

memos

TO: SENS, ANDREW

FROM: WIRTH, T

DOC DATE: 03 NOV 97
SOURCE REF:

KEYWORDS: ECONOMIC SUMMIT

JAPAN

PERSONS: KIMBLE, M

SUBJECT: FWD STATE MEMO ON PLANS FOR KYOTO SUMMIT

ACTION: PREPARE MEMO FOR BERGER

DUE DATE: 11 NOV 97 STATUS: S

STAFF OFFICER: TARULLO

LOGREF:

FILES: WH

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DOC 1 OF 1



UNDER SECRETARY OF STATE
FOR GLOBAL AFFAIRS
WASHINGTON, D.C. 20520-7250

NOV 3 1997

Andy Sous,

I thought this a very thoughtful start.
My guess is that the White House has not given
any thought to what we do post-Kyoto, & we
should start to jog them now.

Would it be possible for you to take a
cut at a first draft of a memo that we might
send to the White House (Albright → bore?
Kleinstat-Wuth → Spelling et al?); it might be
organized as follows:

1. Statement about need to follow-up after
Kyoto - this issue will be with us for the
next 40 years.
2. Urge that a senior office out of the Executive

office of the President be named now (someone of stature of Charlie Curtis or Ev Eklund) - this timing would demonstrate seriousness of President that this is long term, continuing issue.

3. Charter of office should include

a. Vetting the Budget to be sure climate issues are clearly defined for Budget that goes to the Congress in early 1998

b. Follow-up with key Cong'l Committees

c. Orchestrate Technology investments and initiatives

d. Work to broaden base of private sector partnerships (autos, utilities)

e. Establish special working group to work with industries that will benefit from Climate Initiatives (Kevin Fay et al)



UNDER SECRETARY OF STATE
FOR GLOBAL AFFAIRS
WASHINGTON, D.C. 20520-7250

- f. Set up an Advisory Group to include Key NGO's & Industry - President personally chairs them.
- g. Organize special capability to work with World Bank & other IFI's, with leadership from Treasury
- h. Continue domestic agency energy savings & "Climate Friendly" Initiatives, with DoD in lead.
- i. Maintain High level Interagency Working Group

This outline is a good beginning, and I am

once what other items should be added. But we should get something formal over there now, and start getting them to focus.

I am sure that Stuart will agree with the imperative of this, and the Vice President's office certainly has a big stake in this.

Would it be possible for you to do a first cut at such a memo, and let's see what it looks like? Obviously with w. Melinda / Rafe

With thanks again - delighted that you are on board to help!

Best,

PLEASE STAFF

Vin

November 1



United States Department of State

Washington, D.C. 20520

October 24, 1997

MEMORANDUM

To: G - Under Secretary Wirth
From: OES - Melinda Kimble, Acting *Melinda Kimble*
Subject: A Before and After Kyoto Road Map

You asked for an outline of the issues/tasks that we must address as we get ready for Kyoto in December, and as we move into the period after Kyoto when we will want to engage others in developing a post-Kyoto GHG emissions strategy.

Accordingly, Andy Sens, Rafe Pomerance and I met with a small group to consider steps we may need to take at home and abroad as we develop a response to climate change, and to look at the interagency structure that will develop policy and manage the negotiations to follow Kyoto.

The attached "roadmap" is an initial effort, and it proposes a rough "timeline". It notes policy issues and practical concerns that will clearly need to be given more thought as we develop our positions and negotiating strategies. For example, per Craig Johnstone, resources/budgets will need to be addressed at several levels. There are other, more substantive issues, as well.

As many of the issues to be addressed call for responses by more than one agency, we suggest that after Kyoto, when we have a clearer idea of the negotiating landscape, an early *deputies committee* meeting be convened to create necessary structures and assign "lead" responsibilities and deadlines for specific tasks. We will be happy to assist in drafting an agenda for such a meeting.

FYI -- EB, EAP and SA have reviewed and commented on the "roadmap", as has Terry Kelly. We have not shown it to anyone outside the building at this point.

NOV 5 10:25

A Post-Kyoto Roadmap on Climate Change

Steps We Should Take Now With the World Community

- Exploit opportunities provided by APEC Ministerial and Summit and EU Summit (occurring in same timeframe as Kyoto meeting) to engage others in developing a post-Kyoto strategy. ?
- Reinforce US "pledge and review" proposal at APEC with emphasis on air quality.
 - Take advantage of Indonesian smog and El Nino generated weather problems to build support regionally for more monitoring and appropriate environmental regulation.
 - Set up an APEC working group to support environmental policy development.
- Review FY 99 resources/budget requests for:
 - UNFCCC (in IO&P budget request).
 - US AEP (AID's ASEAN Environmental Program).
 - AID bilateral climate action programs.
 - AID/DOE/EPA joint implementation activities.
 - IFI's financing/criteria for climate friendly projects.
 - GEF resource levels (and related US arrears issue.)

Steps We Should Take Now at Home

- Decide whether we can proceed with a domestic GHG emissions initiative should Kyoto outcome disappoint.
- Take stock of what US is doing in developing countries in response to climate change (e.g. efforts by US agencies or American industry to promote development and adoption of energy efficient/cleanest technologies, deregulation of energy prices, and to encourage acceptance of "no regrets" measures.)
- Establish a State/Treasury/Aid/DOC/DOE working group on developing country power projects. Assign as an early task preparation of a strategy for ensuring that energy-efficient and cleanest technologies are financed.

Working Group should also examine and promote options for securing active private sector involvement.

- Review OES and EB FY 99 budget requests (Can we sustain a post-Kyoto leadership role for State given the resources we have asked for?)
- Assign appropriate IWG with fleshing-out US domestic fiscal and other incentives to industry to encourage development and deployment of most efficient technologies.
- Explore how best to encourage government/private sector partnerships. (Is this a task for Wirth/Atwood Group?)

A Post-Kyoto Timetable

December 97 to January 98

- Press UNFCCC to develop a post-Kyoto work plan.
- Make State's *Climate Change Task Force* permanent. (Should there be a White House task force?)
- Create interagency teams within IWG on Climate Change to develop further policy on joint implementation, emissions trading, monitoring and verification and pricing & financing.
- Develop detailed IWG work plan.
- Create OES/EB core team to conduct post-Kyoto negotiations.
- Establish outreach team to develop public affairs strategy.
- Review staffing requirements in relevant OES, EB and IO offices and submit proposals to the Director General.

March 98 to December 99

- Undertake next round of climate change negotiations with close focus on developing country commitments.
- As negotiations proceed, develop and implement proposals/programs to support developing country actions to limit GHG emissions.

January to March 2002

- Submit Kyoto+ protocol (if any) for ratification.

In the Longer Term (assuming a successful outcome in Kyoto and follow-on negotiations.)

- Begin developing mechanisms and timetable for:
 - Crediting joint implementation projects.
 - Monitoring and verifying emissions trading under an agreed emissions permit program.
- Seek international agreement to begin regimes within Annex I in the 2005 - 2007 period. (If successful, we can develop market system for Annex I trading complemented by joint implementation in first budget period. By third budget period (o/a 2022 - 2030) we could fold joint implementation into global market-based trading regime.)

Some Other Factors to Consider.

- Will we be able to support government-to-government trading (especially with Russia) that would require federal appropriations?
- How can we develop incentives to spur private sector to participate at early stage?
- How can we promote complementarity without harmonization internationally?
- How do we promote development of new technologies that preserve domestic competitiveness?



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

THE PRESIDENT HAS SEEN
11-19-97

memos

November 14, 1997

'97 NOV 14 PM4:53

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS *JHG*
CC: ERSKINE BOWLES
SUBJECT: OSTP WEEKLY REPORT

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Gibbons
COS*

*Page 1 -
McGinty/Tarullo
Steen
Steinberg
Spiering*

NATIONAL CLIMATE CHANGE ASSESSMENT GETS UNDERWAY

OSTP and the U.S. Global Change Research Program co-sponsored a national forum with over 500 stakeholders on "The Consequences of Global Change for the Nation" this week (November 12-13) to initiate work on an assessment of the impacts of climate change (mandated by Congress in 1990). This assessment builds on the eight regional workshops we held at the Vice President's request. We plan 10 workshops in 1998 to bolster public understanding of climate change. Bruce Babbitt, Ernie Moniz, Katie McGinty, Rosina Bierbaum, and I keynoted sessions of the meeting, which was attended by scientists and policymakers from all over the country who will be contributors to the assessment.

HUD CLEARS A PATH ON CLIMATE CHANGE

On December 5th, Secretary Cuomo will host a meeting of industry leaders in the building sector to kick-off a new public private partnership - A Partnership for Advancing Technologies in Housing (PATH). The goal of PATH is to help move the housing industry into the 21st century so that our buildings are cheaper, safer, more efficient and more environmentally friendly. This is not simply a technology problem - though technology is important. It is also a political problem that needs a savvy leader (Cuomo) to work with the thousands of local jurisdictions that regulate the building industry. This effort, initiated by OSTP, will work to reduce the costs of housing while at the same time buildings houses that use less energy and produce less carbon related emissions, that reduce disaster losses and worker injuries, that reduces water use and increases the use of recycled materials.

*Can we have a big
overhaul in standards
for HUD financed housing
construction again?*

*Copied
McGinty
Spiering
Steinberg
Steen
Tarullo*

Memo

November 24, 1997

MEMORANDUM FOR Climate Change Oversight Group

From: Todd Stern

Subject: Negotiating Instructions

Per Friday's afternoon's meeting, the following memo lists areas of agreement, near-agreement, and issues to be resolved in the coming days. Please let me know if this accords with your notes. We should try to schedule a conference call sometime, either Tuesday or Wednesday, to address unresolved issues. It may also be necessary to meet on Monday, December 1, to address any outstanding issues before I depart for Kyoto on Tuesday.

We reached important agreements on Friday on setting priorities for how our negotiators would discuss targets and timetables, on allowing them some flexibility in pursuing a limited range of optical changes to our target and timetable, and in giving them bottom on some joint implementation and developing country issues. In each of these areas, further discussion and decisions are needed. We also must address several other critical issues.

Targets (in order of priority)

- First, ok to move on optical target by excluding sinks, provided (1) that private sector can still do sink projects, and (2) that we get solid numbers from State/EPA.
- [Second, undesirable to move from six-gas to three-gas basket, but still preferable to an actual move on target.]
- Third, move on target in second budget period provided movement would be small -- in 5% range. If movement needed in second budget period were larger -- e.g. 10% -- not clear yet whether this would be preferable to a very small move in first budget period. This decision needs to be made.
- Fourth, last resort is very small movement in first budget period, in 1-2% range. [Unresolved question is whether this would be preferable to a relatively large movement (in 10% range) in second period.]
- **NOTE: POTUS decision required before actual movement on target, either in first or second budget period.**

Differentiation

Move baseline year: We agreed that it was too late in the negotiations for the U.S. to take the lead on this. We could support this if another country did try to move it forward.

Japanese formula: State prefers this approach if we must take on differentiated targets, but no final decisions were made.

Pledge and negotiate: While not ruled out entirely, this was thought to be a poor option.

Joint Implementation

Limits: We agreed that we would not accept quantitative limits; we could accept some limiting language, but none that indicates a clear figure (e.g. “most” or “majority of reductions thru domestic measures” would not be acceptable.)

Two-step: Waiting until end of pilot phase is not an option.

Brazil hybrid: We should continue in bilateral efforts with Brazil. (The negotiator’s mandate has been to seek a hybrid that retains voluntary transactions, a bilateral trading capacity, and that does not contain a compensation fund for oil producers.)

Developing countries

Article 10: Agree that we won’t get much more than this, but can’t take any less.

Timing of ratification statement: Do not make public statement early, but indicate in bilateral meetings that our ability to submit for ratification will depend on meaningful developing country participation. Public statement will need to be made before leaving Kyoto if we get agreement. Statement should note that there are a number of steps that will need to be accomplished before the treaty is ready to be submitted to the Senate for ratification. There will need, for example, to be meaningful participation by developing countries. That has not happened yet, but the mechanisms for such participation are in the treaty and we will be working intensively during the coming months and years to ensure that such participation occurs.

National Security:

[**Narrow exemption:** We should seek “surge” provision, if possible. Should make sure our closest allies will support us. DOD should raise directly with their counterparts.]

Process Outcomes

Agreed that we need to scope possible process outcomes.

Issues not discussed:

Entry into force

Policies and measures

Banking and Borrowing

Compensation



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

THE PRESIDENT H

11-22-97

November 10, 1997

Beck to CIA

*Copied
VP
COS
McGinty*

MEMORANDUM FOR THE VICE PRESIDENT

FROM: KATHLEEN A. McGINTY

SUBJECT: LUNCH WITH THE PRESIDENT

*also copy
Spervling
Tarullo
Steinberg
Stern*

BACKGROUND

The role of developing countries continues to be the most difficult issue in the climate talks. At ministerial meetings in Tokyo this weekend, China and India failed even to attend. While progress was made on some fronts, there is little chance that developing countries will agree at Kyoto to negotiate emissions limits during the next several years. Prospects are better for a provision that would allow key developing countries to accept "growth targets" individually, in exchange for certain rights to participate in the global emissions trading regime.

Mexico can play an important role in efforts to engage developing countries on this issue. As an OECD member, it has a unique role, bridging the developed and developing worlds. It has previously endorsed joint implementation, in an exploratory fashion. Any willingness by Mexico to strengthen its participation under the climate treaty would help soften domestic political complaints concerning the treaty's competitiveness impacts.

The Zedillo state visit is an important opportunity to engage Mexico on climate change. Our goals are (1) to issue a joint statement indicating support both for joint implementation and for a process to discuss their participation more broadly, and (2) quietly to lay the groundwork for more significant steps by Mexico, if an agreement is reached in Kyoto.

On the first item -- a joint statement -- the Mexicans do not want to be seen as "following Argentina" (a reference to the agreement POTUS and Menem signed last month in Bariloche). Accordingly, we have proposed an element not present with Argentina: a bilateral process to discuss strengthening our two countries' participation under the treaty. (At this writing the joint statement has *not* been finalized.) On the second item -- laying groundwork for the future -- we should prepare for a serious effort to convince Mexico to accept "growth targets" next year, assuming agreement is reached in Kyoto. This could pay big dividends in helping to build a domestic political consensus on this issue.

TALKING POINTS

- The role of developing countries continues to be the most difficult issue in the climate talks. At ministerial meetings in Tokyo this weekend, China and India failed even to attend.
 - While progress was made on some fronts, there is little chance that developing countries will agree at Kyoto to negotiate emissions limits during the next several years.
 - Prospects are better for a provision that would allow key developing countries to accept "growth targets" individually, in exchange for certain rights to participate in the global emissions trading regime.
- The Zedillo state visit is an important opportunity to engage Mexico on climate change.
 - As an OECD member, Mexico has a unique role, bridging the developed and developing worlds.
 - It has previously endorsed joint implementation, in an exploratory fashion.
 - Any willingness by Mexico to strengthen its participation under the climate treaty would help soften domestic political complaints concerning the treaty's competitiveness impacts.
- Staffs are currently working on a joint statement. We understand the Mexicans do not want to be seen as "following Argentina" -- i.e., simply repeating what you agreed with Menem last month.
- Whatever can be agreed for public consumption, I think it's important to use this visit to lay the groundwork for strengthening Mexican participation under the climate treaty. We should urge them to support joint implementation for credit and to consider an individual "growth target" if agreement is reached in Kyoto.

DRAFT 11/20

November 20, 1997

MEMORANDUM FOR THE PRESIDENT

FROM:

SUBJECT: APEC/Climate Change

The Kyoto conference opens in 11 days. Significant differences remain between us and both the European Union and developing countries. The upcoming APEC meeting presents an important opportunity to move the ball forward on a few of very important fronts. Progress there will be essential if we are to get an acceptable deal. We recommend that climate change figure prominently in all your APEC meetings.

APEC countries include members of two groups critical to the climate negotiations: non-EU developed countries (which generally support targets in the range you proposed) and developing countries (which remain opposed to new commitments and resistant to joint implementation). This memo summarizes the state of play in the climate negotiations. It then recommends a strategy for APEC.

STATE OF PLAY

Of the many issues to be resolved at Kyoto, four are key for us: the target, emissions trading with industrialized countries, joint implementation with developing countries, and overall developing country commitments. On the target, there is a fair amount of support outside the EU (e.g., Canada, Japan, Russia) for a number in the range you announced; the EU has not yet moved off its 15% reduction, though it has made clear that the 15% is a negotiating position that they would be prepared, at the right time, to scale back somewhat. On emissions trading within the industrialized world, some differences remain, but the odds are good that we can get what we need. The most difficult issues -- and the ones which should figure most prominently at APEC -- are joint implementation and developing country commitments. Concrete progress on *both* of these fronts is essential for achieving an acceptable agreement.

JOINT IMPLEMENTATION

Background. This is perhaps the most vexing issue in the negotiations because, by rights, it should be seen as a win-win opportunity -- industrialized countries (or companies) can benefit from lower cost reductions while developing countries benefit from substantial flows of money and technology, producing a better environment. To date, however, developing countries have opposed JI for a variety of reasons -- concern that developed countries will grab the "low

hanging fruit", making reductions harder in the future when they may face binding limits; concern that JI will mean "tree parks" rather than real investment; concern that developed countries will control the credits from emission reductions; fear that JI will be a backdoor to binding commitments; belief that the U.S. shouldn't be allowed to buy its way out of its obligations abroad, without taking genuine steps at home to reduce emissions. The current Chairman's Text for Kyoto includes JI only among industrialized countries (or developing countries which voluntarily opt in for binding targets), and allows for possible consideration of whether to extend JI to developing countries at the completion of the pilot phase, in 2000. Our moderate business supporters like BP, American Electric Power, PacifiCorp and others see this text as wholly inadequate.

The challenge for us, against the odds, is to get JI, or some compromise mechanism akin to JI, supported at senior levels of key governments because there appears little likelihood of breaking through at the Environment Minister/negotiator level. Your interventions on this already with Chretien, Blair and Kohl have been helpful.

You should know, incidentally, that State is quietly exploring with Brazil the possibility of a hybrid mechanism that would retain the key features of JI, while incorporating acceptable features of Brazil's (otherwise unacceptable) proposal for a Clean Development Fund. The objective for us would be, in effect, to repackage JI in a way that might attract more developing country support. Brazil has expressed some interest in this idea, and State is pursuing it actively. *It is vital, however, that these conversations remain confidential. If the hybrid idea were seen as ours, it would not be helpful for us or the Brazilians.*

APEC Strategy. Our mission at APEC must be to sell the idea of a JI-type mechanism, especially to developing countries -- to explain that this is a true win-win opportunity for developing and developed countries alike, and to make clear that it is essential to us.

APEC offers a relatively rare opportunity: attention to these issues from developing world leaders and finance ministers. Few of these leaders or ministers have any idea that JI could mean significant new money and technology for their economies.

The leaders meeting, your breakfast with ASEAN leaders, your bilateral meeting with Soeharto and your pull-asides with Jiang Zemin are all important opportunities to raise this issue. You should make the case for joint implementation and emissions trading (protecting the environment while promoting development and technology transfer, etc.) and specifically urge the leaders to communicate with their representatives to the Kyoto conference. You should leave the door open to possible compromises on this issue by emphasizing not just the phrase "joint implementation" but the principles that underlie JI -- allowing industrialized countries or companies to do projects in developing countries and share the emissions credits derived from such projects.

DEVELOPING COUNTRY COMMITMENTS

Background. Developing countries continue to strongly resist making any commitment to enter into their own future negotiation on binding targets. There is a chance that developing countries may agree to: (1) an opt-in mechanism, under which they could sign up individually for binding targets in the years ahead; and (2) a "review of commitments" for the world as a whole in 1998 (which could lead to a negotiating mandate). More than this appears very unlikely. Even this is not certain. *You should know, however, that we have not publicly moved off our position that developing countries should commit now to complete a negotiation on their own binding commitments at some date certain. Even though we won't get this, you should not say anything at APEC that suggests an abandonment of that position since, as a tactical matter, we should allow our negotiators to get something at Kyoto in exchange for this concession. Thus, your APEC talking points stress the general need for developing countries to participate.*

Under an "opt-in" approach, developing countries who accept binding targets would become eligible to participate in the global emissions trading regime. We would work with key developing countries (such as China, Brazil, Mexico, Korea, Argentina) to engage them more deeply on this issue over the next few years. It is through such a mechanism that Argentina will be able to fulfill its pledge at Bariloche to take on binding targets.

Allowing individual developing countries to opt in serves several goals. First, this mechanism provides an incentive for developing countries to participate: the access to capital flows that could come with an emissions trading regime. Second, the mechanism allows a focus on those emitters who will make a difference to the global environment. (Emissions from the five largest developing country emitters significantly exceed those from the smallest 100.) Finally, the mechanism may be achievable at Kyoto. With work, we may be able to scale back opposition and, perhaps, convince several of the wealthier developing countries, such as Mexico, Korea or Singapore, to indicate a willingness to opt in in the years ahead.

At Kyoto, we must establish some mechanism for engaging developing countries in the years ahead. This is critical in addressing both the environmental imperative and domestic political constraints.

APEC Strategy. In general, your approach should be to acknowledge that the United States and other developed countries must lead, but note that the problem cannot be solved without the participation of key developing countries. You should say that this need not be -- and should not be -- an issue that constrains economic growth; it should be an opportunity to establish a clean and more efficient energy future. You should note that under the Climate Convention, we must establish mechanisms that allow those developing countries that wish to participate the opportunity and the incentive to do so.

Again, the leaders meeting, your breakfast with ASEAN leaders, your bilateral meeting with Soeharto and your pull-asides with Jiang Zemin are all important opportunities to raise this issue.

You should also stress the importance of this issue with both Hashimoto and Chretien. Hashimoto, who wants a deal at Kyoto, needs to understand that a mechanism for engaging developing countries is a bottom-line requirement for the United States.

BUILD COALITION OF DEVELOPED COUNTRIES ON TARGETS

None of the developed countries at APEC (Japan, Canada, Australia and New Zealand) supports the EU's steep reduction targets. Japan supports targets in the range of 0-5% below 1990 levels by 2010; Canada supports 1990 levels by 2010; Australia will likely soon announce a target that allows increases above 1990 levels; New Zealand has not announced a target. Building a coalition with these countries, and with other non-EU developed countries will be essential at Kyoto.

In Vancouver, you should stress with leaders from these countries the similarities in our positions. You should explain that significant reductions will be required in the United States to meet your proposed targets and emphasize that it would be extremely difficult for you to agree to deeper reductions in the first budget period. You should express interest in building coalitions at Kyoto.

Your bilateral meetings with Hashimoto and Chretien are the most important opportunities to address these issues. Points concerning the ambitious nature of the U.S. target should be made in the leaders meeting as well.



EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

THE PRESIDENT HAS SEEN
11-19-97

5

November 14, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS *JHG*
CC: ERSKINE BOWLES
SUBJECT: OSTP WEEKLY REPORT

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*Page 1 -
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OPTIONAL FORM 99 (7-90)

URGENT

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of pages - 8

To	GINNY CANTER	From	J. THESSIN
Dept./Agency	WH	Phone #	647-8460
Fax #	456-2146	Fax #	456-2146

5099-101 GENERAL SERVICES ADMINISTRATION

United States Department of State

Washington, D.C. 20520

MEMORANDUM

November 6, 1997

To: L - David R. Andrews

From: L - James H. Thessin *J.T.*

Subject: Financial Interest Waiver for Under Secretary for Global Affairs Timothy E. Wirth

ISSUE FOR DECISION

Whether to provide Under Secretary for Global Affairs Timothy E. Wirth with a ninety day waiver, related to his negotiation of post-government employment, under the ethics statute barring a governmental official from acting on matters in which he holds a financial interest.

ESSENTIAL FACTORS

The federal conflict of interest statute, 18 U.S.C. § 208, prohibits a government officer from participating personally and substantially in an official capacity in any "particular matter" which would have a direct and predictable effect on his/her financial interests. Among the financial interests imputed to the officer under this law are those of "any person or organization with whom [the officer] is negotiating or has any arrangement concerning prospective employment." Notwithstanding this prohibition, the officer may continue to participate in the particular matter if s/he fully discloses the financial interest and receives in advance a written determination that "the interest is not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from such officer or employee."

Under Secretary Wirth has received an unsolicited inquiry from Robert E. (Ted) Turner concerning possible post-government employment as President of a "UN Foundation" which Mr. Turner intends to establish. The Foundation, which would be endowed with a donation of approximately \$1 billion from Mr. Turner, would provide grants to the United Nations, most likely in the following areas: land mines, health, population control, women's issues, food and environment. For the purposes of the conflicts of interest provision of 18 U.S.C. § 208, we have proceeded on the assumption

that all of Mr. Turner's personal financial assets may be imputed to Under Secretary Wirth while he pursues employment negotiations with Mr. Turner.

Mr. Turner is the Vice Chairman and largest shareholder of Time Warner Inc. (Mr. Turner reportedly owns approximately 11% of Time Warner Inc.). Time Warner is the world's largest entertainment and information company. It owns, *inter alia*, Time Inc., which markets books, magazines, music and videos; Time Warner Entertainment, which conducts recording, movie, and TV production businesses and operates the Home Box Office, product licensing and theme park businesses. It also owns Turner Broadcasting System, Inc., the leading supplier of entertainment and news programming worldwide of which Mr. Turner is CEO. Most notably, Turner Broadcasting Systems includes the Cable News Network, Inc. (CNN, Headline News, CNN International and CNN Radio), CNN Business News and the Turner Network Television (TNT). Turner Broadcasting System also includes sports teams and movie production and distribution companies.

Under Secretary Wirth's responsibilities in the Department include oversight of the following bureaus: International Narcotics and Crime (INL), Population, Refugees, and Migration (PRM); Democracy, Human Rights, and Labor (DRL); and Oceans and International Environmental and Scientific Affairs (OES). Most notably, during the next month and a half, Under Secretary Wirth's principal responsibilities will be the negotiation of a global agreement on climate change. In all of these areas, the news media (including the large media network controlled by Mr. Turner) play an important role in informing the public on the activities of the State Department. Additionally, some of these new outlets, such as CNN, provide paid advertising opportunities for advocates on issues, such as climate change, in which the Under Secretary is involved.

Mr. Turner also has a point of view on some of the issues, such as population stabilization and climate change, for which Under Secretary Wirth has responsibilities. Because these views do not rise to the level of a financial interest, they do not given rise to any actual conflicts of interest. Some may fear, however, that Under Secretary Wirth will temper his official positions to conform to those of Mr. Turner. We are not persuaded. The positions Under Secretary Wirth espouses are based in almost every instance on broad intra- or inter-agency processes. The positions taken in the climate change negotiations in particular, a negotiation which will take up the bulk of the Under Secretary's time in the upcoming forty-five days, will build upon positions developed in a broad interagency process.

In general, we do not believe that the responsibilities of the Under Secretary for Global Affairs in the upcoming three months (including those related to media outreach) will have a direct and predictable effect on the value of Mr. Turner's financial interests in Time Warner, Inc. However, because of the central role played by the media in some of the Under Secretary's areas of responsibility (in particular in climate change), in order to avoid even the appearance of a conflict we recommend that you grant a waiver to Under Secretary Wirth. We base this recommendation on our belief that the likelihood that

Under Secretary Wirth would grant greater access to CNN news reporters than to other reporters in light of his post-government employment negotiations, for example, is negligible given Under Secretary Wirth's commitment not to do so and the fact that even granting such access would not have a direct and predictable effect on the value of Mr. Turner's stock holdings in CNN or Time Warner, Inc.

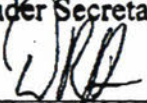
Based on the above information it appears that, although Under Secretary Wirth interacts officially with the news media including organizations owned and managed by Mr. Turner, the possible effects of such interaction on the value of Mr. Turner's financial assets are not so substantial as to be likely to affect the integrity of the service which the Government may expect from Under Secretary Wirth. Although there is a question as to whether Under Secretary Wirth's official actions could have an effect on the financial interests of Mr. Turner at all, we recommend that he be granted a ninety day waiver of the potential conflict to avoid even the appearance of impropriety.

By delegation of authority dated March 10, 1995, the Legal Adviser may authorize waivers pursuant to 18 U.S.C. §208(b) to Department of State employees not exceeding ninety days in duration. (Tab B).

RECOMMENDATION

That you sign the attached conflict of interest waiver valid for a period of ninety days for Under Secretary Wirth.

Approve _____



Disapprove _____

ATTACHMENTS

- A. 18 U.S.C. §208(b) Waiver for Under Secretary Wirth
- B. Delegation of Authority of March 10, 1995

MSWord: #43617v1 - 208(b) waiver for Under Secretary Wirth

Drafted: L/Ethics - SLevinson

Cleared: L - JHThessing

L/LM - SMathias

L/OES - SBiniarz

S - EShocas/WSherman

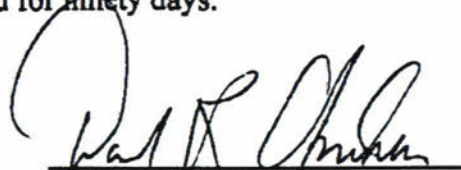
To: Under Secretary Wirth

18 U.S.C. § 208(b)(1) DETERMINATION

I have been advised of the various particular matters that the Under Secretary for Global Affairs may be asked to address, including in particular your responsibilities regarding climate change in the upcoming month and a half. In light of these matters, I have reviewed the information provided on the financial interests of Robert E. (Ted) Turner with whom you are negotiating for employment regarding a possible job prospect as President of a "UN Foundation" which Mr. Turner intends to establish and endow with personal funds.

In accordance with 18 U.S.C. §208(b)(1), I have determined that, with respect to the particular matters in which you would participate personally and substantially as Under Secretary for Global Affairs, the financial interests of Mr. Turner in these particular matters are not so substantial as to be deemed likely to affect the integrity of the services which the Government may expect from you in these matters.

This determination is valid for ninety days.


Legal Adviser

November 7, 1997

TAB B

DELEGATION OF AUTHORITY

By virtue of the authority vested in me by 18 U.S.C. §208 and by Delegation of Authority No. 175 of April 7, 1989, I hereby delegate to the Legal Adviser the authority to issue waivers pursuant to 18 U.S.C. §208(b) to Department of State employees, provided such waivers shall not exceed 90 days in duration.

This delegation is in addition to, and does not supercede, other delegations of authority to the Legal Adviser. Notwithstanding this delegation of authority, the Secretary of State and the Deputy Secretary of State may exercise any function delegated by this delegation.

March 10, 1995
date


Acting Secretary of State



**-EXECUTIVE OFFICE OF THE PRESIDENT-
COUNCIL ON ENVIRONMENTAL
QUALITY**

ROOM 360
OLD EXECUTIVE OFFICE BUILDING
WASHINGTON, D.C. 20502

PHONE: (202) 456-6224
FAX: (202) 456-2710

TO:

Jonathon 6-2215 (Fax)

FROM:

~~KATHLEEN MCGINTY~~

ROBERT. KAPLA

DATE:

NOV 25 1997

PAGES:

3

(INCLUDING COVER SHEET)

COMMENTS:

The document(s) accompanying this FAX transmission may contain information which is confidential and/or sensitive. The information is intended only for use by the individual or entity named on this transmission sheet. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution, or the taking of any action in reliance on the contents of this faxed information is strictly prohibited, and that the documents should be returned to this office immediately. In this regard, if you have received this FAX in error, please notify us by telephone immediately so that we can arrange for the return of the original document(s) to us.



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

November 4, 1997

MEMORANDUM FOR THE VICE PRESIDENT

FROM: KATHLEEN A. MCGINTY *ask for*

SUBJECT: LUNCH WITH THE PRESIDENT

Follow Up On President's Climate Change Announcement

I want to follow up on the President's interest in appointing an individual to energize our efforts to prompt more aggressive action on climate change. His initial interest focused on finding someone to champion federal energy efficiency efforts from the White House. In fact, we need someone to champion that and more. We should take advantage of the momentum from the President's climate change announcement by launching an aggressive effort to attract industry involvement and support for our broader plan, including the federal component. By involving industry leaders early, we can make sure the final policy design benefits from real world experience and help assure the broadest possible support in the legislative process.

The "champion" should be someone who has high credibility with industry, and who can inspire corporate leaders to engage in a positive way. Given the close linkage between climate change and energy use, it would be best if this individual had a strong understanding of energy policy, markets and technologies. This expertise will be especially beneficial in helping to focus our federal energy improvement efforts on:

- making regular contact with industry CEO's to secure their commitments to early action plans where appropriate credit is assured;
- overseeing the industry-by-industry consultations, in cooperation with the array of federal agencies with expertise;
- overseeing public involvement in policy development of tax cut and research, development and deployment initiatives; and
- championing a prompt start to improvements in federal energy efficiency.

Possible candidates to champion the effort include:

- **Norm Augustine**, former CEO, Lockheed Martin
- **Roger Sant**, Chairman, AES Corp & Chairman, World Wildlife Fund (and former Assistant Secretary of Energy for Conservation and Renewable Energy)
- **Mickey Kantor**, former Secretary of Commerce and former U.S. Trade Representative
- **Phil Sharp**, former Member of Congress and former Chair, House Energy and Power Subcommittee
- **Mike Sullivan**, former Governor of Wyoming and former Chair, Center for Clean Air Policy
- **Marc DiMichele**, former CEO, Arizona Public Service Company
- **Richard A. Clarke**, former CEO, Pacific Gas and Electric

One individual may not be enough. Given the need to demonstrate the federal leadership in technology deployment, it may be advisable to appoint a second individual to jump start this effort through a multi-agency initiative. We are developing a second list of names for this assignment, which we will provide in the near future.

Clearly, the most critical success factor in building a strong base with industry is the selection of a point person to champion this effort on behalf of the President. As things stand now, we need a strong clear signal from the President to move this piece of his agenda. Therefore, it is important that you raise this with the President tomorrow. You should urge that he call a meeting with Gene Sperling, Todd Stern and myself instructing us to make this happen.

You may also want to highlight for the President the encouraging signs from some in industry -- particularly the favorable letter the President received from Sunoco Chairman & CEO Bob Campbell (attached). Senator Robert Byrd (D-WV) made a strong statement as well (attached).

Memor C

THE WHITE HOUSE
WASHINGTON
October 27, 1997

TO: Gene Sperling
Katie McGinty
Stephanie Streett
Dan Tarullo
Jack Gibbons
Jim Steinberg

FROM: Phil Caplan

The attached is forwarded for your
information.

cc. Todd Stern

THE PRESIDENT HAS SEEN
10-27-97

THE WHITE HOUSE
WASHINGTON

October 27, 1997

MR. PRESIDENT:

We thought you would like to see the attached letter from Dr. John Holdren who, as you know, addressed the WH Conference on Climate Change last week and also chairs PCAST's Energy and R&D Panel.

Holdren makes a number of recommendations about the five-year climate change package and asks to brief you and the VP in person. The package is undergoing OMB/NEC/WH review

We have sent copies of his letter to the climate change team as well as to Stephanie for her consideration.

Phil Caplan

Phil

I need reply
on schedule here

Be

14-01 14 721 2288 NAS/NAE BECKMAN 001

PROGRAM IN SCIENCE, TECHNOLOGY, AND PUBLIC POLICY

John F. Kennedy School of Government
Harvard University
Cambridge, Massachusetts 02138

JOHN P. HOLDREN, Director

Teresa and John Heinz Professor of Environmental Policy

24 October 1997

President William Jefferson Clinton
The White House

VIA FAX

Dear President Clinton:

The climate policy position you announced on Wednesday represents a major step forward in dealing with this critical issue. I salute you and the Vice President for your courage and leadership in taking a bolder and more farsighted stance than many were urging upon you, and I thank you for the privilege I have had, as Chair of PCAST's Panel on Energy R&D for the Challenges of the 21st Century and as a participant in the July 24 and October 6 roundtables and many other discussions with members of your team, in making inputs into the deliberations that led to this result.

I write now not only to salute and thank you, however, but also to make a further input to the ongoing deliberations on the detailed content of parts of the position announced Wednesday — specifically, the \$5 billion / 5-year package combining energy R&D initiatives and tax incentives for implementation of energy options that would reduce carbon emissions. I take the liberty of addressing you about this now because I know there will be great pressure to define the details of that package quickly and because this matter relates so directly to the recommendations of the PCAST Panel I have been leading for you. I write here as an individual, but I believe the other twenty members of my Panel would support the argument I am going to make.

My argument has two parts. First, while energy R&D and incentives for implementation of improved technologies are both very important, it is particularly critical that the R&D should not be squeezed out or even significantly squeezed down by the incentives part of the budget for this combined package. Second, the cost-effectiveness of incentives varies enormously depending on how they are targeted and structured; to get the most "bang for the buck" from the limited funding that will be available for incentives (no matter how the \$5 billion is split) will require very careful attention to targeting the incentives on the biggest opportunities and structuring them appropriately.

The report of the PCAST Panel on Energy R&D, the 33-page Executive Summary of which you received on September 30, offers considerable analysis and advice on both points. The Panel's main report, which provides much more detail (it runs to some 200 pages), is in the process of review by the full PCAST and I hope will be delivered to you by late next week. I very much hope that it will be possible for me to meet with you and the Vice President soon to discuss these findings and their relation to the Administration's climate policy — both in terms of the R&D element and in terms of the incentives element. In the meantime, I'd like to offer a few further lines here on the first of these two points.

If it is assumed that the five years covered by the indicated \$5 billion package are 1999 to 2003, and if the baseline against which the increases are measured is the Administration's FY 1998 budget request, then the energy R&D initiatives recommended by the PCAST Panel entail expenditures amounting to \$3.7 billion as-spent dollars over the five-year period. (They ramp up from an increase of \$369 million above the FY 1998 request in FY 1999 to an increase of \$996 million over the FY 1998 request in FY 2003.) Of the proposed billion dollar increase in the FY 2003

President Clinton from John Holdren • 24 October 1997 • page 2

applied energy-technology R&D budget compared to the \$1.4 billion FY 1998 request in these categories, \$73 million would go to fission, \$87 million to fossil-fuel technologies, \$103 million to fusion, \$307 million to renewables, and \$426 million to end-use efficiency.

The Panel's proposal for increases in these amounts resulted from taking seriously your charge to make "recommendations...on how to ensure that the United States has a program that addresses its energy and environmental needs for the next century", taking into account the challenges, the opportunities, and the likely magnitude and distribution of future R&D efforts supported by the private sector. As you know, the Panel included representation from the fossil-fuel, nuclear, renewable, and energy-efficiency industries, from the academic community, and from public-interest organizations; and it included a number of individuals of great stature and experience in business and government who are *not* energy specialists or energy enthusiasts and would not be expected to endorse increases in government spending for these purposes without being convinced from scratch that such increases are fully justified. The Panel was fully attentive to the need for frugality with the public's money, and it invested great effort in developing a portfolio that spends neither more than is necessary nor less than is prudent. It recommended that some energy R&D programs in DOE's current portfolio be reduced or terminated, while recommending that others be augmented.

I believe that the recommendations of this Panel, which were unanimous, represent a degree of consensus about energy R&D needs that is remarkable in light of the diversity and stature of this group and in light of the contentiousness of this issue. It is clear to me that the "portfolio" approach taken in these recommendations, in which the package as a whole is crafted to address all of the major dimensions of the energy-related challenges our country faces, across a range of time frames, was crucial to obtaining this consensus and will need to be retained in the Administration's package of R&D initiatives if these are to command the wide support they will need from across the whole energy community. I frankly do not see a way to preserve the essential characteristics of this portfolio of initiatives with significantly less funding for it than the \$3.7 billion over five years that the Panel recommended, which is why I am so concerned about the split between R&D and tax incentives in a five-year package that contains only \$5 billion altogether.

* I also believe that it is especially important, both for the long-term success of your climate policy and for its shorter-term credibility, that the parts of it to be implemented *before* the emissions ceilings and permit-trading go into effect in 2008 should be as robust and concrete as it is possible to make them. It seems to me that an R&D initiative very much along the lines that your PCAST Panel has recommended offers very high leverage for the money in this connection. Such an R&D initiative can and should be augmented by suitably targeted and structured incentives, but it cannot be replaced by them.

Again, I hope to have an opportunity to discuss these matters further with you soon. Thank you in the meantime for your attention to this preview.

Sincerely,

John P. Holdren

cc: The Vice President
Gene Sperling
Katie McGinty
Todd Stern
Franklin Raines
John H. Gibbons

McGinty

Stern

Steinberg

Tanullo

Sperling

Memos

C

THE PRESIDENT HAS SEEN
11-19-97

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Department of Energy Outlook Sees Higher Carbon Emissions. U.S. carbon emissions for 2015 are projected to be 1.9 billion metric tons, 5 percent higher than projected last year, according to the just-released Department of Energy *Annual Energy Outlook 1998*. The higher forecast for carbon emissions results from increased energy consumption, which in turn results from higher projected economic growth and lower electricity prices. More than 50 percent of the rise in emissions stems from increased use of petroleum in the transportation sector, while about 33 percent is attributable to increased consumption of natural gas and coal. Projections for 2020 show carbon emissions increasing 45 percent from 1990 levels, with real average electricity prices dropping by 20 percent from current levels.

Study Finds Car Buyers Value Safety. One way to estimate the value consumers place on mandated safety features that raise the price of new cars is to look at what happens to the price of used cars following the introduction of such safety features. A clever recent study does this by comparing the effects of two kinds of mandated regulation, environmental and safety. The author theorized that new-car price increases associated with emissions control regulations would cause consumers to shift demand to cheaper vehicles and bid up the price of used cars. Safety regulations should cause this same kind of shift in demand toward used cars, but the magnitude of the shift would be smaller to the extent that consumers place a greater value on owning safer cars. Indeed if the value of increased safety is large enough, used-car prices could actually fall. The study finds the expected result for emissions control regulations—higher used-car prices. Safety regulations, by contrast, were associated with reductions in used-car prices. This suggests that although mandated safety features raised the cost of new cars, the resulting benefits to consumers were even greater than the additional costs.

Office-Rental Markets Continue to Rebound. The metropolitan office vacancy rate fell to 10.5 percent during the third quarter of 1997, continuing its decline from a peak of 19.3 percent in 1992, according to a private survey. New office construction, which had been on the order of 100 million square feet per year in the late 1980s before plummeting to under 4 million in 1993, picked up with over 8 million square feet of new office space constructed in the first half of 1997. The survey suggests that property values are up as well, continuing the trend seen in 1996-1997. Among the markets where office space is particularly scarce are San Jose (2 percent vacancy rate), San Francisco (5 percent), and Boston (also 5 percent). But some cities maintain high vacancy rates, including Hartford (17 percent), Westchester/Mid Hudson (also 17 percent), and Los Angeles (16 percent).

1997 NOV 14 09:18



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

November 14, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: KATHLEEN A. MCGINTY *for KAM*

CC: ERSKINE BOWLES

RE: CEQ WEEKLY REPORT

11-19-97

copied
McGinty
COS

Stern
Steinkamp
Torullo
Spierberg

More detailed issues information is included in the hot issues memorandum for your travels to California, Nevada and Missouri.

INTERNATIONAL LEADERSHIP

Climate change

Diplomatic activity leading up to Kyoto continued to intensify this week. At ministerial-level discussions among key countries in Tokyo, our negotiators felt progress was made on several topics, including joint implementation. This weekend our negotiators leave for Brazil, a key opponent of joint implementation, to explore opportunities for progress.

The role of developing countries continues to be the most difficult issue in the climate talks. (China and India did not attend the Tokyo session.) There is little chance that developing countries will agree at Kyoto to negotiate emissions limits during the next several years. Prospects are better for a provision that would allow key developing countries to accept "growth targets" individually, in exchange for certain rights to participate in the global emissions trading regime. Your discussions with President Zedillo were important in laying the groundwork for progress with developing countries at Kyoto. APEC will provide another important opportunity for you to engage with key leaders on these issues.

On Wednesday, I spoke to the National Conference on Climate Change Impacts sponsored by OSYP. Over 500 scientists and researchers attended the conference. Also, I will address the President's Council on Sustainable Development on climate change in Atlanta next week.

The Department of Energy issued a study this week stating that strong economic growth and an anticipated drop in coal and electricity prices are expected to boost U.S. carbon-dioxide emissions more than previously expected. In addition, the study predicts that more competition among electric utilities will cause rates to fall by 20% by 2020 and that increasing productivity from coal mines will reduce the price of coal by almost one-third by 2020.

*Un this don't have
through to...
plan*

NOAA scientists this week released data on the Arctic climate indicating that natural changes and man-made greenhouse gases are causing global warming. Researchers found evidence of an overall 3 degree warming that began in the 1840s and continued into the middle of this century. In the 1960s temperatures dropped slightly, a phenomenon they attributed to tiny particles of soot and dust in the atmosphere from industrial pollution. The study provides the strongest evidence yet that human activities are contributing to global warming.

OTHER

Speech by the Ecumenical Patriarch

Last Saturday, His All Holiness Bartholomew I, the Orthodox Christian leader, declared that: "to commit a crime against the natural world is a sin." Bartholomew took note of the growing public debate over climate change, and urged that an agreement be concluded in Kyoto to reduce greenhouse gas emissions.

Bartholomew's declaration was viewed as a significant development in the awakening of organized religion to environmental protection. Bartholomew said many are arguing that someone else should address the problem, or that they should not have to take action unless everyone else does. He concluded, "this self-centered behavior is a symptom of our alienation from one another and from the context of our common existence."

Memo

**Opposition to Actions to Protect the Environment:
Wrong Then, Wrong Now**

Industry Coalitions -- Wrong Then, Wrong Now:

William D. Fay, administrator of the Clean Air Working Group, an industry coalition whose members include USX Corp., LTV Steel Corp. and the Aluminum Association, "predicts a loss of 600,000 jobs nationwide, primarily in the high-sulfur coal industry;... price increases of 10 cents to 15 cents per gallon for reformulated gasoline in the nine cities in which it is required; and an additional \$500 per new car, in addition to many other costs." [The Oil Daily, 11/16/90]

Fay also said, "The new Clean Air Act will dramatically change our lifestyle and the way most companies do business. Fully implemented, the act will add \$51 billion each year to the \$32 billion Americans already spend for cleaner air." [The Oil Daily, 11/16/90]

The Clean Air Working Group also said of the Clean Air Act, "Consumer costs for goods and services will rise, jobs will be lost and many more will be less seriously affected, and the nation's competitiveness will be eroded." [The Oil Daily, 5/28/90]

"The Clean Air Working Group (CAWG), industry's 2,000-member lobbying coalition, pegs the added yearly price tag [of the Clean Air Act of 1990] at more than \$50 billion." [1990 Penton/IPC, Industry Week, 11/19/90]

National Association of Manufacturers -- Wrong Then, Wrong Now:

The National Association of Manufacturers claims that the Clean Air will put 'millions of jobs at risk. Richard Siebert, NAM's vice-president, said "This bill will put millions of American workers at risk, put thousands of small companies out of business, further weaken our economy and limit our capacity to become energy independent." [Chemical Marketing Reporter, 8/20/90]

"Richard Siebert, National Association of Manufacturer's vice president of resources and environment, says American consumers and businesses will face sharply higher prices if the current proposals become law. Mr. Siebert says that Americans can also expect higher gasoline costs due to the reformulated gas mandates in the bill. Reformulated gas must be sold in the smoggiest cities by 1994. 'This gas is more expensive. Government and industry price estimates range between 10 cents to 25 cents per gallon higher for reformulated gas. New emission standards will also add \$600 to the base price of a new car,' says Mr. Siebert. [Chemical Marketing Reporter, 8/20/90]

The American Petroleum Institute -- Wrong Then, Wrong Now:

Inflating the cost of gas from environmental regulation.... The Clean Air act pushed for reformulated gas to cut down on harmful auto emissions. This is what the American Petroleum Institute and Mobil said it would do to gas prices: "American Petroleum Institute president Charles DiBona said the cleaner fuel would likely add about 5 cents to the price of gallon of gasoline at the pump while Mobil's Murray said the added cost would probably be closer to the 15 cents a gallon." [1991 Reuters, 11/18/91]

Business Round Table, Wrong Then, Wrong Now:

Claims the Clean Air Act will 'Shut Down' Industries... At a Business Round Table press conference on the Clean Air Act, Philip X. Masciantonia, a spokesman for USX Corp., warned, "Such a law could have serious side effects, namely, reduced industrial production, job losses, employment dislocations and possibly even 'shutdowns' of industries." [State News Service, 8/20/90]

Claims of harm to particular industries:

"The electric-utility industry, for example, maintains that the acid-rain provisions [of the Clean Air Act of 1990] alone will cost it as much as \$7 billion a year." [1990 Penton/IPC, Industry Week, 11/19/90]

Industry groups say Clean Air Act will kill industries. "Implementation of the Clean Air Act regulations will force smaller size refineries, which produce 50,000 barrels of crude oil or less a day, to sell their facilities or consolidate, a number of analysts said.... 'This legislation is going to squeeze [small refineries] out of business,'" said Debra Coy, analyst at County NatWest Washington Analysis Group. [Portfolio Letter, 11/18/91]

Memo 5

To: Todd Stern
Fax #: 456 2215
Re: developing country commitments and climate change
Date: November 17, 1997
Pages: 5, including this cover sheet.

'97 NOV 17 PM 2:55

FACSIMILE

There has been a great deal of interagency work coordinated by State, AID and Commerce on both 1) specific proposals that can be presented to the Chinese for action on their part at Kyoto on developing country commitments, and 2) developing a framework for Kyoto and post-Kyoto developing country commitments. The first paper attached is being used by Jack Gibbons on his current trip; the second is a more notional paper now being fleshed out and in discussion about using the idea of 'growth baselines' (essentially allowing continued emissions growth by developing countries, but at a lower rate than business as usual) as a framework for developing country commitments.

I want to make certain that you are aware of this. Please call me if you would like to discuss.
Thank you.

From the desk of...

Jeffrey A. Hunker
Deputy Assistant to the Secretary
U.S. Department of Commerce
14th Street and Constitution Avenue NW
Washington, DC 20230

202 482 6055
Fax: 202 482 4636

November 14, 1997

Subject: China Proposal

Introduction: Meaningful participation by major developing countries to reduce greenhouse gas (GHG) emissions is key to the success of any climate change agenda, as well as to bolstering other US national interests such as export promotion. Participation by China would be particularly noteworthy, given China's importance in the "G-77 and China" block of developing nations, the rapid expansion of its energy sector (and consequent increase in GHG emissions) and the expanding US-China trade deficit.

Two factors shape the opportunity before us. First, major developing countries have rapidly growing energy infrastructures. Led by these countries, by 2002 the developing world will consume more than half of the total world energy production. Second, private investment to these countries was and continues to rapidly expand, outstripping official development assistance and IFI lending. Thus, influencing private investment -- particularly to the energy sectors -- is central to any environmental and economic agendas of the US. The challenge for the US is to encourage continued rapid economic growth in these countries in a less carbon intensive manner.

In the context of the climate change negotiations, any bilateral initiative should meet the following two objectives:

- *Progress:* It should represent real progress in the worldwide reduction of greenhouse gas emissions from business as usual, while being sufficiently flexible to allow for future changes in circumstances.
- *Domestic Concerns:* It should either meet or substantially contribute to bringing developing countries on board and towards meeting the commitments made by the President for meaningful participation by major developing countries, and also to the Byrd-Hagel Resolution.

Background: China has one of the least efficient and GHG emissions prone energy sectors in the world, emitting ten times the amount of carbon per unit of GDP as France and more than five times that of the U.S.. China's current five year plan includes a goal of improving overall energy efficiency (as measured by energy requirements per unit of GDP) by five percent annually. While achieving this goal will reduce greenhouse gas emissions below what they would have been without efficiency goals, these efforts alone may fall far short of what China could achieve under a "no regrets" approach, i.e. one that would achieve greater GHG reductions without jeopardizing their economic growth aspirations.

Purpose: As an important member of the "G-77 and China", China has the potential to influence other developing nations to make commitments recognizing that GHG emissions must be curbed, and that all countries must do their part. This proposal asks the Chinese to make a commitment, and assume this leadership role. It also serves as a framework for agreements with other developing countries.

What we want the Chinese to do:

- * Preferred: China should make a unilateral statement at Kyoto accepting, in principle, a growth baseline, and expressing a willingness to work towards eventual inclusion as an Article 10 nation. This should include a statement before or at Kyoto that they support JI, or some variant of JI.
- * Less Desired: Announce the GHG projections and analysis of activities to reduce emissions that they have completed as part of their Climate Change Plan, and commit to playing a role in some legal framework commensurate with their GHG emissions contribution.

Why the Chinese should do it:

- * This addresses multiple domestic problems recognized by the Chinese: Potential impacts of climate change, the need to increase energy efficiency, and the need for increased access to U.S. technology.
- * As the world's second largest emitter, largest developing nation, and a world power, China must recognize its responsibility to do this.
- * China would gain access to substantial capital inflows from emissions trading should they become an Article 10 nation.
- * Should China proceed to develop a framework for membership in Article 10, the U.S. would cooperate, as appropriate, in developing growth baselines and approaches to meeting or exceeding these baselines.
- * This demonstrates Chinese leadership in the "G-77 and China" and furthers efforts to achieve a close working relation with the U.S..

Issues Affecting the Proposal:

- * Care should be exercised to ensure that the Chinese understand that this implies neither a change in our formal negotiating position for Kyoto, nor a willingness on the part of the U.S. to relieve China of the responsibility for adopting targets and timetables in the future.
- * Legislation and political sensitivities in Congress denies the USG the ability to offer any financial quid pro quo such as U.S. support for energy project loans from MDBs.
- * As background, the Japanese MITI ministry has expressed interest in establishing technical assistance programs for developing countries. There may be an opportunity for US-Japanese cooperation on this.
- * This has the potential to be viewed as US acceptance of Policies and Measures, which we do not and have rejected throughout the negotiations.
- * While not satisfying Byrd-Hagel, this moves developing countries in the right direction.
- * China may be reluctant to do this for political, economic and analytic reasons.

Towards a Kyoto Mandate: Growth Baselines & Technology Cooperation

A critical outcome for Kyoto will be movement towards developing country commitments. Given the current position of G-77 delegations on the question of additional commitments, an evolutionary approach -- and one which accommodates developing country economic growth -- will be necessary. The foundation for participation of developing countries must be laid in Kyoto and might include the following elements:

1. Build consensus on "growth baselines"¹ as the preferred approach to commitments. This would allow developing country emissions to rise above current levels but would be capped below "business as usual" (as opposed to industrialized countries which would be capped at or below 1990 levels). It is estimated that developing countries could reduce emissions in the short term (2010) by 5-15% through "no regrets" measures, and by up to 40% in the longer term (2030). This approach acknowledges the need/right of developing countries to expand energy use for economic development, while seeking to reduce the carbon intensity of that growth. Growth baselines could be measured by reference to carbon-intensity (tons of carbon per unit of GDP) or an aggregate emissions budget. An important attribute of this approach is that it would allow developing country participation in an emissions trading regime, which could generate significant revenues.
2. Establish a cooperative program with key developing countries (China, India, Indonesia, Brazil and Mexico) to identify approaches to growth baseline targets. This would require identifying: 1) "business as usual" emissions growth trends; and 2) less carbon-intensive options for meeting the same energy demand (e.g. increased boiler efficiency, demand side manage, introduction of natural gas, etc). The intent would be to identify a "no regrets" baseline as the growth target.² This growth target would impose no economic cost to the developing country (arguably it would yield real benefits) and would reduce the rate of growth in GHG by a significant percentage. The analysis performed in assessing a "no regrets" target versus "business as usual" would constitute a framework for action by the private sector and bilateral and multilateral aid. In essence, this effort would identify the most tractable actions which could be taken in the short-medium term to reduce the rate of growth in GHG emissions through market mechanisms.
3. Acknowledge a stepped-up efforts by donor nations to Article 4.5 technology cooperation commitments to assist developing countries meet the "no regrets"

¹ This concept is outlined in "Growth Baselines: Reducing Emissions and Increasing Investment in Developing Countries", Center for Clean Air Policy, October, 1997.

² See the attached USAID document, "Moving Markets: A Framework for Action in Five Countries", outlining GHG growth trends and mitigation options in China, India, Indonesia, Brazil and Mexico.

emissions target. The GCC "Technology Cooperation Agreement" pilot program could be used as an organizing mechanism to channel public and private resources to meet the growth baseline target.³ The commitment of donors and private sector in meeting the environmentally and economically-beneficial "growth baseline" should spur developing countries to take on conditional commitments under this proposed approach.

4. Build support of key developing country governments, business and NGOs for the broad approach outlined above.
5. Coordinate with other bilateral and multilateral donors and the private sector in shaping the pilot Technology Cooperation Agreements and in their implementation. This process will begin with a workshop at the National Renewable Energy Laboratory on November 18-20.
6. Create a working group with the mandate to elaborate this approach to evolutionary commitments.

³ See the attached description of the pilot GCC "Technology Cooperation Agreement" program.

Memor

THE PRESIDENT HAS SEEN
11-19-97

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Department of Energy Outlook Sees Higher Carbon Emissions. U.S. carbon emissions for 2015 are projected to be 1.9 billion metric tons, 5 percent higher than projected last year, according to the just-released Department of Energy *Annual Energy Outlook 1998*. The higher forecast for carbon emissions results from increased energy consumption, which in turn results from higher projected economic growth and lower electricity prices. More than 50 percent of the rise in emissions stems from increased use of petroleum in the transportation sector, while about 33 percent is attributable to increased consumption of natural gas and coal. Projections for 2020 show carbon emissions increasing 45 percent from 1990 levels, with real average electricity prices dropping by 20 percent from current levels.

Study Finds Car Buyers Value Safety. One way to estimate the value consumers place on mandated safety features that raise the price of new cars is to look at what happens to the price of used cars following the introduction of such safety features. A clever recent study does this by comparing the effects of two kinds of mandated regulation, environmental and safety. The author theorized that new-car price increases associated with emissions control regulations would cause consumers to shift demand to cheaper vehicles and bid up the price of used cars. Safety regulations should cause this same kind of shift in demand toward used cars, but the magnitude of the shift would be smaller to the extent that consumers place a greater value on owning safer cars. Indeed if the value of increased safety is large enough, used-car prices could actually fall. The study finds the expected result for emissions control regulations—higher used-car prices. Safety regulations, by contrast, were associated with reductions in used-car prices. This suggests that although mandated safety features raised the cost of new cars, the resulting benefits to consumers were even greater than the additional costs.

Office-Rental Markets Continue to Rebound. The metropolitan office vacancy rate fell to 10.5 percent during the third quarter of 1997, continuing its decline from a peak of 19.3 percent in 1992, according to a private survey. New office construction, which had been on the order of 100 million square feet per year in the late 1980s before plummeting to under 4 million in 1993, picked up with over 8 million square feet of new office space constructed in the first half of 1997. The survey suggests that property values are up as well, continuing the trend seen in 1996-1997. Among the markets where office space is particularly scarce are San Jose (2 percent vacancy rate), San Francisco (5 percent), and Boston (also 5 percent). But some cities maintain high vacancy rates, including Hartford (17 percent), Westchester/Mid Hudson (also 17 percent), and Los Angeles (16 percent).

Jones A
Memos

MEMORANDUM

To: Katie McGinty
From: Fred Krupp
Date: Nov. 14, 1997
Re: COP-3: Calls

As discussed, attached is a list of calls that the President and the Vice-President may wish to make in the next two weeks. I believe that these calls will be most effective if made in the context of a larger strategy that is geared first toward obtaining agreement on key issues that currently divide industrialized countries, and once the differences among Annex I nations have been resolved, then, second, toward bridging the even larger differences between the industrialized and developing world. Accordingly, also attached please find a detailed strategy memo which provides context for these calls and identifies specific opportunities to bring them forward. Please do not hesitate to call me if you have any questions.

Calls to:

Bolivia
Brazil
Canada
China
Chile
Costa Rica
Germany
Indonesia
Japan
Malaysia
Mexico
Netherlands
Philippines
Russia
Thailand
Venezuela

Country	Person to be Called	Message
Bolivia		• (to be added: emphasizing JI, natural forests)
Brazil	President Cardoso	• Brazilian Climate Treaty proposal that would require industrialized nations that break their budgets to procure offsetting reductions elsewhere is an important one. • US would like to work with Brazil on this proposal; proposal shows Brazil's leadership in Latin America and globally. • US is concerned, however, that if Brazil proposal is limited to procurement of reductions through a centralized carbon bank, institutional intermediary could increase transactions costs and therefore discourage investment. US respectfully urges Brazil to consider implementation of its proposal through bilateral governmental agreements opening domestic markets to emissions reduction investment opportunities, with appropriate sharing of credits. • US is also concerned that limiting offset opportunities to 'anthropogenic' sinks will be interpreted to mean only new-growth forests. US needs opportunity to include US domestic old-growth forests, which sequester carbon and protect biodiversity. US seeks Brazil's flexibility on interpretation of 'anthropogenic' w/r to sinks.
Canada	Prime Minister Chretien	• APEC Vancouver Leaders Mtg offers impt opportunity for Canada to broker consensus among key Annex I economies (Canada, US, Japan, NZ) and with other key economies (Indonesia, Malaysia, Thailand, Philippines, Korea, Chile, Mexico, Philippines, Singapore...). • Early reduction crediting offers basis for building APEC consensus. • Trade in envtl goods & svcs, already part of several APEC economies' offers (Canada, US), would be advanced by an agreement to open trade in investments in early GHG reduction opportunities. • Canada as host of Vancouver would show intl leadership by brokering APEC consensus on early reductions

Country	Person to be Called	Message
Chile		• (see Mexico, Costa Rica)
China	Ziang Xeming	• US appreciates that global warming at this time may not rank high on China's list of priorities. • US understands China does want to encourage much inward investment. • US understands China undertaking vast modernization of many sectors, e.g., steel production. • US emphasizes importance, in this context, of early reductions of greenhouse gases, as such crediting can provide powerful incentive for investment in, for example, technologies that improve efficiency of steel production, reduce sulfur pollution from steel production, and reduce greenhouse gas emissions.
Costa Rica	President Figueres	• US appreciates CR leadership on climate change issue and sustainable development issues generally and on joint implementation in particular. • US continues to regard joint implementation as essential element of a Kyoto agreement. • US has considered in some detail the Brazilian proposal and finds interesting the concept that industrialized countries that break their budgets should be required to procure offsetting reductions elsewhere, including in developing nations, either through a centralized carbon bank, or directly through bilateral agreements and bilateral investments. • At the same time, US is aware of President Figueres' interest in a Sustainable Development Agreement for the Americas. • US considers that there may be useful synergy between the JI concept, whether approached directly or through the mechanism of the Brazil proposal, and the idea of a Sustainable Development Agreement: an agreement to open markets in sustainable, greenhouse gas reducing investments could be an important step forward. • Such an agreement could potentially be submitted for ratification together with a Kyoto Protocol.

Country	Person to be Called	Message
Germany	Chancellor Kohl	• US appreciates German leadership on climate change issue. German burdensharing target within EU demonstrates seriousness w/wh Germany treats this issue. • US also appreciates German interest in flexibility elements of US proposal, since those elements have potential to reduce costs significantly for all countries. • US is in process of finalizing its proposals on early reduction crediting. Early reduction crediting can effectively reduce emissions below legally binding budget level since domestic early reduction credits will have to be deducted from the national budget prior to the budget period. • US is willing to come forward with detail on early reduction crediting that can enable US to reduce emissions below 1990 levels for first budget, provided EU is willing to accept emissions trading, joint implementation, all gases coverage, and sink crediting initially on a project-by-project basis. • US emphasizes importance of obtaining agreement among Annex I nations in order to provide a basis for further agreement with developing world, since absence of developing world participation will mean no effective curb on climate change.
Indonesia		(to be added - emphasizing JI)
Japan	Prime Minister Hashimoto MITI Minister Shunpei Tsukahara (?)	• US appreciates Japan leadership in hosting Kyoto COP-3 and in hosting Tokyo informals. • Tokyo meeting was important step forward in deepening understanding among Annex I of how offers on table now would work. • US regards upcoming APEC Leaders meeting as important opportunity to bring some useful consensus forward. • US appreciates Japan interest in flexibility instruments of emissions trading and joint implementation. US recognizes JI especially important for Japan w/r/to China. • APEC meeting offers important opportunity for consensus on issue of crediting for early reductions. Intl agreement on early reduction credit for projects between Annex I nations, and between Annex I and non-Annex I nations, offers important investment/market opening opportunities, and could provide basis for agreement at Kyoto COP-3. • US hopes Japan will work w/ Canada as host to explore possibility for consensus at APEC.
Malaysia		(to be added - emphasizing JI)

Country	Person to be Called	Message
Mexico	President Zedillo	• US appreciates Mexican leadership on many environmental issues, including, most recently, the tuna-dolphin issue. • US thanks Mexico for its increasing interest in climate change issue. • US recognizes unique position of Mexico for upcoming Kyoto conference. • Mexico has unique opportunity to exert leadership in Latin America by seeking agreement among Latin nations on joint implementation, and/or the portion of the Brazilian proposal which proposes that industrialized nations that break their budgets must procure offsets in other nations, including developing nations. • Mexico could convene meeting/discussion of Latin American leaders on opening markets to sustainable development/emissions reduction investment opportunities. • Such discussions could build toward a hemispheric agreement on such investment; any developing country wishing to provide such reductions could join a special, separate Annex to the Kyoto Protocol or a Kyoto Side Agreement
Netherlands	Prime Minister Kok	• US appreciates Dutch leadership on climate change issue especially as President of the EU. • US also appreciates Dutch interest in flexibility elements of US proposal, since those elements have potential to reduce costs significantly for all countries. • US is in process of finalizing its proposals on early reduction crediting. Early reduction crediting can effectively reduce emissions of the six gases as a basket below legally binding budget level since domestic early reduction credits will have to be deducted from the national budget prior to the budget period. • US is willing to come forward with detail on early reduction crediting that can enable US to reduce emissions below 1990 levels for first budget, provided EU is willing to accept emissions trading, joint implementation, all gases coverage, and sink crediting initially on a project-by-project basis. • US emphasizes importance of obtaining agreement among Annex I nations in order to provide a basis for further agreement with developing world, since absence of developing world participation will mean no effective curb on climate change.

Country	Person to be Called	Message
Philippines		• (to be added - emphasizing JI, APEC)
Russia	Deputy Prime Minister Chernomyrdin	• US appreciates importance to Russia of obtaining foreign investment to revitalize infrastructure. • US shares with Russia interest in developing sustainable and sensible approach to early reduction crediting that would afford Russia opportunity to encourage new investment while providing assurance that investments in emissions reductions yield actual reductions. • US hopes Russia would agree to crediting early reductions on a project basis; allowing forward sales of budget tons; and disallowing sales of difference between pre-budget actuals and 1990 levels.
Thailand	New Prime Minister (?)	(to be added: emphasizing JI, APEC)

Country	Person to be Called	Message
United Kingdom	Prime Minister Tony Blair; Deputy P. M. John Prescott; Minister for Trade and Competitiveness in Europe Sir David Simon** (former managing director of British Petroleum)	• US appreciates UK leadership on climate change issue. UK burdensharing target within EU demonstrates seriousness w/wh UK treats this issue. UK role especially important as it moves to Presidency of EU. • US also appreciates UK interest in flexibility elements of US proposal, since those elements have potential to reduce costs significantly for all countries. UK has best appreciation of the importance of these flexibility elements. • [[**FOR SIR DAVID ONLY: Partnership between US environmental group and British Petroleum in which BP gains experience with the flexibility tools of emissions trading and JI provides useful example of how this shared understanding extends to non-governmental sector as well.]] • US is in process of finalizing its proposals on early reduction crediting. Early reduction crediting can effectively reduce emissions below legally binding budget level since domestic early reduction credits will have to be deducted from the national budget prior to the budget period. • US is willing to come forward with detail on early reduction crediting that can enable US to reduce emissions below 1990 levels for first budget, provided EU is willing to accept emissions trading, joint implementation, all gases coverage, and sink crediting initially on a project-by-project basis. • Key component will be agreement between EU and US re early reduction crediting w/r to Russia and other EITs. US hopes UK would agree to crediting early reductions on a project basis; allowing forward sales of budget tons; and disallowing sales of difference between pre-budget actuals and 1990 levels • US emphasizes importance of obtaining agreement among Annex I nations in order to provide a basis for further agreement with developing world, since absence of developing world participation will mean no effective curb on climate change.
Venezuela	President	• US recognizes Venezuela in transition, partly because over time, it will need to undergo transition to a less fossil-fuel-export-dependent economy. • US open to discussing w/ Venezuela its interest in using domestic carbon emissions reduction opportunities as a path to making that transition.

MEMORANDUM

To: Katie McGinty
From: Fred Krupp
Date: Nov. 14, 1997
Re: COP-3: Strategy for Success

As COP-3 approaches, the contours of an agreement among the Annex I nations on timing and levels for legally binding greenhouse gas emissions reductions become clearer. Reaching such agreement is critical if industrialized nations are to negotiate as a bloc with developing nations on the terms of the commitments they will need to make if atmospheric concentrations of greenhouse gases are to be stabilized at levels that will prevent dangerous climate change. As we have discussed, mechanisms that operate effectively as joint implementation, and therefore build a bridge between industrialized and developing country commitments, will be essential if North and South are to reach agreement on a durable structure for emissions reductions. One option the memo recommends is to transmute the Brazilian proposal for an international cost cap (with all of the downsides of the domestic cost-cap, and more) into a policy tool that provides accountability and invites direct developing country participation in performance-based GHG reductions.

To that end, this memo outlines a multi-pronged strategy to galvanize support for developing country participation in project-based activities, and to build support ultimately for further commitments by developing countries. As part of this strategy, the memo elaborates the term, "meaningful commitments by key developing countries" that was used in the President's speech on Oct. 22. **Essential to the success of the strategy is a decision by the President and the Vice-President to engage personally and directly in the run-up to COP-3 taking the approach outlined below.**

We believe that first and foremost the President and the Vice-President can be extremely effective in personally calling counterparts in industrialized and developing nations whose role in reaching consensus will be critical. Specifically, EDF's experience at recent inter-governmental meetings suggests that the UK, Germany, The Netherlands, Canada, Japan, Russia, Mexico, Costa Rica, Venezuela, Brazil, Indonesia, Malaysia, Thailand, and China are key.

At the same time, this personal diplomacy needs to be carefully nuanced, and brought forward as a key element of a larger strategy. The larger strategy, we think, can be most effective if it focuses on the opportunities for early reduction crediting that have begun to attract the interest of nations around the world. This theme of early reduction crediting provides the common thread that weaves together the following principal mechanisms for deploying the strategy:

- *A speech by the Vice-President prior to the APEC Leaders Meeting in Vancouver Nov. 22-24.* The speech would provide a detailed policy framework for climate change discussions at Vancouver and would further "bound" the parameters of what the White House would consider a successful outcome from Kyoto. It would provide a framework for the Canadian hosts of the APEC forum to advance climate change issues at Vancouver. It would provide a context for discussion with Russia and the EU on the importance of early reduction crediting as a way to bridge Annex I differences. And it might provide an opportunity to strengthen the US negotiating hand by putting forward contingent commitments by US industries to early reductions (if any such commitments have been obtained by that time).

- *An effort at the APEC meeting to build consensus around the importance of project-based international activities.* The effort would be led by the Host country, Canada; would engage Malaysia, Thailand and Indonesia, and subsequently China, on an approach to early reduction transactions. The effort could be structured around existing priority APEC discussions on trade in environmental technology (see below).
- A parallel overture to Mr. Chernomyrdin on an approach to early reduction crediting that provides both incentives for investments in Russian economic development/restructuring and credible accounting for emissions transactions; and a call to leadership in Japan (probably MITI) to agree this joint approach to the early crediting issue.
- A parallel overture to key EU nations interested in the flexibility instruments that the United States has put forward. The overture, through telephone calls and possible meetings on the margins of other forums, would underscore the mutual environmental and economic importance of agreeing on a structure for early reductions. This structure, as outlined in the Vice-President's proposed speech, would afford the Vice-President the opportunity to point out to EU nations that the early reduction crediting program (1) can provide a feasible path for the United States to reduce emissions of the basket of six greenhouse gases below 1990 levels in the 2008-2012 budget period; and (2) can enable the United States and Europe to agree on an environmentally credible approach to the accounting for transactions with economies in transition - a high priority for both the United States and the EU.
- A separate but parallel effort to build consensus around these same ideas in Latin America. The Latin American effort would be *led by Mexico*, possibly in cooperation with Costa Rica and Brazil. *The springboard for the Latin American effort could be a discussion between the Vice-President and President Zedillo.*
- A parallel effort to ensure that the World Bank's Carbon Offsets Fund will be structured to create demonstrable, quantified and surplus GHG reductions and will be available to developing countries, rather than limited to economies in transition.

Strategy Detail

1. Vice-President's Speech

The Vice-President's speech would re-affirm, or, in some cases, lay out in some detail Administration policy on:

Early reduction crediting, including domestic and international early reductions. Discussions with a number of national delegations, industry representatives, and environmental NGOs indicate that there is considerable interest in, and understanding of the importance of, mechanisms that provide a realistic and credible path to achieve legally binding targets established in Kyoto. The Vice-President could assert leadership by outlining an emissions reduction credit-based approach that the US would take to reward early reduction investments, including investments at home, abroad in developing nations, and abroad in other industrialized nations, including Russia and other economies in transition. With other countries following suit, the early reductions component could help provide the glue that would bind Annex I nations together on their commitments, and a solid path to developing country participation with a creative resolution of the JI-for-credit issue. The Vice-President could explain and emphasize the critical role of early

reductions in keeping the option open for an environmentally protective concentration level, e.g., 450 ppm. In that regard, he could refer specifically to the May 21 ecologists' letter.

In the event that the Administration has obtained any commitments from industries by that time, early reduction crediting would also offer an opportunity for the Vice-President to put forward those contingent commitments. Candidates include electric utilities and some oil companies.

The Brazilian Proposal. Brazil has proposed that whenever a budget nation busts its emissions cap, the nation pay a fine per ton of excursion, with the revenues provided to developing nations for their "clean development." On its face this is a terrible idea - it has all the downsides of the domestic cost-cap (raising overall cost of compliance, interfering in the market, deterring innovation investments), while at the same time giving developing nations a perverse incentive to want industrialized nations to do worse on emissions, since the worse they do, the more revenue flows to the developing world. Worst of all, it does not tie the expenditure of money to the demonstrable achievement of real, quantified and surplus GHG emissions reductions - reductions that must be achieved if the proposal is to work in preserving both the environmental and economic integrity of the GHG emissions budget and trading system.

Fortunately, by curing this last problem it is possible to transmute this into an environmentally positive approach, specifically by re-tooling it as a policy instrument for delivering improved accountability in greenhouse performance terms. Stated differently, any industrialized nation that busts its budget should be required to "true up" by immediately procuring additional GHG emissions reductions to offset its exceedance. To capture the developing country investment benefit that Brazil is seeking, the provision should specify that any developing country wishing to provide such reductions could join a special, separate Annex to the Protocol. All that is then required is one additional feature - allowing countries to transact GHG reductions achieved before the "true-up" period - and the proposal essentially becomes a framework for joint implementation. The banking feature would allow industrialized and developing nations voluntarily to enter into economic arrangements that provide opportunities for industrialized nations to make investments from which GHG reductions accrue, so that if developing nations choose to share a portion of the accrued reductions with industrialized nations, the latter will have an insurance reserve to guard against the possibility of budget excursions from which they can withdraw offsets for the true-up period.

The difference between this approach and conventional JI is that in this approach, the essential framework for JI is initiated at the government-to-government level, rather than just at the level of private actors; the bilateral agreement provides the framework in which private actors undertake projects. (Under conventional JI, which would also be taking place, private actors initially enter into arrangements, and then tender those arrangements to governments for subsequent approval.) While transactions costs in the "transmuted Brazilian" approach might be slightly higher, they also might be slightly lower if the government-to-government agreements provide bases for doing project-based JI across entire nations.

One important caution about the Brazilian proposal must be maintained. If the transmuted Brazilian proposal is framed such that the only mechanism under which projects can go forward would be a carbon fund, or international carbon bank, or other international entity, business would be justified in resisting this proposal strongly. By centralizing in the fund entity, the decision-making about where investment in GHG reductions are to be made, this monopoly approach would limit the range of choices that a multi-participant market would be able to

identify, a limitation that almost inevitably would raise costs. In contrast, if the transmuted Brazil proposal allows nations to enter into bilateral agreements to open their markets to emissions reduction investments by private firms, then business support for the proposal is likely to be greater.

Since the Brazilian proposal carries with it the risks described above, it will be important to keep open the opportunity for joint implementation, and calls to capitals should emphasize both.

"Meaningful participation by key developing countries." The Vice-President's speech could lay a foundation for a position by the United States that if the new Article 10 proposal invites sufficient voluntary participation by developing nations in a Kyoto Protocol, the President will submit the Protocol to the Senate for advice and consent. [[The implicit message would be that if the new Article 10 does not invite sufficient participation, the President will refrain from submitting the Protocol unless and until negotiations have concluded on a framework for developing country participation that includes legally binding emissions limitation commitments - with growth budgets for early adopters - that begin prior to the conclusion of the first, or second, Annex I budget. This message does not need to be stated explicitly at this time, however.]]

2. APEC climate change discussion

The Nov. 22-24 APEC meeting is a wonderful opportunity. It is at the level of heads of state. The President is fully engaged in the climate change issue. If he and the Vice-President were to give a short version of his October 6 speech, and invite APEC economies to open their markets to the new environmental commodity of emissions reductions, he could advance the discussion in a very important way. This is probably the last chance to "talk with" China before the Kyoto meeting and it will be in a setting where other Asian nations will be present at the table.

- Key to a successful approach at APEC will be letting the host nation, Canada, take the lead if it is willing. Prime Minister Chretien has been looking for an opportunity for some climate limelight and this could be a great one. Canadian companies have also been quite interested in the opportunities for early reduction crediting. It would be possible, in our view, for Canada to put together an early reduction (domestic and international) proposal in time for discussion at APEC that could lead to a consensus among APEC nations to move forward.
- Also useful in the run-up to APEC would be an example of a win-win emissions reduction project between a US company and a Chinese counterpart. One possible opportunity might involve a US company that is one of the largest air pollution control manufacturers in the world, that is seeking to sell desulfurization equipment to China's largest steel manufacturer, but has run into difficulties because the Chinese are short on capital. The pollution control equipment also has the capacity to reduce greenhouse gas emissions by improving boiler efficiency. The project is in some respects ideal for an agreement along the lines of a transmuted Brazil proposal (it should not be called joint implementation). Other opportunities probably also exist. These could provide the basis for an announcement, in the run-up or on the margins of, APEC, regarding a US-China bilateral. This is particularly timely since one of the priority topics for the APEC meeting is opening up trade in environmental technologies.

- Key to making this approach work would be calls from the Vice-President to the following. These would need to be undertaken in cooperation with APEC leads from the State Department and the US Trade Representative's office. In fact, some of these calls might ideally be made by Ambassador Barshevsky:
 - Canadian Prime Minister Chretien or his deputy, to lay the foundation for an APEC consensus on opening markets to environmental technology investments, featuring investments that reduce greenhouse gas emissions, with a view to earning greenhouse gas emissions reductions that could be shared between host and investor nations.
 - Prime Minister Hashimoto or his deputy, making the same point.
 - Heads of State or Deputies attending the APEC forum from the following countries, approaching them about the possibility of including in the market-opening APEC discussions on environmental technologies, parallel agreements on opening markets to for-credit investments in greenhouse gas emissions reducing activities:
 - Malaysia
 - Thailand
 - Indonesia
 - High-level calls to ministers in China featuring the same points, and possibly using the pollution control-steel industry investment as an example. NOTE: IF THESE CALLS are to be made, it would be advisable to consult the US company in advance.

3. Calls to Mr. Chernomyrdin, Japan/MITI, and to key EU leaders.

Calls to Russia, Japan, and leadership in key EU nations provide an important opportunity to deploy the early reduction issue as a way to solidify a joint US-Russia-Japan position, making clear to Russia in the process what early credits the US can and cannot support, and to use that position to build a bridge to the EU.

It is essential for the United States to engage Russia on a jointly agreed approach to early reduction crediting that provides both incentives for investments in Russian economic development/restructuring and credible accounting for emissions transactions. The Gore-Chernomyrdin climate change discussions provide a solid foundation for this jointly agreed approach. The United States should make clear to Russia that:

- The US can support crediting for early investments in projects that demonstrably reduce emissions below what otherwise would have occurred.
- The US also can accept "forward sales" of portions of the Russia 2008-2010 budget, provided those are deducted from that budget, with the recognition that failure to meet budget levels will subject Russia to the same consequences as any other industrialized nation that fails to meet its budget.
- The US cannot support crediting for or transactions in the pre-budget difference between 1990 and actual emissions levels.

Once a clear understanding has been reached with Russia, the US should approach the Government of Japan, which is generally interested in the concept of early reduction crediting, and should be persuaded to join with the US and Russia in the run-up to Kyoto. This would then form the bridge for an overture to key EU nations - the UK, Germany, and the Netherlands - on

the importance of early reductions as described above. The calls to the EU leaders would indicate:

- The United States is keenly aware of the importance to the European Union of a reduction effort below 1990 levels on the part of the industrialized world.
- The United States appreciates the interest the EU has shown in the flexibility instruments that the US has proposed, including emissions budgets, emissions trading, and cooperative approaches to emissions reductions, because of the important role those approaches can play in making a reduction effort possible, by reducing costs and enhancing competitiveness.
- The early reduction crediting program that the Vice-President outlined [in the speech described above] can provide a feasible path for the United States to reduce emissions of the basket of six greenhouse gases below 1990 levels in the 2008-2012 budget period, and thus answer the EU's concern that the United States will reduce below 1990 levels during the budget period.
- The early reduction crediting program also can enable the United States and Europe to agree on an environmentally credible approach to the accounting for transactions with economies in transition - a high priority for both the United States and the EU.

4. Latin American forum on transmuted Brazilian proposal.

The visit by President Zedillo to the United States today offers an important opportunity to invite Mr. Zedillo to host a Latin American forum, at very high levels, on climate change. The one-day forum could focus on opportunities to use the Brazilian proposal to open markets in Latin America to foreign investment in clean development through greenhouse gas-reducing activities. This forum could be especially important given the recent developments on fast-track, since it offers an important avenue to opening up hemispheric trade in these areas through the Climate Treaty rather than through trade agreements that may face tough sledding in the absence of fast track legislation. By folding the structure for more open trade in environmentally friendly technologies into the Climate agreement, this approach offers the possibility of trade-opening US Climate Treaty implementing legislation that would be supported by environmentalists in North and Latin America. [[If it is not possible to organize a meeting on such short notice, the same concepts could be put forward through discussions, without a meeting.]]

To bring this possibility forward, the Vice-President could:

- Meet President Zedillo (or call him) to invite him to consider hosting a hemispheric meeting on trade in environmentally friendly technologies and services (including services associated with forest protection and forest management). In this call/meeting, the Vice-President could:
 - Recommend that the hemispheric meeting be a Latin-led meeting. Suggest that President Zedillo invite high-level representatives on both the trade/investment and environment side from:
 - Brazil
 - Costa Rica and all Central American nations
 - Colombia
 - Bolivia
 - Chile

- Argentina
- Paraguay
- Ecuador
- Possibly Venezuela (Mexico would need to decide carefully whether to invite Venezuela or not.)
- Note that the meeting might usefully produce a statement - in response to what has happened in fast-track, and in anticipation of the Kyoto meeting. The statement would
 - emphasize the importance of freer, more open trade to the economies of Latin America
 - emphasize the importance of trade particularly in products and services that can support Latin American nations that choose, as a matter of their sovereign right, to follow cleaner development paths
 - recognize the importance of freer trade in providing resources to nations to enable them to follow these cleaner development paths
 - looking toward the Kyoto conference, pledge to work together to reach agreement to open their economies to investment that enhances sustainability, with particular emphasis on opportunities to reduce greenhouse gas emissions
 - recognizes that they present important investment opportunities for cleaner development paths
 - states their willingness to discuss with other nations the possibilities for cooperative approaches in this regard.
- In addition, the Vice-President might call Costa Rican President Figueres to urge his support for this type of approach to crafting a hemispheric sustainable development agreement that has as its focus the opening up of trade in the hemisphere in environmentally friendlier, greenhouse-safeguarding technologies and services. (President Figueres has previously signaled his interest in such an approach.)
- With regard to Venezuela in particular, the Vice-President might explore with Venezuela, given Venezuela's diminishing oil resources, whether Venezuela is interested in transitioning to a cleaner economy, and utilizing domestic carbon emissions reduction opportunities as a path to making that transition. ((Members of the Venezuelan delegation have confidentially indicated that this debate is ongoing within the government now)).

5. World Bank Carbon Offsets Fund.

The World Bank is exploring the establishment of a Carbon Investment Fund (CIF) as a "market mechanism...to reduce global greenhouse gas emissions and to support environmentally sustainable growth for developing countries." The World Bank envisions the CIF as a "mechanism whereby buyers and sellers of carbon offsets can efficiently invest in a pool, or fund, of carbon investments." The CIF would act as a market intermediary, obtaining funds from investors (industrialized nations with binding emissions reduction obligations and their private sector investors) and investing those funds in projects which would result in carbon emissions reductions in low-cost countries. The fund will be structured as a closed-end mutual fund.

Unfortunately, the Bank has decided to focus all of the Fund's investment on nations with economies in transition (EITs), rather than on developing countries. While the Bank originally cast the Fund as providing a pool of resources available for developing countries, the Bank's shift in focus has resulted in a situation in which developing countries now view the Fund as simply

one more tool used by Western European nations to open up new market opportunities for their firms in the emerging markets of Eastern Europe and the Former Soviet Republics. The Bank appears to have limited its focus based on its own reading of existing legal documents. In fact, however, the Bank's interpretation that the UN Climate Treaty already allows such "offset" investments between industrialized nations and economies in transition, but does not allow such offsets between industrialized and developing nations, is accepted by the European Union, but runs counter to the view of the United States and many developing nations, and to the decisions of the Climate Treaty Parties themselves, which places all such transactions in a "pilot phase" whose closure is subject to further decisions by the Parties. By discriminating in favor of economies in transition and against developing countries, the Bank's Fund undermines its stated goal of supporting environmentally sustainable growth in developing nations, and threatens to drive even deeper the wedge that currently separates developing and industrialized nations in the context of the UN Climate Treaty. The more those two groups of nations remain divided, the less likely an outcome at Kyoto that reduces greenhouse gas emissions.

The Bank could rectify this problem by shifting its CIF focus to developing countries rather than economies in transition. The Vice-President may wish to:

- Call Bank President James Wolfensohn to urge him to refocus the Bank's carbon investment fund to make fund resources available to those developing countries that wish to participate in carbon offset projects.
- In his calls to Presidents Zedillo and Figueres, seek their guidance on how best to refocus the Bank's effort so that it supports, rather than competes with, the transmuted Brazil proposal.

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Terry Kelly, State Department, 647-5337
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Fax #: See Above

Re: Interagency Capital Flows Working Group Meeting

Date: November 10, 1997

Pages: 4, including this cover sheet.

FACSIMILE

Please see the attached meeting notification.

Thank you.

OPTIONAL FORM 98 (7-90)

FAX TRANSMITTAL

of pages = 4

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UNITED STATES DEPARTMENT OF COMMERCE
Office of the Secretary
Washington, D.C. 20230

November 10, 1997

MEMORANDUM FOR THE INTERAGENCY CAPITAL FLOWS WORKING GROUP

FROM: Jeffrey A. Hunker 

SUBJECT: Meeting

Based on our very useful discussion Thursday, attached is a revised outline of a U.S. proposal and agenda for developing country commitments. Note that the 'technical' standards (eg: energy efficiency standards) need to be further clarified.

Give the short time frame, our next meeting will be Wednesday, November 12 at 10:30am in Room 5824 of the Commerce Department.

Thank you.

Attachment

DRAFT
11/10/97

Meaningful participation by major developing countries to reduce greenhouse gas emissions is key to the success of any climate change agenda -- as well as to bolstering other US national interests, such as export promotion. Participation by China would be particularly noteworthy, given China's diplomatic leadership in the G-77 block of developing nations, the rapid expansion of its energy sector (and consequent increase in greenhouse emissions) and the expanding US-China trade deficit.

Outlined here is a proposal that could be announced in principle at Kyoto by the one or more major developing country (China particularly) and US delegations. In short, major developing countries would agree that future power and industrial infrastructure would on be built and maintained to meet minimum but high energy project-specific efficiency and environmental standards (perhaps not dissimilar to anticipated planning commitments by the Chinese government). These standards would tighten over time. This commitment would also serve as a model for anticipated commitments by other major developing countries.

Background

Two factors shape the opportunity before us. First, major developing countries -- China, India, Indonesia, Russia, Brazil, and Mexico -- have rapidly growing energy infrastructures. Lead by these countries, by 2020, the developing world will consume 60% of the total world energy production. Second, private investment to these countries has and continues to rapidly expand, outstripping official development assistance and IFI lending. Thus, influencing private investment -- particularly to the energy sectors -- is central to any environmental and economic agendas of the US. The challenge for the US is to encourage continued rapid economic growth in these countries in a less carbon-intensive manner.

In the context of the climate change negotiations, any bilateral initiative should meet the following three objectives:

- *Additionality*: It should represent real progress in the worldwide reduction of greenhouse gas emissions from the 'base case,' while being sufficiently flexible to allow for future changes in circumstances;
- *Model for Other Countries*: It should be a model that other developing countries can adopt;
- *Domestic Concerns*: It should either meet or substantially contribute to meeting the commitments made by the President for meaningful participation by major developing countries, and also to the Byrd-Hagel Resolution.

Elements of the US Proposal

There are two elements of the US proposal to the Chinese and other major developing countries:

1) At Kyoto, an announcement in principle by China and perhaps other major developing countries to accept a rising floor of project-specific efficiency and environmental standards for investment in industrial and power infrastructure;

2) The US would seek to create further institutional mechanisms for enhancing energy efficient investment in participating developing nations, through:

- a working group or groups under a Kyoto Mandate to develop further mechanisms for advancing such investments under the FCCC -- for example, developing the 'growth baseline' concept for developing country obligations or further US proposals for OECD lending standards for energy investments and exports like those floated at Denver.
- creation of a USG and (US) private sector energy sector group to meet regularly (quarterly) to look for solutions to financial and technical problems of increasing power and industrial energy efficiency in developing countries. This group would be cross-cutting across the USG, and would include technical, energy and financial industry representation.

Other elements of a US position (perhaps unrelated to China) could include:

- Enhanced support for existing MDB environmental standards for MDB-financed projects, including support for:
- Promoting, through lending or technical assistance, improved power sector policies such as pricing, cost recovery, regulation, privatization, and foreign investor access;
- Elimination of power sector subsidies and resource distortions;
- More aggressive use of MDB guarantees for private sector investment;
- Better coordination with the Global Environment Facility, especially in the introduction of renewable and non-traditional power technologies.
- Unilateral expansion of the 'International Executive Service Corp' that would mobilize US managerial talent to provide LDC's with technical assistance on environmentally sound and economical power sector choices.

Implementation

In discussions with the Chinese, it is important that this be presented as an issue in which China can be perceived to lead this effort -- perhaps as one part of a broader Kyoto Mandate for additional action by all nations.

In addition, there needs to be consideration of bilateral discussions with other major developing nations -- most particularly (given the diplomatic schedule) Mexico and perhaps Brazil.