

THE WHITE HOUSE

WASHINGTON

November 10, 2000

MEMORANDUM FOR THE PRESIDENT

FROM: SAMUEL BERGER
GENE SPERLING *GBS*
GEORGE FRAMPTON *GF*
ROGER BALLENTINE *RB*

SUBJECT: Climate Change: COP6-Negotiations Issues

This memorandum follows up our background memorandum of October 6. Based on an interagency process that included participation from all relevant agencies, this memorandum requests your approval of key elements of our negotiating strategy before COP6 begins on November 13. We are likely to return to you for additional decisions during COP6.

I. Additional Developing Country Actions

As you know, we are isolated in attempting to make significant progress on developing country participation at COP6. The official agenda relates primarily to resolving design questions for issues as emissions trading, the Clean Development Mechanism (CDM) and the role of sinks. Whether developing countries will make binding commitments to reducing greenhouse gas (GHG) emissions is not on the agenda.

We could enter the negotiations insisting that the parties place developing country participation on the agenda or commit to a future "new dialogue" on the subject. Developing countries, however, have shown no willingness to accept either of these alternatives. Moreover, the State Department does not envision a realistic possibility of any breakthroughs on this issue at COP6.

We could, instead, enter the negotiations prepared to conclude a deal on other important topics without concrete progress on developing country participation. Sidestepping the issue of developing country participation, and not blocking consensus at COP6 over this issue, will increase the likelihood of reaching an agreement on the design of the Kyoto architecture (*i.e.*, emissions trading, CDM, sinks). It also would limit our diplomatic isolation among the COP6 parties. The drawback of this strategy is that it leaves the United States no clear path to move towards a larger role for developing countries in the treaty framework and leaves the Protocol open to attack by opponents as failing to meet the test of the Byrd/Hagel resolution. Further, it would require that a future Administration decide whether to seek additional affirmative agreement on the role of developing countries before sending the Protocol to the Senate for its consideration.

cc: Vice President
Chief of Staff

Despite the drawbacks of the second approach, there is a consensus among all agencies and your senior advisors that we should attempt to conclude an agreement on other important topics without concrete progress on developing country participation. If you approve this approach, and we succeed in obtaining a satisfactory agreement on the other key issues on the agenda at COP6, we can portray the achievement as a significant step toward designing a strong and effective treaty. We would, of course, continue to pursue greater developing country actions, both within and outside the COP process.

_____ Approve _____ Disapprove _____ Discuss

II. New Funding Commitments

Almost all countries in the negotiations, including the Europeans, strongly support a decision at COP6 under which industrialized countries would make new financial commitments to help fund technology transfer and capacity building activities in the developing world. The most likely sources for U.S. funds to achieve that goal are: (1) appropriated funds (such as official development assistance); or (2) funds generated from within a ratified and functioning Protocol, such as a fee (tax) on the use of the Kyoto mechanisms. There is, in fact, a strong push among many parties to the negotiations to impose a tax on emissions trading for these purposes.

There is a consensus among agencies that the United States has fulfilled its obligation to provide appropriated funds in the form of bilateral assistance programs and our contributions to the Global Environment Facility (GEF), which serves as the "financial mechanism" for the 1992 Framework Convention and to which the United States is the largest donor. In addition, the United States agreed to providing developing countries additional resources in acceding at Kyoto in 1997 to allocate a "share of the proceeds" from the Clean Development Mechanism (CDM) to help developing countries to adapt to climate change. The United States has resisted additional commitments for two primary reasons. First, we believe major new resource commitments for developing countries should be made only in exchange for significant new developing country actions to mitigate GHG emissions. Second, the proposal on the table, a tax on emissions trading, would unfairly burden those parties who plan to use trading extensively to comply with the treaty (most notably the United States) and is universally opposed by the business community.

Given this background, we could resist all calls at COP6 for new funds, but would be diplomatically isolated in doing so. Moreover, a U.S. commitment to new funding may be necessary in order to achieve our objectives on such matters as the Kyoto mechanisms and sinks.

Instead of flatly resisting calls for new funding in the absence of firm commitments by developing countries, through the interagency process we have developed a two-part strategy to address pressure that the United States accept for new funding commitments. First, we would agree only to non-legally binding "political" commitments to increase appropriated funds (such as an increase in existing bilateral assistance for clean energy development, capacity building and technology transfer). Second, we would offer a new U.S. proposal for substantial additional resource commitments from within the Kyoto system, but only in a more equitable form than a tax on trading (such as generating resources by the sale of emissions credits donated by all industrialized countries), and only in exchange for new developing country actions.

This approach would put us in a constructive posture while defending against a worse idea. As noted above, ultimately, we anticipate that closing a deal on favorable rules in the Kyoto framework (*i.e.*, unfettered emissions trading, a non-bureaucratic CDM, and broad use of sinks) likely will require us to agree to some limited additional funding. We believe that non-legally binding political commitments in the near term are acceptable and that our offer to consider more significant resources from within the system will position us well going forward on the question of greater developing country actions to mitigate GHG emissions.

Nevertheless, there is a significant likelihood that non-binding commitments of this type would be inadequate to reach agreement at the end of COP6 because we anticipate significant pressure for more binding and near term financial commitments, which would likely generate strong criticism from Congress. If we do face such a situation, we will return to you for guidance.

The consensus among your senior advisors and all relevant agencies is that you approve: 1) making only political commitments to increase funding; and, 2) offering a proposal for new funding within the Kyoto system in exchange for new developing country commitments.

_____ Approve _____ Disapprove _____ Discuss

III. Sinks

The Kyoto agreement included provisions to count forests and agricultural soils as “sinks” under the treaty, but deferred until later the levels of inclusion and specific accounting definitions. Since 1997, parties have worked to produce national data on levels of greenhouse gas sequestration, and to resolve a thicket of technical issues about accounting for sinks. Before presenting the details of this policy issue, we must note that there are significant uncertainties in the figures presented.

In 1997, prospective credit for existing, or “business as usual” (BAU), sinks was one of the factors that allowed you to approve moving from our initial announced target of a zero percent reduction in our emissions below 1990 levels to our final target of seven percent below 1990 emissions. As an important point of reference, if the United States were able to count approximately 115 or more MMT of BAU sinks, that would be the equivalent of meeting our minus seven percent target without actually having to reduce emissions below 1990 levels. Counting BAU sink reductions is a zero cost way to help meet our treaty obligations, and thus much of business community thinks we should seek a large number of these tons. The environmental community, however, would harshly criticize us for obtaining too large a number because it would reduce our “level of effort” toward meeting our target.

The United States is projected to have an annual level of emission sequestration in sinks of approximately 300 million metric tons (MMT) during first commitment period (2008-2012). If all this sequestration were to be counted, it would represent roughly half of the net emissions reductions required for us in the commitment period. Most other parties, however, are strongly opposed to letting us count any more than a very small fraction of this amount. In response, we have signaled our willingness to discount or phase in the amount of sinks counted during the first commitment period.

From a purely economic perspective, your economic advisors (Treasury, CEA, NEC) would prefer to secure a high level of BAU sinks credit, because of sinks' critical role in reducing the cost. (Each 15 MMT of sink credits reduces our cost by an estimated billion dollars per year.) The economic agencies, however, are sensitive to the concern of some that 100 MMT of credit appears to undermine our commitment to our Kyoto target.

Your environmental and science advisors (EPA, Interior, OSTP, Environmental Initiatives and CEQ) prefer to secure less credit for sinks than the economic agencies. They are concerned that obtaining too much credit represents a loosening of our Kyoto commitment. They also note that the issue of BAU sinks has drawn an intense lobbying campaign for us to reject these tons from a broad spectrum of environmental groups.

Based on these concerns, all agencies have agreed that you should direct the negotiators in The Hague to negotiate for between 70 and 80 MMT of credit for sinks. They believe that this target reasonably balances the need to control costs with the need to maintain our Kyoto emission reduction commitment. The State Department cautions that although it will be difficult to achieve, they support a goal of 70 - 80 MMT.

_____ Approve _____ Disapprove _____ Discuss

IV. Compliance/Price Cap

There has been a long-standing debate about whether or not to include a mechanism whereby parties could purchase additional emissions allotments for a set price in order to remain in compliance. Such a mechanism, effectively a price cap, would establish an upper limit on the cost per ton of greenhouse gas reductions, and could effectively limit the overall societal cost of compliance with the Protocol.

Such a mechanism could provide certainty to the business community and could possibly improve the prospects of Senate ratification. Moreover, in the international negotiations, it could lessen the need to pursue other means to constrain costs, such as unlimited trading or a broad definition of sinks and CDM activities. Despite these potential benefits, pursuing such a mechanism carries real risks. If the price level is seen as low, while perhaps a positive for the business community, it would be perceived as a major loophole in the Protocol by much of the environmental community. On the other hand, environmentalists would support a high price level because it would function more like a penalty than as a "safety valve". If the price is set high, however, this could lead some to predict very high costs for the Protocol. There is further concern that any price cap level could be criticized as essentially an international "tax".

This idea is very complex and extremely controversial idea among both supporters and opponents of the Protocol. We are currently working on this issue, and may need to present it to you for decision during COP6.