new legislation? If not, how would it be achieved in the U.S.?

22. 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?

23. 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?

24. Article 16.1 of the Convention provides that "annexes shall be restricted to lists, forms, and any other material of a descriptive nature that is of a scientific, technical, procedural or administrative character." The U.S. draft protocol states, that it may not be "appropriate" to adopt the Article 16.1 Convention example. Please explain why. Does the U.S. support annexes that would be substantive and mandatory?

25. Article 9 of the U.S. draft provides that Parties "shall cooperate" in establishing a "long-term goal" regarding concentrations of gases. Article 10 calls for meetings at "regular intervals" to, among other things, "periodically review the adequacy" of the Protocol and Article 8 calls for periodic review of the Protocol and guidelines "in light of evolving scientific knowledge related to climate change." Article 2 already suggests a minimum of two budget periods. Article 16 tells the Parties to adopt "binding provisions" by [2005] for progressive "obligations." Does the State Department contemplate over the next several decades a continuing process of meetings of both the Protocol and Convention Parties annually and a series of IPCC assessments, special reports, and technical papers, leading to a series of protocols or other legal instruments that are likely to have significant economic impacts on the Parties and their people? Why is there a need for such frequent meetings and reviews?

26. 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.

EU Bubble

27. The EU proposal made recently in Denver was developed last March as an EU "negotiating position for the ongoing negotiations on the Berlin Mandate" and it includes burden-sharing of a 10% reduction among EU members of the "overall emission reduction objective by the Community as a whole". This appears to be a form of differentiation, a concept the U.S. is not supporting. The existing FCCC bubble applicable to the EU presumably only covers policies and measures and, when adopted, it only covered the 12 Parties that were members of the EU in 1992. Does the U.S. understand that the EU is seeking, by its submissions and discussion with the U.S. delegation, to extend a form of the FCCC bubble to a protocol and another legal instrument that may be adopted in Kyoto, to expand the bubble to cover any target and timetable or financial obligations and not just policies and measures, and to expand the bubble to include all present and future members of the EU, such as countries from Central and Eastern Europe? Why is such an expanded bubble in the economic and competitive interests of the U.S.?

28. What is the potential impact of such an expanded EU bubble on the U.S. proposal for international emissions trading? Would it ensure that the EU would get the benefit of any emissions deficit derived from such Central and Eastern European Members and deprive the U.S., Japan, Australia and Canada of that deficit? Would the U.S. then have to rely primarily on Russia's emissions deficit in order to derive any of the benefits of trading?

29. Article 22.3 of the FCCC requires that regional economic integration organizations must declare the "extent of their competence" with regard to obligations under the FCCC. Does the U.S. believe that the EU has the competence to carry out legally binding targets and timetables and to enforce any differentiated targets for its members if they fail to achieve them?

30. 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 and target and timetables," its implications for the U.S., its merits, or its complexities. Given the fact that negotiations are just approaching a conclusion in Bonn and Kyoto, when do you plan to consult us on this aspect of the negotiations?

31. Since 1992, the composition of the only "regional economic integration organization," namely the EU, has grown from 12 to 15 members and several other countries want to expand it further. Under what circumstances would the U.S. agree to an EU bubble that is or could be expanded?

EU Amendment to Convention

32. 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. position 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?

Emissions Trading

33. 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 the matter, a domestic, emissions trading program?

34. Greenhouse gases not covered by the Montreal Protocol are not pollutants within the meaning of the Clean Air Act and are not subject 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?

General

35. 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.

36. 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, and 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 such agreement.