

THE WHITE HOUSE

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MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN

SUBJECT: Climate Change Weekly Report

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Domestic Policy

The Administration's electricity restructuring proposal was rolled out on Thursday. The bill is stronger environmentally than last year's, with a tougher renewable portfolio standard -- 7.5 percent compared to 5.5 percent in last year's proposal. Generators can generate their own renewable power or buy credits on the market or from DOE. The new bill also includes a \$3 billion public benefits fund, as did last year's. The enviros are unhappy because we haven't included mandatory carbon caps in this bill (you are aware of the letter they sent the Vice President complaining about this and CAFE). But such caps would get blown away on the Hill and would, in our judgment, set back, not advance, the cause of climate change.

Diplomatic

China. Last week's meetings with Zhu Rongji helped advance U.S.-China cooperation on clean energy. The ExIm Bank launched a \$100 million program to finance clean energy exports; EPA and the Chinese environment ministry agreed to develop an emissions trading program for sulphur dioxide; Enron signed an agreement that paves the way for the first-ever foreign investment in an on-shore natural gas pipeline in China. All these agreements were products of ongoing work under the Vice President's Environment and Development Forum. Zhu Rongji and his ministers were interested in continuing our dialogue on clean energy financing.

Discussions on the specific topic of climate change were far more difficult. The Chinese rejected two proposals for projects under the Clean Development Mechanism and rebuffed all attempts to engage them on the economic benefits of participating more fully under the climate treaty. Chinese officials repeated standard dogma: their per capita emissions are less than one-eighth of ours; they are a poor country that cannot afford to consider an issue like climate change; their population control policy limits greenhouse gas emissions. We will continue to work this issue with the Chinese -- especially with the economic team around Zhu Rongji and the environment ministry -- but the prospects for short-term progress are not good.

Sinks. The White House, along with USDA and State, hosted a very productive meeting last week with over 50 climate change stakeholders to discuss "carbon sinks". The attendees included a mixture of agricultural and energy sector representatives, environmental and

conservation community representatives, and a number of folks from the academic world. We walked the group through what the United States presentations on sinks will be at the upcoming Indianapolis workshop (hosted by the UN's climate change Secretariat) later this month. We will also debrief this group in early May, after the workshop.

Congress

Hearing. The House Subcommittee on Energy and Environment held a hearing this week to highlight a new critical report by DOE's Energy Information Administration, belittling the effect of our Climate Change Technology Initiative (tax incentives and R&D spending). This report, like EIA's worst-case economic analysis last year, was not subject to interagency review because EIA is viewed as a quasi-independent statistical agency, akin to BLS. EIA's chief, Jay Hakes, testified. On the other side, we had Neal Lane and good witnesses from DOE and EPA, who explained that our tax credits and R&D investments are intended to help build market acceptance of energy efficient technologies and to help develop new technologies that may lead us to the breakthroughs of the future, such as fuel cells, bioenergy fuels (note Sen. Lugar's fascinating *Foreign Affairs* article on this called "*The New Petroleum*"), or new homebuilding technology.

Murkowski Bill. Senators Murkowski, Hagel and Craig are planning to introduce a climate change bill as early as next week. The intent appears to be to give climate opponents an alternative to embrace in contrast to the Kyoto process and to the Chafee/Lieberman/Mack early credit bill. On the plus side, the Murkowski bill at least recognizes that climate change is a problem and that R&D is warranted to address it. But it sharply criticizes Kyoto, substitutes an ineffective approach on early credit, and includes what appear to be inadequate authorization levels for R&D. No Democrats are on the bill yet, but Sen. Byrd is likely to go on if he is satisfied that the funding language won't cut back R&D spending. (If those assurances were provided, the bill would be a lot less troubling for us -- unhelpful, but not that bad.)

Press

At your direction we prepared a response from you to the environmental groups who wrote a critical letter to the Vice President on our climate change policy and leaked it to the *Washington Post*. We provided your response to the *New York Times* and *Washington Post*, both of which ran stories in today's editions about your firm defense of the Vice President.

Using the hook of Earth Day next week, we are mailing a good package of material on climate change -- both science and our policies -- to over 700 opinion leaders. The mailing is being sent to leading economists, scientists, environmentalists, academicians, foreign policy experts, editorial writers and columnists, and to members of the business, labor and state and local communities. We plan to reach out to this group of opinion leaders with subsequent mailings throughout the year.

Science. An announcement by scientists last week that two Antarctic ice shelves have lost 1,100 square miles of area in the last two years because of warming temperatures was widely covered. A study published in *Nature* last week found that the Amazon rain forest is vanishing more than twice as fast as previously thought; 17,000 square miles were lost last year. *NBC Nightly News* carried the story, as did the wires. A study published in *Nature* this week shows that in years when El Niño was in effect, the Pacific Ocean released 30-80% *less* carbon dioxide. According to wire stories, at climate change meeting in Costa Rica, scientists said airplanes have become a main source of greenhouse gas emissions.

Business. BP/Amoco announced last week that it will buy the half of Solarex it does not already own, to form the world's largest solar energy company. Mobil Corporation announced last week that it is supporting three forestation and forest conservation projects, two in developing countries and one here. Last week, Fannie Mae and Southern California Gas Co. announced expansion of the low-interest financing program to help consumers make energy-efficiency improvements to their homes. McDonalds' installed a micro turbine generator to provide electricity from natural gas into their "Energy Efficient McDonald's" in Bensenville, IL.

Science

Climate Linked to Rainforest Extinction. Many frogs, lizards and birds of the "cloud forest" of Costa Rica are dependent on the misty environment provided by the cooling of moisture-laden winds to form mountaintop cloud banks. Researchers this week reported that warmer, drier conditions from a combination of El Niño weather patterns and a longer-term rise in sea surface temperatures have caused the base of the cloud bank to rise, leaving the habitat of moisture-dependent species less suitable to support the wildlife of the cloud forest. The changed conditions coincided with the disappearance of 20 frog species in Costa Rica, including the Golden Toad. These results suggest that climate change can produce effects on biological communities much more quickly than expected.

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