(Stu TBS)

Kyoto misc.

A Comprehensive Interrelated Package

Target and Timetable

As we have discussed commitments with your delegations, it has become clear that there is room for compromise in reaching a common target and timetable.

For the United States, any ~~such~~ agreement on targets must clearly take into account three factors:

- Real reductions in emissions below our 1990 baseline.
- The combination of gases included in the agreement.
- The treatment of sinks.

As the Vice President said, we are willing to move beyond our current proposal by using a combination of these three factors.

We are prepared to reach a target of 5 percent below our 1990 baseline by the 2008-2012 period. And here is how we believe that we can best achieve this goal:

First, as you know, we have proposed a bundle of six gases to be covered in this protocol. We are willing to go to a more flexible target -- specifically, a 1990 baseline for carbon, methane, and nitrous oxide, and a 1995 baseline for the three synthetic gases.

- This will allow us to achieve the environmental benefits of controlling all greenhouse gases, while recognizing that controlling the synthetic gases poses particular problems for some economies.
- [NOTE: This amounts to roughly a 1% relaxation in our target.]

Second, we propose a differentiated treatment of sinks. Nations would be allowed to choose from one of three approaches:

1. A "gross-net" approach. Under this approach nations would be able to use net sinks to meet their obligations during the first budget period. There would be no accounting for sinks prior to that period.

Nations that choose this approach would have to limit the contribution that sinks could make toward meeting their target. For example, the protocol could place a limit of 3% of baseline emissions.

2. A "net-net" approach. Under this approach nations would count net sinks in both their base year and during the first budget period, and the difference would be used to meet their obligations.

in contrast to activities

3. A "project-based" approach. Under this approach nations would get credit for specific projects that create or enhance sinks.

~~Based on our experience,~~ we believe that nations t~~hat choose either the first or the second approach~~ will be able to measure their sinks accurately [NOTE: See detailed paper on sinks.]

In the first two of these options it is important to define sinks comprehensively, so that firms and individuals have the right incentives to pursue all routes to greenhouse gas reductions.

[FALLBACK OPTION 4: Remove sinks entirely for now; but must be a process for including sinks eventually.]

Third, we will agree to a reduction in emissions of 2% below ~~our previous target of~~ 1990 ~~levels by 2008-2012. These reductions will be~~ independent of any benefits to the U.S. due to changes in gases and sinks.

This real reduction, in combination with the other changes noted above, will leave the U.S. with a target of 5% below 1990 levels by 2008-2012.

Emissions Trading

All of us share the goal of achieving our emissions reductions in the most cost effective manner possible. Emissions trading is central to achieving this goal and benefits both countries involved in the transaction.

We agree that nations must take extensive measures to reduce emissions within their own borders. We propose that reductions gained through emissions trading among Annex I nations shall not constitute ~~more than 50%~~ the majority of a nation's total reductions.

Joint Implementation/Clean Development Mechanism

Joint Implementation is central to an effective solution to the problem of climate change that involves both the developed and developing world.

That is why we propose that Joint Implementation with credit be included in the protocol.

The core of our proposal is for private firms to engage in voluntary projects in developing countries, with benefits to both parties.

We understand that there are several difficult issues involved in making Joint Implementation work.

1. Creation of a new international mechanism for administering Joint Implementation projects. We believe that an appropriate institution would have at least three functions: to certify projects;

to determine the additional reductions in emissions arising from those projects; and to aid host countries to find private partners for projects. We would be happy to work with you on identifying such an appropriate institution.

2. Whether to grant credit for projects undertaken prior to the first budget period. We believe it is important to encourage these projects so that we can start reducing emissions now. Under our proposal, these projects will earn credit at a rate less than what would be earned during the first budget period.

3. Funding for administration of the institution and to assist developing countries that are particularly vulnerable to the adverse effects of climate change to meet their costs of adaptation. We support using the proceeds of a share of the credits generated from Joint Implementation projects to provide this funding.

small

<u>Follow On</u>

To achieve our goals, we believe it is essential to agree on a post-Kyoto process that will ensure developing countries also undertake legally binding commitments in the earliest possible time frame.

These commitments would recognize the "common, but differentiated" responsibilities of developed and developing countries within this agreement. Developing countries could propose and establish individual country emissions budgets that function as phased plans to move off "business-as-usual" emissions growth paths.

The overall goal is to allow developing countries to grow their economies in a way that protects the world's environment.

This follow-on process would have specific start and end dates and should be structured so ~~virtually~~ all parties to the Protocol would have some form of binding commitment no later than the onset of the second budget period. ~~Exceptions could be made for the least developed countries.~~

<u>Article 10</u>

Participation of the developing countries in any global climate change agreement is essential.

Article 10 must provide a mechanism for that participation, by allowing individual developing nations to voluntarily take on binding commitments. It must provide the means for all nations to join on their own terms in meeting this common challenge. We are open to discussing the structure of developing country commitments.

<u>Conclusion</u>

This is a comprehensive package that reflects our flexibility in trying to address the concerns of all nations. Our proposal will reduce greenhouse gas emissions significantly, it sets realistic targets, and it is economically sound. It provides a long-term global framework for progress on climate change.

This package goes more than halfway towards meeting the proposals of other Annex I nations. But we require your support on every part of this proposal.

If we can reach agreement on this proposal, then we are willing to consider the proposal of the European Union to establish the so-called "Bubble", provided that it meets three conditions:

1. Because of the additional flexibility provided by the bubble, we expect that the EU will have a more stringent target than any individual nation.

2. New members of the EU should not ~~immediately~~ be included in the bubble; they must engage in domestic emissions reductions and international trading in the same way as other individual countries.

3. There must be a limit on the amount of differentiation that can take place within the bubble.

In developing this proposal, we have put aside our objections to many specific elements of other proposals. We urge you to do the same. Time is short. Let us reach agreement among ourselves and then bring the developing nations aboard.

in the 1st budget period

Kyoto
policy misc.

(3)

ISSUES AND TACTICS

Targets:

- Current position: stabilization, six gases, all sources and all sinks
- First fall back: six gases, no sinks (except for specific projects); technically allows reduction of about 1-3%
- Second fallback: 3 gases without sinks; technically allows reduction of about 5-7%
- Third fallback: 1-2% real reduction with 6 gases, no sinks
- May need additional flexibility for negotiators in session to change specific numbers , possible other small changes (e.g., adding a year to the length of the budget period, etc.); negotiators will also seek to prevent outcome of individual options being additive.

  * An option which may need further discussion is calling for a 5% reduction in second budget period with six gases and no sinks. It creates potential problems for any subsequent negotiations with developing countries – but may be necessary if we seek agreement in Kyoto.

Tactics:

- any changes in our targets should be reserved for late in the negotiations (i.e., at the Ministerial portion)
- may create some problems with respect to the first day's AGBM session (which so far is to focus solely on sinks; we will need to insure our options are all preserved)

Differentiation

- current option: flat rate, all agree on stabilization
- proposed new position: allow differentiation, but indicate it would be bounded (e.g., 0-5% reduction; to be achieved on basis of target structure identified above)
- first fallback: apply Japanese formula using criteria of population growth (note: other two criteria of emission per GDP and emission per capita do not help us), with modification to allow US to remain at (or as close as possible to) stabilization (Note: in this case, the formula may be used to determine the target, but would not itself be inserted into the text)

Tactics

- give an indication of our new position early to show movement

- share with Japan (and other JUSCANZ, particularly Australia) early, and seek to call for their support on other issues, including JI, emissions trading, developing countries, and six gas target
- announce at first opening plenary in US statement

Russian tons

- current position: allow Russian "hot-air" during the budget period, but do not allow pre-budget period tons; seek as preferred option to convince Russia that this is enough
- fallback: for 2008-2012, allow Russia to sell tons up to amount (or some portion of the amount) we estimate they will have in the period – drawing any shortfall from the pre-period tons, and being allowed also to sell any excess that they have where emissions during the budget period are below the 1990 levels

Tactics:

- talk to Russia early
- seek VP telcon with Chernomyrdin to persuade Russia to accept our position (Note: Russia has been reluctant to part with any pre-budget period tons – but it may be impossible to get EU acceptance for this)

EU Bubble

- Current position: oppose the bubble short of a final package that includes all the elements we consider essential (including with respect to JI, trading and developing countries)
- Propose to condition several aspects, particularly those related to enlargement and competitive advantages:

(1) no country within the bubble may increase its emissions beyond a certain level (apart from market-based trading and JI), perhaps 10%. For example, Portugal would not be allowed to increase emissions by 40% but would be limited
(2) if countries choose to take advantage of the bubble, they should take on more significant commitments
(3) no new members should be allowed in the bubble until the negotiation of the budget period following their entry into the bubble

Tactics

- talk to Estrada early, indicating this is very important to us
- seek support from other countries (including JUSCANZ) in opposing bubble give-away

- introduce any softening late in the process (e.g. at end of Ministerial in exchange for deal)
- any agreement at all on bubble will be in context of agreement with all Parties – including G-77 (i.e., exchange for EU bubble is package including JI, trading, and a strong developing country commitment)

Borrowing

- Current proposal: support borrowing in budget period with penalty; propose 10 percent penalty for borrowing, and allow borrowing up to 10 percent of total budget. Reinsert original US proposal for additional penalty for non-compliance if budget is exceeded (propose penalty of 25%)
- if no support for latter, delete former too.

Tactics

- discuss early with EU and JUSCANZ – particularly focusing on elements of non-compliance
- discuss issue with Estrada
- hold as "green" issue until late to help push EU on other issues

Domestic Measures

- language calling for trading or JI to be supplemental, or for domestic action to be "significant" or "substantial" is acceptable; language calling for domestic measures to be the "main" means of meeting the goal, or in any way to quantify the extent to which the goal can be met through such mechanisms is unacceptable.
- Fallback may be to allow review process to consider how JI for credit or emissions trading was used during the first period, and assess extent to which domestic action was employed. But no conditions on amount in first period.

Tactics

- Use EU bubble leverage (noting that if within bubble limits are not allowed, than neither should limits outside of bubble; but if bubble permits some members to emit 40% over 1990, then JI and emissions trading, which effectively increase a Party's budget, should also be allowed with no limits)
- Work with JUSCANZ allies that favor unrestrained trade (e.g., NZ, Australia, and Canada)
- Work with small developing countries that would likely be excluded from projects if total number was limited

Developing Countries

note four pieces: JI, Article 10, Article 12, and mandate; need action on all

A. JI:

- Current proposal: must be in agreement for credit pre-pilot phase conclusion
- fallback may be to allow "opt-in" for credit with those that volunteer, pending a decision in the pilot phase
- possible further fallback may be to have declaration of interested Parties indicating that pilot phase will conclude with favorable decision
- further alternative may be Brazil proposal – depending on how this emerges.

Tactics

- stress voluntary nature in discussions with developing countries
- note that idea is not US one – also originates from UNCTAD
- stress sovereignty – note that no country should be allowed to block another country from taking advantage of this option
- Groups that may help break log-jam include Latin Americans (other than Brazil, but particularly Costa Rica, Mexico, Columbia and Chile), AOSIS, and possibly some Africans (e.g., South Africa and Senegal) and Asians (e.g., Indonesia, and Philippines)
- VP/Sec State telcons with heads of state or foreign ministers may be critical to shift positions

B. Article 10

- red line issue: insist that this be in
- note flexibility in terms of level of commitments – but indicate clearly that it is on basis of emissions target, not efficiency or other indicator
- do not accept alternative approaches (e.g., such as EU proposal that Article 10 Parties could adopt policies and measures in lieu of legal emissions commitments)

Tactics

- work with Korea (VP telcon and at meeting)
- work with Estrada (who strongly supports provision)
- make clear throughout session that we have no flexibility on this issue

C. Article 12 (advancing current Convention commitments of developing countries)

- current position: retain Article in agreement with provisions such as those calling for improvements in energy efficiency, removals of subsidies, and various industry sector greenhouse gas emissions improvements; do not agree to any commitments that apply only to Annex I Parties; article must do more than simply restate existing commitments; seek to remove language related to additional financing for developing countries

Tactics

- consult early with Estrada, noting importance of issue
- key task of negotiators in Kyoto during officials portion of meeting
- work with other Annex I countries (which all support our view)

Evolution/Developing Countries – Follow On/Further Commitments

- existing position: language on Evolution in text of protocol (not any longer a viable option)
- fall back: Kyoto Mandate with specific language including start and end date for negotiations, and idea that key countries would take on legally binding commitments
- second fall back: open mandate, expressing view that new negotiations should occur, but not being specific about commitments, or timeframe
- further fallback: decision of Parties to inaugurate provisions for review of commitments under FCCC Article 7.2(a) – EU approach

  * Note: Any of these options would be linked to a US declaration that we would not intend to seek ratification – or even to sign – until we have got "meaningful participation" of key developing countries (per statement of President); note that participation under Article 10 of the agreement would be an indicator of such engagement.

  Tactics

- work with Estrada – noting that any position is considerable retreat from our earlier demand
- work with other JUSCANZ (e.g., Canada and Australia) to insist that developing countries are in
- high level telcons (e.g., President, VP, Sec State) with key players to both prevent countries from blocking, and to seek support, particularly with key developing countries

National Security

- Existing position: National security issues are not currently covered in agreement – but position is that they should ideally be.

- Options for coverage:
  - Text in the agreement (an unlikely outcome)
  - Decision of the Parties (with language as agreed)
  - Methodological process exemptions (e.g., through accounting of bunker fuels)
  - Bilateral agreements (that would not be precluded by treaty) for US to count emissions from foreign facilities against our own domestic obligations
  - "Hold harmless" provision

Tactics

- Seek high level telcons to address issue
- Work with NATO and other allies in Kyoto
- develop appropriate methodological fallback position, and share in Kyoto with allies

TELEPHONE LIST *02 December,1997*

NAME		TELEPHONE	ROOM NO.
Jonathan	Adashek	030-57-98034	602
Bill	Antholis	030-57-98021	610
Angela	Barber-Wilson	030-52-99439	811
Susan	Biniaz	030-57-98037	710
Bob	Boynton	030-52-99448	630
Richard	Bradley	030-57-98018	709
William	Breed	030-57-98019	805
Clare	Breidenich	030-57-98063	717
Alan	Browning	030-99-0994	(EMB)
Leslie	Cordes	Yes	809
Barbara	DeRosa-Joynt	030-57-99435	716
John	Dieffenderfer	030-57-98053	718
Robert	Dixon	No	808
David	Doniger	030-57-98065	703
Matt	Ellsworth	030-57-98050	729
Robart	Farr	030-57-98051	730
David	Gardner	030-52-99448	
Susan	Gordon	030-57-98083	712
Victoria	Greenfield	030-52-99421	824
David	Hales	Yes	601
Mark	Hambley	030-57-99441	927
Abe	Haspel	030-57-98056	702
William	Hohenstein	030-57-98062	726
Jeffrey	Hunker	030-57-98061	609
Melinda	Kimble	030-57-98081	929
Jane	Leggett	030-57-98064	727
Mario	Merida	030-57-99444	705
Julie	Norton	030-57-98067	519(ANA)
Charles	Parish	030-52-99440	724
Jonathan	Pershing	030-57-99437	719
Susan	Povenmire	030-52-99438	706
Rodrigo	Prudencio	030-57-98066	722
Dan	Reifsnyder	030-57-99436	711
Sharon	Saile	030-57-98079	802
Roy	Salomon	No	707
David	Sandalow	030-52-99446	NS
Paul	Schwengels	No	806
Deborah	Stowell	030-57-98058	804
Linda	Strachan	030-52-99442	714(ANA)
Chris	Weaver	No	701
Carol	Whitman	030-57-98059	704
Susan	Wickwire	030-57-98080	720
Franz	Wuerfmannsdobler	030-57-99443	721
Natalie	Wymer	030-57-98022	617
Alan	Yu	030-9909997	(EMB.)