

FAX

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Date: Friday, August 01, 1997

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2 Pages

To: Todd Stern
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White House Climate Change Task Force

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Weekly Report

Week in Review: July 28 - August 1, 1997

Congressional Activities: Staff met with staffs of Chafee, Kerry and Byrd as a follow up to the Byrd resolution. All are interested in working cooperatively and proactively through the fall, and are very interested in Administration plans during that period that might include their offices.

The Senate appointed a congressional observer group Thursday during closing business that includes Murkowski, Craig, Roberts, Hagel, Abraham, Chafee, John Kerry, Lieberman, Levin, Byrd, Bingaman, Baucus. Other senators may ask for inclusion in September.

Interest Group Activities: Staff met with representatives of Cargill. Cargill is beginning to focus on this issue and would like assistance from the Administration to get access to a variety of information for analysis. They are also interested in dialogue at a variety of levels. Cargill is one of the largest commodities traders in the US, with 40 percent of its enterprises located in 60 foreign nations.

Staff spoke to the Nuclear Energy Institute on Wednesday, and the Fossil Fuels Task Force of National Association of Manufacturers on Wednesday. Both groups are interested in continuing dialogue with the Administration.

Staff spoke to Washington representatives of Fortune 500 companies in preparation for the President's and Vice President's meeting with CEOs scheduled for Monday, August 4.

Media Activities: Following conversations with Todd Stern and staff, the *Washington Post* ran a lead editorial on the Byrd Amendment and climate change on Tuesday. On Thursday, the *Post* ran an op-ed by NRDC's Dan Lashoff and ACEEE's Howard Geller as a response to the Chrysler CEO op-ed of last week.

Tom Karl of NOAA was interviewed by NBC's Dateline program for a piece on the spring North Dakota floods that is expected to be broadcast Sunday evening.

Upcoming Events Next Week

August 4 - 8, 1997

Congressional Activities: Congress is on recess until September 2.

Upcoming Hearings: A Senate Commerce, Science and Transportation hearing will be scheduled in September. Administration science and technology witnesses will be invited.

Upcoming Media Activities: Bill Stevens of the New York Times is expected to file a story on Sunday on the Bonn Talks and U.S. business attitudes toward climate change policy.

Weekly Report

FAX

'97 JUL 25 PM 6:16

Date: Friday, July 25, 1997

Time: 6:05:01 PM

3 Pages

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Weekly Report

Week in Review: July 21 - 25, 1997

Congressional Activities: Byrd Resolution Passes Senate 95-0

On Friday, the Senate debated the Byrd resolution for two hours (evenly divided) with no amendments, but several favorable colloquies on developing nations provisions and market flexibility provisions (trading, Joint Implementation). Floor debate was managed by Kerry (MA) and Hagel (NE). On balance, floor statements were negative, but several favorable statements were made and more are expected to be inserted in the record. The composite of Senate expression seemed to be: 1) the Berlin Mandate constrains negotiations in an unacceptable manner; 2) there is flexibility on the timing of compliance period issues; 3) the science is in dispute by some parties, but is turning the corner; 4) congress has not been adequately consulted and, unless that changes, the Senate will kill the treaty on procedural grounds. The Byrd staff called following the office to invite us for a follow up discussion on mutual opportunities.

Media Activities: White House Science Roundtable

On Thursday, the President and Vice-President hosted a science roundtable on climate change in the East Room by three Nobel prize-winners (Drs. Rowland, Molina, and Kendall) and four other climate experts (Drs. Shope, Schneider, Lubchenco, and Holdren). Press coverage of the roundtable included articles in the Washington Post, Wall Street Journal, Los Angeles Times, USA Today, wires and NPR.

Hearings this Week: House International Relations Committee Hearing

On Thursday, the House IR Committee, chaired by Gilman, held a hearing on negotiations and economic impacts, with focus on China and developing nations trade shifts. Tim Wirth and AID's David Hale represented the Administration.

Chairman Gilman agreed with Senator Sarbanes that global warming is a serious problem requiring serious steps. Gilman said he co-sponsored Mr. Gilchrest's resolution after Mr. Gilchrest agreed with him that it needs one significant amendment saying that developed countries should only take further steps if all developing countries are included. Mr. Rohrabacher said that global warming is "liberal claptrap." Congressman Sherman was an excellent advocate for action. He was articulate and put forth a number of novel arguments. Mr. Hastings was a passionate and eloquent advocate for action. Ms. Ros-Lehtinen talked about the seriousness of the problem, but she asked tough questions on the economic analysis. David Smith of the AFL-CIO had a written statement which was a genuine departure from AFL-CIO's past statements. The written statement emphasized that they want to participate in solving this problem and they could support a treaty if it abided by 3 principles--(a) it must be universal; (b) must protect the industrial base and standard of living of the U.S.; and (c) not one worker will be left behind. However, in his oral remarks, he associated himself with the Farm Bureau and NAM spokespeople.

Interest Group Activities: The Center for Strategic and International Studies held a Climate Change Roundtable Discussion on July 22 that included corporate and academic policy makers.

Administration representatives including Forrister, DOE's Joe Romm, EPA's Nancy Kete participated.

Interagency Communications Activities: Staff provided background briefing, along with OSTP, for senior officials at the Department of Justice. Discussed possible ways in which they might expand activities as part of Administration's efforts on climate change.

Upcoming Events Next Week
July 28 - August 1, 1997

Upcoming Hearings: The Senate Commerce, Science, Transportation (Chair: John McCain) has scheduled a hearing on climate change for July 31.

Upcoming Media Activities: Articles can be expected tomorrow (Saturday) and over the weekend on the passage of the Byrd Resolution.

Postponed until
Sept.

'97 JUL 11 PM7:25

FAX

Date: Friday, July 11, 1997

Time: 6:36:01 PM

11 Pages

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7/13

Talk to
Dirk about
coordination

WKly
Reports

White House Climate Change Task Force

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Weekly Report

Week in Review: July 7 - 11, 1997

Interest Group Activities: Dirk Forrister joined Todd Stern for a series of meetings through the week with interest groups regarding climate change including representatives of environmental groups, labor and industry.

- Staff spoke at the USA Rice Producers annual conference in Dallas. Primary concerns of the industry include higher fuel and electricity prices (they quote worst case industry analyses) and mandatory policies and measures that require US rice producers to operate under international standards. They are interested in the potential of emissions trading and other policies to soften economic impacts, and they are concerned about implications to water resources of no action. They have been lobbied heavily by the GCC.
- Staff met with American Iron and Steel Institute on Wednesday. They seek "constructive engagement with the Administration but are not sure how to proceed."

Congressional Activities: Rafe Pomerance and Dirk Forrister met with Reps. Karen McCarthy (D-Mo), Tom Sawyer (D-OH), and Elizabeth Furse (D-OR), all members of the House Commerce Power Subcommittee as background for Tuesday's upcoming hearing. Sawyer expressed interest in emissions trading, Furse indicated her support for strong commitments and "no waffling by the Administration" and supports our approach to developing countries. McCarthy indicated her willingness to help mobilize other friendly members. Staff are following up.

Hearings this Week: Thursday, 7/10: Senate Environment and Public Works Climate Change Hearing on Science and Economics, chaired by John Chafee, R-RI. Four scientists, one economist. No administration witnesses. The hearing went generally well, but not without skepticism from Republican senators. See attached summary.

- Wednesday 7/9: Joint Economic Committee Hearing on Emissions Trading, administration witnesses included Mary Nichols of EPA, Peter Guerrero from GAO, Dudek from EDF. The hearing went well, with primary focus on the success of the SO2 trading program, and its potential application to CO2 emissions. See attached summary.

Interagency Communications Activities: Staff attended the Interagency Working Group and provided concurrence on the latest version of the National Communication.

- Staff attended the IAT meeting and OMB's TJ Glauthier's weekly meeting.

Media Activities: Economic Columnist Robert Samuelson wrote on climate change for this week's Newsweek and Wednesday's Washington Post.

Upcoming Events Next Week

July 14 - 18, 1997

What's that?

no
ind. sen.
activity

Congressional Activities: The Byrd Resolution is scheduled for markup in the Senate Foreign Relations Committee next Tuesday with floor action likely immediately thereafter. (A Statement of Administration Position or a White House letter would be helpful.) Staff for John Kerry (D- MA), may offer modifications in committee, and Chafee may offer substitute or second degree on floor. No floor strategy is set, and it can be influenced by Administration position.

Upcoming Hearings: Tuesday, July 15: House Commerce/Energy and Power Subcommittee Hearing (Chair - Schaefer). Tim Wirth and Janet Yellin will testify on behalf of the administration are the sole witnesses. Staff are assisting with preparation.

Wednesday, July 16: Senate Commerce, Science, Transportation (Chair - McCain). Hearing possible but not confirmed. Senior administration science and technology officials may be requested for the first panel, followed by a non federal panel on the same.

Thursday, July 17: Second Senate EPW Hearing. Tim Wirth and Janet Yellin will be the first panel. A second panel of business CEO's will follow. Staff are assisting with preparation.

Thursday, July 24: House International Relations/Chair - Gilman. Hearing on negotiations and economic impacts. Administration witnesses are requested.

Upcoming Media Activities: Harvard University's Dale Jorgenson will submit an opinion page piece to the Washington Post to counter Robert Samuelson's op-ed that ran on Wednesday.

Next week, Forrister will contribute to an electronic opinion forum on climate change policy posted on a new Web site compiled by Resources For the Future (www.countervane.rff.org).

HEARING SUMMARY
Senate Environment and Public Works Committee
Chairman--Senator Chafee (R-NH)
(written by Judi Greenwald)

Most of the members of the Committee attended at least part of the hearing. Chafee appears to have no allies on his side of the aisle. All of the Republican members expressed skepticism that there is a global warming problem, and concern about the economic implications of reducing greenhouse gas emissions.

This hearing seemed to me to represent a giant step backwards in the debate. The composition of the panel left the impression that the scientific community is evenly divided on the question of whether global warming is a serious problem. At other hearings, the science has been treated as a settled question. If Chafee has this kind of hearing, then the science again appears to be fair game.

The witnesses were 4 scientists and one economist. One of the scientists, Richard Lindzen is confident that global warming is not a problem. Another scientist, John Christy thinks it appears to be a minor problem and that there is too much uncertainty to do anything about it. The third scientist, Steve Schneider, is usually a very strong advocate for doing something about climate change, but he seemed to be having a bad day. Eric Barron, the fourth scientist, was very clear that global warming is a serious problem. Dale Jorgensen said that global warming is a problem, but it only merits a modest response, on the order of a \$5 per ton carbon tax. (Emissions stabilization would require a tax ten times that high.) Unfortunately all of the panel except for Lindzen seemed to agree with him. (Lindzen didn't think anyone should do anything.)

Chafee had a strong opening statement, saying this is the most important environmental, political, and economic issue of our time and it demands our immediate attention. He announced that next week the Administration will be testifying.

Sen. Baucus (D-MT) said that we are in a better position now (in terms of the science) than we were in 1992 at Rio.

Sen. Hutchinson (R-AR) said he is very worried about what will happen to the rice producers in his state if we do something about climate change. He seemed to think we were planning to cap rice production because of methane emissions. He pointed out that China has 24 times the rice production as the U.S., and that therefore it is stupid for the U.S. to do something and for China to do nothing. Steve Schneider pointed out that climate change itself might hurt rice production by making his state a less ideal place to grow rice, but Hutchinson didn't seem to buy it.

Sen. Wyden (D-OR) said that his state is the first state to legislate mandatory CO₂ reductions and that it is going quite well. He said that Oregon's experience is evidence that it is possible to show leadership on this issue without economic meltdown, and that Oregon is making this work for both the economy and the environment by using a market-based approach.

Sen. Allard (R-CO) said he thinks the earth has a buffer system (I think he meant resilience to environmental insult). He said that trees use CO₂ so CO₂ is not all bad. He is searching for "good

scientific facts." He pointed out that satellites say it's cooled a little bit.

Sen. Inhofe (R-OK) said he is disappointed in the lack of cooperation from the Administration. He said that Congressman Bliley complained to him yesterday about the Administration not being forthcoming. He said it is similar to what happened on the PM and ozone air quality standards. He pointed out that he is a co-sponsor of Sen Hagel's (&Byrd's) resolution that says that "if we're gonna enjoy this, everyone else should join in, too."

Sen. Bond (R-MO) said that he wants to know what it is we know. He said he read Robert Samuelson's piece in the Washington Post yesterday, which said that we don't yet know whether it is a genuine threat. He said that if we want to get serious about global warming, then the answer is nuclear power. He also said that he has been reading a book *Facts not Fear* which says that environmental fears are exaggerated. (Note--this is a hard right critique of environmental education. It claims that environmental education is brainwashing our children into becoming anti-technology and anti-capitalist.) He also said that he's been hearing from a lot of small businesses, especially the Small Business Survival Committee (Note--another hard right group) who are concerned about the climate treaty negotiations.

Sen. Reid (D-NV) said that if Sen. Bond likes nuclear power so much, his state of Missouri should offer to take the nuclear waste disposal site and get it out of Nevada. Reid said that it appears that he is on the minority on the committee in believing that we do have problems with global warming, and that the scientific evidence is clear. He said it is clear that we are seeing significant changes in weather patterns. He expressed hope that we can make progress on this issue as we have on other environmental issues. He pointed out that 25 years ago, we passed the Clean Water Act because a river caught fire and now things are much better. He said he is going to give this issue as much attention as he can.

Sen. Lautenberg said that with all of the doubt and all of the debate, we see changes around us that we don't understand--including rain at the poles. (I wasn't sure what he is referring to.) He said he is getting tired of critics who demand peer reviewed research, yet have no trouble discounting peer reviewed research when it suits their purposes. It brings the tobacco industry to mind, he said. He said he thinks Samuelson's article is wrong.

Sen. Lieberman (D-CT) couldn't attend but asked to have his statement inserted in the record.

Sen. Sessions (R-TX) didn't give an opening statement. During questioning, he said we have to decide where to devote our resources. He wondered aloud how many lives would be saved in the developing world if they had cheap electricity. He concluded at the end of the hearing that it is uncertain whether we have global warming and, if we act unilaterally, it won't have any impact anyway. He is worried about working Americans.

Sen. Graham came in briefly, but he didn't say anything.

Sen. Warner (R-VA) associated himself with Sen. Byrd on this issue.

Dr. Barron said that it appears that the climate response will be large and significant, but that the uncertainty is large. Observations indicate that it has warmed; and we are seeing changes in

precipitation. Models indicate that the changes could be severe. He thinks we should maintain research, observation and modeling. He thinks the test of at what point we should be worried is the degree to which we are vulnerable to impacts (e.g., floods, heat-related illness, etc.). He thinks we are at that point, and we're going to have to live with a certain level of uncertainty. He said that based on experiments where models are run to try to "forecast" the past, no models overpredict--no models are oversensitive.

Dr. Christy said that there has been a slight warming trend but that the trend is small. He said the stratosphere is cool. He said most records do not show this century to be much different than centuries past. He said we've taken the planet's temperature in a few places and it seems to have a slight fever, but it needs a complete physical before we could conclude that we have a serious problem.

Dr. Lindzen said the earth's surface temperature is affected mainly by evaporation and convection, not radiation. Water vapor is the most important greenhouse gas. The models disagree with the satellite data. Everyone agrees that increasing CO₂ should have an impact, but the question is, is it significant? By significant, he means bigger than natural variability, because we can adapt to natural variability. The IPCC numbers regarding the magnitude of the problem keep going down. Statements have been getting weaker and weaker. Saying that some impact is likely is a trivial statement. He is unhappy with the uses made of this very weak statement. He thinks the impact is unlikely to be significant, so we can adapt to any changes. He also thinks reducing greenhouse gas emissions will have little impact (I think because we won't be able to reduce them that much, but I'm not sure).

Dr. Schneider said that there are uncertainties, but that we know a lot. He said that what has changed is not our estimate of the sensitivity of the climate to greenhouse gases, but rather the greenhouse gas emission projections have declined. So we've changed what we think people will do, not what we think the earth would do in response to a particular level of emissions.

Dr. Jorgenson said that he is a co-author of the Economists statement with 2000 signatures. He pointed out that most of the economic analysis of this question has occurred since the 1992 Rio conference. He said that Robert Samuelson's statement that effective action on climate change would amount to crushing the economy is exactly the opposite of the consensus among economists--i.e., that climate change involves significant economic risks, that there are policies available which would be effective and cost-effective, and that market based approaches are important. He thinks you choose an appropriate emissions target based on cost-benefit analysis. He thinks the Rio target of emissions stabilization is not justifiable on cost-benefit grounds. CCAP tried to do it, and it's been a failure. He thinks it's good that the Administration has proposed a market based system. He would recommend a \$10 per ton carbon tax in 2025, or a \$5 per ton carbon tax now. He wants to slow emissions growth, not stop it. The developed countries have to go first, but we eventually have to bring in other parties.

The panel agreed that there has been an observed warming of about 0.5 degrees C. Sen. Baucus asked the panel what has caused the observed warming. Barron said there is a significant probability that it's due to greenhouse gases. Lindzen said it is natural variability. Schneider said he is 85% sure that it is caused by CO₂. Christy said he thinks that at most a quarter of the warming can be attributed to greenhouse gases; the rest is natural variability.

Sen. Baucus said we have a dilemma--if efforts are modest, they won't have a significant impact. Sometimes we need a shock to force a change in people's actions. Nothing ever happens unless there

is a crisis or political leadership. He said he hasn't seen much of the latter. (I think that may have been a pot shot at the Administration, but I'm not sure.)

Jorgenson said that the oil shocks caused carbon emissions to be stable from 1973 to 1987. He doesn't think we should do that again.

Jorgenson said we don't have to have China sign up for the treaty. We just have to get them to do energy price reform. Right now they maintain energy prices at well below world levels. There is time to bring in the developing countries, but it is not a matter of great urgency.

Schneider said that if no one takes the first step, no one will do anything. The developed world should go first because the bulk of cumulative emissions are our fault. However, everyone has to play eventually. But not everybody has to pay.

Lindzen said that what we do won't matter if we don't get China and India.

Sen. Inhofe asked the panel if all the uncertainties will be resolved by December of this year, in time for the Kyoto conference. Everyone said no.

Sen. Sessions asked about sound science. Schneider says sound science does not mean certain science. He said there is also uncertainty on the economics.

Lindzen said that the IPCC consensus is evidence of a herd instinct, not a scientific instinct.

Jorgenson said adaptation is the key issue. Most of the rest of the panel agreed.

Chafee asked the panel what we should do. Barron said we should do "no regrets" measures. Lindzen says we should do adaptation; there is very little else we can do. Schneider said "I am risk-averse; I have earthquake insurance, so I would do a little more than no regrets as an insurance premium."

Jorgenson said he would take modest actions. He would eliminate \$14 billion of energy subsidies. He says Kyoto is an opportunity to act in a way that is not unilateral. He emphasized that the Administration hasn't picked a target yet.

Response to 7/10 Climate Change Hearing
Dan Delich, Majority Committee Counsel for Senator Chafee
July 11, 1997

Mr. Delich said that he thought the hearing went ok, and that the science message was that there is enough certainty for small steps. The left side of the committee feels that there is enough evidence for it to take big steps. The right side of the committee feels that there is too much uncertainty for big steps to be taken, but does acknowledge that there is a problem. The hearing was considered, in baseball terms, to be "not the same as a home run, but much better than a foul tip".

Joint Economic Committee Hearing
"Tradable Emissions"
Wednesday, July 9, 10 a.m.
2325 Rayburn House Office Building
(written by Elizabeth Lowenhaupt)

Hearing Summary

In general, everyone seemed to be in agreement that emissions trading programs have proven both economically and environmentally successful as tools for reducing emissions. Most of the questions asked seemed designed to obtain clarification on various explanations made during the testimonies. Discussion of open market trading and the EPA auctions were both somewhat controversial.

Speaker: Chairman Jim Saxton (R-NJ)

Summary of Opening Statement: Mr. Saxton spoke in favor of tradable emissions as a tool for reducing pollution with economic efficiency. He explained emissions trading systems, gave as a successful example the sulfur dioxide allowances trading which followed the Clean Air Act Amendments of 1990 to control acid rain, and suggested that emissions trading systems, now used in some regions for controlling nitrogen oxide, sulfur dioxide, and volatile organic compound emissions, be considered as approaches to such issues as ozone and particulate matter as well as global warming on an international level. He called tradable emissions "a smart alternative to the traditional command-and-control approach to environmental regulation."

Other members of the Committee present for at least part of hearing:

Senator Bingaman

Mr. Ewing

Mr. McCrery

Speaker: Mr. Peter Guerrero (Dir. Of Environmental Protection Issues, GAO)

Summary of Statement: The GAO testimony discussed the economic and environmental successes of EPA's sulfur dioxide allowance trading program, the (limited) experiences of trading programs for other air pollutants, and further issues to consider in expanding trading programs (including "the need for reliable emissions data, penalties to discourage noncompliance, the allocation of emissions allowances, and the development of trading boundaries"). In addition, Mr. Guerrero discussed in detail the RECLAIM program in southern California, which is an example of a cap and trade program based on NO_x and SO_x emissions.

Questions and Answers: Saxton asked several questions clarifying the measures of success, both environmental and economic, for the RECLAIM program. He also asked whether or not other examples existed which were as dramatic, and what controversial issues had been identified. Finally, he asked about the problem of "hot spots". Guerrero, with the help of two other men from the GAO, answered his questions in a straightforward manner. Only about 6 other states were mentioned as having identified similar issues, but others were said to be addressing ozone and smog issues with the possibility of using tradable emissions as a tool. The only controversial point mentioned was whether or not tradable emissions programs are good for the environment, but it was claimed that since Title IV of the Clean Air Act, which provides flexibility, has led to both environmental and economic success. The question of "hot spots" was answered with the reminder that this is a problem regardless of reduction method, as well as with the explanation of how a system can be analyzed before it is

actually implemented to minimize the problem. In later questions, Mr. Saxton asked several questions further exploring the Cap and Trade system and comparing it to the Open Market Trade (which was declared less environmentally effective than the Cap and Trade, since at a minimum the Cap and Trade ensures environmental improvement), as well as clarifying the fact that under command-control systems, regulators determined the methods of emissions reduction whereas under an emissions trade system, competition is generated in pollution control methods since participants have the freedom to choose.

Mr. Bingaman asked about the setting of limits for SO₂, the ability to determine how much of the SO₂ decrease was actually due to emissions trade, and the problem of sanction enforcement if the system is applied on a worldwide basis to CO₂. The response to the first question warned of strategic behavior as a problem with setting the cap as close to the starting point of the program as would be necessary in order to set it as accurately as possible; participants, knowing that their limits would be set based on percentages of output at a given time, would simply increase emissions during that time. The second question was addressed with a slide of "Options Selected for Phase 1 Compliance" and the comment that while most of the decrease was due to the switch to low-energy coal, the two next highest causes were the installation of scrubbers and the emissions trading. Finally, the representatives from the GAO listed the requirements of any program, regardless of what method of emissions reduction, including the presence of sufficient penalties and enforcement, so that the cost of non-compliance is higher than the cost of compliance. He later outlined three distinct models: 1) command-and-control where the regulator says you have to do this to meet the requirements, 2) command-and-control where the regulators says you have to meet the requirements but it doesn't matter how, and 3) emissions trade (where you can not only choose the technology, but can also trade emissions). When he asked whether model two was the most typical method by the government, the response was that there was not much flexibility before Title IV.

Mr. Ewing asked about the role of state governments in emissions trading programs and was answered with a description of such organizations as OTAG (Ozone Transport Assessment Group) but also the comment that it is the U.S. EPA which facilitates with its annual auction, tracks trades, and enforces compliance. It was established that emissions trading is popular with the regulated industries in that it gives them an economically feasible way to meet the requirements. The economic incentives for trading were reiterated when Mr. Ewing asked "Wouldn't some companies rather pay than make changes for reductions?"

Speaker: Ms. Mary Nichols (Assist. Admin. For Air and Radiation, U.S. EPA)

Summary of Statement: Ms. Nichols described the EPA's experience with air pollution reduction since 1970, claiming that "our air is generally cleaner and healthier today than at any time since EPA began measuring air quality", as well as a brief history of emissions trading programs. She listed the following as factors to consider when working with emissions trading: the nature of the problem, the number of sources with differing control costs, the ability to quantify emissions, the institutional capabilities, and the challenges of developing or implementing interstate trading programs. She mentioned the RECLAIM program, and then described EPA's involvement in other emissions trading efforts relating to sulfur dioxide, nitrogen oxides, and greenhouse gas emissions, concluding with the fact that EPA has found emissions trading to be a useful tool.

Questions and Answers: Mr. Saxton asked why the EPA open market trading regulations have not yet been issued, and Ms. Nichols responded that the EPA originally thought it would be useful to give the states a model rule, but that it turned out the differences between the situations in different states rendered this impractical. She stressed the achievement on the issue of agreement between the business and the environmental communities when asked about that in that the environmental groups

no longer consider trade programs "evil". She expressed the EPA's official support of the RECLAIM program (when asked why, if the RECLAIM program is working so well, the EPA one won't be issued until 1997). Finally, Mr. Saxton asked what Congress can do to help, to which Ms. Saxton replied that the EPA has minimum authority to require trade under the Clean Air Act and that maybe later legislation will be needed to eliminate such problems as patchwork.

Mr. Bingaman asked why reductions happen more quickly because of trading, and Ms. Nichols responded that the ability to trade within a business (e.g. between factories) gives flexibility and an incentive to move quickly in order to have a future cushion and that requests from the economic planning arm of a company appears much more urgent to the company than those from its environmental arm (including such specialists as engineers and lawyers). He raised the point of dropping allowance prices and finally the hurdle involved in implementing CO₂ programs, the latter of which was fielded with a statement of the need for education to the rest of the world (much of which is skeptical) on the benefits of emissions trade systems.

Mr. McCrery asked about the auction procedure. Brian McLean, the head of the EPA's acid rain program, explained its structure.

PANEL (4 speakers)

Speaker: Ms. Mary Gade (Dir. of the Illinois Environmental Protection Agency)

Summary of Statement: Ms. Gade discussed the program currently being developed (with expected implementation in 1999) for the state of Illinois which involves an emissions trading system for volatile organic compounds in the Chicago metropolitan area. She described the development, features, and expected benefits of the system. The features she listed which are critical to the success of the program include a cap on emissions, inclusion of all significant sources, flexibility, confidence in the market mechanism, reduction target enforcement measures, and cost savings potential.

Speaker: Dr. Daniel Dudek (Sr. Economist with the Environmental Defense Fund)

Summary of Statement: Dr. Dudek expressed the EDF's approval of market-based environmental policies, claiming that they "increase environmental effectiveness, reduce compliance costs, create financial rewards for environmental performance, tap existing on-site expertise in the search for new solutions, create incentives for new technologies, processes, and environmental management". He first discussed the environmental benefits of emissions trading, then mentioned its economic success, listing the requirements for any successful pollution program, and finally addressed present policy needs and priorities, including increased public education on the significance of these environmental reforms, a way of dispelling the "remaining artifacts of the old command-and-control system", and the extension of emissions trading to additional emissions and sources.

Speaker: Mr. Carlton Bartels (Managing Dir. Of Cantor Fitzgerald Environmental Brokerage Services)

Summary of Statement: Mr. Bartels began by listing three different types of environmental programs: command and control, emissions taxes, and tradable emission rights. He discussed the successes of existing tradable emission programs, advised that the market be kept simple and not overdeveloped, described an appropriate role for regulators, and stressed the need for both adequate funding and strong enforcement. Finally, he claimed that future tradable emissions programs would need a decreased cost of participation and therefore possibly looser monitoring standards if they are to be expanded. He said that while an international greenhouse gas trading program might be possible in the long-term, the U.S. should first manage the issue domestically.

Speaker: Mr. Daniel Chartier (Manager, Emissions Trading, Fossil Operations Business Unit, Wisconsin Electric Power Company)

Summary of Statement: Mr. Chartier discussed the issue of emissions trading from the perspective of a utility. He described the positive experience which Wisconsin Electric has had with the trading aspect of the Acid Rain Program, mentioned its application to other markets, advised simplicity, flexibility, certifiable reductions, and recognition of early reductions in the development of programs for other markets, and encouraged increased education and outreach as well as a trust in the science for current programs.

Questions and Answers: Mr. Saxton asked each member of the panel for the greatest success and the greatest failure of an emissions trade program.

Chartier: positive=save money for customers, environmental progress

negative=nothing he would change, except maybe the debate over the auction system

Gade: positive=the certainty for regulators that goals will be achieved, improved cooperation

between businesses and regulators due to flexibility, improved air quality,

economic benefits (for Illinois, saved 40-50% in job losses from the traditional method, \$3000/ton reductions)

negative=emissions trading has taken so long and has so far to go, especially in other states (EPA can help by guiding, helping design, and facilitating inter-state trade)

Dudek: positive=ability to learn by doing, substantial base of public understanding (also evolving internationally)

negative=threat that we'll lose the momentum and public trust or support because of poorly designed programs (esp. concerned about OMRT)

Bartels: important to maintain momentum

threat: must make it clear where the program is going so as not to penalize companies for doing things in advance

Mr. Ewing asked whether or not there is trading of emissions credits on any "formal markets", which raised the question of formal vs. informal markets. Job losses (Gade: know that since at lower costs, jobs preserved--Chicago) What can Congress do? (EPA could do lots such as comparability between states, states with programs for meeting certain criteria can get fast track approval authority to go out and trade).

'97 JUL 10 PM6:07

THE WHITE HOUSE
WASHINGTON
July 10, 1997

MEMORANDUM FOR TODD STERN

FROM: JACK GIBBONS 
SUBJECT: Aspen Institute Forum on Energy in the Next
Quarter Century

Attached is a very brief summary (contained in my weekly report to the President) of my observations from the Aspen Institute Forum on Energy in the Next Quarter Century. The Forum concluded yesterday.

While climate change was a thread that ran throughout the Forum, the principal focus was global energy futures from perspectives of the market, economics, technology, and public policy. Prominent in the discussion was the question of what form price signals (e.g., carbon surcharge) seem most promising in order to induce optimum market responses. A summary is being prepared, and I'll send it to you as soon as I receive it.

Attached also is the Aspen Forum agenda and attendance/address list with some key industry and environmental leaders flagged among a host of key people from public utilities, universities, etc., who participated.

Enclosures

1. OSTP Weekly Report to the President dated 7/10/97
2. 1997 Aspen Energy Policy Forum: Agenda and Attendance List

Wkly
Report!



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

July 10, 1997

MEMORANDUM FOR THE PRESIDENT

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

ENERGY USE AND CLIMATE DISRUPTION

This week I chaired the technology session of the Aspen Institute meeting on Energy in the Next Quarter Century, which convened international leaders from industry, government, and NGOs. Participants spanned a broad political spectrum, but the group reached (near) consensus on a number of issues:

- Global climate change is a scientific reality, and over the next 50 years or so we must make the transition away from carbon-based fuels. Action on climate is complicated by other stresses that must be attended, including loss of biodiversity and deforestation, thus we should develop broad response strategies.
- Technology can greatly decrease the economic costs of the transition. A theme of "technology first; then taxes" (taxes being shorthand for various policies, including incentives, regulations, surcharges, caps, and trading provisions) prevailed throughout the meeting. Your PNGV partnership program received strong kudos.
- Technology has short-term and long-term potential. Pacing of the transition is critical to enable technologies to evolve and capital stock to turn over. But much can be done to influence consumers to select existing products, e.g., cars, appliances, housing, now that can significantly reduce energy use at no loss of amenity.
- Industry is now giving emphasis to natural gas compared to coal or petroleum, which will help cut CO₂ emissions. Expansion of nuclear power is not a viable option for the United States at this time, though efforts to resolve remaining technological and environmental issues should continue. It is an option that needs to be maintained, and this will not happen without federal participation. Your PCAST study on energy strategies is covering this issue.

- Your direct engagement is critical to raising public awareness and inducing action. Your recent announcements on climate change were well received.

On many of these points, the Aspen group closely parallels the view expressed by Paul Nitze in his July 2 Post op-ed (which you cited in your annotations on my last weekly report). As Nitze stated, "Over the long run, the innovative, technology-rich U.S. economy could benefit with U.S. industry competing on an equal footing to offer pollution controls in world markets."

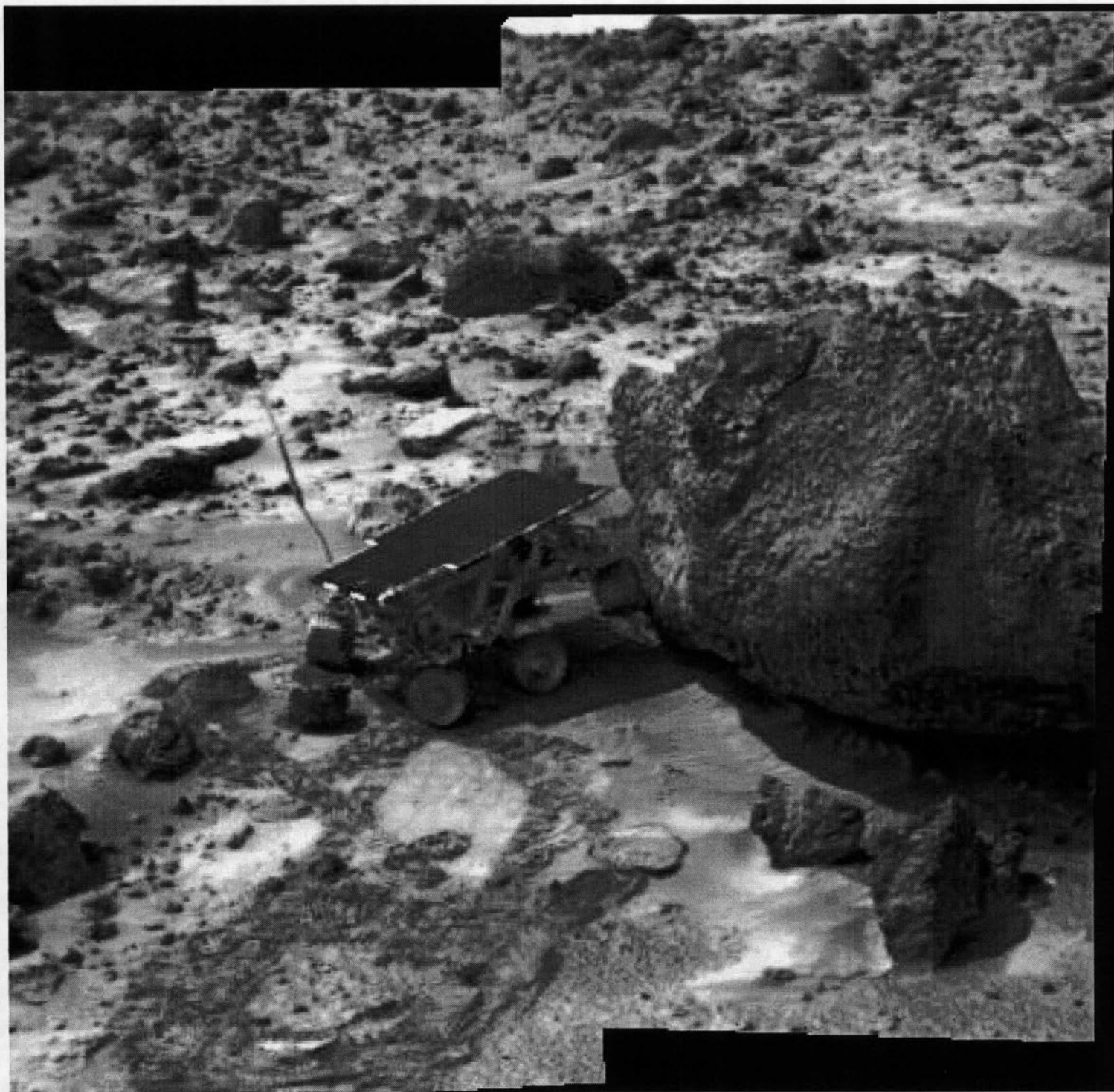
MILITARY SPACE CONFERENCE

While in Colorado I delivered a speech to the Air Force Conference on the Law and Policy Relating to National Security Activities in Outer Space. I presented your Administration's policies on civilian and military uses of outer space, stressing that technology is a good servant but a poor master, and we must choose wisely among the many possible uses. I specifically referenced the issues of space-based weapons and national missile defense.

SPACE SCIENCE

The Mars Pathfinder continues to produce exciting and unexpected scientific results. Copies of today's newest images are attached: the first picture presents a wide angle view of the Martian soil, some rocks, and the Carl Sagan Station from the perspective of the Sojourner rover. The rocks in the foreground look like large boulders, but they are actually small stones, as the second picture shows. The second picture shows the Sojourner in the process of taking the first picture while standing next to the rock known as Yogi. It appears from analysis of the rocks that Mars, geologically speaking, is much more kin to Earth than we previously thought.

Dan Goldin is keeping me fully apprised of Mir developments and is consulting with me during the review of whether to send another U.S. astronaut (scheduled to be the last of the series) to the station. I will make sure you are fully briefed on all issues as they arise.





Agenda
1997 Aspen Energy Policy Forum

"2020 Vision: The Energy World in the Next Quarter Century"

Chair: Charles B. Curtis
Former Deputy Secretary of Energy and Former
Chairman, Federal Energy Regulatory Commission

Session 1: The Politics of Energy Sunday, July 6, 8:30 am - 12:00

Chair: James R. Schlesinger,
Chairman, The MITRE Corporation

J. Robinson West, Chairman, Petroleum Finance Corporation, Ltd. D.C.
Alirio Parra, Center for Global Energy Studies *London. ex Min. of Energy (2001) Venezuela*
Herman Franssen, President, International Energy Associates, Inc. *Ned.*

What is the political context in which energy and environmental decisions will be made? How will this affect where we will be in 2020 and how we will get there? How do the politics of the environment intermix with the politics of energy? What are the current domestic and international politics of oil development? Nuclear power? Utility competition and mergers?

Session 2: Technology Monday, July 7, 8:30 am - 12:00

7:30 breakfast at Meadows

Chair: John H. Gibbons
Assistant to the President for Science and Technology

James A. (Jae) Edmonds, Battelle - Pacific Northwest Laboratories
Trevor Jones, Chairman, Echlin Inc.
Joan Ogden, Center for Energy and Environmental Studies,
Princeton University
Peter Blair, Executive Director, Sigma Xi, The Scientific Research Society

Stipulating that fossil fuels will continue to dominate until 2020 and beyond, what technological advances could allow other fuels to supplement and eventually replace them, e.g. renewables and various options for efficiency gains, including electromotive transportation? What factors will determine whether or not they are adopted?

JG 15
Break 20
40 15 60
class 5
100 min
200
100 disc

20

Session 3: Environment

Monday, July 7, 2:00 - 5:30 pm

**Chair: Roger W. Sant, Chairman
The AES Corporation**

**William K. Reilly, Founder and Chairman, Aqua International Partners
Fred Krupp, Executive Director, Environmental Defense Fund
Dirk Forrister, Chair, White House Climate Change Task Force**

What will be the effects of possible US environmental policies on energy use and energy companies? What factors -- scientific, political -- will affect the climate change debate? What would be the likely economic effects of a possible Kyoto agreement? What would be the likely environmental effects of no agreement?

Session 4: Market Structures

Tuesday, July 8, 8:30 am - 1:00 pm

**Chair: Kenneth L. Lay, Chairman and CEO
Enron Corporation**

**Roger Rainbow, Vice President, Global Business Environment,
Shell International
Irwin Stelzer, Director, Regulatory Policy Studies
American Enterprise Institute
Howard Pifer, Chairman, Putnam, Hayes & Bartlett, Inc.
Les Silverman, Director, McKinsey & Company**

How will US and world energy markets evolve by 2020? How will demographic trends will affect energy markets? What will energy companies look like? What regulatory structures will be appropriate?

Session 5: Policy Implications

Wednesday, July 9, 8:30 am - 12:00

Chair: Charles B. Curtis

**John A. Riggs, Director, Program on Energy, the Environment and the
Economy, The Aspen Institute**

Following the previous sessions, key policy issues arising from the discussions will be identified. In this session, three breakout groups will refine, and perhaps find common ground on, these questions. Then, in a final plenary session, the group will receive reports from the breakout groups and consider a general summation. Moderators of the breakout groups are:

**Vicky Baily, Commissioner, Federal Energy Regulatory Commission
Ben Cooper, Executive Director, Association of Oil Pipelines
Paul Dragoumis, President, Paul Dragoumis and Associates**

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July 5-9, 1997

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*heads to setup
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Press
Weekly Report

Date: Friday, August 01, 1997

Time: 5:58:01 PM

2 Pages

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White House Climate Change Task Force

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Weekly Report

Week in Review: July 28 - August 1, 1997

Congressional Activities: Staff met with staffs of Chafee, Kerry and Byrd as a follow up to the Byrd resolution. All are interested in working cooperatively and proactively through the fall, and are very interested in Administration plans during that period that might include their offices.

The Senate appointed a congressional observer group Thursday during closing business that includes Murkowski, Craig, Roberts, Hagel, Abraham, Chafee, John Kerry, Lieberman, Levin, Byrd, Bingaman, Baucus. Other senators may ask for inclusion in September.

Interest Group Activities: Staff met with representatives of Cargill. Cargill is beginning to focus on this issue and would like assistance from the Administration to get access to a variety of information for analysis. They are also interested in dialogue at a variety of levels. Cargill is one of the largest commodities traders in the US, with 40 percent of its enterprises located in 60 foreign nations.

Staff spoke to the Nuclear Energy Institute on Wednesday, and the Fossil Fuels Task Force of National Association of Manufacturers on Wednesday. Both groups are interested in continuing dialogue with the Administration.

Staff spoke to Washington representatives of Fortune 500 companies in preparation for the President's and Vice President's meeting with CEOs scheduled for Monday, August 4.

Media Activities: Following conversations with Todd Stern and staff, the *Washington Post* ran a lead editorial on the Byrd Amendment and climate change on Tuesday. On Thursday, the *Post* ran an op-ed by NRDC's Dan Lashoff and ACEEE's Howard Geller as a response to the Chrysler CEO op-ed of last week.

[Tom Karl of NOAA was interviewed by NBC's Dateline program for a piece on the spring North Dakota floods that is expected to be broadcast Sunday evening.]

Upcoming Events Next Week August 4 - 8, 1997

Congressional Activities: Congress is on recess until September 2.

Upcoming Hearings: A Senate Commerce, Science and Transportation hearing will be scheduled in September. Administration science and technology witnesses will be invited.

Upcoming Media Activities: Bill Stevens of the New York Times is expected to file a story on Sunday on the Bonn Talks and U.S. business attitudes toward climate change policy.

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Weekly Report

Week in Review: July 7 - 11, 1997

Interest Group Activities: Dirk Forrister joined Todd Stern for a series of meetings through the week with interest groups regarding climate change including representatives of environmental groups, labor and industry.

- Staff spoke at the USA Rice Producers annual conference in Dallas. Primary concerns of the industry include higher fuel and electricity prices (they quote worst case industry analyses) and mandatory policies and measures that require US rice producers to operate under international standards. They are interested in the potential of emissions trading and other policies to soften economic impacts, and they are concerned about implications to water resources of no action. They have been lobbied heavily by the GCC.
- Staff met with American Iron and Steel Institute on Wednesday. They seek "constructive engagement with the Administration but are not sure how to proceed."

Congressional Activities: Rafe Pomerance and Dirk Forrister met with Reps. Karen McCarthy (D-Mo), Tom Sawyer (D-OH), and Elizabeth Furse (D-OR), all members of the House Commerce Power Subcommittee as background for Tuesday's upcoming hearing. Sawyer expressed interest in emissions trading, Furse indicated her support for strong commitments and "no waffling by the Administration" and supports our approach to developing countries. McCarthy indicated her willingness to help mobilize other friendly members. Staff are following up.

Hearings this Week: Thursday, 7/10: Senate Environment and Public Works Climate Change Hearing on Science and Economics, chaired by John Chafee, R-RI. Four scientists, one economist. No administration witnesses. The hearing went generally well, but not without skepticism from Republican senators. See attached summary.

- Wednesday 7/9: Joint Economic Committee Hearing on Emissions Trading, administration witnesses included Mary Nichols of EPA, Peter Guerrero from GAO, Dudek from EDF. The hearing went well, with primary focus on the success of the SO₂ trading program, and its potential application to CO₂ emissions. See attached summary.

Interagency Communications Activities: Staff attended the Interagency Working Group and provided concurrence on the latest version of the National Communication.

- Staff attended the IAT meeting and OMB's TJ Glauthier's weekly meeting.

Media Activities: Economic Columnist Robert Samuelson wrote on climate change for this week's Newsweek and Wednesday's Washington Post.

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Upcoming Events Next Week
July 14 - 18, 1997

Congressional Activities: The Byrd Resolution is scheduled for markup in the Senate Foreign Relations Committee next Tuesday with floor action likely immediately thereafter. (A Statement of Administration Position or a White House letter would be helpful.) Staff for John Kerry (D-MA), may offer modifications in committee, and Chafee may offer substitute or second degree on floor. No floor strategy is set, and it can be influenced by Administration position.

Upcoming Hearings: Tuesday, July 15: House Commerce/Energy and Power Subcommittee Hearing (Chair - Schaefer). Tim Wirth and Janet Yellin will testify on behalf of the administration are the sole witnesses. Staff are assisting with preparation.

Wednesday, July 16: Senate Commerce, Science, Transportation (Chair - McCain). Hearing possible but not confirmed. Senior administration science and technology officials may be requested for the first panel, followed by a non federal panel on the same.

Thursday, July 17: Second Senate EPW Hearing. Tim Wirth and Janet Yellin will be the first panel. A second panel of business CEO's will follow. Staff are assisting with preparation.

Thursday, July 24: House International Relations/Chair - Gilman. Hearing on negotiations and economic impacts. Administration witnesses are requested.

Upcoming Media Activities: Harvard University's Dale Jorgenson will submit an opinion page piece to the Washington Post to counter Robert Samuelson's op-ed that ran on Wednesday.

Next week, Forrister will contribute to an electronic opinion forum on climate change policy posted on a new Web site compiled by Resources For the Future (www.countervane.rff.org).

White House Climate Change Task Force

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Weekly Report

Week in Review: September 1 - 5, 1997

Congressional Activities: White House Legislative Affairs and Task Force staff met this week with friendly congressional staff (Byrd, Chafee, Kerry) regarding Fall plans.

Interest Group Activities: Task Force staff met on Friday with representatives of Holnam, a cement manufacturer to discuss CO2 reductions in the cement manufacturing process..

Media Activities: Industry is poised to kick off a reported \$12 million television ad campaign against an international climate change treaty with a 10:00 a.m. Tuesday September 9 news conference at the National Press Club. Reportedly, the ad campaign is sponsored by a coalition of business, industry, senior citizens and farmers organized against passage of an international climate change treaty.

Media events this week:

- The Vice President visited Montana's Glacier National Park on Tuesday.
- EPA Administrator Carol Browner held an editorial board meeting on climate change with the Kansas City Star on Wednesday. CEQ Chair Katie McGinty, in Kansas City to meet with the Edison Electric Institute on Thursday, met with environmental writers at the Kansas City Star, also on climate change.
- Task Force staff initiated contact this week with climate change policy makers regarding op-ed placements with local and regional newspapers and participation in talk radio programs.

Upcoming Events Next Week September 8-12, 1997

Task Force Activities: Staff have received requests for September meetings regarding agricultural issues and climate change from the Corn Refiners Association and the World Resources Institute.

Upcoming Media Activities: Andrew Rebken of the metro news desk of the New York Times is expected to file a "Week in Review" article for this Sunday's Times on public education and outreach on climate change.

White House Climate Change Task Force

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FROM: Paul Risley
White House Climate Change Task Force

DATE: Friday, July 18, 1997

RE: Weekly Report

See attached.

Total Pages: 13

Weekly
Reports

White House Climate Change Task Force

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Weekly Report

Week in Review: July 14 - 18, 1997

Congressional Activities: On Thursday, the Byrd Resolution was marked up by voice vote without amendments, but Senator Kerry raised concerns and indicated an intent to offer floor amendments. He indicated that the Byrd resolution needs clarification to be sure it is not intended to be a treaty killer with respect to the timing of developing country commitments. He also suggested that it missed the real economic protection issues for the US by neglecting trading and II. Apparently he chose to withhold an amendment in order to work with other committees to build support. Floor action is expected as early as next week, and probably by the August recess unless industry decides not to risk a vote. Kerry and Hagel did a press conference afterward in which Hagel suggested the Byrd resolution said there was no scientific justification for climate change. Kerry pointed out that Hagel was in disagreement with Byrd and the majority of other cosponsors on that point and asked Hagel if he would work to improve the resolution. Hagel agreed.

Staff briefed Senate EPW staff on prehearing issues, including the President's speech, the economic analysis, OSTP conferences, and a negotiations update. One question was raised by Inhofe's staff to the effect that the administration must be planning a non-ratification approach, since the Byrd resolution has clearly killed the treaty. Staff pointed out that Byrd's remarks are to the contrary, as well as those of many cosponsors.

Hearings this Week: Tuesday, July 15: House Commerce/Energy and Power Subcommittee Hearing (Chair - Schaefer). Tim Wirth and Janet Yellen testified for the administration. Cross examination was dominated by Reps Dingell, Schaeffer and Crapo on the negative side; McCarthy and Markey on the positive. The administration was sharply questioned and criticized for its failure to deliver economic analysis and a policy for congressional consideration. In response both Yellen and Wirth attempted to clarify the rationale for discontinuing the IAT work, but left the committee and some press with the view that the analysis was failed, the administration is abandoning it, and little was learned. Developing nations issues also dominated, particularly concerns about China. Tim Wirth spoke to the issue extensively, but the committee continued to express frustration on the lack of a crisp response to its resolve on this issue, and article 16 in the protocol text. See attached summary.

Thursday, July 17: Second Senate EPW Hearing. Tim Wirth and Janet Yellen appeared as administration witnesses, and industry was represented by Kevin Fay and Bill O'Keefe. Several senators appeared, and provided many friendly questions. Wirth and Yellen were able to clarify the administration view on economic analysis more favorably, but frustration by some members with the lack of clear economic answers and policy recommendations was clearly evident. There was a call for more direct involvement by the President and the use of the "bully pulpit". Senator Inhofe provided an interpretation of the Byrd resolution to the effect that it mandated equal

commitment levels at equal times. Wirth disagreed, citing the language directly and quoting Senator Byrd's remarks. After the hearing Byrd's office was contacted by industry representatives wanting to know who was right; Byrd's staff supported Wirth's interpretation. Inhoffe also raised potential conflicts with Unfunded Mandates legislation, and the committee staff afterward indicated that the administration should provide more clear and compelling information on this issue. See attached summary.

The Senate Commerce, Science, Transportation (Chair - McCain) hearing scheduled for this week was postponed to July 31.

Interagency Communications Activities: Staff attended IWG meeting, where final preparations for the upcoming Bonn meeting were discussed. Also helped prepare background briefing materials for use by Cabinet Secretaries and assisted in development of invite list for upcoming Nobel scientists event.

Media Activities: Multiple stories appeared reporting on the Tuesday hearing and release of economic analysis. Both the Wall Street Journal and the New York Times carried articles. More than one article also mentioned the Argonne study that was released by DOE late last Friday.

Upcoming Events Next Week July 21 - 25, 1997

Congressional Activities: Staff will brief the House International Relations Committee on Monday or Tuesday on prehearing issues. House staff indicate the big issue will be China and trade shifts, to which its chair will speak with extensive analytical and graphic support. Staff are interested in substantive information on trading, II, article 16, and an administration position on the Byrd resolution.

The Byrd resolution may go to the floor with amendments.

Upcoming Hearings: Thursday, July 24: House International Relations/Chair - Gilman. Hearing on negotiations and economic impacts, with focus on China and developing nations trade shifts. Tim Wirth has been invited as a witness.

Interest Group Activities: The Center for Strategic and International Studies will hold a Climate Change Roundtable Discussion on July 22. Several Administration representatives will be speaking.

Upcoming Media Activities: Harvard University's Dale Jorgenson will submit an opinion page piece to the Washington Post to counter Robert Samuelson's op-ed that ran on Wednesday.

Climate Change Hearing
House Commerce Committee
Subcommittee on Energy and Power
July 15, 1997

Members attending:

Dan Schaefer, Subcommittee Chair (R-CO)
Tom Bliley, Full Committee Chair (R-VA)
Michael Crapo (R-ID)
Rick White (R-WA)
James Rogan (R-CA)
Edward Whitfield (R-KY)
John Shimkus (R-IL)
Ralph Hall, Ranking subcommittee member (D-TX)
Ed Markey (D-MA)
Tom Sawyer (D-OH) [not on subcommittee; just sitting in]
Karen McCarthy (D-MO)

Witnesses:

Tim Wirth, Undersecretary for Global Affairs, U.S. Dept. of State
Janet Yellen, Chair, President's Council of Economic Advisors

In general, the Republican members were astonished that the Administration is backing away from the long-promised analysis and assessment. They were particularly surprised by Dr. Yellen's characterization of the IAT effort as a "failed project" and a "futile exercise." Toward the end, they were almost pleading to be consulted prior to the Kyoto meeting.

Mr. Schaefer began by saying that this is the first hearing of the 105th Congress. He was pleased to finally get some real information in the form of the draft economic analysis and assessment and the peer review comments and he looked forward to hearing what the Administration thinks of the numbers. He wants to know what is Administration policy and what is not, and at least narrow the range of the options on the table. He agrees with the Administration that any actions must be reasonable and achievable and that flexibility is key. He is looking for assurances that the Administration will not rush to judgement in December 1997, and will not sign an agreement that results in transferring emissions and jobs overseas.

Markey said nice things about Wirth. He then said that he thought today was an appropriate day to have this hearing--with temperatures expected to top 102 degrees and ozone expected to hit dangerous levels. He quoted Mark Twain's comment that everybody talks about the weather but nobody ever does anything about it, but that he hopes there will be real action in Kyoto. He applauded the Clinton Administration for their leadership, and expressed his confidence that the Administration is basing its policy on the best scientific information and a clear understanding of the economic implications. He said he is particularly interested in energy conservation and

renewables, and in the role of India and China.

Bliley said that in 2 weeks the Administration will be negotiating in Bonn, and in less than 6 months, if things go as planned, we'll have an agreement, and yet when he looks at the Administration's proposal he sees a piece of paper with the most critical elements blank. He's glad to see a draft of the long promised analysis, but concerned that stabilization at 1990 levels by 2010 will require the "equivalent of a tax" of 26 cents/gallon of gasoline, 2 cents /kwh, \$52.50/ton of coal; \$1.49/MCF natural gas. (Several members used the phrase "the equivalent of a tax") Going 10% below doubles the cost; 10% above cuts the cost in half. The analysis raises more questions than it answers. How do our costs compare to Europe's? Will Europe get an economic advantage from this treaty? How do we know we're not just moving emissions and jobs overseas? He said that because he has questions does not mean that he isn't concerned about the environment.

Dingell expressed concern about the ambitious negotiating schedule. Kyoto is less than 5 months away. He applauds the Administration for providing some of the information the Committee had requested. He wants to know what impact the information will have on the negotiations. He quoted a letter he received from President Clinton in 1995 which said (a) that this process must reflect thoughtful analysis and (b) that he won't agree to anything that will adversely affect U.S. competitiveness. *Dingell* said that the negotiating parameters of the Berlin mandate, which rule out developing country commitments, rule out protecting American competitiveness. The Administration agreed in Berlin last year to develop, at early stages, an analysis and assessment of possible policies for Annex I countries to adopt. [There seemed to be some confusion about this international analysis and assessment which the IPCC completed last year, which is different from the analysis and assessment which the Administration promised. *Wirth* cleared this up later.] We have already provided our negotiating text; the public has little opportunity to comment on the analysis..."I wonder how anybody can be comfortable with this process...How has the Administration been able to progress so far so fast without this information?"

Whitfield said that he has met with labor business and environmental interests and that they all agree that the climate change issue has greater impact on the U.S. than any other environmental issue we've considered recently. He has been concerned that that Administration has been reluctant to say where it's headed, and there's been a lack of information and candor. He is worried about the equivalent of a \$95 or \$100 per ton carbon tax. He is worried that *Wirth* told the Senate a couple of weeks ago that the reason we have to go from voluntary to involuntary targets is that the U.S. economy is doing too well.

Shimkus said it's warm in southern Illinois so he doesn't mind the heat. He's worried about closing factories, closing coal mines. He knows there's angst about discussing jobs and the environment, but he's not sure the science is there yet on this issue.

White said he has no preconceived notions on this issue. The central issue for him is how to figure out how to spend our scarce resources when we don't have all the information we need. We need to protect our environment, but we need to do in the most cost-effective way. We really don't know what greenhouse gas emissions are doing to the climate, but some want to err on the

side of caution.

McCarthy talked about her experience on a Missouri state commission looking at climate change issues. She said we need to make sure developing countries join in this process. We also need to educate the public at home. She sees climate change as a national security issue. If implemented right, it can be clearly positive for the U.S. (e.g., in Missouri they found that alternative fuels are an economic winner.)

Dr. Yellen said that the costs depend on a number of critical assumptions. If we do it dumb, it's expensive. If we do it smart, it's not so bad. Developing countries must be part of the process.

Undersecretary Wirth said the science is clear and compelling. We agree that the developing countries must take on commitments. The issue is when. The developed and developing countries have common but differentiated responsibilities. It is neither realistic nor consistent with the Climate Convention approved by the Senate to require developing countries to be on the same schedule as the developed countries. The Administration welcomes your ideas and support.

Schaefer's first question was on the Argonne report. *Yellen* said that the Argonne scenarios came from the base case in the IAT report, which assumed no flexibility in implementation. He asked her what the scenarios were and she said she would provide that for the record. Regarding the IAT report, *Yellen* said the staff focused on a scenario that was not Administration policy. She said the analysis is concluding because it's futile. *Schaefer* said that he is surprised that we still don't have the analysis that was promised in the last Congress.

Dingell gave *Wirth* and *Yellen* a hard time. He tried to get them to say that all of the important decisions (e.g., leaving out developing countries) were made without doing any analysis, but *Yellen* pointed out that the targets and timetables haven't been decided yet. The U.S. position on flexibility and developing countries is settled, she said. *Dingell* said the analysis is too little too late. *Dingell* asked *Yellen* whether developing countries get a huge advantage by not having requirements, and she said that it depends how it is implemented. *Wirth* said that the U.S. position is that developing countries will have to do some things. *Dingell* said "but there are no enforcement mechanisms," and *Wirth* said that there are no enforcement mechanisms for our commitments either. *Dingell* said he is worried that the Administration will just do this by regulation, like they did with PM and ozone, and not bother with implementing legislation. *Schaefer* chimed in and quoted from an EPA analysis that said that EPA could impose a 50 cents/gal gasoline fee without new legislation. *Dingell* tried to get *Wirth* to promise that the Administration wouldn't use its regulatory authorities, but *Wirth* demurred.

Wirth said that there are discussions going on between the Administration and the House leadership on setting up a Congressional observer group for the negotiations. He suggested that interested members should join.

Whitfield asked what the significance of legally binding targets are if there is no enforcement mechanism. *Wirth* said that nations just generally comply. *Whitfield* also asked what the difference is between legally binding and binding because the Vienna Convention on the Law of

good idea.

Rogan asked about the timing of the analysis. *Wirth* explained that we had hoped to have it by the first of this year. The modeling was harder than we thought it would be. The predictive power is less than we had hoped. We're not going to go any further with this exercise.

Crapo said "You're not going to continue with economic analysis?" *Yellen* said we are still going to do analysis, but we will not rely on a single model or small group of models. The tool kit has not worked. For any policy we propose, we will testify on its economic impact. We will share all kinds of analyses of particular issues. There is no expectation that there will be a final draft.

Rogan asked, "If we ask how will this impact the iron and steel industries, will you be able to answer?" *Yellen* said no. "Are we going to be able to hear before December on a solid economic analysis of particular industries?" *Yellen* said if you're expecting forecasts of jobs in the steel industry by 2020, the answer is no. *Rogan* said that Argonne National Lab wasn't reluctant to do this type of analysis, and they said this treaty will devastate the steel industry. *Yellen* said the Argonne report didn't assume flexibility. The price scenarios were based on relatively stringent and rigid policies. President Clinton's #1 priority has been jobs and the economy; he would not support bad policies.

Hall said nice things about *Wirth*. *Hall* asked whether the current draft is the last draft. *Yellen* said it is in many ways a failed project. *Hall* was concerned that the President said the new air quality standards are a positive first step but more to follow. *Wirth* explained that there were three models--a DOE model, and EPA model, and the DRI model. *Hall* asked if we have time to do the necessary work by December. *Wirth* said that it's like an election, you do whatever you can by election day. *Hall* said it looked like if the work isn't done, we'll get an agreement anyway.

Crapo said that for 2 years we have expected an economic analysis and policy to be based on that analysis--and now we find out it is a failed project. *Wirth* described the effort as trying to build a composite model of three models, and we failed. (?) *Crapo* said Congress is supposed to have a role in this. Is there going to be some time when the Administration tells us what their economic analysis is so that we can participate? The President is going to ask us and the rest of America what he should do. This is going to be dropped in our lap. Is there some time that the President will tell this Committee anything?

Wirth said that we will come to a conclusion on targets and timetables at the end of October. This will be presented to Congress prior to October. *Wirth* suggested that members work with us through the observer group. *Crapo* said he is still at a loss as to when Congress will get the information on which to base policy. "We want to engage with you."

Crapo asked if *Wirth* acknowledges that what he does will be subject to a vote in the Senate. *Wirth* said yes, and it will require enabling legislation.

Hall said we'd like to have some input "before the fact, rather than you bringing something back

that I in the oil patch and Dingell in Michigan can't live with."

Pallone was friendly. He said he liked the President's speech. He's interested in the renewable energy industry and in joint implementation. Yellen said we want to see credits for joint implementation.

Schaefer concluded that all we're asking is that before you act, you tell us the options and the economic implications. People are starting to ask us about this.

Senate Environment and Public Works Committee
Climate Change Hearing
July 17, 1997

Senators attending:

John Chafee (R-NH), Chair
Max Baucus (D-MT), Ranking
Dirk Kempthorne (R-ID)
James Inhofe (R-OK)
Harry Reid (D-NV) (attended briefly)
Ron Wyden (D-OR)

Witnesses:

Panel I: Tim Wirth, Under Secretary of State for Global Affairs
Dr. Janet Yellen, Chair, President's Council of Economic Advisors

Panel II: Kevin Fay, International Climate Change Partnership
Bill O'Keefe, Global Climate Coalition

Wirth and Yellen gave the same testimony they gave at the July 15 hearing before the House Commerce Committee. In response to questions at this hearing, they clarified what they had said in response to questions at the House hearing regarding the economic analysis. They said that even though they had not been able to come up with a definitive estimate of the costs of reducing greenhouse gas emissions, they had learned a great deal from the analysis, and would continue to do economic analysis. Kevin Fay criticized the Administration for demurring on doing analysis and for failing to engage in substantive dialogue. Bill O'Keefe said "I'm not saying we should do nothing," but the Administration is moving too fast.

Senator Chafee in his opening statement said he wants to learn how the Administration has interpreted available scientific and economic information. He talked about the Committee's science hearing last week. He said that many left that hearing believing that there are too many uncertainties to do anything. Others said we have enough information to act. Reasonable people could plausibly arrive at either judgement.

Senator Baucus said that last week the scientists presented solid evidence of a potentially serious, if not certain, outcome. Modest steps are warranted now. He said we have to get China's participation. China will contribute one third of the world's additional greenhouse gas emissions over the next 20 years. We need to constructively engage with them on this issue. He thinks there is a compelling case to be made. He welcomes the President's decision to be involved. It will not be easy because we are better at dealing with immediate crises than long-term problems.

Senator Inhofe said he is upset by disingenuous statements on the part of the Administration. He submitted a list of such statements for the record. He used one as an example--Rafe Pomerance in June of 1996 (he meant June 1995) said "No way" in response to the question whether we would agree to a legally binding instrument in Geneva. (Wirth later explained that we didn't agree to anything in Geneva; it was a preparatory meeting, so Rafe was correct.) Inhofe said that the scientific facts aren't there; the satellite data shows cooling, and all the scientists at the hearing last week agreed that we wouldn't have the uncertainties resolved by the Kyoto meeting in December.

Senator Kempthorne said that fundamentally we're all environmentalists. The best way to achieve environmental goals is through incentives and flexible approaches, not through more federal mandates. We're not sure whether humans are changing the climate, but some argue we should do something anyway. He won't dispute that judgement. In light of the uncertainties, he thinks we should not go beyond voluntary programs. If we do reductions, our treaty partners must do reductions, too.

[Dr. Yellen and Senator Wirth gave the same testimony they gave at the July 15 House hearing.]

Chafee said the Montreal Protocol on CFCs looks easy compared to global warming. It was a less complicated problem and we had cooperation from American industry.

Chafee asked Yellen about her comment that the Administration hasn't settled on a policy. Yet there are only 20 weeks to Kyoto. If you haven't settled on a policy, you better hurry, he said. Yellen clarified that some elements are settled--joint implementation, international trading, and flexibility. The domestic implementation plans have not been settled. Before we settle, the President wants to be personally and heavily involved in hearing from a broad spectrum of people.

Baucus asked about the Byrd resolution which is co-sponsored by two thirds of the Senate. Byrd intends to push the resolution quickly, Baucus said. What is the Administration doing to turn that vote around? It says that all countries should act. This is persuasive because India and China are 40% of greenhouse gas emissions. Baucus' advice is to persuade developing countries as well as developed countries to participate.

Wirth said he met with Byrd and that the Administration thinks the Byrd resolution is "largely on the button" and comes close to the Chafee resolution which we applaud and support (Wirth should have said "draft" Chafee resolution.) We agree with having a Senate observer group. We agree with the thrust of involving developing countries, which are a huge market for U.S. technology. The U.S. position is that developing countries should negotiate commitments in 2005. We want developing countries to enhance their existing commitments, and we believe there should be a "graduation" process for developing countries to take on commitments consistent with their level of development.

Baucus asked, Why not have all countries commit at different rates? Wirth said we'd like to see that, but we're far out front on our developing country position. Wirth asked why the European Union is not supporting us. Wirth said he thinks they're upset that we don't have targets and

timetables. He said it's possible that they want to be the good guys in the developing countries' eyes, perhaps to gain market advantage over us in the future. Wirth said he thinks that once we get our targets and timetables out, the Europeans will come along on the developing country issue.

Inhofe asked whether armed services would come under climate change requirements. Wirth said our armed services are world leaders in efficiency and recycling. *Inhofe* asked whether political subdivisions, state and local governments would be exempted. He asked this as a former mayor. "Is this an unfunded mandate?" he asked.

Wirth responded that most things we are proposing will pay for themselves. *Inhofe* asked, "So you don't think there would be any cost?" Wirth said there would be investments made, but they would pay from themselves. He agreed there would be costs incurred by state and local governments. Yellen said it's impossible to discuss costs when we haven't reached conclusions about what kind of system we would put in place. Wirth said it's up to the implementing legislation. We haven't gotten there. Nobody's exempt. Yellen said that it seems that *Inhofe* is assuming specific mandates, when we are more likely to have a flexible framework such as tradeable permits.

Inhofe said that if Wirth thinks it's not realistic to propose the same requirements on developed and developing countries, then there's a big problem, because if you don't treat them the same, we're not gonna ratify. Wirth said that in the Montreal protocol, developing countries were given a longer period of time to phase in. Wirth said that the Byrd resolution says (and Byrd has told him this is the right interpretation) within the same compliance period, not the same requirements. *Inhofe* interprets it differently.

Kempthorne asked whether developing country emissions will continue to grow while we freeze ours. Wirth said that is one result in this first period of time. Then developing countries will phase in their commitments. *Kempthorne* asked about enforcement. Wirth said that for the most part, countries meet their legally binding commitments. We have proposed reporting requirements, public disclosure and expert analysis.

Kempthorne asked why the effort to model economic impacts was abandoned. Yellen said it was a search for a single model or single set of models that would provide a definitive answer. Yellen said we will use a broad set of tools and continue to do analysis. *Kempthorne* asked how are you going to agree to strategies without knowing the costs and benefits. Yellen said certainly we need to produce economic analysis, even if it's only a range. When there is a policy we will be prepared to do that.

Kempthorne said that when the Administration says "if we do it dumb, it will cost a lot" you seem to be telling us to trust you, yet you can't even estimate the relative costs of different strategies. Yellen said she does not mean to suggest we have not learned a great deal about the economic impacts. One thing the IAT report does well is give a general sense of what the gains are when you use flexible and smart strategies.

Kempthorne asked *Wirth* why he is arguing for a per capita limit. *Wirth* said he isn't. With regard to the modeling, *Wirth* said he regards it all with some skepticism. Modelers overestimated the cost of the acid rain program, and oil price forecasts during the energy crisis were way too high.

Chafee said with the acid rain problem some of us travelled to Germany and saw the damage there and sounded the alarm. What's lacking on this issue is the sounding of an alarm 2100 is only 100 years from now. He said "I think your case is helped by pointing out the dangers that lie ahead. Isn't it possible for the President to use the bully pulpit?" *Wirth* said the President is planning a White House conference this fall (*Chafee* seemed to have been unaware of that) The President has been much taken by the World Wildlife Fund Report saying that 70% of the glaciers in Glacier National Park have melted. *Chafee* said he has the feeling that the concerns haven't gotten out there. He urges the President to speak out.

Wyden said Oregon is the only state in the U.S. with a CO2 control program. He said his state has shown that it is possible to do this without causing economic meltdown. *Wyden* said very significant efficiency can be had over a short period of time. *Wirth* agreed. He said Japan is twice as efficient as us. *Wyden* asked whether we shouldn't look at tree planting and forest management first. *Wirth* agreed that sequestration is an important opportunity to develop partnerships with agriculture and forestry. *Wirth* said there are a number of JI forestry projects. *Wyden* asked if the Administration can make a special push that forestry be a significant part of the treaty. *Wirth* said it is included.

Baucus asked how we implement emissions trading. Can the SO2 model be expanded to greenhouse gases on a global level? *Yellen* said a system could be developed that could work. *Baucus* asked why Europeans are resistant. *Wirth* said it's a little bit of disingenuousness because the EU bubble is just another version of emission trading. *Baucus* asked whether we should wait until there's better technology. *Wirth* said our new technologies are the best in the world. The auto industry has told us they can do much better. *Baucus* said it is a chicken or egg question--we find efficiencies when we have to.

Wyden said to do nothing would have extraordinary economic effects, e.g., on water resources and flooding. What are the ballpark estimates of the economic consequences of doing nothing? *Yellen* said it is extremely difficult to say quantitatively. We didn't model the benefits side, but some work indicates that the benefits of action or costs of failing to act are significant. *Wyden* said if you mess up your water supply it's hard to attract high tech companies because they need clean water.

Chafee asked how long can we afford to wait around. *Wirth* said he wanted to submit analysis for the record showing that the longer we wait, the worse the problem gets because we get committed to greater amounts of warming.

Baucus said "I wish you well. This is a daunting task, but a necessary one."

Kevin Fay testified that now that the Administration has demurred on economic analysis, his

frustration only grows. He praised our comprehensive approach—emissions trading, joint implementation, binding targets and timetables, ultimate environmental target, and avoidance of policies and measures. He urged the Administration to reiterate its commitment to the framework. He is pessimistic about the ability to reach an agreement at Kyoto. There has been a lack of dialogue and a lack of information. Fay wants to know what analysis the Administration will do now that it has decided not to complete what it has promised for more than a year. Fay said that at one point the Montreal Protocol negotiations had taken on a bitter tone, and negotiations were suspended and instead established a series of workshops where people could better understand the options. Two years later, a treaty structure was adopted that worked. Climate change is far more complex.

Bill O'Keefe said the May 16 article in Science magazine says we do not face an imminent crisis. Estimates of future temperature increases and sea level rise have moderated. There is no economically viable technology that can get us to stabilization at 1990 levels by 2010. We're going to have a severe form of energy rationing. An international trading system is unworkable. 2600 economists and 67 Senators agree all nations must be included. The Administration is going too fast. We should invest in information to reduce uncertainties. We should encourage economic turnover of capital stock, rationalize depreciation schedules. Superfund and the Clean Air Act encourage keeping plants in operation longer. We need voluntary programs. We need to facilitate overseas investment.

Chafee asked if the panelists accept the science. Fay said yes, we accept that the science says we should pay attention. O'Keefe said there is a legitimate scientific dispute. Chafee said, so what would you do? Fay said we need to take a longer term view. In the Montreal protocol, the developing countries recognized they had to be part of the solution. Fay said he hasn't seen this in this negotiation. O'Neill said we are 22% of the world's emissions, but also 22% of its wealth. Fay suggested that through the entry into force provisions, we could require a majority of developed and a majority of developing countries comprising a significant percent of world greenhouse gas emissions to be parties to the treaty.

Chafee asked Fay about his lament that there doesn't seem to be dialogue with the Administration. Fay said there are lots of talks, but not enough specifics. We want the Administration to tell us, What is your expectation of our industry sector? Until we can get that, it's difficult for us to sign a blank check. We have reasonable questions. This is reasonable information for them to have. During the Montreal Protocol negotiations, we had better information on implementation schemes.

O'Keefe said "I'm not saying do nothing." Oil companies are spending over \$10 billion per year on this issue. It makes much more sense to take the time to do it right and wait for capital to turn over. The Administration went off to do analysis and came back and said it's hard. What basis are they going to use to make judgements? Fay said it's possible to achieve an agreement in Kyoto, but the possibility is shrinking. He doesn't think a White House Conference is the answer.

THE WHITE HOUSE
WASHINGTON

FAW

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

15 JUL 97 12:38

TO: Todd Stern

Fax Number: 1-441-236-1876

Phone Number:

FROM: Anna White

SUBJECT: Climate Change

DATE: 7-19-97

NUMBER OF PAGES (including cover sheet): 14

MESSAGE:

The fax you asked for doesn't seem to be here. I'm waiting to hear back from Carol about it. I'll keep looking. I'm sending one of 6 faxes you received yesterday. The others are lists, a Senate letter, a meeting summary, and memos from Sec. Peña. Let me know if I should fax them all.

The document accompanying this facsimile transmittal sheet is intended only for the use of the individual or entity to whom it is addressed. This message contains information which may be privileged, confidential or exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any disclosure, dissemination, copying or distribution, or the taking of any action in reliance on the contents of this communication is strictly prohibited.

Wkly

White House Climate Change Task Force

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202/343-1060 • fax 202/343-1163

TO: Julie Green 456 6409
Mark Mazur 395 6809
Katie McGinty 456 2710
David Sandalow 456 2710
Todd Stern 456 2215
Dan Tarullo 456 1605
Dan Tate 456 2604

FROM: Paul Risley
White House Climate Change Task Force

DATE: Friday, July 18, 1997

RE: Weekly Report

See attached.

Total Pages: 13

JUL-18-97 02:41P Climate Change Task Force

P. 02



White House Climate Change Task Force

734 Jackson Place, NW • Washington, D.C. 20503
202/343-1060 • fax 202/343-1163

Weekly Report Week in Review: July 14 - 18, 1997

Congressional Activities: On Thursday, the Byrd Resolution was marked up by voice vote without amendments, but Senator Kerry raised concerns and indicated an intent to offer floor amendments. He indicated that the Byrd resolution needs clarification to be sure it is not intended to be a treaty killer with respect to the timing of developing country commitments. He also suggested that it missed the real economic protection issues for the US by neglecting trading and II. Apparently he chose to withhold an amendment in order to work with other committees to build support. Floor action is expected as early as next week, and probably by the August recess unless industry decides not to risk a vote. Kerry and Hagel did a press conference afterward in which Hagel suggested the Byrd resolution said there was no scientific justification for climate change. Kerry pointed out that Hagel was in disagreement with Byrd and the majority of other cosponsors on that point and asked Hagel if he would work to improve the resolution. Hagel agreed.

Staff briefed Senate EPW staff on prehearing issues, including the President's speech, the economic analysis, OSTP conferences, and a negotiations update. One question was raised by Inhofe's staff to the effect that the administration must be planning a non-ratification approach, since the Byrd resolution has clearly killed the treaty. Staff pointed out that Byrd's remarks are to the contrary, as well as those of many cosponsors.

Hearings this Week: Tuesday, July 15: House Commerce/Energy and Power Subcommittee Hearing (Chair - Schaefer). Tim Wirth and Janet Yellen testified for the administration. Cross examination was dominated by Reps Dingell, Schaeffer and Crapo on the negative side; McCarthy and Markey on the positive. The administration was sharply questioned and criticized for its failure to deliver economic analysis and a policy for congressional consideration. In response both Yellen and Wirth attempted to clarify the rationale for discontinuing the IAT work, but left the committee and some press with the view that the analysis was failed, the administration is abandoning it, and little was learned. Developing nations issues also dominated, particularly concerns about China. Tim Wirth spoke to the issue extensively, but the committee continued to express frustration on the lack of a crisp response to its resolve on this issue, and article 16 in the protocol text. See attached summary.

Thursday, July 17: Second Senate EPW Hearing. Tim Wirth and Janet Yellen appeared as administration witnesses, and industry was represented by Kevin Fay and Bill O'Keefe. Several senators appeared, and provided many friendly questions. Wirth and Yellen were able to clarify the administration view on economic analysis more favorably, but frustration by some members with the lack of clear economic answers and policy recommendations was clearly evident. There was a call for more direct involvement by the President and the use of the "bully pulpit". Senator Inhofe provided an interpretation of the Byrd resolution to the effect that it mandated equal

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commitment levels at equal times. Wirth disagreed, citing the language directly and quoting Senator Byrd's remarks. After the hearing Byrd's office was contacted by industry representatives wanting to know who was right; Byrd's staff supported Wirth's interpretation. Inhofe also raised potential conflicts with Unfunded Mandates legislation, and the committee staff afterward indicated that the administration should provide more clear and compelling information on this issue. See attached summary.

The Senate Commerce, Science, Transportation (Chair - McCain) hearing scheduled for this week was postponed to July 31.

Interagency Communications Activities: Staff attended IWG meeting, where final preparations for the upcoming Bonn meeting were discussed. Also helped prepare background briefing materials for use by Cabinet Secretaries and assisted in development of invite list for upcoming Nobel scientists event.

Media Activities: Multiple stories appeared reporting on the Tuesday hearing and release of economic analysis. Both the Wall Street Journal and the New York Times carried articles. More than one article also mentioned the Argonne study that was released by DOE late last Friday.

Upcoming Events Next Week July 21 - 25, 1997

Congressional Activities: Staff will brief the House International Relations Committee on Monday or Tuesday on prehearing issues. House staff indicate the big issue will be China and trade shifts, to which its chair will speak with extensive analytical and graphic support. Staff are interested in substantive information on trading, II, article 16, and an administration position on the Byrd resolution.

The Byrd resolution may go to the floor with amendments.

Upcoming Hearings: Thursday, July 24: House International Relations/Chair - Gilman. Hearing on negotiations and economic impacts, with focus on China and developing nations trade shifts. Tim Wirth has been invited as a witness.

Interest Group Activities: The Center for Strategic and International Studies will hold a Climate Change Roundtable Discussion on July 22. Several Administration representatives will be speaking.

Upcoming Media Activities: Harvard University's Dale Jorgenson will submit an opinion page piece to the Washington Post to counter Robert Samuelson's op-ed that ran on Wednesday.

Climate Change Hearing
House Commerce Committee
Subcommittee on Energy and Power
July 15, 1997

Members attending:

Dan Schaefer, Subcommittee Chair (R-CO)
Tom Bliley, Full Committee Chair (R-VA)
Michael Crapo (R-ID)
Rick White (R-WA)
James Rogan (R-CA)
Edward Whirfield (R-KY)
John Shimkus (R-IL)
Ralph Hall, Ranking subcommittee member (D-TX)
Ed Markey (D-MA)
Tom Sawyer (D-OH) [not on subcommittee; just sitting in]
Karen McCarthy (D-MO)

Witnesses:

Tim Wirth, Undersecretary for Global Affairs, U.S. Dept. of State
Janet Yellen, Chair, President's Council of Economic Advisors

In general, the Republican members were astonished that the Administration is backing away from the long-promised analysis and assessment. They were particularly surprised by Dr. Yellen's characterization of the IAT effort as a "failed project" and a "futile exercise." Toward the end, they were almost pleading to be consulted prior to the Kyoto meeting.

Mr. Schaefer began by saying that this is the first hearing of the 105th Congress. He was pleased to finally get some real information in the form of the draft economic analysis and assessment and the peer review comments and he looked forward to hearing what the Administration thinks of the numbers. He wants to know what is Administration policy and what is not, and at least narrow the range of the options on the table. He agrees with the Administration that any actions must be reasonable and achievable and that flexibility is key. He is looking for assurances that the Administration will not rush to judgement in December 1997, and will not sign an agreement that results in transferring emissions and jobs overseas.

Markey said nice things about Wirth. He then said that he thought today was an appropriate day to have this hearing--with temperatures expected to top 102 degrees and ozone expected to hit dangerous levels. He quoted Mark Twain's comment that everybody talks about the weather but nobody ever does anything about it, but that he hopes there will be real action in Kyoto. He applauded the Clinton Administration for their leadership, and expressed his confidence that the Administration is basing its policy on the best scientific information and a clear understanding of the economic implications. He said he is particularly interested in energy conservation and

renewables, and in the role of India and China.

Bliley said that in 2 weeks the Administration will be negotiating in Bonn, and in less than 6 months, if things go as planned, we'll have an agreement, and yet when he looks at the Administration's proposal he sees a piece of paper with the most critical elements blank. He's glad to see a draft of the long promised analysis, but concerned that stabilization at 1990 levels by 2010 will require the "equivalent of a tax" of 26 cents/gallon of gasoline, 2 cents /kwh, \$52.50/ton of coal; \$1.49/MCF natural gas. (Several members used the phrase "the equivalent of a tax") Going 10% below doubles the cost; 10% above cuts the cost in half. The analysis raises more questions than it answers. How do our costs compare to Europe's? Will Europe get an economic advantage from this treaty? How do we know we're not just moving emissions and jobs overseas? He said that because he has questions does not mean that he isn't concerned about the environment.

Dingell expressed concern about the ambitious negotiating schedule. Kyoto is less than 5 months away. He applauds the Administration for providing some of the information the Committee had requested. He wants to know what impact the information will have on the negotiations. He quoted a letter he received from President Clinton in 1995 which said (a) that this process must reflect thoughtful analysis and (b) that he won't agree to anything that will adversely affect U.S. competitiveness. *Dingell* said that the negotiating parameters of the Berlin mandate, which rule out developing country commitments, rule out protecting American competitiveness. The Administration agreed in Berlin last year to develop, at early stages, an analysis and assessment of possible policies for Annex I countries to adopt. [There seemed to be some confusion about this international analysis and assessment which the IPCC completed last year, which is different from the analysis and assessment which the Administration promised. *Wirth* cleared this up later.] We have already provided our negotiating text: the public has little opportunity to comment on the analysis..."I wonder how anybody can be comfortable with this process...How has the Administration been able to progress so far so fast without this information?"

Whitfield said that he has met with labor business and environmental interests and that they all agree that the climate change issue has greater impact on the U.S. than any other environmental issue we've considered recently. He has been concerned that that Administration has been reluctant to say where it's headed, and there's been a lack of information and candor. He is worried about the equivalent of a \$95 or \$100 per ton carbon tax. He is worried that *Wirth* told the Senate a couple of weeks ago that the reason we have to go from voluntary to involuntary targets is that the U.S. economy is doing too well.

Shimkus said it's warm in southern Illinois so he doesn't mind the heat. He's worried about closing factories, closing coal mines. He knows there's angst about discussing jobs and the environment, but he's not sure the science is there yet on this issue.

White said he has no preconceived notions on this issue. The central issue for him is how to figure out how to spend our scarce resources when we don't have all the information we need. We need to protect our environment, but we need to do in the most cost-effective way. We really don't know what greenhouse gas emissions are doing to the climate, but some want to err on the

side of caution.

McCarthy talked about her experience on a Missouri state commission looking at climate change issues. She said we need to make sure developing countries join in this process. We also need to educate the public at home. She sees climate change as a national security issue. If implemented right, it can be clearly positive for the U.S. (e.g., in Missouri they found that alternative fuels are an economic winner.)

Dr. Yellen said that the costs depend on a number of critical assumptions. If we do it dumb, it's expensive. If we do it smart, it's not so bad. Developing countries must be part of the process.

Undersecretary Wirth said the science is clear and compelling. We agree that the developing countries must take on commitments. The issue is when. The developed and developing countries have common but differentiated responsibilities. It is neither realistic nor consistent with the Climate Convention approved by the Senate to require developing countries to be on the same schedule as the developed countries. The Administration welcomes your ideas and support.

Schaefer's first question was on the Argonne report. *Yellen* said that the Argonne scenarios came from the base case in the IAT report, which assumed no flexibility in implementation. He asked her what the scenarios were and she said she would provide that for the record. Regarding the IAT report, *Yellen* said the staff focused on a scenario that was not Administration policy. She said the analysis is concluding because it's futile. *Schaefer* said that he is surprised that we still don't have the analysis that was promised in the last Congress.

Dingell gave *Wirth* and *Yellen* a hard time. He tried to get them to say that all of the important decisions (e.g., leaving out developing countries) were made without doing any analysis, but *Yellen* pointed out that the targets and timetables haven't been decided yet. The U.S. position on flexibility and developing countries is settled, she said. *Dingell* said the analysis is too little too late. *Dingell* asked *Yellen* whether developing countries get a huge advantage by not having requirements, and she said that it depends how it is implemented. *Wirth* said that the U.S. position is that developing countries will have to do some things. *Dingell* said "but there are no enforcement mechanisms." and *Wirth* said that there are no enforcement mechanisms for our commitments either. *Dingell* said he is worried that the Administration will just do this by regulation, like they did with PM and ozone, and not bother with implementing legislation. *Schaefer* chimed in and quoted from an EPA analysis that said that EPA could impose a 50 cents/gal gasoline fee without new legislation. *Dingell* tried to get *Wirth* to promise that the Administration wouldn't use its regulatory authorities, but *Wirth* demurred.

Wirth said that there are discussions going on between the Administration and the House leadership on setting up a Congressional observer group for the negotiations. He suggested that interested members should join.

Whitfield asked what the significance of legally binding targets are if there is no enforcement mechanism. *Wirth* said that nations just generally comply. *Whitfield* also asked what the difference is between legally binding and binding because the Vienna Convention on the Law of

good idea.

Rogan asked about the timing of the analysis. *Wirth* explained that we had hoped to have it by the first of this year. The modeling was harder than we thought it would be. The predictive power is less than we had hoped. We're not going to go any further with this exercise.

Crapo said "You're not going to continue with economic analysis?" *Yellen* said we are still going to do analysis, but we will not rely on a single model or small group of models. The tool kit has not worked. For any policy we propose, we will testify on its economic impact. We will share all kinds of analyses of particular issues. There is no expectation that there will be a final draft.

Rogan asked, "If we ask how will this impact the iron and steel industries, will you be able to answer?" *Yellen* said no. "Are we going to be able to hear before December on a solid economic analysis of particular industries?" *Yellen* said if you're expecting forecasts of jobs in the steel industry by 2020, the answer is no. *Rogan* said that Argonne National Lab wasn't reluctant to do this type of analysis, and they said this treaty will devastate the steel industry. *Yellen* said the Argonne report didn't assume flexibility. The price scenarios were based on relatively stringent and rigid policies. President Clinton's #1 priority has been jobs and the economy; he would not support bad policies.

Hall said nice things about *Wirth*. *Hall* asked whether the current draft is the last draft. *Yellen* said it is in many ways a failed project. *Hall* was concerned that the President said the new air quality standards are a positive first step but more to follow. *Wirth* explained that there were three models--a DOE model, and EPA model, and the DRI model. *Hall* asked if we have time to do the necessary work by December. *Wirth* said that it's like an election, you do whatever you can by election day. *Hall* said it looked like if the work isn't done, we'll get an agreement anyway.

Crapo said that for 2 years we have expected an economic analysis and policy to be based on that analysis--and now we find out it is a failed project. *Wirth* described the effort as trying to build a composite model of three models, and we failed. (?) *Crapo* said Congress is supposed to have a role in this. Is there going to be some time when the Administration tells us what their economic analysis is so that we can participate? The President is going to ask us and the rest of America what he should do. This is going to be dropped in our lap. Is there some time that the President will tell this Committee anything?

Wirth said that we will come to a conclusion on targets and timetables at the end of October. This will be presented to Congress prior to October. *Wirth* suggested that members work with us through the observer group. *Crapo* said he is still at a loss as to when Congress will get the information on which to base policy. "We want to engage with you."

Crapo asked if *Wirth* acknowledges that what he does will be subject to a vote in the Senate. *Wirth* said yes, and it will require enabling legislation.

Hall said we'd like to have some input "before the fact, rather than you bringing something back

that I in the oil patch and Dingell in Michigan can't live with."

Pallone was friendly. He said he liked the President's speech. He's interested in the renewable energy industry and in joint implementation. Yellen said we want to see credits for joint implementation.

Schaefer concluded that all we're asking is that before you act, you tell us the options and the economic implications. People are starting to ask us about this.

Senate Environment and Public Works Committee
Climate Change Hearing
July 17, 1997

Senators attending:

John Chafee (R-NH), Chair
Max Baucus (D-MT), Ranking
Dirk Kempthorne (R-ID)
James Inhofe (R-OK)
Harry Reid (D-NV) (attended briefly)
Ron Wyden (D-OR)

Witnesses:

Panel I: Tim Wirth, Under Secretary of State for Global Affairs
Dr. Janet Yellen, Chair, President's Council of Economic Advisors

Panel II: Kevin Fay, International Climate Change Partnership
Bill O'Keefe, Global Climate Coalition

Wirth and Yellen gave the same testimony they gave at the July 15 hearing before the House Commerce Committee. In response to questions at this hearing, they clarified what they had said in response to questions at the House hearing regarding the economic analysis. They said that even though they had not been able to come up with a definitive estimate of the costs of reducing greenhouse gas emissions, they had learned a great deal from the analysis, and would continue to do economic analysis. Kevin Fay criticized the Administration for demurring on doing analysis and for failing to engage in substantive dialogue. Bill O'Keefe said "I'm not saying we should do nothing," but the Administration is moving too fast.

Senator Chafee in his opening statement said he wants to learn how the Administration has interpreted available scientific and economic information. He talked about the Committee's science hearing last week. He said that many left that hearing believing that there are too many uncertainties to do anything. Others said we have enough information to act. Reasonable people could plausibly arrive at either judgement.

Senator Baucus said that last week the scientists presented solid evidence of a potentially serious, if not certain, outcome. Modest steps are warranted now. He said we have to get China's participation. China will contribute one third of the world's additional greenhouse gas emissions over the next 20 years. We need to constructively engage with them on this issue. He thinks there is a compelling case to be made. He welcomes the President's decision to be involved. It will not be easy because we are better at dealing with immediate crises than long-term problems

Senator Inhofe said he is upset by disingenuous statements on the part of the Administration. He submitted a list of such statements for the record. He used one as an example--Rafe Pomerance in June of 1996 (he meant June 1995) said "No way" in response to the question whether we would agree to a legally binding instrument in Geneva. (Wirth later explained that we didn't agree to anything in Geneva; it was a preparatory meeting, so Rafe was correct.) Inhofe said that the scientific facts aren't there; the satellite data shows cooling, and all the scientists at the hearing last week agreed that we wouldn't have the uncertainties resolved by the Kyoto meeting in December.

Senator Kempthorne said that fundamentally we're all environmentalists. The best way to achieve environmental goals is through incentives and flexible approaches, not through more federal mandates. We're not sure whether humans are changing the climate, but some argue we should do something anyway. He won't dispute that judgement. In light of the uncertainties, he thinks we should not go beyond voluntary programs. If we do reductions, our treaty partners must do reductions, too.

[Dr. Yellen and Senator Wirth gave the same testimony they gave at the July 15 House hearing.]

Chafee said the Montreal Protocol on CFCs looks easy compared to global warming. It was a less complicated problem and we had cooperation from American industry.

Chafee asked Yellen about her comment that the Administration hasn't settled on a policy. Yet there are only 20 weeks to Kyoto. If you haven't settled on a policy, you better hurry, he said. Yellen clarified that some elements are settled--joint implementation, international trading, and flexibility. The domestic implementation plans have not been settled. Before we settle, the President wants to be personally and heavily involved in hearing from a broad spectrum of people.

Baucus asked about the Byrd resolution which is co-sponsored by two thirds of the Senate. Byrd intends to push the resolution quickly, Baucus said. What is the Administration doing to turn that vote around? It says that all countries should act. This is persuasive because India and China are 40% of greenhouse gas emissions. Baucus' advice is to persuade developing countries as well as developed countries to participate.

Wirth said he met with Byrd and that the Administration thinks the Byrd resolution is "largely on the button" and comes close to the Chafee resolution which we applaud and support (Wirth should have said "draft" Chafee resolution.) We agree with having a Senate observer group. We agree with the thrust of involving developing countries, which are a huge market for U.S. technology. The U.S. position is that developing countries should negotiate commitments in 2005. We want developing countries to enhance their existing commitments, and we believe there should be a "graduation" process for developing countries to take on commitments consistent with their level of development.

Baucus asked, Why not have all countries commit at different rates? Wirth said we'd like to see that, but we're far out front on our developing country position. Wirth asked why the European Union is not supporting us. Wirth said he thinks they're upset that we don't have targets and

timetables. He said it's possible that they want to be the good guys in the developing countries' eyes, perhaps to gain market advantage over us in the future. Wirth said he thinks that once we get our targets and timetables out, the Europeans will come along on the developing country issue.

Inhofe asked whether armed services would come under climate change requirements. Wirth said our armed services are world leaders in efficiency and recycling. Inhofe asked whether political subdivisions, state and local governments would be exempted. He asked this as a former mayor. "Is this an unfunded mandate?" he asked.

Wirth responded that most things we are proposing will pay for themselves. Inhofe asked, "So you don't think there would be any cost?" Wirth said there would be investments made, but they would pay from themselves. He agreed there would be costs incurred by state and local governments. Yellen said it's impossible to discuss costs when we haven't reached conclusions about what kind of system we would put in place. Wirth said it's up to the implementing legislation. We haven't gotten there. Nobody's exempt. Yellen said that it seems that Inhofe is assuming specific mandates, when we are more likely to have a flexible framework such as tradeable permits.

Inhofe said that if Wirth thinks it's not realistic to propose the same requirements on developed and developing countries, then there's a big problem, because if you don't treat them the same, we're not gonna ratify. Wirth said that in the Montreal protocol, developing countries were given a longer period of time to phase in. Wirth said that the Byrd resolution says (and Byrd has told him this is the right interpretation) within the same compliance period, not the same requirements. Inhofe interprets it differently.

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Kempthorne asked why the effort to model economic impacts was abandoned. Yellen said it was a search for a single model or single set of models that would provide a definitive answer. Yellen said we will use a broad set of tools and continue to do analysis. Kempthorne asked how are you going to agree to strategies without knowing the costs and benefits. Yellen said certainly we need to produce economic analysis, even if it's only a range. When there is a policy we will be prepared to do that.

Kempthorne said that when the Administration says "if we do it dumb, it will cost a lot" you seem to be telling us to trust you, yet you can't even estimate the relative costs of different strategies. Yellen said she does not mean to suggest we have not learned a great deal about the economic impacts. One thing the IAT report does well is give a general sense of what the gains are when you use flexible and smart strategies.

Kemphorne asked *Wirth* why he is arguing for a per capita limit. *Wirth* said he isn't. With regard to the modeling, *Wirth* said he regards it all with some skepticism. Modelers overestimated the cost of the acid rain program, and oil price forecasts during the energy crisis were way too high.

Chafee said with the acid rain problem some of us travelled to Germany and saw the damage there and sounded the alarm. What's lacking on this issue is the sounding of an alarm 2100 is only 100 years from now. He said "I think your case is helped by pointing out the dangers that lie ahead. Isn't it possible for the President to use the bully pulpit?" *Wirth* said the President is planning a White House conference this fall (*Chafee* seemed to have been unaware of that) The President has been much taken by the World Wildlife Fund Report saying that 70% of the glaciers in Glacier National Park have melted. *Chafee* said he has the feeling that the concerns haven't gotten out there. He urges the President to speak out.

Wyden said Oregon is the only state in the U.S. with a CO2 control program. He said his state has shown that it is possible to do this without causing economic meltdown. *Wyden* said very significant efficiency can be had over a short period of time. *Wirth* agreed. He said Japan is twice as efficient as us. *Wyden* asked whether we shouldn't look at tree planting and forest management first. *Wirth* agreed that sequestration is an important opportunity to develop partnerships with agriculture and forestry. *Wirth* said there are a number of JI forestry projects. *Wyden* asked if the Administration can make a special push that forestry be a significant part of the treaty. *Wirth* said it is included.

Baucus asked how we implement emissions trading. Can the SO2 model be expanded to greenhouse gases on a global level? *Yellen* said a system could be developed that could work. *Baucus* asked why Europeans are resistant. *Wirth* said it's a little bit of disingenuousness because the EU bubble is just another version of emission trading. *Baucus* asked whether we should wait until there's better technology. *Wirth* said our new technologies are the best in the world. The auto industry has told us they can do much better. *Baucus* said it is a chicken or egg question-- we find efficiencies when we have to.

Wyden said to do nothing would have extraordinary economic effects e.g., on water resources and flooding. What are the ballpark estimates of the economic consequences of doing nothing? *Yellen* said it is extremely difficult to say quantitatively. We didn't model the benefits side, but some work indicates that the benefits of action or costs of failing to act are significant. *Wyden* said if you mess up your water supply it's hard to attract high tech companies because they need clean water.

Chafee asked how long can we afford to wait around. *Wirth* said he wanted to submit analysis for the record showing that the longer we wait, the worse the problem gets because we get committed to greater amounts of warming.

Baucus said "I wish you well. This is a daunting task, but a necessary one."

Kevin Fay testified that now that the Administration has demurred on economic analysis, his

frustration only grows. He praised our comprehensive approach—emissions trading, joint implementation, binding targets and timetables, ultimate environmental target, and avoidance of policies and measures. He urged the Administration to reiterate its commitment to the framework. He is pessimistic about the ability to reach an agreement at Kyoto. There has been a lack of dialogue and a lack of information. Fay wants to know what analysis the Administration will do now that it has decided not to complete what it has promised for more than a year. Fay said that at one point the Montreal Protocol negotiations had taken on a bitter tone, and negotiations were suspended and instead established a series of workshops where people could better understand the options. Two years later, a treaty structure was adopted that worked. Climate change is far more complex.

Bill O'Keefe said the May 16 article in Science magazine says we do not face an imminent crisis. Estimates of future temperature increases and sea level rise have moderated. There is no economically viable technology that can get us to stabilization at 1990 levels by 2010. We're going to have a severe form of energy rationing. An international trading system is unworkable. 2600 economists and 67 Senators agree all nations must be included. The Administration is going too fast. We should invest in information to reduce uncertainties. We should encourage economic turnover of capital stock, rationalize depreciation schedules. Superfund and the Clean Air Act encourage keeping plants in operation longer. We need voluntary programs. We need to facilitate overseas investment.

Chafee asked if the panelists accept the science. Fay said yes, we accept that the science says we should pay attention. O'Keefe said there is a legitimate scientific dispute. Chafee said, so what would you do? Fay said we need to take a longer term view. In the Montreal protocol, the developing countries recognized they had to be part of the solution. Fay said he hasn't seen this in this negotiation. O'Neill said we are 22% of the world's emissions, but also 22% of its wealth. Fay suggested that through the entry into force provisions, we could require a majority of developed and a majority of developing countries comprising a significant percent of world greenhouse gas emissions to be parties to the treaty.

Chafee asked Fay about his lament that there doesn't seem to be dialogue with the Administration. Fay said there are lots of talks, but not enough specifics. We want the Administration to tell us, What is your expectation of our industry sector? Until we can get that, it's difficult for us to sign a blank check. We have reasonable questions. This is reasonable information for them to have. During the Montreal Protocol negotiations, we had better information on implementation schemes.

O'Keefe said "I'm not saying do nothing." Oil companies are spending over \$10 billion per year on this issue. It makes much more sense to take the time to do it right and wait for capital to turn over. The Administration went off to do analysis and came back and said it's hard. What basis are they going to use to make judgements? Fay said it's possible to achieve an agreement in Kyoto, but the possibility is shrinking. He doesn't think a White House Conference is the answer.

THE WHITE HOUSE
WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

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FROM: Jeff Smith

SUBJECT: Climate Change

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Attached are some additional materials for you to consider: basic background, talking points, and Q's and A's. These can be arranged in various ways, e.g., talking points first, then Q's&A's. Each, of course, needs additional refining and editing from the various relevant offices. It was felt that the previous Cabinet package may have focused overly on science. While we don't want the Cabinet to start trying to give science lectures, we do want them to have a good understanding of:

- 1) the policy arena -- what this treaty is about, what we have said so far, what do we mean by "trading, flexibility, and involvement of all countries."
- 2) what current U.S. programs are in place to help with climate change -- our own EO on energy efficiency, the Climate Action Plan, PNGV, buildings initiatives, Million Solar Roofs, etc.
- 3) the coordinated Executive Branch outreach effort -- OSTP regional workshops, DOE programs and activities, DOC conferences and dinners, DOS activities, etc.
- 4) primer on the science (just the basics).
- 5) economics.
- 6) statements by the President.
- 7) statements by key stakeholder groups.

-- Jeff Smith (6-6047)

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