Issues for Resolution

Targets

- Can we move on our target in real terms (with respect to the number of tons and/or timeframe)?

- Can we move on our target in optical terms, e.g.:

  -- by changing baseyear to 1995?

  -- by dropping some or all sinks or modifying how we count them?

  -- by moving from 6 to 3 gases in the first budget period (with all six covered in the next period)? (if so, it would be harder to "reduce" further in the second budget period)(if so, could we accept policies and measures on the other three?)

- Can we support differentiation, e.g.:

  -- by allowing choice of baseyears (1990/1995)?

  -- by accepting the Japanese formula-based model (which allows targets between stabilization and 5% reduction)?

  -- by allowing each country to decide its own target?

- What should we do about a second budget period in the protocol (noting relevance to developing country issue)?

  -- not include anything

  -- include targets for the second budget period

  -- include timeframe of second budget period (and possibly that there will be a "reduction") but leave the negotiation of actual targets until later

Emissions Trading

- Could we accept having the existence of trading depend upon a future decision of the parties regarding modalities, etc.?

- Could we accept that domestic measures (as opposed to trading) must be the "main" means of meeting targets? Any other limits, e.g., a certain percentage?

Joint Implementation with Developing Countries

- Could we accept having the existence of JI with credit depend upon the decision of the Parties after the end of the pilot phase in 2000?

- Could we accept that domestic measures (as opposed to JI) must be the "main" means of meeting targets? Any other limits, e.g., a certain percentage?

- o Could we accept the hybrid JI/Brazil concept that we have floated informally?

- o Even if we dropped certain sinks for our target, would we still need sink projects to be allowed under JI?

Developing Countries

- o What happens if we cannot get an article "advancing implementation of existing commitments" that actually advances anything? What if it actually goes backwards?

- o Can we abandon "evolution" (i.e., a procedural commitment now to negotiate commitments later) and move instead to:

  - -- Article 10 (voluntary opt-in), coupled with U.S. linkage between first budget period commitments and intent by key countries to join Article 10; and

  - -- a "review of commitments," as already envisioned under Article 7(2)(a) of the Convention, which does not specifically say that such review will lead to negotiation of commitments?

Entry into Force

- o Should U.S. ratification be required for entry into force?

- o Should developing country ratifications be required for entry into force?

Additional Issues

- o Russian tons: What can we give Russia concerning its ability to sell "hot air" that it has accumulated before the first budget period?

- o Policies and Measures: Can we ultimately agree to a few mandatory policies and measures, provided they are benign (such as energy efficiency) and are not subject to mandatory coordination?

- o National Security: What do we do if our proposal for a decision of the parties does not succeed?

- o "Compensation": Beyond having the parties periodically review implementation of the protocol in terms of impacts on other parties, is anything related to compensating OPEC countries for economic impacts flowing from our measures to meet our target totally unacceptable?

- o Banking/Borrowing: Do we need to insist on retaining banking (i.e., the ability to carry over to the next budget period any underages) and/or borrowing (i.e., the ability to legally borrow a limited amount from the next budget period, to be paid back with a penalty)?

Rate oversight

Issues for White House Consideration

Target:

We are assuming we have the flexibility to repackage our existing number as a reduction (for example, by using a 1995 baseyear), but do we have any flexibility to change our number as a matter of substance?

Are we supposed to negotiate a second budget period in Kyoto or not?

Flexibility:

Regarding emissions trading:

- can it depend upon a future decision of a Meeting of the Parties (i.e., because it depends upon modalities that need to be agreed by consensus in the future)?
- can it be limited (e.g., to only a certain percentage of a country's budget obligation)?

What position should we take on the "paper tons" issue (for example, exclude totally, include totally, include a certain portion)?

Regarding JI:

- can it be limited (e.g., to only a certain percentage of a country's budget obligation)?
- can we move from JI with credit to a variation of the Brazilian proposal, i.e., one or more institutions that provide funding for developing country projects that, in turn, sell credits to Annex I countries?

How critical are banking and borrowing?

National Security:

Is a specific "national security provision" a must-have for us? (If so, is this still true if we get an acceptable emissions trading provision?)

Developing Countries:

Assuming an Article 10, i.e., voluntary commitments, what else do we need, for example:

- no other internationally agreed document – rather, unilateral US linkage between our ratification and intention on the part of the key countries to join Article 10

- the latest EU approach, namely a decision in Kyoto to review the adequacy of commitments under Article 7(2)(a) of the Convention by a date certain (which, unless it specifically provides otherwise, would be open-ended enough to include renegotiation of our first budget period commitment)

- a bland "mandate" that calls for negotiations by a date certain, without specifying what kind of commitments we are seeking from developing countries

- a specific "mandate" that calls for negotiations by a date certain and also specifies the kind of commitments we are seeking (e.g., legally binding emissions targets) and from which countries we are seeking them (e.g., countries with certain percentage of global emissions)

- a "Declaration" among like-minded countries (i.e., that would not require consensus) calling for whatever kind of action we are seeking from developing countries

Entry into Force

Should the entry into force trigger be crafted so that, in effect, US ratification is required for the Protocol to enter into force? (Other developed countries are divided on this issue.) (A separate paper is being prepared on this topic.)

oversight notes

Coordinating Brazil and U.S. Positions on JI

Four Proposals:

- Current US JI position
- Brazil proposal
- TTC proposal
- State suggested compromise

Three Fundamental Issues

Is Funding Voluntary or Mandatory?

JI: Payments to LDCs are voluntary, resulting from bilateral negotiations between private U.S. firms and LDC governments.

Brazil: Annex I payments into their Clean Development Fund (CDF) are mandatory: they are penalty payments for exceeding a nation's binding emissions targets. In this sense, the CDF provides an "international safety valve", with countries that exceed their targets able to buy the extra emissions at a low price, and the resulting revenues that are raised being sent directly to LDCs.

- Both the safety valve aspect of this proposal, and the likely need for Congressional appropriations, would cause substantial domestic problems (as we learned again this week)

TTC: Same as JI - payments to LDCs are voluntary, resulting from bilateral negotiations between private U.S. firms and LDC governments.

State: Payments are voluntary, but do not require bilateral negotiations. Rather, U.S. companies can buy into the "cooperative" to purchase low cost emissions reductions that can be used to satisfy their domestic obligations. This provides a voluntary "escape valve" by permitting us to use low cost reductions abroad to meet our obligation, without requiring that this be done on a bilateral, project-by-project basis.

Is There An International Coordinating Body?

JI: No; individual countries would score emissions reductions

Brazil: Yes, international body to allocate payments from Annex I nations.

- The creation of a centralized scoring organization is strongly supported by the LDCs, who are suspicious of allowing the industrialized countries to judge for themselves "what counts." More generally, the developing countries want more control -- for example, by serving on the board of the international body.

TTC: Yes, international "scoring" body

State: Yes, international allocation body

- If the international body requires no Congressional appropriations (for example, its limited expenses are financed by a fee per transaction), the domestic reaction could be muted. Nonetheless, the potential downside of giving the developing countries more control is that we could lose control. One danger, for example, is that a coalition of developing countries could try to block U.S. firms from credit for particular projects.

Is Project Selection Centralized or Decentralized?

JI: Completely decentralized

Brazil: Completely centralized project selection; funds that accumulate in the CDF are directed by a centralized board to projects throughout the developing world. Criteria for selecting projects is vague at this point.

- The major motivations for the Brazil approach, from the LDC perspective, are to provide bundling of projects, absorb administrative costs, and direct investment towards all participating countries.

- Centralized direction of investment decisions would substantially exacerbate the domestic difficulties associated with any international system.

TTC: Decentralized. Central body serves only as a scoring organization.

State: Somewhat centralized. Central body would help to direct funds in a way that balanced "bang-for-the-buck" with regional needs and other political considerations.

- This approach tries to walk a middle ground between preserving market-based incentives and meeting the political needs of the developing countries who fear that they will be "left behind" by a purely market-based JI system.

Getting to Sí

Voluntary or Mandatory Funding? It seems clear that a mandatory system is a political non-starter domestically. Therefore, there seems little room for compromise from our perspective?

International Coordinating Body? It seems possible to set up an international coordinating body that provides real benefits in terms of administration and meets some political needs of the developing countries, without taking too big a hit domestically.

Centralized or Decentralized? This is the central issue, both in terms of economic efficiency, and in terms of LDC politics. There is a spectrum of options between complete, non-market based, centralization, and complete, market-based, decentralization. We should focus our energies on considering how far we can move in the direction of the former, to please LDC constituencies, without sacrificing the efficiencies that make JI attractive domestically. Several observations are relevant:

1) It seems unlikely that we can move at all towards centralization/non-market allocation without some sort of international coordinating body

2) Within the TTC-like framework, there are some changes that could be made in the direction of centralization and non-market allocation:

- The international scoring body could be invested with additional powers to bundle projects into mutual-fund like options that can be purchased by Annex I firms
- A given emissions reduction could be "worth more" credit in particular nations; perhaps credits per ton of reduction could be a function of GDP per capita or some other index of development.

3) Within the State framework, which moves away from bilateral negotiation and towards centralized bundling and political selection, there is a range of latitude on how big a role market forces play.

oversight mtgs

JI/Brazil

'97 NOV 13 PM6:30

Summary

JI: Annex I Parties can get credits towards their budgets from private-sector-initiated projects in developing countries.

Brazil Annex I Parties pay into a Clean Development Fund if they exceed their budgets; the Fund selects and pays for projects in developing countries.

Major Differences:

- Whereas JI can be used to meet budget obligations, the Brazilian proposal only comes into play when an Annex I Party is in non-compliance.
- Whereas JI allows the cost/ton to be negotiated on a project-by-project basis, the Brazilian proposal calls for negotiating a set cost/ton.
- Whereas JI allows the private sector to be donors and recipients of funds (with the approval of governments), the Brazilian proposal receives funds only from governments and most likely also disburses funds to governments.
- Whereas JI envisions having the private sector find its own partners throughout the world, the Brazilian proposal centralizes funding and disbursements.
- Whereas JI leaves to individual Parties (and potential review by all Parties) consistency of JI projects with any rules under the Protocol (such as additionality, monitoring for real reductions), the Brazilian Fund would be in charge of ensuring consistency.
- Whereas JI might impose limited funding obligations on the US Government (e.g., management costs), the Brazilian proposal would place a funding obligation on the U.S. Government if it were in non-compliance with its emissions budget obligation.
- Whereas under JI projects could occur anywhere that participants (and the host government) choose, the Brazilian Fund would choose recipients of funding.

Possible Merger

- The concept would be to create a centralized clearinghouse for JI with credit.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL	# of pages ► 2
To Todd Stern	From Rafe Pomerance
Dept./Agency WH	Phone # 647-2232
Fax # 456-2215	Fax # 647-0217
NSN 7540-01-317-7368 5099-101	GENERAL SERVICES ADMINISTRATION

- One or more mechanisms (e.g., regional ones) would sponsor projects in developing countries that will reduce or sequester emissions. (The issue of start-up costs and initial capitalization would have to be addressed.)

- The mechanism(s) should select projects, potentially on the basis of private sector bids, based on guidelines akin to those already adopted by the Convention for AIJ.

- The mechanism(s) would sell credits to Parties (or entities within such Parties) for purposes of meeting their emissions budgets.

- The buying of credits and participation in projects would be completely voluntary; host governments would need to approve any project.

- The cost/ton would be market-based; a small overhead fee might also be necessary.

Possible Advantages

- Advantages of such an approach for us might be:

  - that this might be the only way to achieve a JI-like mechanism in the Kyoto agreement;

  - that individual companies would not have to comb the world for possible investment opportunities;

  - that transaction costs would likely be lower;

  - that the burden of demonstrating that projects were consistent with JI criteria (such as that reductions were "additional") would not fall on individual Parties;

  - that astertaining compliance by other Parties would be greatly simplified.

- Advantages of such an approach for developing countries might be:

  - the appearance of a greater governmental imprimatur than with JI;

  - that it would de-politicize the process, i.e., they would not have to pick and choose among potential investors;

  - for Brazil in particular, a sense of ownership in the proposal, despite the fact that it would not be related to penalties for non-compliance.

oversight notes

DATE	ISSUE	KEY Q's FOR PAPER
FR 11/13-14	JI	desired outcome
T 11/17	1) policies & measures	fall back
	2) banking & borrowing	exploration & implications
	3) trading & bubble	level of coincidence
	4) Russian tons	agree on slice
M 11/16	prepare for W	
W 11/18	1) developing country	decision for 72a+/EU Leverage
	2) QELRO'S	a) 90, 95, 90-95
		b) 2 target
		c) differentiation
		political versus formulae
		d) no reduction
		e) all gases
		f) sinks proposal
T 11/19	Prepare for Friday	
F 11/20	(a) National Security	
	(b) 4.1	
	(c) JI	
	(d) entry into force	
Sat	finish.	

Oversight

PREDECISIONAL DRAFT 11/2/97
INTERNAL US GOVERNMENT USE ONLY

DISCUSSION PAPER

This paper considers several ways of adjusting our position in the climate negotiations, to help shape a deal at Kyoto.

The paper does not assume that it would be desirable to adjust our position in the climate negotiations. Instead, the paper explores different ways in which we might do so, examining pros and cons. Furthermore, the paper does not attempt to package the discrete elements considered into a larger whole. Based on feedback from principals, larger packages and broader strategies will be developed.

I. TARGETS AND TIMETABLES

Our proposal -- 1990 levels by 2008-2012 and reductions in the five-year period that follows -- has attracted no international support. The prospects that such a target will be sufficient to convince key negotiating partners to accept other parts of our framework (i.e., flexibility and developing country participation) are very slim.

Following are possible compromise approaches on targets and timetables:

A. Accept "differentiated" targets

This is the term used to describe different targets for different Annex I countries. The idea has considerable support from some of our natural allies in the negotiating process (including Japan, Norway and Australia). During the past several months, Climate Convention Chairman Estrada has increasingly been saying that some form of differentiation will be required for an agreement at Kyoto. To date, the EU has opposed "differentiation" labeled as such, although their "bubble" is (in fact) a differentiation scheme.

1. Japanese proposal

The Japanese propose that all Annex I countries reduce emissions 0-5% from 1990 levels by 2008-2012. The precise amount each country must reduce would be determined based on rates of change in population growth, energy intensity and/or per capita emissions. Under the Japanese formula, both the U.S. and Japan would need to reduce emissions roughly 2.5%.

Pros

- Forging common ground with the Japanese could offer strategic advantage within the negotiations.

- Japanese reduction targets are not significantly different than our own. Japanese may have flexibility to move toward us.

- The Japanese proposal constrains the differentiation within a very narrow range, avoiding widely disparate targets for Annex I countries in this round of negotiations.

Cons

- Reductions from 1990 levels in 2008-2012 would be very difficult domestically.

- EU opposes differentiation-by-formula component of Japanese position.

- By accepting the principle of differentiation-by-formula, we could open a Pandora's box of proposals for different targets based on different national circumstances.

2. Differentiation by baseline year

Another approach is to have common reduction targets for all Annex I countries, but allow countries some discretion in choosing a baseline year. For example, Annex I countries could agree to reduce emissions by 7.5%, with countries free to pick any baseline year between 1987 and 1995.

Pros

- Could thread the needle between EU and US positions, meeting the EU's domestic political need to claim "significant reductions" while allowing U.S. to stay at target level we have already proposed.

- Providing some pre-1990 baseline flexibility would be helpful in gaining the support of the Economies in Transition.

Cons

- The 1990 baseline is one of the few points of agreement in the international negotiations.

- Could be attacked as a gimmick by the environmental community, while Congress and industry would need assurance that we were not in fact proposing anything more stringent.

3. Pledge and Negotiate

Another possibility is for each Annex I country to propose its own target, to be included in the agreement. Country A could insist on more from Country B before signing, but the negotiations would focus on individual country commitments, not commitments for Annex I as a whole.

Pros

- May be only feasible approach, in light of wide range in willingness of Annex I countries to commit to reductions.

Cons

- Would lead to fractured Convention, difficult to explain to public.

- If some Annex I countries pledge significantly less than the U.S., could make domestic implementation and consensus-building more difficult.

"Pledge and negotiate" could be combined with "differentiation by baseline year." Under such an approach, each country could express its pledge in terms of a baseline year and reduction target of its choosing.

B. Support Specific Reductions in 2013-2017

In his speech, the President proposed reductions from 1990 levels in 2013-2017, without specifying a number. We could propose a specific number for this period.

Pros

- Would be seen abroad as an indication of U.S. seriousness, especially if number were greater than 5%.

- Could put counter-pressure on the EU, whose long-term projections apparently raise concerns about their ability to meet a tough target in this timeframe (because of anticipated growth in eastern Germany and the possibility of future more Warsaw Pact countries joining the Union).

- Would be well-received by the domestic environmental community.

Cons

- Lose an important piece of leverage for any future round of negotiations with developing countries.

- Congressional and business reaction would likely be negative. Some supporters of the Byrd Resolution would oppose our signing up for second budget period before getting a commitment out of developing countries for a first.

C. **Exclude Certain Gases from U.S. Proposal**

The United States has proposed to include six major greenhouse gases (carbon dioxide, methane, nitrous oxide, HFCs, PFCs and SF-6) in our target. The EU and Japanese proposals do not include HFCs, PFCs and SF-6. These three gases have very high Global Warming Potentials. (SF-6 is roughly 25,000 times more potent than carbon dioxide.)

We could propose to drop HFCs, PFCs and SF-6 from our target. [According to some estimates, this would allow us to accept a 2-3 percent reduction below 1990 levels in the same 2008-2012 period at equivalent economic cost.]

Pros

- This could help provide the leeway to propose the reduction target we have been under pressure to produce internationally.

- By counting the same sources as the EU and Japan, it would allow for a fairer and more accurate comparative assessment of our proposal.

Cons

- U.S. manufacturers of HFCs, PFCs and SF-6 want these gases *included* in the agreement. (These manufacturers want to establish a regime in which required reductions in these three gases can be traded for reductions in carbon dioxide. They want to avoid a regime which leads to phase-outs targeted narrowly to these gases.)

- Getting other countries to *include* all six gases appears to be an area where we actually made some progress in Bonn. A "comprehensive" approach is a long-standing element of the U.S. position.

- Allowing unregulated growth in these gases would be bad for the environment.

Note: If we choose to maintain our current position, we may want to get more mileage out of doing so, both diplomatically and in the realm of public opinion. It seems that our "comprehensive approach" could be earning us some credit, particularly if it can be argued that this makes our proposal stronger than Japan's.

D. Support an Aspirational Target

We could accept a legally-binding target at roughly the level we have proposed and a more stringent, non-binding target.

Pros

- Could provide a way for EU politicians to claim that "significant reductions" were agreed at Kyoto.
- While ensuring a minimum standard of achievement across Annex I, would provide a vehicle for "greener" countries and environmental groups to continue to prod for steeper cuts.

Cons

- Internationally, this approach is unlikely to be viewed as credible, insofar as one of the defining features of these negotiations is "legally-binding targets."
- Domestically, could make everyone mad. Congress and much of the business community could be concerned that the non-binding target would translate into additional regulations and possible economic costs down the road. Many environmental groups could be concerned that non-binding targets would have limited meaning.

E. Adjust Methodologies for Sinks

White House and agency staff are intensively examining different opportunities related to the treatment of sinks. Although further work is needed, two options may be promising. They are:

1. Excluding "soil carbon" from the agreement. According to projections, U.S. soils will absorb roughly 30 MMT less carbon in 2010 than they did in 1990. However, methodologies for these calculations are highly uncertain. If "soil carbon" were excluded from the agreement, the U.S. reduction target would shrink by 30 MMT (approximately 7% of the emissions growth from 1990 to 2010).

2. Modified New Zealand Proposal. Under a proposal currently under discussion internationally, 1990 baselines for Annex I countries would be adjusted so as not to penalize countries (like the US) that were engaged in unusually high levels of forestation in that year. This requires further analysis, but could be helpful.

F. Strengthen our Existing Target

Flexibility: Agree to strengthen our existing target either by accepting reductions below the 1990 baseline in the 2008-2012 period or by moving up our timetable for stabilization (i.e. 2005-2012 or even 2005-2015).

Pros

Strengthening our target would help bridge the gap with the EU and gain support from the G-77 for other elements of our proposal. We would get more credit for accepting reductions below the 1990 baseline than for moving the timetable.

Cons

Given that the President has already announced our target and given the economic and political realities associated with it, it is unlikely that we could move far enough to make much of a difference.

Any agreement to reductions below the 1990 level seems improbable in the absence of new and compelling economic analysis that such reductions could be achieved without higher costs.

Opting for a 2005-2012 time frame seems almost equally hard. It might be possible to argue for the 2007-2013 or 2005-2015 possibility by playing both ends of the timetable (i.e. emphasizing the earlier start for environmentalists and the later end for industry).

II. FLEXIBILITY PROVISIONS

Our emissions trading proposals are winning only limited support abroad. Although there are reasonable prospects that Annex I emissions trading will be accepted by the Parties, significant restrictions on such trading are possible. These include (1) provisions requiring domestic emissions reductions to be the "main" means of meeting Party's commitments, (2) provisions limiting to trading to "Parties," and (3) restrictions that may emerge as methodologies for emissions trading are developed after Kyoto. In addition, support for joint implementation for credit is very limited. It appears very unlikely that Parties will agree at Kyoto to joint implementation for credit, except among Annex I countries and with those developing countries who "volunteer" for binding limits.

Note: The SGM model suggests that over 50 percent of U.S. reductions are likely to come from abroad.

- According to the SGM model, 55 percent of our reductions to reach 1990 levels by 2010 are likely to come from Annex I trading and 83 percent from Annex I trading plus non-Annex I reductions. (Two notes: First, the figures are lower if paper tons are not allocated to the former Soviet Union. Second, the model assumes worldwide trading -- not "JI.")

A very rough rule of thumb from the economic models is that every 10 percentage point increase in the share of reductions that must be done domestically (above those that would occur at home without any restriction) raises the domestic permit price by perhaps $10 to $20 per ton.

Restricting the share of reductions from international trading and/or JI would raise costs domestically, but would reduce concerns associated with capital transfers abroad.

III. PARTICIPATION OF DEVELOPING COUNTRIES

Our "evolution" proposal -- that developing countries agree to negotiate binding limits as part of a Kyoto protocol -- has no support from other countries and is dead. A weaker version -- under which Parties would decide at Kyoto to begin such negotiations under a document other than a protocol -- has some modest prospects for success. However, the terms for any such agreement are unlikely to be favorable. At this writing, it appears that the strongest possible mandate would be an agreement to aim to negotiate limits of some kind (i.e., not necessarily binding limits) by 2002 or 2003 at the earliest. Even this is far from certain.

In recent weeks, staff for Senator Byrd has been stressing that an "agreement to negotiate" is not satisfactory to the Senator and would not in the Senator's view address the concerns expressed in his resolution.

Other parts of the original U.S. proposal for developing country participation are meeting with somewhat greater success. There is now a reasonable chance that a protocol could include a "volunteers category" -- that is a section providing for non-Annex I countries to volunteer for commitments individually. Such action could give countries the right to participate in the global trading regime.

The current state of play raises two questions:

A. Which would be preferable: an "evolution" provision with a 2002/2003 end-date and soft "aim to negotiate" language, or no "evolution" provision at all?

- An evolution provision, however soft, could generate momentum internationally toward the participation of developing countries and help keep this issue on the agenda. It could be part of our explanation at home of the steps we are taking to engage developing countries.

- On the other hand, the terms of the mandate could become a constraint -- e.g., no *sooner* than 2002/2003. They could also underscore the unwillingness of developing countries to participate, while providing no benefit with Senator Byrd and his allies. Even getting a soft mandate would require a fair amount of diplomatic effort and perhaps concessions.

B. Is the U.S. prepared to return from Kyoto without any form of evolution provision but -- instead -- with an agreement on a "volunteers category" and plans to persuade key developing countries to "volunteer" before any protocol became binding in the U.S.?

- Bilateral discussions with key developing countries may bear more fruit than talks in the highly-politicized atmosphere of the Climate Convention. Success with a few key countries could help significantly both to address the environmental need and to respond to domestic political concerns.

- However, this approach could be viewed as inadequate by many at home and bad faith by many abroad. Could be especially difficult if no major developing countries indicate an interest in volunteering at Kyoto. The sequencing could be awkward, if we are asking key developing countries to sign onto commitments (e.g., in 1998 and 1999) before we decide to make our Kyoto commitments binding on ourselves.

oversight

EXECUTIVE OFFICE OF THE PRESIDENT

CONFERENCE ROOM RESERVATION REQUEST

JOB # ______

DATE OF MEETING: Nov. 12 1997

TIME RESERVED:

FROM: 6:30pm TO: 8:00pm

NAME OF INDIVIDUAL HOSTING/ATTENDING EVENT: Todd Stern	OFFICE/AGENCY: Staff Secretary
STAFF PERSON RESPONSIBLE FOR ROOM RESERVATION: Jonathan Adashek	EXTENSION: 6-2702

TYPE OF EVENT:

x MEETING __ RECEPTION __ OTHER ______

DESCRIPTION OF EVENT:

Climate change meeting

NUMBER OF ATTENDEES: 18

IN ATTENDANCE: __ *PRESIDENT* __ *FIRST LADY* __ *VICE PRESIDENT*

ROOM(s) REQUESTED:

__ RM #22 __ RM #180 __ RM # 450 __ RM #472 __ RM #474 (Indian Treaty Room) __ RM #476 x ROOSEVELT ROOM

GENERAL SERVICES:

____ ELEVATOR SERVICE ☐ #4 ☐ #6 ☐ #7

TIME RESERVED ______

FLOORS RESERVED ______

____ PODIUM

____ FLAGS

OTHER REQ: (Rm 1 Use Only)

SPECIAL ROOM ARRANGEMENTS:

____ THEATRE: Number of Chairs ____

____ CONFERENCE: Number of Table(s): ____ 8 ft ____ 10 ft

____ RECEPTION: Number of Tables(s): ____ 8 ft ____ 10 ft

____ OTHER ______

(Room Diagrams on Reverse Side)

WHITE HOUSE STAFF MESS REQUIRED: ☐ YES ☐ NO If Yes, Funding

☐ OFFICIAL ______ ☐ OTHER ______

OFFICE ACCOUNT

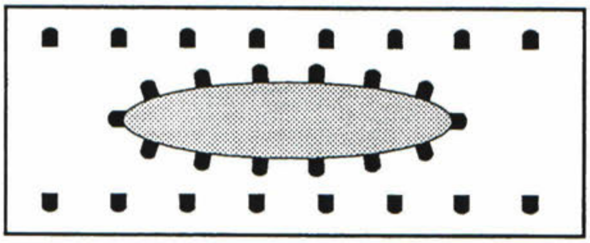
ADDITIONAL REQUIREMENTS OR REQUESTS :

FORMS MUST BE RETURNED TO ROOM 1, OEOB, **48 HOURS PRIOR TO EVENT**

OEOB 22

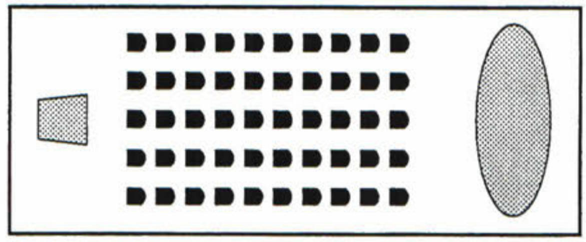
Option 1

Conference Style ∴ Seating Capacity - 30 ∴ No Podium



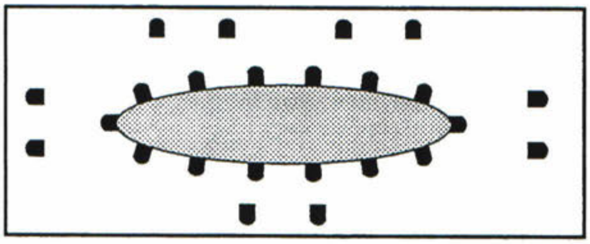
Option 2

Theater Style ∴ Seating Capacity - 50 ∴ Podium



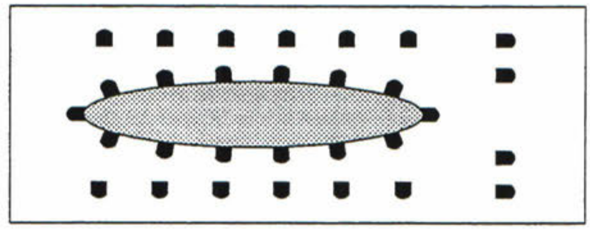
OEOB 180

Conference Style ∴ Seating Capacity- 27 ∴ No Podium ∴ NoFood/Beverage



OEOB 472/476

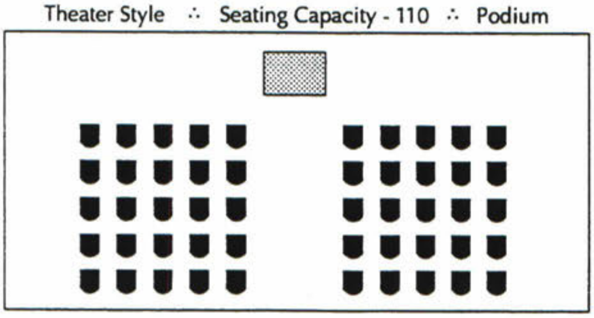
Conference Style ∴ Seating Capacity - 30 ∴ No Podium ∴ No Food/Beverage



OEOB 474
(Indian Treaty Room)

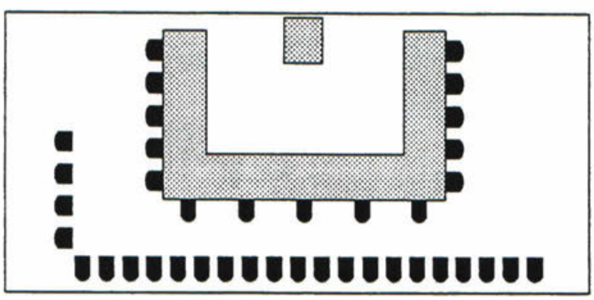
Option 1

Theater Style ∴ Seating Capacity - 110 ∴ Podium



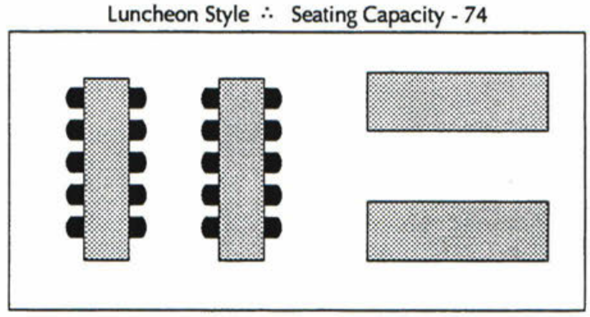
Option 2

U-Shaped Conference Style ∴ Seating Capacity - 70 ∴ Podium



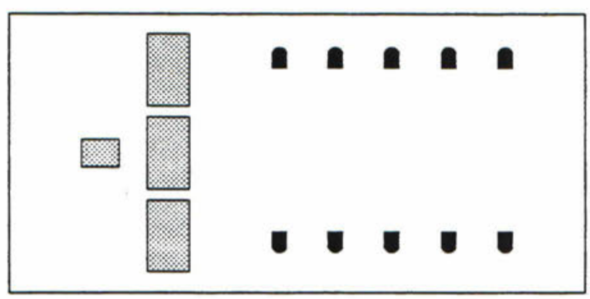
Option 3

Luncheon Style ∴ Seating Capacity - 74



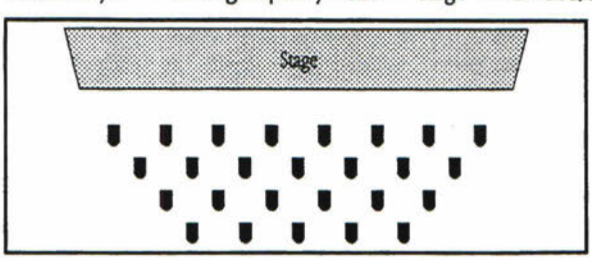
Option 4

Reception Style ∴ Capacity - 220 ∴ Podium



OEOB 450

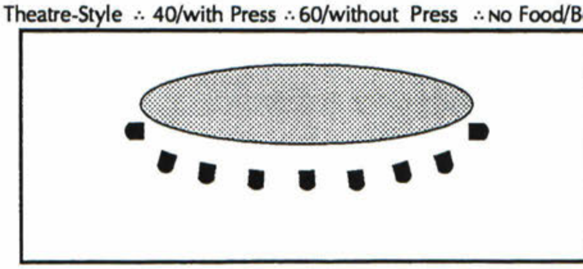
Theater Style ∴ Seating Capacity - 220 ∴ Stage ∴ No Food/Beverage



Conference Style ∴ Seating Capacity - 16 ∴ Total 23

Roosevelt Room

Theatre-Style ∴ 40/with Press ∴ 60/without Press ∴ No Food/Beverage



Climate Change Meeting Manifest
Roosevelt Room
12 November 1997

1. Todd Stern
2. Jim Steinberg
3. Katie McGinty
4. Gene Sperling
5. Dan Tarullo
6. Janet Yellen
7. Leon Fuerth
8. David Sandalow
9. Peter Orszag
10. Rafe Pomerance
11. Victoria Greenfield
12. Jonathan Gruber
13. Jeff Frankel
14. Bill Antholis
15. Nicholas Lapham
16. Jonathan Pershing
17. Larry Summers
18. Fred Hansen

oversight

EDF
ENVIRONMENTAL DEFENSE FUND

National Headquarters
257 Park Avenue South
New York, NY 10010
TEL: (212) 505-2100
FAX: (212) 505-2375

URGENT

PLEASE DELIVER TODAY

To: Gene Sperling
cc: Peter Orszag

Fax Number: (202) 456-2878
(202) 456-2223

From: Fred Krupp

Date: October 8, 1997

No. of Pages: 6 (Including cover)

Comments:

ENVIRONMENTAL DEFENSE FUND

1967 30 1997
YEARS

National Headquarters
257 Park Avenue South
New York, NY 10010
(212) 505-2100
Fax: 212-505-2375

Fred Krupp
Executive Director

October 8, 1997

Gene Sperling
National Economic Council
The White House
Washington, D.C. 20502

Dear Gene:

Enclosed are two documents: one, outlining EDF's suggestions on both the economic need for a mechanism to create incentives for early reductions; the second, an outline of how we believe such a system might be integrated into the Administration's climate proposal.

We believe creating this incentive for early action provides both a recognition of the urgency of the problem and the smartest way to insure that any economic impacts of our efforts will be minimized. I would welcome the opportunity to talk with you about this further.

At the same time, I want to make clear a very urgent concern I have about the proposed safety valve. It is in fact an escape valve from the environmental guarantee of a fixed cap. Domestically, it would undermine the early reduction strategy. Why invest today when the cost of future dollars and the guaranteed price ceiling make waiting more attractive? This strategy could well prevent the development of an emissions trading market itself, and, with it, incentives for innovation and new technology development. We believe the "cap" on cost will, in fact, become a <u>floor</u>, cheating companies of cheaper options. The net effect would be an unnecessary cost - or a tax - on U.S. businesses. Economically, this would do little more than reinstate much discredited price controls. Internationally, injecting this issue into the Kyoto negotiations might well convert this forum into an internal carbon tax negotiation, with all of the risks of capital and job flight that would present. I would very much like to discuss this with you before you resolve this issue.

Time is very short. You play a critical role in shaping the Administration's policy. I believe we both share a concern that our environmental goals be reached in a way that is economically efficient. I believe a cap and trade system, with credit for early reductions, and with an environmental target that can truly help us avert unconscionable environmental consequences is the best way to reach both goals.

Yours truly,

Fred Krupp

encl.

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(510) 658-8008

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1800 Guadalupe
Austin, TX 78701
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A STRUCTURE FOR "EARLY REDUCTIONS": Treatment Under International Protocol

1. As a matter of sovereign domestic policy, GHG Emissions Reductions Created Before the First Budget Period *May* be Awarded Emission Reduction "Credits" that Can Be Carried Forward into the First, or Subsequent, Budget Period(s).

2. Accounting for Credits Awarded in National GHG Emissions Budget: ***As Closely as Possible, "Early Reduction" Credits should be Accorded the Same Accounting Treatment with respect to emissions budgets established under a GHG protocol as the Transfer of GHG Emissions Reductions would be During the Budget Period.***

Joint Implementation - Credits Generated via Activities in Non-Annex I Countries Without Budgets:

Awarded Credits *Added* to Acquiring Nation's (first period) Budget

Joint Implementation - Credits Generated via Transactions with Annex I Countries and with Non-Annex I Countries with Budgets:

Awarded Credits *Added* to Acquiring Nation's (first period) Budget, ***provided that***

Transferring/Host Nation *Certifies* Reduction Transfer and *Subtracts* Transferred Reductions from *Its* (first period) Budget

Domestic Afforestation:

With Forest/ Sink Baseline, **Awarded Credits *Added* to (first period) Budget**

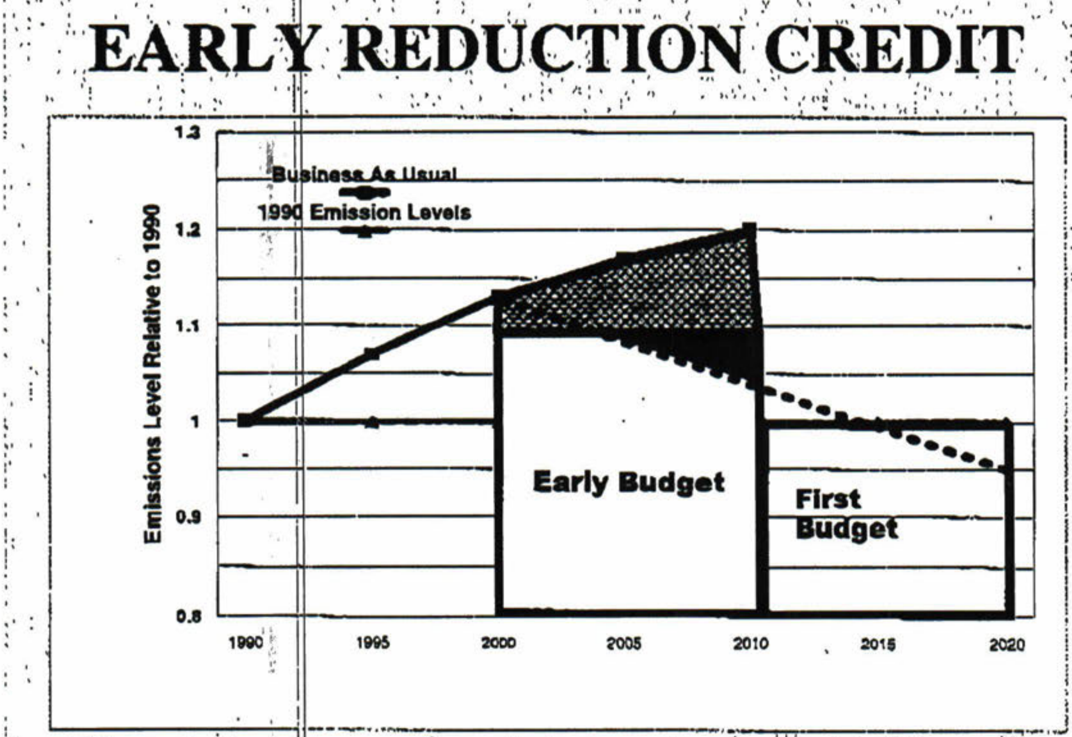
Without Forest/Sink Baseline, **Awarded Credits *Subtracted* from (first period) Budget**

Domestic Projects and "Company Caps":

In absence of sector- or economy wide GHG emissions budget or cap, **Awarded Credits *Subtracted* from (first period) Budget**

EARLY REDUCTION OF GREENHOUSE GAS EMISSIONS

The early reduction of greenhouse gas emissions is critical from both an economic and environmental perspective. Economically, early reductions begin the process of reducing emissions from "business-as-usual" growth to levels closer to GHG commitment levels established as part of the Kyoto Protocol process (see the Early Reduction Credit graph below. Note the dates and emissions budget levels are for illustrative purposes only).



To the extent that early reductions are produced, they lessen the burden on the economy by creating a more gradual path for emissions reductions over time and avoiding the need for precipitous change. From the individual company perspective, early reductions offer the opportunity to phase-in investments consistent with strategic plans, to build a compliance reserve of early emissions reductions, to gain valuable experience in anticipation of the new policy environment, and to influence both public opinion and the public policy process.

Environmentally, early reductions are important because these reductions represent emissions not in the atmosphere and not contributing to global warming.

The challenge is to create incentives for individual companies to produce early reductions prior to the first budget period. The succeeding sections describe a proposal to create such incentives.

Outline of a Voluntary Early Reduction Agreement

The basic incentive proposed in this agreement is that companies that produce early reductions would receive in the first legally binding budget period allowances or emissions reduction credits from the government for those early reductions. This incentive would operate in the context of a structure of mutual government and industry commitments.

The government would commit to insuring that any Kyoto Protocol submitted for ratification to the US Senate would contain the following elements:

- decadal emissions budgets
- comprehensive inclusion of all greenhouse gases, sources, and sinks
- international emissions trading
- banking and borrowing (for compliance purposes)
- joint implementation for credit
- developing country commitments.

In addition, the Administration would commit to granting allowances for early reductions as described below. The Administration could establish the commitment to provide credit for early reductions through:

- moral commitment
- executive agency contract
- legislative authority

Industry would commit to:

- join a voluntary GHG reduction pool, and
- either make financial expenditures on GHG reductions or achieve a specific GHG reduction.

The GHG reduction pool would:

- provide the government with a legal entity responsible for monitoring, tracking and reporting upon member companies' emissions performance
- enforce members' GHG commitments
- operate a GHG reduction trading system.

THE MECHANICS OF EARLY REDUCTIONS AND ALLOWANCES

The figure above describes the relationship between commitments, performance and crediting.

The basic commitment is expressed either as:

- a specific level of expenditure for the purpose of producing GHG reductions, or
- a specific GHG reduction commitment.

In either case, for purposes of determining qualification for Early GHG Reductions Credits (EGRCs), the number of tons reduced either through expenditure commitments or through actions stemming from reduction commitments, will be evaluated against the benchmark of 1990 emission levels plus 10% (again, for illustrative purposes only).

In order to qualify for EGRCs, emissions growth above the benchmark must be offset (shown as the cross-hatched area above). Offsets can be secured from any means acceptable to the pool including but not limited to:

- joint implementation (with or without early international credits)
- carbon sequestration
- emissions reductions from non-carbon sources
- efficiency improvements
- vehicle retirements
- fuel conversions
- transactions with nations or entities authorized to sell sovereign allowances
- transactions with other pool participants or non-pool participants if their reductions meet pool criteria.

Offsets or reductions below the benchmark qualify for EGRCs (shown as the shaded area above).

EGRCs will be provided by the government in the form of a guaranteed quantity of allowances taken from the first legally binding budget (see "First Budget" above in the diagram). This base quantity is termed the "pre-allocation". For example, the figure 10% or one year's equivalent emissions from the first decadal budget has been widely discussed. In addition, any joint implementation reductions that qualify for early international credit would also be added to the pre-allocation provided by the government since these would be added to the U.S. emissions budget.

The number of EGRCs to be converted into allowances would be determined in the aggregate on the basis of overall pool performance. For example, the shaded area shown in the figure above would be the number of EGRCs produced by pool participants. If this quantity is less than or equal to the pre-allocation, then these EGRCs would be directly converted into allowances.

However since the pre-allocation by the government may be limited and the number of EGRCs produced could be greater then the pre-allocation, an allocation rule for the transformation of EGRCs into allowances is required. The first step in this process is to determine the number of EGRCs. Irrespective of whether the pool participant has a monetary or tonnage reduction commitment, allocations will be based upon reductions produced relative to the benchmark, i.e.

{(1990 levels +10%) + Offsets} - (Cumulative Actual Emissions) = (Total EGRCs)

After the total number of EGRCs has been determined, this number needs to be compared to the pre-allocation plus any internationally creditable JI:

(Total EGRCs) - {(pre-allocation) + (Internationally Creditable JI)}

If the total number of EGRCs is less then the pre-allocation (PA) and the number of internationally creditable JI reductions (ICJI), then each of the EGRCs would be converted into an allowance for the first budget period. However, since the pre-allocation plus any internationally creditable JI may be oversubscribed, either priority access rules (first in time, first in allocation) or relative proportional allocation rules need to be adopted. Priority access would reward early participants while relative proportionality would reward the largest reductions.

A relative proportion rule would operate in the following manner:

{(PA + ICJI)/EGRCs} = Allowance Reward Rate

The allowance reward rate would be multiplied by the EGRCs produced by each of the pool entities to yield the specific allowance allocation for each pool member. By the above formula, the total number of allowances issued would exactly equal the pre-allocation plus the number of internationally creditable JI reductions.

A priority allocation rule would function as above with the exception that this calculation would be performed iteratively according to the date of participation in the pool such that early participants would receive the greatest benefit since their EGRCs would likely be discounted least.

Oversight

As negotiations of a new climate change protocol (or another legal instrument) proceed to their climax at COP-3 in Kyoto, mid-level-to-senior representatives of about 20 of the nations that are "major players" met in Tokyo on November 8-9. The purpose of the meeting was to attempt to bridge at least some of the major differences of opinion among those nations on key issues.

Among other things, the media reported (and others confirmed) that the E.U. representatives signalled the E.U.'s willingness to be somewhat flexible in Kyoto concerning its proposed QELROs: reduce emissions by 7.5% below 1990 levels by 2005 and reduce them by 15% below 1990 levels by 2010.

An exceptionally reliable source reports that, near the very end of the meeting, a State Department official (unnamed, but speculated as being either Under Secretary Wirth and/or Ambassador Hambley) indicated in essence that, if the E.U. would significantly move away from its position, the U.S. was prepared to be "flexible" concerning its proposed emissions cap *during the first budget period* (2008 through 2012).

It widely has been assumed that, especially since the U.S. position was announced by the President (rather than by a mid-level official) in a highly publicized appearance, the U.S. proposal for the *first budget period* was its "bottom line" *for that five-year period*, rather than a "negotiating position." It further has been assumed that any "wiggle room" in the U.S. position on QELROs would be found in the *second budget period* (2013 through 2017), since the President merely referred to an unquantified commitment "to reduce emissions below 1990 levels" in the second budget period.

Many nations are well aware of the rumor, which was widely circulated during the several hours before the President's speech, that he would propose reducing emissions 5% below the 1990 levels during the second budget period. Now, in view of the alleged DOS indication of flexibility, some are wondering whether, in order to accommodate the E.U.[1] and others, the United States would be willing to agree to a reduction of as much as 5% below 1990 levels *during the first budget period.*

---

1 It long has been assumed that the United States eventually would agree to the "E.U. bubble" in exchange for the E.U.'s agreeing to emissions trading among Annex I Parties. During the past week, it has been reported that Administration officials *already* have so informed the E.U.

DRAFT

Proposed Gameplan for the Kyoto Countdown

The chief message for all of the contacts is that the United States wants a successful outcome in Kyoto. With particular countries, we want to tailor our message based on the relevant issues and the level of the officials involved.

1. Presidential Action

- Pull-aside/bilateral at APEC with Jiang Zemin (necessity of Chinese participation in the Kyoto outcome)
- Pull-aside/bilateral at APEC with President Ramos (developing countries must be involved; urge support for inclusion of "Article 10" in the Kyoto agreement – voluntary adoption of binding emissions commitments; encourage support for JI; send clear signal to climate change negotiators to be constructive in Kyoto)
- Pull-aside/bilateral at APEC with President of Korea (urge Korean voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)
- Pull-aside/bilateral at APEC with President of Singapore (urge Singapore's voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)
- Pull-aside/bilateral at APEC with President Frei of Chile (urge support for inclusion of "Article 10" in the Kyoto agreement; encourage support for JI with credit and emissions trading)
- Pull-aside/bilateral at APEC with President Soeharto of Indonesia (developing countries must be involved; urge support for inclusion of "Article 10" in the Kyoto agreement; encourage support for JI)
- Possible Telephone call to PM Gujural of India as follow up to SecState visit (make clear that developing countries must be involved; encourage support for JI with credit)
- Possible telephone call to President Cardoso (urge Brazil to support for JI with credit; encourage support for proposed U.S. emissions target)
- Possible telephone calls to President Kohl, PM Blair, and the PM of Luxembourg (when appropriate as negotiations proceed, encourage compromise between U.S. and

EU that embraces realistic targets, flexibility mechanisms – emissions trading and JI with credit, and developing country involvement)

- (Watch out) Approach from Australia at APEC (will likely raise its need to have differentiated targets for developed countries; we have opposed that approach from the beginning; on most other climate change issues, we share similar views)

2. Vice Presidential Action

- Telephone call to President Mubarak (Egypt has shown some willingness to break away from other Arab states; seek support for JI with credit and meaningful role for key developing countries)

- Telephone call to Vice President Mbeki (South Africa will participate as a Party for the first time at Kyoto although it has attended negotiations as observer; seek to have South Africa influence other African nations to support JI with credit and the proposed U.S. emissions target)

- Telephone call to appropriate French PM Jospain (Encourage compromise between U.S. and EU that embraces realistic targets and flexibility mechanisms – emissions trading and JI with credit, and developing country involvement)

- Possible telephone call to Russian PM Chernomyrdin (Russian adoption of treaty essential; if necessary, seek support for U.S. emissions target, JI with credit and emissions trading; may have to address "paper tons" issue)

- Possible telephone call to U.K. Deputy PM Prescott (Follow up on Prescott's recent Washington visit; encourage compromise between U.S. and EU that embraces realistic targets and flexibility mechanisms – emissions trading and JI with credit, and developing country involvement)

3. Secretary of State Action

- Bilateral with Indian Prime Minister (also Minister of External Affairs) Gujural (make clear that developing countries must be involved; encourage support for JI with credit)

- Pull-aside/bilateral at APEC with Mexican Foreign Minister (follow up on Presidential visit to Washington; urge Mexican voluntary accession to Kyoto agreement to take on binding emissions limitations; encourage support for JI with credit and emissions trading)

- Telephone call to Prince Bandar (acknowledge Saudi concerns over climate change agreement; urge them to stop their obstructionist ways and to support the proposed U.S. emissions target as it is the most realistic and sensible)

- Telephone call to either Kuwait PM and Crown Prince Shaykh Saad Al-Abdallah Al-Sabah or FM and First Deputy PM Shaykh Sabah Al-Ahmad Al-Sabah (acknowledge Kuwaiti concerns over climate change agreement; urge them to stop their obstructionist ways and to support the proposed U.S. emissions target as it is the most realistic and sensible)

4. Action by U/S Wirth

- Telephone call to Italian Deputy FM (Italians have been helpful and might have some influence in EU; encourage support for JI with credit, emissions trading and reasonable target)

- Telephone call to Swedish Deputy FM (Swedes have indicated support for JI; encourage support for JI with credit, emissions trading and reasonable target)

- Telephone call to appropriate Thai official (developing countries must be involved; urge support for inclusion of "Article 10" in the Kyoto agreement; encourage support for JI)

5. Action by Treasury U/S Larry Summers

- Telephone call to appropriate Korean official (urge Korean voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)

- Telephone call to appropriate Brazilian official (if necessary, shore up Brazil's support for JI with credit; encourage support for proposed U.S. emissions target)

- Telephone call to appropriate Singapore official (urge Singapore's voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)

- Telephone call to appropriate German official (encourage consideration of realistic U.S. emissions target; encourage compromise between U.S. and EU on market-based mechanisms – emissions trading and JI with credit and developing country involvement)

7. Action by Acting A/S Kimble, and DAS Pomerance

- Various APEC discussions - Kimble (use occasion of APEC to raise issues with Annex I and non-Annex I countries, as appropriate)
- Bilateral visit to Brazil - Pomerance (seek Brazil support for merged JI proposal; secure agreement that it will support proposal in Kyoto)
- Call in Israeli Embassy official to Department and telephone call to appropriate Israeli official - Pomerance (encourage consideration of "Article 10" status; urge support for U.S. proposal – target level and timeframe, emissions trading, JI with credit)
- Telephone call to Senegalese negotiator, Bakary Kante - Pomerance (Plays somewhat prominent role in negotiations; could be useful with other francophone African countries to support JI with credit and reasonable U.S. target proposal)
- Lunch in New York - Pomerance (?)/Telephone calls to appropriate Bahamanian and Trinidad and Tobagan official (have relatively high per capita GDPs; could ask them to demonstrate their commitment to addressing climate change by signing up for "Article 10")

<u>Other possible countries/opportunities</u>

- Venezuela
- Argentina
- Visit of Sir Leon Brittain
- U.S.-EU Summit, December 5

Oversight mtg

A Proposal for Coordinating Brazil and U.S. Positions on JI

Key Features of U.S. and Brazil Proposals

- U.S. JI would consist of bilateral negotiations between Annex I nations and LDCs over projects. The emissions reductions from those projects would be scored by the investing nation (e.g. the U.S.), subject to a set of internationally negotiated guidelines. The credits from the emissions reductions would accrue in some ratio to the company and to the host country, depending on negotiations.

- This plan has been criticized by developing countries on three grounds:

  - The developing nations have control over scoring additionality
  - The companies have, at least thus far, garnered much of the credits from emissions reductions
  - There is no interest in smaller projects in many underdeveloped nations - there is an excess supply of projects available with no Annex I partner interested

- The Brazil proposal would instead impose a mandatory non-compliance fee on Annex I firms at some pre-arranged level (e.g. $10/ton), flowing into a "Clean Development Fund" that would guide the revenues towards projects in LDCs. In this sense, the CDF provides an "international safety valve", with countries that exceed their targets able to buy the extra emissions at a low price. This proposal addresses all of the concerns raised above, the last through having a selection process for LDC projects that ensures a wide distribution of dollars.

- This plan runs into enormous domestic political difficulties:

  - Both the safety valve aspect of this proposal, and the large cash transfers from the U.S. to LDCs, would cause substantial domestic problems.
  - The loss of market-based allocation would cost us the support of U.S. firms who place substantial value on low cost opportunities through JI

Key Features of Compromise

Regional Bodies for Scoring, Administration, and Bundling: The program would be administered by a set of several regional multilateral organizations, perhaps under the auspices of the World Bank. To move in the direction of Brazil, these could be called "Clean Development Funds" (CDF). The CDFs would serve several functions:

- Scoring of emissions reductions from proposed projects
- Administration of the program, funded by a small fee on each transaction
- "Bundling" of proposed projects into a pool from which Annex I nations can purchase either individual projects, or a share of the entire bundle (e.g. securitization)

Membership and control of the CDFs would include a serious representation from LDCs, but we would ensure that their control could lead to neither the U.S. nor any other Annex I nation from being "blackballed" from participation in a JI project.

Retain Scope for Bilateral Transactions: If individual companies and countries have a bilateral JI transaction, they would have to go through the CDF for scoring, but would otherwise proceed as a traditional JI transaction.

Credit Accrues to Developing Country: The LDC would receive the credits for the scored reduction in emissions. The market would then determine what share of those credits accrue to US firms. If there is strong opposition to this allocation either domestically or internationally, we could set some parameters on the minimum or maximum shares that can accrue to Annex I firms.

Key Question: What level of allocative responsibility is given to the CDF?

- Under the Brazil proposal, there is completely centralized project selection; funds that accumulate in the CDF are directed by a centralized board to projects throughout the developing world. Criteria for selecting projects is vague at this point.

- This is presumably a domestic non-starter. On the other hand, at least some of the developing countries are very concerned about directing investment towards all participating countries

- There are a number of compromises that we could strike between complete centralization and the completely decentralized project selection envisioned by US JI. For example, a given emissions reduction could be "worth more" credit in particular nations; perhaps credits per ton of reduction could be a function of GDP per capita or some other index of development. Alternatively, different standards may emerge between the regional CDFs to accomplish this implicitly.

Other Issues to Be Resolved

Initial Capitalization? Would the CDF be initially capitalized, so that countries are reimbursed as their project is submitted to the CDF, instead of waiting for a taker? If so, with cash, or permits that are internationally tradeable (the latter is obviously more domestically palatable).

Domestic Content? What share "foreign" would the investment have to be to qualify for credits? The original US proposal was zero (i.e. domestic only projects qualified); this has been subsequently rejected, but there is no conclusion as to a maximal domestic content

Conditionality? If this system is very attractive to LDCs, it could have the negative ramification of delaying their adoption of binding targets. Should we condition the ability to participate in such a scheme on, for example, moving into Annex B by some date certain?

Timing of Payments? Are the payments made when the project is scored, or only over time as the project actually reduces emissions?

How it Would Work - Some Examples

Bilateral: A province in China needs a new source of electricity generation. They put the contract out to bid to U.S. firms, offering one-half of the credits for emissions reductions to the firm that can provide the most efficient design. Once they have a winning bid, they submit it to the CDF for scoring (they could also submit several of the bids to have the organization score the winner). The CDF then provides them with credits for the scored emissions reductions, which are split with the U.S. firm. The U.S. firm uses these credits to meet their domestic obligation, or sells them on the international market. The LDC sells them on the market.

Centralized: A province in Kenya has a domestic plan to build a new, small, power plant, but there is no international interest in fulfilling the contract It submits the domestic plan to the CDF, and it is scored as providing some reduction. The Kenya project then goes into the regional CDF's portfolio, and provides a low cost opportunity for a U.S. firm to purchase emissions reductions. The Kenyan project may even be provided at a subsidized low price, in order to promote investment there. An open question in this context is whether Kenya would receive cash/credits on application or only once a partner is found for their project.

Domestic and International Political Ramifications

Domestically, so long as the CDFs require no congressional appropriation, the proposal could be viable, although we may still be vulnerable to natavistic demagouging through our creation of new multilateral organizations. The key opposition will arise from U.S. firms who like the current form of JI, if they feel that the control exerted by these organizations will make JI more difficult. This opposition should be muted if the firms are convinced that it is this type of proposal or nothing.

The LDC reaction is unpredictable. This approach meets the LDC demand for a multilateral monitoring organization in which they can participate. But it leaves allocation largely to the market, which may cause a problem for many smaller LDCs.

Broader Question

How far are we are willing to compromise on our desired JI plan, relative to adopting a two-step process on JI, whereby we would not include any provisions in the Kyoto agreement, but would not ratify until we achieved a more satisfactory JI plan.

oversight + mtg

Recap on Target Issues

Current decisions on target issues are as follows:

- **Differentiation by baseline year.** Going to another baseline year (e.g., average of 1990-95, or choosing any year between 1987-96) as a way of stating our target as a reduction without actually changing it would be fine. Negotiators free to go down this road, though we recognize that moving off 1990 at this point seems unlikely.

- **Differentiation -- Japanese proposal.** Do not indicate support at this time. Could consider in end game if tweaked so as not to require actual reduction off current U.S. target.

- **Differentiation -- "pledge and negotiate".** Do not indicate support at this time. Could consider in end game, depending on what a proposal actually looked like.

- **Actual reduction below 1990 in first budget period.** No flexibility on this at this time. There may not be any in the end game either. Further instructions would be required before any movement off this position.

- **Reduction in second budget period.** Do not indicate support at this time. No decision yet on whether we could move here in end game.

  Pro: *might allow us to close deal with EU without accepting a reduction in first budget period.* ***Con:*** *would forfeit leverage for getting developing countries to accept binding targets in a second budget period; could subject us to intense criticism on Hill that we not only accepted targets when LDCs didn't, but did so for two budget periods.*

- **Six gases vs. three gases.** Stick with our six-gas position. Use fact that this represents several percentage points more than the EU three-gas position as a negotiating point, but do not adopt three-gas position as part of a move by us to a reduction target.

- **Sinks.** We potentially have flexibility to try to pick up a few percentage points through, e.g., excluding soil carbon from the protocol or through a modified New Zealand approach. But we need more analysis, particularly of how the modified New Zealand approach would work. This can be dealt with at Working Group level.

Oversight mtg

Agenda
November 15 Meeting on Climate Change
2:30 p.m.

I. <u>Modified Brazil/JI Proposal</u>

II. <u>Brief Recap of Target Issues</u>

III. <u>Next steps</u>

- Papers tasked to State

  -- Game plan
  -- Options for a process outcome
  -- Substantive issues:

    - Developing countries
    - Russian tons
    - Entry into force
    - National Security
    - Policies and Measures
    - Banking and borrowing

  -- Reservations

- Meeting schedule

  -- *Working Group* (daily)

  -- *Oversight Group*

    Nov. 19 2 pm (Roosevelt Room)
    Nov. 21 11 am (Roosevelt Room)
    Nov. 22 (if necessary)

Oversight Mtgs

EXECUTIVE OFFICE OF THE PRESIDENT
CONFERENCE ROOM RESERVATION REQUEST

JOB # ______

DATE OF MEETING: 17 November 1997

TIME RESERVED:

FROM: 11:00 TO: 12:30pm

NAME OF INDIVIDUAL HOSTING/ATTENDING EVENT: Todd Stern

OFFICE/AGENCY: Staff Secretary

STAFF PERSON RESPONSIBLE FOR ROOM RESERVATION: Jonathan Adashek

EXTENSION: 6-2702

TYPE OF EVENT:

_X_MEETING ___RECEPTION ___ OTHER ______

DESCRIPTION OF EVENT:

Climate change meeting

NUMBER OF ATTENDEES: 18

IN ATTENDANCE: ___ *PRESIDENT* ___ *FIRST LADY* ___ *VICE PRESIDENT*

ROOM(s) REQUESTED:

___ RM #22 ___ RM #180 ___ RM # 450 ___ RM #472 ___ RM #474 (Indian Treaty Room) ___ RM #476 _X_ ROOSEVELT ROOM

GENERAL SERVICES:

______ ELEVATOR SERVICE ☐ #4 ☐ #6 ☐ #7

TIME RESERVED ______

FLOORS RESERVED ______

______ PODIUM

______ FLAGS

OTHER REQ: (Rm 1 Use Only)

SPECIAL ROOM ARRANGEMENTS:

______ THEATRE: Number of Chairs ______

______ CONFERENCE: Number of Table(s): ______ 8 ft ______ 10 ft

______ RECEPTION: Number of Tables(s): ______ 8 ft ______ 10 ft

______ OTHER ______

(Room Diagrams on Reverse Side)

WHITE HOUSE STAFF MESS REQUIRED: ☐ YES ☐ NO If Yes, Funding

☐ OFFICIAL ______ ☐ OTHER ______

OFFICE ACCOUNT

ADDITIONAL REQUIREMENTS OR REQUESTS :

FORMS MUST BE RETURNED TO ROOM 1, OEOB, **48 HOURS PRIOR TO EVENT**

Climate Change
Meeting Manifest
17 November 1997
11:00am - 12:30pm

1. Todd Stern
2. Jim Steinberg
3. Dan Tarullo
4. Katie McGinty
5. Gene Sperling
6. Janet Yellen
7. Leon Fuerth
8. David Sandalow
9. Peter Orszag
10. Rafe Pomerance
11. Victoria Greenfield
12. Jonathan Gruber
13. Jeff Frankel
14. Bill Antholis
15. Nicholas Lapham
16. Jonathan Pershing
17. Fred Hansen
18. Dan Reifsnyder

EXECUTIVE OFFICE OF THE PRESIDENT

CONFERENCE ROOM RESERVATION REQUEST

JOB # ______

DATE OF MEETING: 19 November 1997

TIME RESERVED: FROM: 11:00 TO: 12:30pm

NAME OF INDIVIDUAL HOSTING/ATTENDING EVENT: Todd Stern

OFFICE/AGENCY: Staff Secretary

STAFF PERSON RESPONSIBLE FOR ROOM RESERVATION: Jonathan Adashek

EXTENSION: 6-2702

TYPE OF EVENT: _X_MEETING ___RECEPTION ___ OTHER ______

DESCRIPTION OF EVENT: Climate change meeting

NUMBER OF ATTENDEES: 18

IN ATTENDANCE: ___ *PRESIDENT* ___ *FIRST LADY* ___ *VICE PRESIDENT*

ROOM(s) REQUESTED: ___ RM #22 ___ RM #180 ___ RM # 450 ___ RM #472 ___ RM #474 (Indian Treaty Room) ___ RM #476 _x_ ROOSEVELT ROOM

GENERAL SERVICES:

___ ELEVATOR SERVICE ☐ #4 ☐ #6 ☐ #7

TIME RESERVED ______

FLOORS RESERVED ______

___ PODIUM

___ FLAGS

OTHER REQ: (Rm 1 Use Only)

SPECIAL ROOM ARRANGEMENTS:

___ THEATRE: Number of Chairs ___

___ CONFERENCE: Number of Table(s): ___ 8 ft ___ 10 ft

___ RECEPTION: Number of Tables(s): ___ 8 ft ___ 10 ft

___ OTHER ______

(Room Diagrams on Reverse Side)

WHITE HOUSE STAFF MESS REQUIRED: ☐ YES ☐ NO If Yes, Funding

☐ OFFICIAL ______ OFFICE ACCOUNT ☐ OTHER ______

ADDITIONAL REQUIREMENTS OR REQUESTS :

FORMS MUST BE RETURNED TO ROOM 1, OEOB, **48 HOURS PRIOR TO EVENT**

Climate Change
Meeting Manifest
19 November 1997
2:00pm - 3:30pm

1. Todd Stern
2. Jim Steinberg
3. Dan Tarullo
4. Katie McGinty
5. Gene Sperling
6. Janet Yellen
7. Leon Fuerth
8. David Sandalow
9. Peter Orszag
10. Rafe Pomerance
11. Victoria Greenfield
12. Jonathan Gruber
13. Jeff Frankel
14. Bill Antholis
15. Nicholas Lapham
16. Jonathan Pershing
17. Fred Hansen
18. Dan Reifsnyder

EXECUTIVE OFFICE OF THE PRESIDENT

CONFERENCE ROOM RESERVATION REQUEST

JOB # ____

DATE OF MEETING: 21 November 1997

TIME RESERVED: FROM: 11:00 TO: 12:30pm

NAME OF INDIVIDUAL HOSTING/ATTENDING EVENT: Todd Stern	OFFICE/AGENCY: Staff Secretary
STAFF PERSON RESPONSIBLE FOR ROOM RESERVATION: Jonathan Adashek	EXTENSION: 6-2702

TYPE OF EVENT:

_X_ MEETING ___ RECEPTION ___ OTHER ____

DESCRIPTION OF EVENT:

Climate change meeting

NUMBER OF ATTENDEES: 18

IN ATTENDANCE: ___ *PRESIDENT* ___ *FIRST LADY* ___ *VICE PRESIDENT*

ROOM(s) REQUESTED:

___ RM #22 ___ RM #180 ___ RM # 450 ___ RM #472 ___ RM #474 (Indian Treaty Room) ___ RM #476 _X_ ROOSEVELT ROOM

GENERAL SERVICES:

___ ELEVATOR SERVICE ☐ #4 ☐ #6 ☐ #7

TIME RESERVED ____

FLOORS RESERVED ____

___ PODIUM

___ FLAGS

OTHER REQ: (Rm 1 Use Only)

SPECIAL ROOM ARRANGEMENTS:

___ THEATRE: Number of Chairs ___

___ CONFERENCE: Number of Table(s): ___ 8 ft ___ 10 ft

___ RECEPTION: Number of Tables(s): ___ 8 ft ___ 10 ft

___ OTHER ____

(Room Diagrams on Reverse Side)

WHITE HOUSE STAFF MESS REQUIRED: ☐ YES ☐ NO If Yes, Funding

☐ OFFICIAL ____ OFFICE ACCOUNT ☐ OTHER ____

ADDITIONAL REQUIREMENTS OR REQUESTS :

FORMS MUST BE RETURNED TO ROOM 1, OEOB, **48 HOURS PRIOR TO EVENT**

Climate Change
Meeting Manifest
21 November 1997
11:00am - 12:30pm

1. Todd Stern
2. Jim Steinberg
3. Dan Tarullo
4. Katie McGinty
5. Gene Sperling
6. Janet Yellen
7. Leon Fuerth
8. David Sandalow
9. Peter Orszag
10. Rafe Pomerance
11. Victoria Greenfield
12. Jonathan Gruber
13. Jeff Frankel
14. Bill Antholis
15. Nicholas Lapham
16. Jonathan Pershing
17. Fred Hansen
18. Dan Reifsnyder

Rolbert strategy

Climate change
September 19, 1997

Issues

1. Domestic implementation
2. Revenue recycling
3. Technology
4. Early credit
5. Targets and timetables
6. Joint implementation
7. Escape clauses
8. Enforcement
9. Border tax adjustments
10. Economic analysis
11. Diplomatic strategy

Work plan

September 18	WH staff meeting with POTUS
September 19	Oversight meeting on Conference
September 22	POTUS UN Speech/UNGA
	Oversight meeting on economic analysis
	Memorandum on sources of emissions submitted to POTUS
September 23	Oversight meeting on revenue recycling
September 25	Oversight meeting on POTUS memo
September 26	Oversight meeting on enforcement and border tax adjustment
September 29	Oversight ~~meeting on~~ technology program
	Memo submitted to POTUS
	~~POTUS returns~~
September 30	POTUS meeting
October 6	White House conference on climate change
October 6-10	POTUS makes final decisions on U.S. position for Kyoto and beyond
OCTOBER 10	**PUBLIC ANNOUNCEMENT OF U.S. NEGOTIATING POSITION FOR KYOTO**
October 12-19	POTUS visit to Latin America
October 20	Negotiations begin in Bonn
October 29	Chinese state visit
November	Intense diplomatic campaign, formulating precise negotiating instructions, working with domestic constituencies, and examining post-Kyoto scenarios
DECEMBER 1-12	**KYOTO**

Policy Rollout

CLIMATE CHANGE TO DO LIST
October 27, 1997

1. Specifying $5 billion package -- precise details

   A. Check in with Treasury and Karl
   B. Letter from Holdren
   C. DOE proposals

2. Federal procurement -- follow-up, with Executive Order

   A. DOE
   B. TJ

3. Electricity restructuring -- complete internal Administration process

   A. Next principals meeting scheduled for later this week

4. Setting concentration goal -- follow up with National Academy, make clear U.S. position internationally

   A. Rosina

5. Oversight of Bonn -- regular TDS meetings

6. Press effort: hitting back on attacks

   A. Todd/Nicholas

7. Distribution to Hill

   A. Todd

8. Military exemption

   A. David

Industry

AT&T

Braden R. Allenby, J.D., Ph.D.
Environment, Health & Safety
Vice President

Room 4B42
20 Independence Blvd.
Warren, NJ 07059-6746
908 580-5800
FAX 908 580-6633
EMAIL ballenby@att.com

October 9, 1997

Todd D. Stern
Assistant to the President and Staff Secretary
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

'97 OCT 14 AM 11:12

Dear Mr. Stern:

Thank you for including AT&T as a member of the industry advisory meeting on global climate change held at the White House on September 26.

In response to your request for additional input on how further corporate initiatives could reduce carbon emissions we wish to offer the following:

- Significant voluntary actions are in place and are being monitored for effectiveness. These include Climatewise, GreenLight and Energy Star Buildings.
- The voluntary contributions should be acknowledged and factored into future goals established in Kyoto.
- One of the ways in which a corporation can demonstrate voluntary reduction in carbon emissions is through adopting telecommuting policies for their employees. Last year alone, over 45,000 AT&T employees used teleworking arrangements, reducing carbon output by an estimated 80,000 tons. Savings accrued from these policies should be included in overall corporate contributions to carbon reductions.

Thank you for the opportunity to comment as you work through the complex issues of negotiating an international treaty to address global climate change.

Sincerely yours,

Brad Allenby

Brad Allenby

Oversight

Agenda
November 17 Working Group Meeting on Climate Change
3:30 p.m.

I. <u>Game Plan</u>

II. <u>Process Outcome</u>

III. <u>Substantive Issues</u>

Papers Received

- Developing countries
- Entry into force
- Policies and Measures
- Reservations

Papers to come

- Russian tons
- National Security
- Banking and borrowing

IV. <u>Meeting schedule</u>

Working Group (daily)
Oversight Group

Nov. 19 2 pm (Roosevelt Room)
Nov. 21 11 am (Roosevelt Room)
Nov. 22 (if necessary)

oversight

Reservations

- The draft protocol currently contains a "no reservations" clause.

- A footnote makes clear that a country, namely us, objected to the clause.

- In the absence of a "no reservations" clause, the rules governing reservations would be those found in the Vienna Convention on the Law of Treaties, which reflects customary international law in this area:

  - In essence, a State would be able to make a reservation, unless it were "incompatible with the object and purpose of the treaty."

- Since the 1992 Framework Convention on Climate Change, which contains a "no reservations" clause, the Senate has become increasingly concerned about such clauses, which it believes impinge on its Constitutional prerogatives regarding advice and consent.

  - Most recently, in the resolution approving the Chemical Weapons Convention, the Senate expressed its (non-binding) view that the Executive Branch should not negotiate treaties with "no reservations" clauses.

- As noted above, there is no international support for deleting the "no reservations" clause in the protocol:

  - Most countries do not have a separation of powers issue.

  - Most countries suspect our motives for wanting to allow -- in addition to all our other proposals for "flexibility" -- the ability to make reservations.

- We are left with three options:

  - Oppose the protocol because it contains a "no reservations" clause.

  - Continue to oppose the "no reservations" clause (to show the Senate that we tried), but ultimately live with it.

  - Seek to negotiate a limited "no reservations" clause that would permit reservations to be made to certain articles (presumably not including the target).

- In terms of the relative merits of the last two options, it needs to be considered:
  - -- whether we would support opening the door to reservations from other countries;
  - -- whether the Senate would view the ability to make limited reservations (but not to the target) to be any more valuable than a complete prohibition on reservations; arguably, a reservation to the target would be incompatible with the object and purpose of the protocol in any event.
- The question has been raised whether it might be possible to deal, through reservations, with the developing country linkage and/or the national security issue.

Developing Countries

- Concerning the developing country linkage, it has been suggested that the United States might seek to link fulfilment of its commitment with developing country action through a reservation.
- Even assuming that we were to pursue the limited "no reservations" approach, it is highly unlikely that reservations would be permitted to Article 3 (the target).
- Indeed, even if the "no reservations" clause were deleted entirely, linking our commitment to developing country action would be unlikely to be consistent with the requirement that reservations not be incompatible with the object and purpose of the treaty.
- The only way to allow for a reservation along the lines above would be to specifically provide in the Protocol that reservations could be taken for that purpose. It is unlikely that such a clause could be negotiated, given that setting up developing country action as a precondition for fulfilment of the Annex I obligation goes beyond even our "evolution" proposal.

National Security

- It has been suggested that the United States might seek to deal with the national security issue through a reservation.

?

- As with the developing country linkage above, even assuming that we were to pursue the limited "no reservations" approach, it is highly unlikely that reservations would be permitted to Article 3 (the target). Thus, dealing with this issue through a reservation is unlikely.

- If, hypothetically speaking, the "no reservations" clause were deleted entirely, excluding certain national security-related emissions might meet the requirement that reservations not be incompatible with the object and purpose of the treaty.

- Alternatively, it might be agreed in the protocol that such a reservation could be taken. (Note that this would be tantamount to agreeing the protocol on the exception, which would be preferable.)

- In order to meet DOD's objective of excluding such emissions also from other countries' obligations, they would also need to take such a reservation when signing or joining the protocol. Assuming such a reservation could be coordinated among like-minded countries, there would still be an issue of countries that did not accept such a reservation (unless, as noted above, such a reservation were explicitly permitted). The resulting legal situation would be murky.

- The only way to allow for a reservation along the lines above would be to specifically provide in the Protocol that reservations could be taken for that purpose. It is unlikely that such a clause could be negotiated, given that setting up developing country action as a precondition for fulfilment of the Annex I obligation goes beyond even our "evolution" proposal.

Again,

Draft #4

Developing Country Options

- o Assuming the Protocol contains an Article 10 (i.e., voluntary commitments) but does not contain an article on "evolution," the question arises what else, if anything, do we need.

- o As a matter of substance, an issue is whether the developing country action is linked to U.S. commitments for the first budget period, second budget period, or both.

- o In terms of process, options fall into three basic categories:

  - -- unilateral options;

  - -- multilateral options that require the agreement of all parties; and

  - -- multilateral options that do not require the agreement of all parties.

- o A unilateral option could also be combined with one of the multilateral options.

Unilateral Options

- o An example of a unilateral option would be for the Executive Branch to state that the U.S. would not take on legally binding obligations until key developing countries had made clear their intent to join Article 10. (Note that the U.S. could sign earlier; we just would not submit the protocol to the Senate.)

- o Advantages of unilateral options are that:

  - -- they are the easiest to achieve, in that they do not require the concurrence of any other country;

  - -- they are the most flexible, in that the Executive Branch can judge when the linkage has been met (e.g., in the above example, which countries are "key").

- o The potential disadvantage is that there is no agreed document to show that developing countries intend to move in this direction or even that other developed countries agree with our linkage/expectation.

Multilateral Options Requiring Consensus

- o An example of such an option is a decision of the Parties at Kyoto, which would require consensus.

- A decision could establish a mandate for future negotiations:

  - -- a bland "mandate" could call for negotiations by a date certain, without specifying what kind of commitments we are seeking from developing countries;

  - -- a specific "mandate" could call for negotiations by a date certain and also specifies the kind, and date for implementation, of commitments we are seeking (e.g., legally binding emissions targets) and from which countries we are seeking them (e.g., countries with certain percentage of global emissions).

- Alternatively, a decision could more generally call for a review of adequacy of commitments, without actually saying that negotiations on developing country commitments would follow from such a review.

  - -- The latest EU approach is a decision in Kyoto to review the adequacy of commitments under Article 7(2)(a) of the Convention by a date certain.

- Although there are theoretical advantages to a consensus document, it is extremely unlikely that anything that could be agreed to by all parties would be worth much. It might even be harmful:

  - -- Developing countries would likely seek to load up any mandate with all kinds of elements unacceptable to us (e.g., additional Annex I commitments, financial and technology transfer requirements).

  - -- Even a decision limited to a "review of adequacy" could come back to haunt us; unless it specifically provided otherwise, it could be open-ended enough to include renegotiation of our first budget period commitment.

- Further, even if we were to achieve a consensus agreement on a future process, that document in and of itself would not create the kind of linkage that the President set up. (In other words, establishing a future negotiating process does not necessarily mean that Annex I Parties will not implement their Kyoto commitments until that process has taken place.)

(5)

Multilateral Options Not Requiring Consensus

- An example of such an option would be a "Declaration" among like-minded countries at Kyoto expressing the expectation that key developing countries will join Article 10.

- An advantage of such an option is that, while the international document would not reflect the agreement of the countries at issue, it could show some international backing for whatever our domestic linkage is.

Other

- It has also been suggested that the United States might seek to link fulfilment of its commitment with developing country action through a reservation.

- The text currently contains a "no reservations" clause. Although the U.S. has opposed this clause (due to escalating Senate concerns about such clauses, which the Senate believes infringe on its Constitutional prerogatives), no other country supports deletion of the clause.

- Even if the clause were deleted, customary international law, as reflected in the Vienna Convention on the Law of Treaties, would limit permissible reservations to those that do not defeat the object and purpose of the treaty; a reservation along the lines above would go to the very heart of the treaty.

- The only way to allow for a reservation along the lines above would be to specifically provide in the Protocol that reservations could be taken for that purpose. It is unlikely that such a clause could be negotiated, given that setting up developing country action as a precondition for fulfilment of the Annex I obligation goes beyond even our "evolution" proposal.

- A different approach might be to link the second budget period commitment with action by developing countries. For example, the Protocol itself could include a provision such as:

  > "The second budget period shall be from 2013 to 2017. The Parties shall decide, through an amendment, on their emissions budgets for that period, taking into account the extent to which non-Annex I countries [have taken][have committed to] actions to limit greenhouse gas emissions."

6

Proposed Position

- o There would be two key components:
  - -- In terms of the first budget period, the Executive Branch would unilaterally link U.S. commitments to key developing countries' making clear their intent to join Article 10.
  - -- In terms of the second budget period, there would be a decision in Kyoto to review the adequacy of commitments under Article 7(2)(a) of the Convention by a date certain; the review of adequacy for Annex I countries would focus on the second budget period and not re-open the first budget period obligations.
- o In addition, it would be desirable, particularly for domestic reasons, to seek a Declaration among like-minded countries in Kyoto expressing the expectation that key developing countries will join Article 10.

6

Policies and Measures

Issues

- o There are three major issues:

  -- whether a list of policies/measures should be non-existent, voluntary, or mandatory;

  -- whether there should be any requirement to participate in a process to "coordinate" policies/measures, even if the resulting policy/measure is not binding; and

  -- how to handle the G-77 demand for policies/measures not to have adverse environmental (AOSIS) or economic (OPEC) impacts on developing countries; this is linked to the "compensation" issue.

Proposed Positions

As to the first issue, it is unlikely that we can prevail on having no list of policies/measures at all. As such, we should seek, in the following order of desirability:

-- a voluntary list (with appropriate changes made to the list);

-- a mandatory list, with the policies/measures cast as "objectives" (with appropriate changes made to the list); and

-- a mandatory list of policies/measures (with appropriate changes made to the list).

- o As to the second issue, we should not support a mandatory process for "coordinating" policies/measures, even if the result is not binding. There are numerous reasons why a policy/measure might not be amenable to coordination under the Protocol (e.g., because it was not amenable to coordination at all, because it was not amenable to coordination by Annex I countries alone, because it should be handled by an organization outside the Protocol). Any formulation of a requirement to participate would need to leave us the flexibility not to participate if we did not think it appropriate.

- o As to the third issue, we cannot support any call for "compensation" to developing countries for either environmental or economic damage. We could, however, support reviewing (e.g., as part of the general review of implementation of the Protocol) the impacts that the implementation of Annex I commitments are having on other Parties.

(8

Entry Into Force

- o Most countries have indicated support for an entry into force clause that requires not only a specific number of countries to have ratified, but a certain level/percentage of emissions as well.

- o In our January draft protocol, we supported the notion of a "weighted" entry into force clause, without specifying what the trigger would be.

- o Two issues have arisen in connection with the emissions trigger:

  - -- whether U.S. ratification should be a precondition for entry into force;

  - -- whether developing country ratifications should be a precondition for entry into force.

U.S. Ratification

- o In Bonn, it became apparent that some countries (such as Japan, Canada, and Australia) believe that the trigger should be crafted so as to require U.S. ratification before the protocol could enter into force; other countries (such as Switzerland and likely the EU) disagree.

- o We therefore need a position on whether U.S. ratification should be a precondition to entry into force.

- o If U.S. ratification were required:

  - -- a disadvantage is that the Senate would be able to hold up the entire agreement, not just U.S. participation;

  - -- an advantage is that implementation of the agreement, including decision-making, could not begin without us (contrast the Biodiversity Convention);

  - -- an advantage or disadvantage, depending on one's point of view, is that there would likely be substantial international pressure on the United States to ratify.

Developing Country Ratification

- o When we proposed our "evolution" article, we contemplated an entry into force clause that would require a certain level of developing country ratifications (e.g., China, India) for entry into force; that way, such countries would be bound to the evolution obligation at the same time that we were bound to take on our emissions obligation.

- It now appears that the evolution article will not be in the protocol.
- As such, it does not appear helpful to include developing country ratification in the entry into force trigger -- their ratification would not commit them to anything beyond "advancing existing commitments;" however, they could potentially block entry into force of the agreement.

10

oversight

Draft, CEA 11/7/97

Formula for per capita emissions:

$$\mathbf{(em/pop)_{2010} = constant + .9(em/pop)_{1990} + .08\,(gdp/pop)_{2010}}$$

where
$(em/pop)_{2010}$ is (the log of) per capita emissions forecast for 2010, and
$(gdp/pop)_{2010}$ is (the log of) per capita income in 2010.

The data (which were estimated on a 1970-1992 time series) also included a time trend, roughly 1 percent a year beyond what is explained by income growth. The time trend has been omitted above, as one step toward the goal of stabilizing/reducing emissions.

The other step toward stabilizing/reducing emissions is that the constant term could be set so that the formula predicts that the U.S. will emit its 1990 levels in 2010.

Proposal: When countries' per capita emissions exceed one ton of carbon per person, they are expected to take on the binding emission targets of a formula such as that above. China, India, Brazil, and other "Annex B" countries agree to that future commitment today.

Examples of the Formula

Formula set so U.S. emits 1990 carbon levels in 2010:

$$(em/pop)_{2010} = -.84 + .9(em/pop)_{1990} + .08\,(gdp/pop)_{2010}$$

Country	Emissions Allowance (MMTC)	Change Relative to 1990 Carbon Level (MMTC)
United States	1345.8	0
Australia	76.6	+4.1
France	97.2	+0.6
Germany	241.1	-23.2
Japan	288.5	-6.0
United Kingdom	144.1	-12.3
Annex I*	2834.2	-85.8
China	649.6	-10.6
India	221.1	+37.0
Brazil	71.4	+16.4
Mexico	103.4	+14.7
Korea	72.8	+7.0
Singapore	11.1	+0.8

*Note that Annex I excludes Belarus, the Czech Republic, Latvia, Lithuania, Russia, Slovakia, and Ukraine because of data limitations.

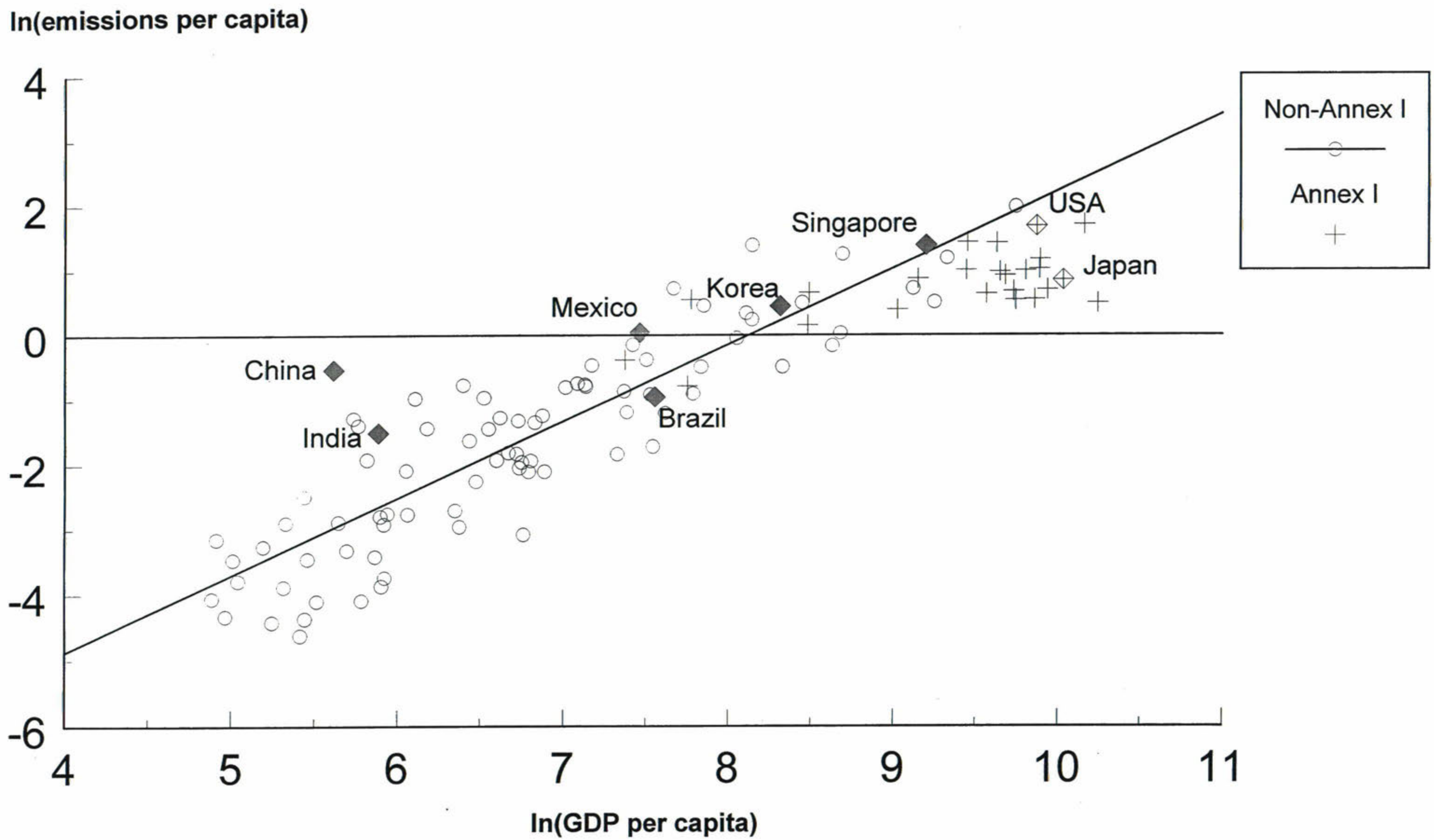
Formula set so Annex I emits 1990 carbon levels in 2010:

$$(em/pop)_{2010} = -.81 + .9(em/pop)_{1990} + .08\,(gdp/pop)_{2010}$$

Country	Emissions Allowance (MMTC)	Change Relative to 1990 Carbon Level (MMTC)
United States	1385.9	+40.1
Australia	78.9	+6.4
France	100.1	+3.5
Germany	248.3	-16.2
Japan	297.1	+2.6
United Kingdom	148.4	-8.1
Annex I*	2919.9	0
China	669.0	+8.8
India	227.7	+43.6
Brazil	73.5	+18.5
Mexico	106.4	+17.8
Korea	75.0	+9.1
Singapore	11.4	+1.2

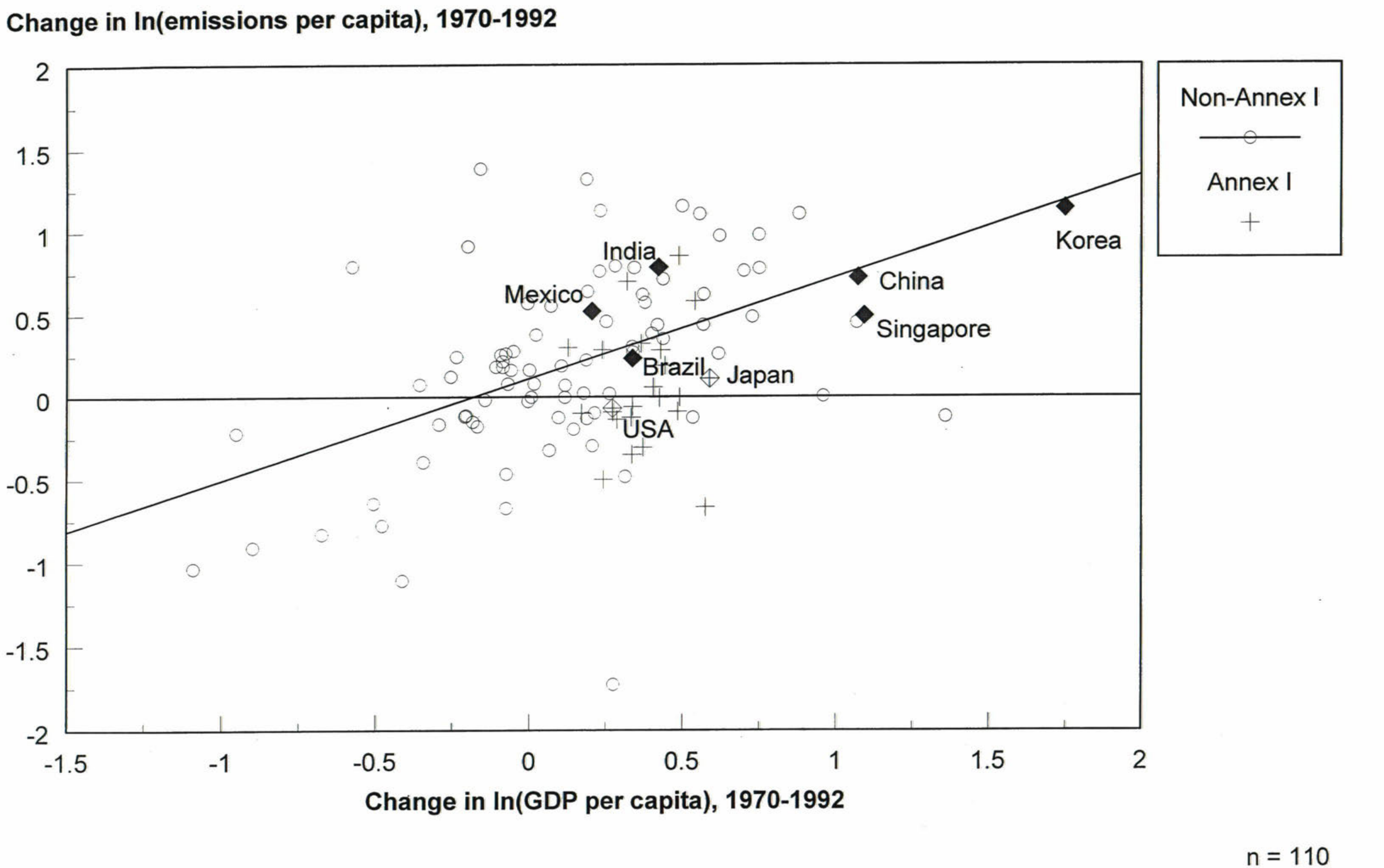
*Note that Annex I excludes Belarus, the Czech Republic, Latvia, Lithuania, Russia, Slovakia, and Ukraine because of data limitations.

Country Carbon Emissions vs. GDP, 1988-1992 Average



n = 110

Change in Country Carbon Emissions vs. GDP, 1970-1992



Per Capita Carbon Emissions

The following chart presents the emissions of metric tons of carbon per capita, averaged over the 1988-1992 period, for 123 countries (including all of Annex I).[1] Forty-nine countries had per capita emissions greater than one over this period, including 34 Annex I countries. Turkey (0.68) and New Zealand (0.46) were the only two Annex I countries below this threshold. Of the 15 Non-Annex I countries with per capita emissions greater than one, several are members of OPEC (e.g., Kuwait, Qatar, Saudi Arabia, and Venezuela), several are Asian Tigers (e.g., Korea and Singapore), and several are upper middle income countries (e.g., Mexico and South Africa).

Based on UN population projections and Energy Information Administration carbon emissions projections, China will surpass this threshold in 2007. India's per capita emissions will increase to 0.39 by 2015.

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[1] Please note that several countries have emissions per capita based only on 1992 data. Given the governing changes in the Former Soviet Union and Eastern Europe, 1992 data were only available for these countries.

Country	Per Capita Emissions, 88-92 average
Qatar	7.2486
Luxembourg	*5.5399*
United States	*5.4089*
Australia	*4.2230*
Canada	*4.1753*
Singapore	4.0345
Trinidad and Tobago	4.0339
*Russia**	*3.8740*
*Estonia**	*3.6442*
*Czech Republic**	*3.5910*
Saudi Arabia	3.5031
Kuwait	3.3058
Germany	*3.2850*
Norway	*3.2395*
*Ukraine**	*3.2299*
Denmark	*2.7956*
United Kingdom	*2.7406*
*Belarus**	*2.7253*
Finland	*2.7203*
Belgium	*2.6711*
Netherlands	*2.5269*
*Poland**	*2.4369*
Ireland	*2.4079*
Japan	*2.3523*
South Africa	2.0650
Israel	2.0630
Iceland	*2.0315*
Austria	*1.9774*
Greece	*1.9319*
*Slovakia**	*1.9057*
Italy	*1.9019*
Sweden	*1.7464*
Hungary	*1.7378*
France	*1.7266*
Bahamas	1.6701
*Bulgaria**	*1.6620*
Oman	1.6555
Switzerland	*1.6491*
*Lithuania**	*1.6146*
Venezuela	1.5831
Korea	1.5727
*Latvia**	*1.5281*
Spain	*1.4902*
*Romania**	*1.4403*
Gabon	1.4097
Suriname	1.2793
Portugal	*1.1751*
Mexico	1.0432
Malta	1.0314

Argentina	0.9538
Malaysia	0.8614
Barbados	0.8477
Chile	0.6842
Turkey	*0.6834*
Jamaica	0.6272
Seychelles	0.6133
Algeria	0.6108
China	0.5881
Colombia	0.4737
Tunisia	0.4647
Zimbabwe	0.4614
New Zealand	*0.4566*
Thailand	0.4532
Ecuador	0.4473
Botswana	0.4207
Uruguay	0.4053
Belize	0.4001
Brazil	0.3851
Egypt	0.3805
Mauritania	0.3768
Costa Rica	0.3039
Mauritius	0.3001
Congo	0.2888
Dominican Republic	0.2791
Guyana	0.2758
Peru	0.2700
Morocco	0.2668
Fiji	0.2595
Nigeria	0.2474
Indonesia	0.2374
Bolivia	0.2351
India	0.2214
Philippines	0.1961
Dominica	0.1789
Nicaragua	0.1630
Papua New Guinea	0.1605
St Vincent and The Grenadines	0.1595
Pakistan	0.1468
Cote d'Ivoire	0.1456
El Salvador	0.1445
Swaziland	0.1412
Guatemala	0.1297
Sao Tome and Principe	0.1245
Paraguay	0.1223
Honduras	0.1221
Senegal	0.1051
Zambia	0.0830
Kiribati	0.0669
Ghana	0.0635
Sri Lanka	0.0630

Kenya	0.0610
Gambia	0.0559
Guinea Bissau	0.0551
Togo	0.0541
Cape Verde	0.0521
Cameroon	0.0461
Sierra Leone	0.0429
Bangladesh	0.0384
Niger	0.0362
Benin	0.0329
Myanmar	0.0319
Haiti	0.0314
Comoros	0.0239
Tanzania	0.0226
Central African Republic	0.0209
Madagascar	0.0206
Malawi	0.0173
Rwanda	0.0168
Burkina Faso	0.0166
Nepal	0.0132
Mali	0.0127
Chad	0.0121
Burundi	0.0099
Bold: Emissions per capita > 1	
Italics: Annex 1 nation	
* Based on 1992 data only	
Data sources:	
emissions -- Carbon Dioxide Information Analysis Center, ORNL	
population -- Population Division, UN	

oversight

PREDECISIONAL DRAFT 11/2/97
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DISCUSSION PAPER

This paper considers several ways of adjusting our position in the climate negotiations, to help shape a deal at Kyoto.

The paper does not assume that it would be desirable to adjust our position in the climate negotiations. Instead, the paper explores different ways in which we might do so, examining pros and cons. Furthermore, the paper does not attempt to package the discrete elements considered into a larger whole. Based on feedback from principals, larger packages and broader strategies will be developed.

I. TARGETS AND TIMETABLES

Our proposal -- 1990 levels by 2008-2012 and reductions in the five-year period that follows -- has attracted no international support. The prospects that such a target will be sufficient to convince key negotiating partners to accept other parts of our framework (i.e., flexibility and developing country participation) are very slim.

Following are possible compromise approaches on targets and timetables:

A. Accept "differentiated" targets

This is the term used to describe different targets for different Annex I countries. The idea has considerable support from some of our natural allies in the negotiating process (including Japan, Norway and Australia). During the past several months, Climate Convention Chairman Estrada has increasingly been saying that some form of differentiation will be required for an agreement at Kyoto. To date, the EU has opposed "differentiation" labeled as such, although their "bubble" is (in fact) a differentiation scheme.

1. Japanese proposal

The Japanese propose that all Annex I countries reduce emissions 0-5% from 1990 levels by 2008-2012. The precise amount each country must reduce would be determined based on rates of change in population growth, energy intensity and/or per capita emissions. Under the Japanese formula, both the U.S. and Japan would need to reduce emissions roughly 2.5%.

Pros

- Forging common ground with the Japanese could offer strategic advantage within the negotiations.

- Japanese reduction targets are not significantly different than our own. Japanese may have flexibility to move toward us.

- The Japanese proposal constrains the differentiation within a very narrow range, avoiding widely disparate targets for Annex I countries in this round of negotiations.

Cons

- Reductions from 1990 levels in 2008-2012 would be very difficult domestically.

- EU opposes differentiation-by-formula component of Japanese position.

- By accepting the principle of differentiation-by-formula, we could open a Pandora's box of proposals for different targets based on different national circumstances.

2. <u>Differentiation by baseline year</u>

Another approach is to have common reduction targets for all Annex I countries, but allow countries some discretion in choosing a baseline year. For example, Annex I countries could agree to reduce emissions by 7.5%, with countries free to pick any baseline year between 1987 and 1995.

Pros

- Could thread the needle between EU and US positions, meeting the EU's domestic political need to claim "significant reductions" while allowing U.S. to stay at target level we have already proposed.

- Providing some pre-1990 baseline flexibility would be helpful in gaining the support of the Economies in Transition.

Cons

- The 1990 baseline is one of the few points of agreement in the international negotiations.

- Could be attacked as a gimmick by the environmental community, while Congress and industry would need assurance that we were not in fact proposing anything more stringent.

3. <u>Pledge and Negotiate</u>

Another possibility is for each Annex I country to propose its own target, to be included in the agreement. Country A could insist on more from Country B before signing, but the negotiations would focus on individual country commitments, not commitments for Annex I as a whole.

Pros

- May be only feasible approach, in light of wide range in willingness of Annex I countries to commit to reductions.

Cons

- Would lead to fractured Convention, difficult to explain to public.
- If some Annex I countries pledge significantly less than the U.S., could make domestic implementation and consensus-building more difficult.

"Pledge and negotiate" could be combined with "differentiation by baseline year." Under such an approach, each country could express its pledge in terms of a baseline year and reduction target of its choosing.

B. <u>Support Specific Reductions in 2013-2017</u>

In his speech, the President proposed reductions from 1990 levels in 2013-2017, without specifying a number. We could propose a specific number for this period.

Pros

- Would be seen abroad as an indication of U.S. seriousness, especially if number were greater than 5%.
- Could put counter-pressure on the EU, whose long-term projections apparently raise concerns about their ability to meet a tough target in this timeframe (because of anticipated growth in eastern Germany and the possibility of future more Warsaw Pact countries joining the Union).
- Would be well-received by the domestic environmental community.

Cons

- Lose an important piece of leverage for any future round of negotiations with developing countries.

- Congressional and business reaction would likely be negative. Some supporters of the Byrd Resolution would oppose our signing up for second budget period before getting a commitment out of developing countries for a first.

C. <u>Exclude Certain Gases from U.S. Proposal</u>

The United States has proposed to include six major greenhouse gases (carbon dioxide, methane, nitrous oxide, HFCs, PFCs and SF-6) in our target. The EU and Japanese proposals do not include HFCs, PFCs and SF-6. These three gases have very high Global Warming Potentials. (SF-6 is roughly 25,000 times more potent than carbon dioxide.)

We could propose to drop HFCs, PFCs and SF-6 from our target. [According to some estimates, this would allow us to accept a 2-3 percent reduction below 1990 levels in the same 2008-2012 period at equivalent economic cost.]

Pros

- This could help provide the leeway to propose the reduction target we have been under pressure to produce internationally.

- By counting the same sources as the EU and Japan, it would allow for a fairer and more accurate comparative assessment of our proposal.

Cons

- U.S. manufacturers of HFCs, PFCs and SF-6 want these gases *included* in the agreement. (These manufacturers want to establish a regime in which required reductions in these three gases can be traded for reductions in carbon dioxide. They want to avoid a regime which leads to phase-outs targeted narrowly to these gases.)

- Getting other countries to *include* all six gases appears to be an area where we actually made some progress in Bonn. A "comprehensive" approach is a long-standing element of the U.S. position.

- Allowing unregulated growth in these gases would be bad for the environment.

Note: If we choose to maintain our current position, we may want to get more mileage out of doing so, both diplomatically and in the realm of public opinion. It seems that our "comprehensive approach" could be earning us some credit, particularly if it can be argued that this makes our proposal stronger than Japan's.

D. Support an Aspirational Target

We could accept a legally-binding target at roughly the level we have proposed and a more stringent, non-binding target.

Pros

- Could provide a way for EU politicians to claim that "significant reductions" were agreed at Kyoto.
- While ensuring a minimum standard of achievement across Annex I, would provide a vehicle for "greener" countries and environmental groups to continue to prod for steeper cuts.

Cons

- Internationally, this approach is unlikely to be viewed as credible, insofar as one of the defining features of these negotiations is "legally-binding targets."
- Domestically, could make everyone mad. Congress and much of the business community could be concerned that the non-binding target would translate into additional regulations and possible economic costs down the road. Many environmental groups could be concerned that non-binding targets would have limited meaning.

E. Adjust Methodologies for Sinks

White House and agency staff are intensively examining different opportunities related to the treatment of sinks. Although further work is needed, two options may be promising. They are:

1. Excluding "soil carbon" from the agreement. According to projections, U.S. soils will absorb roughly 30 MMT less carbon in 2010 than they did in 1990. However, methodologies for these calculations are highly uncertain. If "soil carbon" were excluded from the agreement, the U.S. reduction target would shrink by 30 MMT (approximately 7% of the emissions growth from 1990 to 2010).

2. Modified New Zealand Proposal. Under a proposal currently under discussion internationally, 1990 baselines for Annex I countries would be adjusted so as not to penalize countries (like the US) that were engaged in unusually high levels of forestation in that year. This requires further analysis, but could be helpful.

F. Strengthen our Existing Target

Flexibility: Agree to strengthen our existing target either by accepting reductions below the 1990 baseline in the 2008-2012 period or by moving up our timetable for stabilization (i.e. 2005-2012 or even 2005-2015).

Pros

Strengthening our target would help bridge the gap with the EU and gain support from the G-77 for other elements of our proposal. We would get more credit for accepting reductions below the 1990 baseline than for moving the timetable.

Cons

Given that the President has already announced our target and given the economic and political realities associated with it, it is unlikely that we could move far enough to make much of a difference.

Any agreement to reductions below the 1990 level seems improbable in the absence of new and compelling economic analysis that such reductions could be achieved without higher costs.

Opting for a 2005-2012 time frame seems almost equally hard. It might be possible to argue for the 2007-2013 or 2005-2015 possibility by playing both ends of the timetable (i.e. emphasizing the earlier start for environmentalists and the later end for industry).

II. FLEXIBILITY PROVISIONS

Our emissions trading proposals are winning only limited support abroad. Although there are reasonable prospects that Annex I emissions trading will be accepted by the Parties, significant restrictions on such trading are possible. These include (1) provisions requiring domestic emissions reductions to be the "main" means of meeting Party's commitments, (2) provisions limiting to trading to "Parties," and (3) restrictions that may emerge as methodologies for emissions trading are developed after Kyoto. In addition, support for joint implementation for credit is very limited. It appears very unlikely that Parties will agree at Kyoto to joint implementation for credit, except among Annex I countries and with those developing countries who "volunteer" for binding limits.

Note: The SGM model suggests that over 50 percent of U.S. reductions are likely to come from abroad.

- According to the SGM model, 55 percent of our reductions to reach 1990 levels by 2010 are likely to come from Annex I trading and 83 percent from Annex I trading plus non-Annex I reductions. (Two notes: First, the figures are lower if paper tons are not allocated to the former Soviet Union. Second, the model assumes worldwide trading -- not "JI.")

A very rough rule of thumb from the economic models is that every 10 percentage point increase in the share of reductions that must be done domestically (above those that would occur at home without any restriction) raises the domestic permit price by perhaps $10 to $20 per ton.

Restricting the share of reductions from international trading and/or JI would raise costs domestically, but would reduce concerns associated with capital transfers abroad.

III. PARTICIPATION OF DEVELOPING COUNTRIES

Our "evolution" proposal -- that developing countries agree to negotiate binding limits as part of a Kyoto protocol -- has no support from other countries and is dead. A weaker version -- under which Parties would decide at Kyoto to begin such negotiations under a document other than a protocol -- has some modest prospects for success. However, the terms for any such agreement are unlikely to be favorable. At this writing, it appears that the strongest possible mandate would be an agreement to aim to negotiate limits of some kind (i.e., not necessarily binding limits) by 2002 or 2003 at the earliest. Even this is far from certain.

In recent weeks, staff for Senator Byrd has been stressing that an "agreement to negotiate" is not satisfactory to the Senator and would not in the Senator's view address the concerns expressed in his resolution.

Other parts of the original U.S. proposal for developing country participation are meeting with somewhat greater success. There is now a reasonable chance that a protocol could include a "volunteers category" -- that is a section providing for non-Annex I countries to volunteer for commitments individually. Such action could give countries the right to participate in the global trading regime.

The current state of play raises two questions:

A. Which would be preferable: an "evolution" provision with a 2002/2003 end-date and soft "aim to negotiate" language, or no "evolution" provision at all?

- An evolution provision, however soft, could generate momentum internationally toward the participation of developing countries and help keep this issue on the agenda. It could be part of our explanation at home of the steps we are taking to engage developing countries.

- On the other hand, the terms of the mandate could become a constraint -- e.g., no *sooner* than 2002/2003. They could also underscore the unwillingness of developing countries to participate, while providing no benefit with Senator Byrd and his allies. Even getting a soft mandate would require a fair amount of diplomatic effort and perhaps concessions.

B. Is the U.S. prepared to return from Kyoto without any form of evolution provision but -- instead -- with an agreement on a "volunteers category" and plans to persuade key developing countries to "volunteer" before any protocol became binding in the U.S.?

- Bilateral discussions with key developing countries may bear more fruit than talks in the highly-politicized atmosphere of the Climate Convention. Success with a few key countries could help significantly both to address the environmental need and to respond to domestic political concerns.

- However, this approach could be viewed as inadequate by many at home and bad faith by many abroad. Could be especially difficult if no major developing countries indicate an interest in volunteering at Kyoto. The sequencing could be awkward, if we are asking key developing countries to sign onto commitments (e.g., in 1998 and 1999) before we decide to make our Kyoto commitments binding on ourselves.

oversight

Mandate for Kyoto

The Conference of the Parties, at its third session,

Having adopted a [protocol][amendment] to the Framework Convention on Climate Change,

Considering that additional steps are necessary, in light of the objective of the Convention,

Decides to begin a process, to be concluded by [ ], to agree on such steps.

1. The process will:

   (a) set quantified emissions limitation and reduction objectives for Annex I Parties for the second budget period, namely, 2013-2017; and

   (b) set commitments for all other Parties, taking into account common but differentiated responsibilities and capabilities.

oversight

From Joint Implementation to Technology Transfer Credits

The Current U.S. Position on JI. The U.S. has proposed that Annex I countries be given credit for emissions reductions in other nations which, by some metric, are additional to the existing path of emissions. While this position has substantial business support in the U.S. it has, perhaps surprisingly, been met with strong opposition from the developing world. This appears to be largely based on the fact that the developing countries see no advantage to themselves from a JI system: the U.S. companies get all the credit.

An Alternative: Technology Transfer Credits. Under this system, developing countries would directly reap the benefits from carbon-reducing investments made within their borders. More specifically:

- The World Bank, or some other multilateral institution, would be authorized to issue Technology Transfer Credits (TTCs) for investments that offer incremental reductions from business-as-usual emissions in developing countries. Incrementality would be assessed by independent engineers, either through a comparison to existing average emissions for an investment of that type, or through estimates of how this project deviates from the minimum cost project that ignores carbon reduction. One credit would be issued for each ton of incremental carbon reduction.

- The credits would be issued directly to the country in which the investment takes place. These credits could be used in a number of ways:

  - They could be traded into the Annex I international trading scheme, with the developing country receiving the current market clearing price as a cash transfer

  - They could be directly used to pay down existing debt to the World Bank or other multilateral institutions

  - Some share of the credits could be given to the investing companies as an inducement to place their investment in that country, and as an incentive to attract the most incrementally beneficial project. For example, companies could offer to bid a power plant contract, with the winner receiving a share of the credits for the incremental reduction in emissions.

- The bottom line is that, with the TTC system, developing countries *win in two ways*: they get a cutting edge technology transfer, and they get a cash transfer.

- For U.S. companies, this alternative is much better than the absence of JI, which is currently strongly opposed by the developing world. They will undoubtably share in the credits received by developing countries, providing an extra return to enivironment-friendly investments abroad.

- This approach can also be molded to be responsive to the Brazil plan supported by developing countries, under which the developed countries would buy out of their excess emissions by paying into a fund that would pay for technology transfer to LDCs. Under this model, the World Bank could be endowed with paid-in capital, consisting of a set number of TTCs. Since these TTCs would then go to reward LDCs for incremental emissions reductions, this would mimic the Brazil proposal: there would be a fund, endowed by Annex I, that provides money for technology transfer to LDCs. But this would be much more politically acceptable to the U.S., since we would not be explicitly endowing that fund with U.S. government dollars.

oversight

Agenda
November 12 Meeting on Climate Change
6:15 p.m.

I. Report on Tokyo Meeting

II. Review of Key Substantive Points

- Modified JI idea ("Technology Transfer Credits")

- Developing Countries

  -- Report on possible formula approach
  -- Kyoto Mandate approach

III. Process Issues

- How to handle a general provision on JI or trading that leaves details to be worked out later
- Reservations
- Options for process deal

IV. Next Steps -- Game plan between now and Kyoto

- Game plan to reach our objectives on key issues
- Instructions for Kyoto negotiating team

oversight

DATE	ISSUE	KEY Q's FOR PAPER
FR 11/13-14	JI	desired outcome
T 11/17	1) policies & measures	fall back
	2) banking & borrowing	exploration & implications
	3) trading & bubble	level of coincidence
	4) Russian tons	agree on slice
M 11/16	prepare for W	
W 11/18	1) developing country	decision for 72a+/EU Leverage
	2) QELRO'S	a) 90, 95, 90-95
		b) 2 target
		c) differentiation
		political versus formulae
		d) no reduction
		e) all gases
		f) sinks proposal
T 11/19	Prepare for Friday	
F 11/20	(a) National Security	
	(b) 4.1	
	(c) JI	
	(d) entry into force	
Sat	finish.	

oversight

DRAFT

Proposed Gameplan for the Kyoto Countdown

The chief message for all of the contacts is that the United States wants a successful outcome in Kyoto. With particular countries, we want to tailor our message based on the relevant issues and the level of the officials involved.

1. Presidential Action

- Pull-aside/bilateral at APEC with Jiang Zemin (necessity of Chinese participation in the Kyoto outcome)
- Pull-aside/bilateral at APEC with President Ramos (developing countries must be involved; urge support for inclusion of "Article 10" in the Kyoto agreement – voluntary adoption of binding emissions commitments; encourage support for JI; send clear signal to climate change negotiators to be constructive in Kyoto)
- Pull-aside/bilateral at APEC with President of Korea (urge Korean voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)
- Pull-aside/bilateral at APEC with President of Singapore (urge Singapore's voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)
- Pull-aside/bilateral at APEC with President Frei of Chile (urge support for inclusion of "Article 10" in the Kyoto agreement; encourage support for JI with credit and emissions trading)
- Pull-aside/bilateral at APEC with President Soeharto of Indonesia (developing countries must be involved; urge support for inclusion of "Article 10" in the Kyoto agreement; encourage support for JI)
- Possible Telephone call to PM Gujural of India as follow up to SecState visit (make clear that developing countries must be involved; encourage support for JI with credit)
- Possible telephone call to President Cardoso (urge Brazil to support for JI with credit; encourage support for proposed U.S. emissions target)
- Possible telephone calls to President Kohl, PM Blair, and the PM of Luxembourg (when appropriate as negotiations proceed, encourage compromise between U.S. and

EU that embraces realistic targets, flexibility mechanisms – emissions trading and JI with credit, and developing country involvement)

- (Watch out) Approach from Australia at APEC (will likely raise its need to have differentiated targets for developed countries; we have opposed that approach from the beginning; on most other climate change issues, we share similar views)

2. Vice Presidential Action

- Telephone call to President Mubarak (Egypt has shown some willingness to break away from other Arab states; seek support for JI with credit and meaningful role for key developing countries)

- Telephone call to Vice President Mbeki (South Africa will participate as a Party for the first time at Kyoto although it has attended negotiations as observer; seek to have South Africa influence other African nations to support JI with credit and the proposed U.S. emissions target)

- Telephone call to appropriate French PM Jospain (Encourage compromise between U.S. and EU that embraces realistic targets and flexibility mechanisms – emissions trading and JI with credit, and developing country involvement)

- Possible telephone call to Russian PM Chernomyrdin (Russian adoption of treaty essential; if necessary, seek support for U.S. emissions target, JI with credit and emissions trading; may have to address "paper tons" issue)

- Possible telephone call to U.K. Deputy PM Prescott (Follow up on Prescott's recent Washington visit; encourage compromise between U.S. and EU that embraces realistic targets and flexibility mechanisms – emissions trading and JI with credit, and developing country involvement)

3. Secretary of State Action

- Bilateral with Indian Prime Minister (also Minister of External Affairs) Gujural (make clear that developing countries must be involved; encourage support for JI with credit)

- Pull-aside/bilateral at APEC with Mexican Foreign Minister (follow up on Presidential visit to Washington; urge Mexican voluntary accession to Kyoto agreement to take on binding emissions limitations; encourage support for JI with credit and emissions trading)

- Telephone call to Prince Bandar (acknowledge Saudi concerns over climate change agreement; urge them to stop their obstructionist ways and to support the proposed U.S. emissions target as it is the most realistic and sensible)

- Telephone call to either Kuwait PM and Crown Prince Shaykh Saad Al-Abdallah Al-Sabah or FM and First Deputy PM Shaykh Sabah Al-Ahmad Al-Sabah (acknowledge Kuwaiti concerns over climate change agreement; urge them to stop their obstructionist ways and to support the proposed U.S. emissions target as it is the most realistic and sensible)

4. Action by U/S Wirth

- Telephone call to Italian Deputy FM (Italians have been helpful and might have some influence in EU; encourage support for JI with credit, emissions trading and reasonable target)

- Telephone call to Swedish Deputy FM (Swedes have indicated support for JI; encourage support for JI with credit, emissions trading and reasonable target)

- Telephone call to appropriate Thai official (developing countries must be involved; urge support for inclusion of "Article 10" in the Kyoto agreement; encourage support for JI)

5. Action by Treasury U/S Larry Summers

- Telephone call to appropriate Korean official (urge Korean voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)

- Telephone call to appropriate Brazilian official (if necessary, shore up Brazil's support for JI with credit; encourage support for proposed U.S. emissions target)

- Telephone call to appropriate Singapore official (urge Singapore's voluntary adoption of binding emissions commitments as part of Kyoto agreement; encourage support for JI with credit and emissions trading)

- Telephone call to appropriate German official (encourage consideration of realistic U.S. emissions target; encourage compromise between U.S. and EU on market-based mechanisms – emissions trading and JI with credit and developing country involvement)

7. Action by Acting A/S Kimble, and DAS Pomerance

- Various APEC discussions - Kimble (use occasion of APEC to raise issues with Annex I and non-Annex I countries, as appropriate)
- Bilateral visit to Brazil - Pomerance (seek Brazil support for merged JI proposal; secure agreement that it will support proposal in Kyoto)
- Call in Israeli Embassy official to Department and telephone call to appropriate Israeli official - Pomerance (encourage consideration of "Article 10" status; urge support for U.S. proposal – target level and timeframe, emissions trading, JI with credit)
- Telephone call to Senegalese negotiator, Bakary Kante - Pomerance (Plays somewhat prominent role in negotiations; could be useful with other francophone African countries to support JI with credit and reasonable U.S. target proposal)
- Lunch in New York - Pomerance (?)/Telephone calls to appropriate Bahamanian and Trinidad and Tobagan official (have relatively high per capita GDPs; could ask them to demonstrate their commitment to addressing climate change by signing up for "Article 10")

Other possible countries/opportunities
- Venezuela
- Argentina
- Visit of Sir Leon Brittain
- U.S.-EU Summit, December 5

oversight

JI/Brazil

'97 NOV 13 PM 6:30

Summary

JI: Annex I Parties can get credits towards their budgets from private-sector-initiated projects in developing countries.

Brazil Annex I Parties pay into a Clean Development Fund if they exceed their budgets; the Fund selects and pays for projects in developing countries.

Major Differences:

- Whereas JI can be used to meet budget obligations, the Brazilian proposal only comes into play when an Annex I Party is in non-compliance.

- Whereas JI allows the cost/ton to be negotiated on a project-by-project basis, the Brazilian proposal calls for negotiating a set cost/ton.

- Whereas JI allows the private sector to be donors and recipients of funds (with the approval of governments), the Brazilian proposal receives funds only from governments and most likely also disburses funds to governments.

- Whereas JI envisions having the private sector find its own partners throughout the world, the Brazilian proposal centralizes funding and disbursements.

- Whereas JI leaves to individual Parties (and potential review by all Parties) consistency of JI projects with any rules under the Protocol (such as additionality, monitoring for real reductions), the Brazilian Fund would be in charge of ensuring consistency.

- Whereas JI might impose limited funding obligations on the US Government (e.g., management costs), the Brazilian proposal would place a funding obligation on the U.S. Government if it were in non-compliance with its emissions budget obligation.

- Whereas under JI projects could occur anywhere that participants (and the host government) choose, the Brazilian Fund would choose recipients of funding.

Possible Merger

- The concept would be to create a centralized clearinghouse for JI with credit.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL	# of pages ► 2
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NSN 7540-01-317-7368 5099-101 GENERAL SERVICES ADMINISTRATION

- One or more mechanisms (e.g., regional ones) would sponsor projects in developing countries that will reduce or sequester emissions. (The issue of start-up costs and initial capitalization would have to be addressed.)

- The mechanism(s) should select projects, potentially on the basis of private sector bids, based on guidelines akin to those already adopted by the Convention for AIJ.

- The mechanism(s) would sell credits to Parties (or entities within such Parties) for purposes of meeting their emissions budgets.

- The buying of credits and participation in projects would be completely voluntary; host governments would need to approve any project.

- The cost/ton would be market-based; a small overhead fee might also be necessary.

Possible Advantages

- Advantages of such an approach for us might be:

  - that this might be the only way to achieve a JI-like mechanism in the Kyoto agreement;

  - that individual companies would not have to comb the world for possible investment opportunities;

  - that transaction costs would likely be lower;

  - that the burden of demonstrating that projects were consistent with JI criteria (such as that reductions were "additional") would not fall on individual Parties;

  - that ascertaining compliance by other Parties would be greatly simplified.

- Advantages of such an approach for developing countries might be:

  - the appearance of a greater governmental imprimatur than with JI;

  - that it would de-politicize the process, i.e., they would not have to pick and choose among potential investors;

  - for Brazil in particular, a sense of ownership in the proposal, despite the fact that it would not be related to penalties for non-compliance.

Oversight

Coordinating Brazil and U.S. Positions on JI

Four Proposals:

- Current US JI position
- Brazil proposal
- TTC proposal
- State suggested compromise

Three Fundamental Issues

Is Funding Voluntary or Mandatory?

JI: Payments to LDCs are voluntary, resulting from bilateral negotiations between private U.S. firms and LDC governments.

Brazil: Annex I payments into their Clean Development Fund (CDF) are mandatory: they are penalty payments for exceeding a nation's binding emissions targets. In this sense, the CDF provides an "international safety valve", with countries that exceed their targets able to buy the extra emissions at a low price, and the resulting revenues that are raised being sent directly to LDCs.

- Both the safety valve aspect of this proposal, and the likely need for Congressional appropriations, would cause substantial domestic problems (as we learned again this week)

TTC: Same as JI - payments to LDCs are voluntary, resulting from bilateral negotiations between private U.S. firms and LDC governments.

State: Payments are voluntary, but do not require bilateral negotiations. Rather, U.S. companies can buy into the "cooperative" to purchase low cost emissions reductions that can be used to satisfy their domestic obligations. This provides a voluntary "escape valve" by permitting us to use low cost reductions abroad to meet our obligation, without requiring that this be done on a bilateral, project-by-project basis.

Is There An International Coordinating Body?

JI: No; individual countries would score emissions reductions

Brazil: Yes, international body to allocate payments from Annex I nations.

- The creation of a centralized scoring organization is strongly supported by the LDCs, who are suspicious of allowing the industrialized countries to judge for themselves "what counts." More generally, the developing countries want more control -- for example, by serving on the board of the international body.

TTC: Yes, international "scoring" body

State: Yes, international allocation body

- If the international body requires no Congressional appropriations (for example, its limited expenses are financed by a fee per transaction), the domestic reaction could be muted. Nonetheless, the potential downside of giving the developing countries more control is that we could lose control. One danger, for example, is that a coalition of developing countries could try to block U.S. firms from credit for particular projects.

Is Project Selection Centralized or Decentralized?

JI: Completely decentralized

Brazil: Completely centralized project selection; funds that accumulate in the CDF are directed by a centralized board to projects throughout the developing world. Criteria for selecting projects is vague at this point.

- The major motivations for the Brazil approach, from the LDC perspective, are to provide bundling of projects, absorb administrative costs, and direct investment towards all participating countries.

- Centralized direction of investment decisions would substantially exacerbate the domestic difficulties associated with any international system.

TTC: Decentralized. Central body serves only as a scoring organization.

State: Somewhat centralized. Central body would help to direct funds in a way that balanced "bang-for-the-buck" with regional needs and other political considerations.

- This approach tries to walk a middle ground between preserving market-based incentives and meeting the political needs of the developing countries who fear that they will be "left behind" by a purely market-based JI system.

Getting to Sí

Voluntary or Mandatory Funding? It seems clear that a mandatory system is a political non-starter domestically. Therefore, there seems little room for compromise from our perspective?

International Coordinating Body? It seems possible to set up an international coordinating body that provides real benefits in terms of administration and meets some political needs of the developing countries, without taking too big a hit domestically.

Centralized or Decentralized? This is the central issue, both in terms of economic efficiency, and in terms of LDC politics. There is a spectrum of options between complete, non-market based, centralization, and complete, market-based, decentralization. We should focus our energies on considering how far we can move in the direction of the former, to please LDC constituencies, without sacrificing the efficiencies that make JI attractive domestically. Several observations are relevant:

1) It seems unlikely that we can move at all towards centralization/non-market allocation without some sort of international coordinating body

2) Within the TTC-like framework, there are some changes that could be made in the direction of centralization and non-market allocation:

- The international scoring body could be invested with additional powers to bundle projects into mutual-fund like options that can be purchased by Annex I firms

- A given emissions reduction could be "worth more" credit in particular nations; perhaps credits per ton of reduction could be a function of GDP per capita or some other index of development.

3) Within the State framework, which moves away from bilateral negotiation and towards centralized bundling and political selection, there is a range of latitude on how big a role market forces play.