

January 7, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN
SUBJECT: Climate Change Update

Domestic Policy

Budget/Tax. On the domestic side, we have been focussed over the last several weeks on the budget and tax packages. The news is pretty good on these fronts. For FY 99, despite intense opposition on the Hill, your budget negotiating team secured nearly \$200M for your Climate Change Technology Initiative, 26% over our FY 98 budget. Your FY 2000 budget request will put the CCTI above the level needed to stay on its five-year trajectory. Our R&D funding request for energy efficiency and renewable energy is over 20% above last year's appropriated level. In addition, the budget will include a substantial increase in climate change money related to agriculture, both on the technology and the research sides -- altogether some \$45M of new money requested as compared to \$10M requested last year.

We have also revised last year's \$3.6B tax package, to make it more effective and attractive. It will include improved tax credit proposals for energy efficient homes, certain large home appliances, cars and biomass. Regarding the auto tax credit, we have had extensive discussions with Ford, GM and Chrysler and have reconfigured it in a way that they are more supportive of, but they still have reservations. In essence, the credit will go to consumers who buy advanced technology cars -- such as hybrids or cars that have fuel cells or are all-electric. To avoid gaming problems, the credit for hybrids is contingent on the cars meeting certain performance standards (e.g., one-third more fuel efficient than a comparable non-hybrid car), a requirement the companies dislike. We will continue working with them after the budget has been submitted. package.

Your tax package will also include a new Green Bonds proposal, which is designed to help finance open space, clean water and brownfields development. There is a climate component to this, since reforestation and replanting will be among the eligible uses of green bond money.

Finally, the budget will include around \$200M for a new Clean Air Partnerships Fund, to help state and local governments finance reductions of air pollutants and greenhouse gases.

Credit for early action. As you saw in the very good lead story in last Sunday's *New York Times*, legislation to reward companies that take early action to reduce greenhouse gases will be considered in the 106th Congress. It may well become the most important domestic climate change issue for 1999. We have been working intensively on this policy for several months,

though we have chosen for strategic reasons to let the Hill and the business community take the lead, rather than, for example, sending up our own proposal. In this respect, I think the *Times* piece was very good and quite useful for us. We worked a lot on background with Jack Cushman, who wrote it.

Executive Orders. We have draft orders that need reworking on federal procurement and transportation. We are planning to roll these out in mid-February, to coincide with a federal government workshop on energy management that we are also preparing.

Diplomatic

The Buenos Aires Plan of Action charts an aggressive international work program on four key issues: international emissions trading, the Clean Development Mechanism, sinks and compliance. Meetings and workshops will be held this winter; papers and negotiating text are due during the next several months. In many areas, this work will fill technical gaps; in others, it will define differences for further negotiation. We are hard at work shaping strategy and submissions on these items.

We are also working to encourage greater participation from key developing countries. Technical delegations are preparing trips to Argentina and Kazakhstan (both of which agreed to take targets at the Buenos Aires meeting). We are exploring possible climate change agreements in connection with your Central America trip in February. Preparations are underway for high-level meetings with the Chinese and Russians in the months ahead.

At the same time, we are standing back from these negotiations to consider areas that may be ripe for new strategic direction. It is clear that considerable creativity and effort will be required to bridge the many differences in outlook among key countries (and shape an agreement acceptable to the U.S. Senate). Priority issues include concerns over Russian "hot air" and mechanisms for engaging the Chinese.