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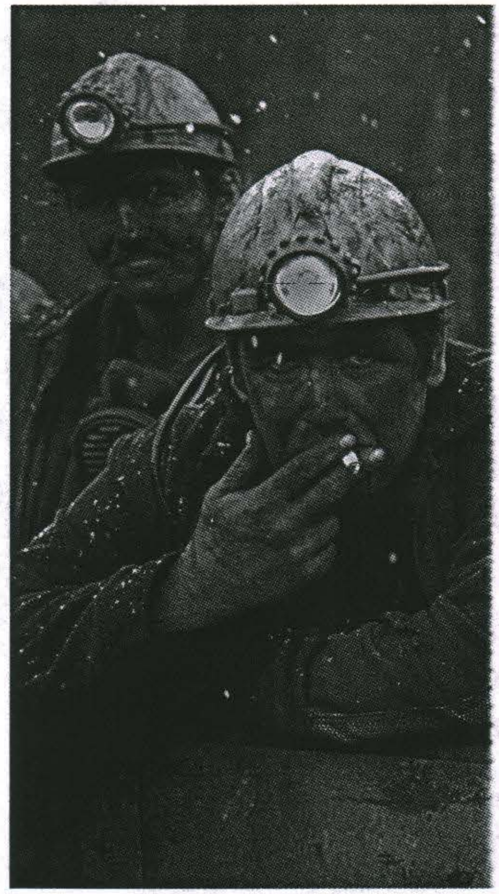
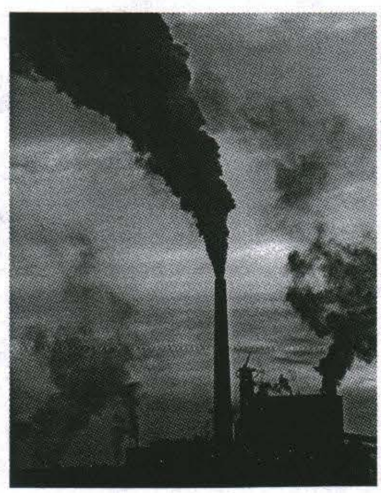
Todd Stern

PRESIDENT CLINTON'S PLAN TO CUT WORLD POLLUTION GETS A FROSTY RECEPTION IN NEARLY ALL QUARTERS.

Global Cooling

BY MARGARET KRIZ ■





MATTHEW McVAY / SABA

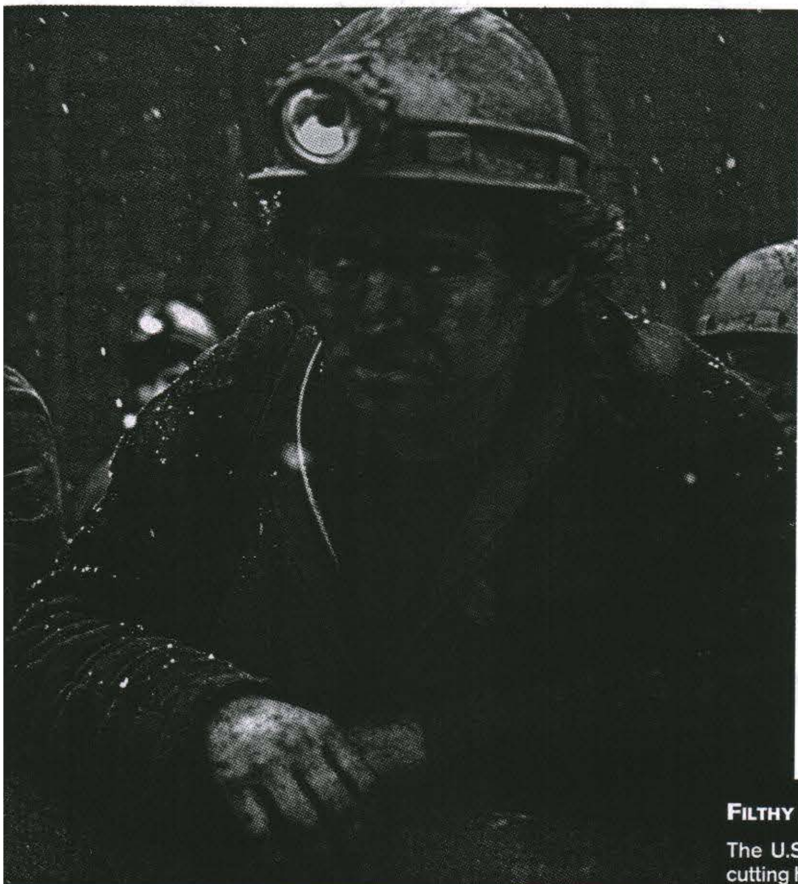
When President Clinton announced his proposals to fight global warming, he seemed confident that he had finally crafted a reasonable compromise between feuding environmental and business factions. "Today we have a clear responsibility and a golden opportunity to conquer one of the most important challenges of the 21st century—the challenge of climate change—with an environmentally sound and economically strong strategy," Clinton told an audience at the National Geographic Society last month.

But it was instantly clear that the President had badly underestimated the depth of feelings on both sides. Conservative Sen. Chuck Hagel, R-Neb., declared on Nov. 5 that Clinton's proposed pollution cutbacks would be so hard on U.S. businesses that they would trigger "the destruction of the economy, of growth, of the opportunity that we've had to give our people a higher standard of living." Environmentalists said the President's plan would hasten the floods and intense storms that many see as a consequence of global warming. The group Greenpeace even dubbed the day of Clinton's announcement "Black Wednesday." Not exactly the kudos the President had hoped for.

The Administration's proposal also provoked an anxious response among international negotiators who are trying to develop a worldwide treaty for curbing emissions of global warming gases, which primarily are produced when fossil fuels are burned. Last month, European and Japanese leaders were shaken by the lack of progress at global warming negotiations in Bonn. They're trying to persuade the United States to be more flexible when the final talks get under way on Dec. 1 in Kyoto, Japan.

But as the Administration prepares for the Kyoto summit, it's not the outspoken business and environmental lobbyists who've got Clinton's ear. Instead, he appears to be listening most intently to economists who are warning that quickly and aggressively cutting the nation's global warming emissions would carry a steep cost. "If you require too sharp a reduction in emissions in the short term, it could be too expensive to make the transition away from carbon-intensive fuels," said economist Richard G. Richels, director of global climate change research at the Electric Power Research Institute (EPRI), a utility-financed research group.

These warnings touch a nerve, since Clinton's high public approval ratings are due in large part to the strong economy. The White House—looking to protect Clinton's legacy as well as the presidential prospects of Vice President Al Gore—is wary of taking any steps that would slow economic growth or diminish American business's competitive edge.


SHEPARD SHERBELL / SABA

FILTHY FUELS:

The U.S. timetable for cutting harmful carbon emissions displeases environmentalists, industrialists and European leaders.

Estimates of just how much it would cost to reduce U.S. global warming emissions vary wildly. Even the Administration hasn't settled on a price tag for its proposal, although a preliminary assessment last May by the Commerce Department put the domestic cost at $12 billion-$15 billion annually.

The debate over cost estimates may be mere quibbling. The larger point, industry leaders and some economists say, is that the campaign to cut global warming gases could cripple the U.S. economy. "There is no way that you could meet the President's goal of reducing emissions by 30 per cent in a decade without significant pain," said William F. O'Keefe, executive vice president at the American Petroleum Institute and chairman of the Global Climate Coalition, an industry group.

These critics suggest that the nation's high energy use—and resulting pollution—are the price of the robust economy. Those economic benefits extend globally, they add, because the U.S. produces 26 per cent of the world's gross domestic product. *(See chart, p. 2293.)*

In contrast, supporters of emissions controls argue that the United States has an obligation to take the lead in cracking down on pollution, because it produces a greater volume of global warming gases per person than any other country in the world. With only 4 per cent of the world's population, the U.S. emits about 22 per cent of the global warming gases.

Advocates of tough steps against global warming also challenge the assumption that reducing energy use could bankrupt the nation. "Most economists assume that the only way to get more energy efficiency is to jack up energy prices and make the consumer suffer," said Phillip Clapp, the president of the National Environmental Trust, a new Washington-based environmental group. He pointed out that business and residential consumers could dramatically cut their energy use by buying energy-efficient products already on the market. "The problem is, CEOs of major corporations say energy is only 2 per cent of their bottom line, so they never go looking for the efficiencies that they can find," Clapp said.

For some critics, Clinton's reluctance to embrace more-ambitious environmental goals is a sign that he is caving in to the leaders of the coal and oil industries, who fear that a global warming treaty might lessen their profits. "At the Bonn meeting, the U.S. was seen as bowing to domestic industry opposition on its emission control targets," said Alden Meyer, the director of government relations at the Union of Concerned Scientists.

"As a result, other countries were less willing to negotiate over things that would benefit *their* domestic constituencies," Meyer said. "The unfortunate result was, there was a vacuum of leadership."

A Plan Shaped by Politics

Politics clearly played a significant role in Clinton's proposal. Industry would not face any tight restrictions on emissions of global warming gases until 2008—the end of what Gore hopes will be his second Presidential term.

"The Administration picked a tough goal, but didn't want to face the economic problems of enforcing it," said economist Paul Portney, president of Resources for the Future, a Washington think tank.

The White House's three-point plan starts with a target and a deadline: scaling back U.S. global warming emissions to 1990 levels by 2008 (at the earliest) or 2012 (at the latest). Scientists calculate that if present practices continue, by 2008 the U.S. will be emitting 30 per cent more pollution annually than it did in 1990.

The second fundamental component of Clinton's plan would create a duo of market-based pollution control programs, including an ambitious new international emissions-trading program that would let companies earn "credits" by cutting their pollution below required levels. Those credits could then be sold to other firms in the U.S. or abroad that exceed their emissions caps. Companies could also earn credits—and avoid or postpone expensive new domestic environmental controls—by helping firms in other countries install less-polluting technologies, a practice known as joint implementation.

PETER CHARLESWORTH / SABA

GLOBAL WARM-UP:
The U.S., with only 4 per cent of the world's population, produces 22 per cent of warming gases.

Lastly, Clinton sought to appease congressional critics by vowing not to sign an international treaty in Kyoto unless the world's developing countries agree to reduce their pollution levels.

White House officials maintain that the plan, which also includes $5 billion for research programs, would fulfill Clinton's promise to curb pollution without hurting the economy.

"The President believes that with the right incentives and the right investments and cooperative work with business, a lot of [emissions] reductions can be achieved in ways that are quite positive for economic growth," said Todd Stern, Clinton's adviser on global warming.

Despite its something-for-everyone approach, the President's plan came under vigorous attack the moment it was unveiled. Yet even as the nation's most energy-intensive industries responded with scathing criticism and dire warnings, corporate executives were quietly delighted that Clinton did not embrace the more aggressive pollution control targets championed by environmentalists. "The opposition by private industry was disingenuous," said Robert N. Stavins, professor of public policy at the Kennedy School of Government, Harvard University. "They popped the champagne corks."

Corporate lobbyists worry, however, that the President's plan may be just the starting point for the international negotiations. With Europe and Japan proposing stricter environmental programs, the chances are good that Clinton's pollution controls will be tightened during the final round of the talks, in December in Kyoto.

The real loser in the President's plan was the environmental community, which pressed Clinton to cut global warming gas emissions even deeper and impose a tighter deadline on U.S. polluters. Administration officials argued, though, that those lofty goals would have met a brick wall in the conservative Senate, which must ratify any global warming treaty.

Environmentalists maintained that an energetic public relations campaign by Clinton and the pro-environment groups could sell a more aggressive global warming treaty to the American people—and to U.S. Senators. "The environmental community, the religious community, are really the base of support in a ratification battle," said Meyer of the Union of Concerned Scientists. "But those folks are not going to be energized if the deal that comes out of Kyoto is viewed as weak."

In the quest for a more ambitious treaty, environmentalists are pinning their hopes on Europe and Japan. Indeed, the environmentalists' chief ally is the European Community, which wants industrialized nations to slash their emissions to levels 15 per cent below their 1990 level by 2010.

But White House officials argue that the European plan would be too costly for the U.S. to follow. The compromise position may lie with Japan, which suggests lowering emissions to 5 per cent below 1990 levels by 2012.

CHINA GOES ITS OWN WAY

When Chinese President Jiang Zemin was in Washington in late October, the President, the Vice President and Secretary of State Madeleine K. Albright each approached him and his delegation about signing a global warming treaty promising to curb his country's growing emissions of carbon dioxide.

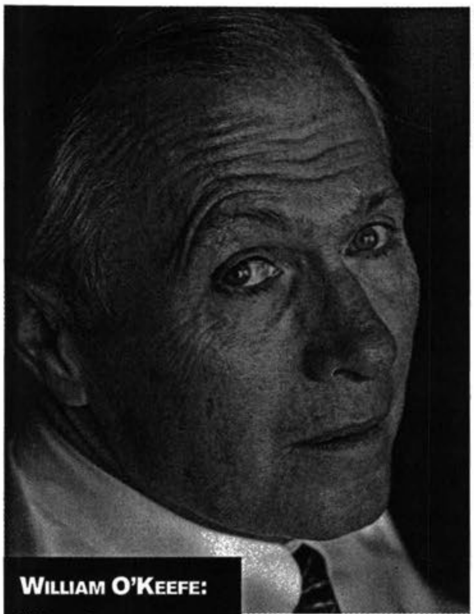
But Jiang somehow eluded those overtures, undersecretary of State for global affairs Timothy E. Wirth said at a Nov. 5 congressional hearing. "We have to just keep working on it," added Wirth, who is the lead U.S. negotiator at the talks. "This is the key relationship on climate change."

The international community, American business and environmentalists all agree that China needs to curb its pollution; within a decade, if present trends continue, China will surpass the U.S. as the most egregious producer of global warming emissions. Continuing rapid growth in China, India, Mexico, Brazil and other developing countries will in fact make it impossible for the world's industrialized nations to put the brakes on global warming on their own.

"Even if the developed countries were to reduce their emissions to zero, you still cannot stabilize concentrations," argued Richels of EPRI. "It's going to require the developing countries to participate."

But China and the developing countries also present a business opportunity to U.S. companies who want to get "emissions-trading credits" for introducing modern, efficient technologies. The reason: Replacing China's outmoded technologies with the most efficient new equipment is cheaper than cutting the emissions at U.S. plants that have already embraced the easiest pollution controls.

In addition, the United States can help the developing nations avoid a heavy dependence on fossil fuels, which historically have created pollution problems in the early stages of industrialization. "These nations have an opportunity to chart a different energy future," Wirth said. "The leverage we have is technology." That approach was apparent in October, when the U.S. agreed to lift its embargo on selling nuclear power technology to China.



RICHARD A. BLOOM

WILLIAM O'KEEFE: "There is no way you could meet the President's goal of reducing emissions by 30 per cent."

The Administration's insistence that developing nations take part in the treaty was prompted by a Senate resolution to this effect last July. In his Oct. 22 speech at the National Geographic Society, Clinton agreed not to sign a treaty "unless key developing nations meaningfully participate in this effort."

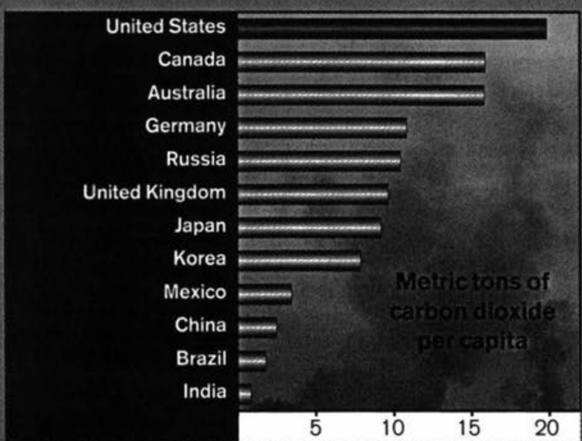
The White House has been reluctant, however, to be seen as dictating industrial policy to the developing nations. "We have to find an agreement that is good for China," Wirth said. "We're not going to tell the Chinese what to do. Goodness knows, we get accused of being too arrogant around the world the way it is."

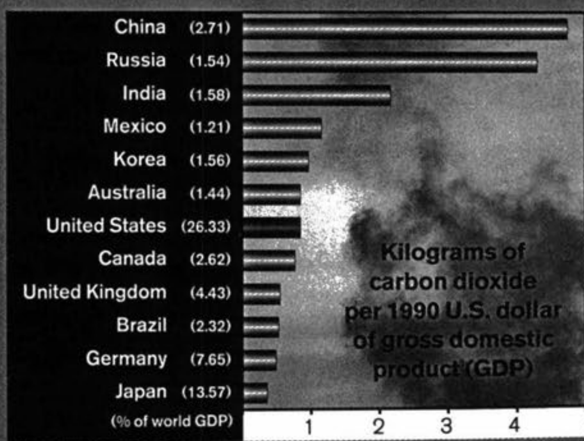
For their part, the developing nations argue that the U.S. should go first—along with the world's other industrialized nations—in slashing global emissions. They argue that the developing world will follow suit.

But U.S. businesses worry that the developing nations

DIFFERENT WAYS TO MEASURE POLLUTION

Is the United States the world's most flagrant polluter? It depends. On a per capita basis, U.S. emissions of carbon dioxide—the chief cause of global warming—are the world's highest by far. Critics note that America, with just 4 per cent of the planet's population, discharges 22 per cent of its carbon dioxide. But the U.S. also generates 26 per cent of the world's wealth (see figures in parentheses). Measured against productivity, U.S. pollution output ranks midway between the developing and the other industrialized nations.





SOURCE: INTERNATIONAL ENERGY AGENCY, 1995 DATA won't necessarily follow the leader. "If the developed countries move first, the business incentives are to move capital and manufacturing capacity to the developing countries," said O'Keefe of API. "Once those assets are in place, the countries are not going to have a strong incentive to shut them down."

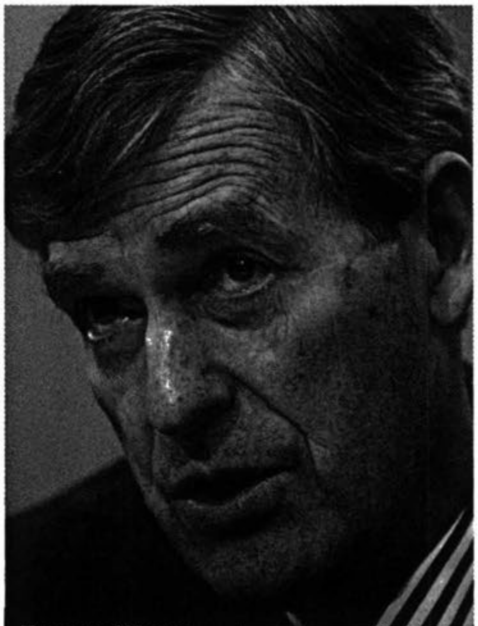
John Novak, director of environmental activities at Edison Electric Institute, agreed. "Getting the developing countries involved is important, so that we don't lose our energy-intensive industries overseas to find cheaper energy costs," he said. Novak touts the Administration's plans for joint implementation as the most cost-effective way of cutting global pollution and protecting U.S. companies.

Richels said joint implementation and global trading of emissions credits would ease the pain of protecting the environment. "You can literally save trillions of dollars if you do it right," he said.

But in Bonn last month, the world's developing nations flatly refused to consider such complicated marketplace strategies. "Developing countries think that what they'll get from an international agreement is more overseas development aid," explained Joseph Goffman, senior attorney at the Environmental Defense Fund, which favors the emissions-trading approach. "They realize how valuable joint implementation is to Western firms, and they don't want to say yes to it until they can extract something in return."

In Bonn, a bloc of developing countries demanded that the industrialized nations create a fund to help pay for installing new technologies. The money also would be earmarked to compensate Middle Eastern oil countries that expect to be "harmed by climate change or by the economic actions taken by developed countries to combat it," according to the plan set forth by the developing nations. The U.S. flatly rejected the creation of that fund.

The surprise winner in the push for marketplace solutions to global warming could be Russia and those former Soviet Bloc countries that have suffered severe economic downturns since the end of Communism. Because many of their smoke-belching industrial plants have been closed, those countries may be able to claim emissions-trading credits—which they might be able to sell internationally—for their sharp reduction of carbon dioxide emissions. Russia alone has had a 30 percent drop in emissions since 1990. The industrialized nations, including the U.S., are maneuvering to acquire those credits.



RICHARD A. BLOOM

TIMOTHY WIRTH:

"We have to find an agreement that is good for China. We're not going to tell the Chinese what to do."

BEYOND KYOTO

This fall, as the White House was putting the finishing touches on its global warming negotiating position, top Administration officials were counting on the support of moderate industry groups, particularly of the Arlington (Va.)-based International Climate Change Partnership.

At the time of Clinton's speech, that group offered mild praise. But now the group's executive director, Kevin Fay, says that he has "grave reservations" about the White House's ability to deliver on a treaty.

Fay is recommending that the U.S. develop a post-Kyoto contingency plan, rather than expecting to resolve the serious differences between nations at the December summit. "It's going to be tough to get to a treaty agreement in Kyoto that is realistic and politically viable enough to bring back here," Fay said. "They are better off figuring out how to keep the process going beyond Kyoto, so that it's not perceived as just a train wreck."

Although the authors of the Administration's proposal took domestic political concerns into account, they didn't anticipate how it would play abroad, Fay said. As a result, the Administration was caught off guard by the criticism it received from nearly everyone at the Bonn negotiating session.

"If the U.S. position is a take-it-or-leave-it deal, it puts the European Union and some key developing countries in a very difficult position," said Meyer. "Do they cave in on key issues to have the U.S. sign something in Kyoto, or do they stick firm, even if that means stalemate at the negotiations?"

To get a treaty, the Clinton Administration will probably have to give in to international pressures to accept deeper pollution cuts. That could be the quid pro quo needed to get European and Japanese support for the U.S. emissions-trading program and for requiring the world's developing countries to join the global warming treaty. "Clearly, unless we're able to come to an agreement with the European Union, a treaty will not be possible," Wirth testified.

The Administration must also look over its shoulder at Congress, which seems reluctant to approve any global warming proposal that could be accepted by Europe or Japan. White House officials note that not only do they need the Senate to ratify the treaty, they also need new legislation to develop the emissions-trading and joint-implementation programs, and to obtain the $5 billion in research funding Clinton is seeking.

Hagel, who will lead a Senate delegation at Kyoto, said he is pleased that the U.S. did not agree to back the European plan at the Bonn meetings. "Things did not go well in Bonn, and that works to our advantage to slow this down enough to bring some daylight into the process," he said.

But environmentalists and those business leaders hoping to settle the global warming debate once and for all hope that Clinton's desire to leave behind a strong presidential legacy will give him the added incentive to hammer out an accord in Kyoto. "I'm still hoping that the penalty associated with failure is so great, both to Clinton and to the key European leaders, that they will try to avoid that," Meyer said.

Clinton's task is to decide whether his hopes of building a vital environmental legacy can square with his desire to leave behind a strong economy. ■