

**THE HISTORIC KYOTO AGREEMENT:
A CRITICAL FIRST STEP IN A GLOBAL EFFORT TO ADDRESS GLOBAL
WARMING**

December 11, 1997

The Kyoto agreement represents an historic and unprecedented step to reduce the threat of global warming in an environmentally strong and economically sound way. It involves 160 nations, and recognizes the crucial importance of specific steps to address climate change. The leadership offered by the President and Vice President allowed this agreement to be completed -- and generations from now, the agreement will be remembered as establishing the core elements of a strong, realistic, and legally binding framework.

- **Target and Timetable:** The United States agreed to a binding target of reducing greenhouse gas emissions to 7 percent below a baseline based on 1990 levels by 2008-2012. The agreement is based on a somewhat different accounting system -- so that the 7 percent reduction is fairly close to the President's initial proposal.
- **Market-Based:** The agreement reflects an historic emphasis on market-based mechanisms to address an environmental problem.

Emissions trading: The agreement includes a framework for emissions trading among industrialized countries, to ensure the best means of reducing emissions.

Joint Implementation: The agreement includes a Clean Development Mechanism, under which U.S. businesses will be able to do joint projects in developing countries. This is a win-win that transfers needed technology to developing countries, while allowing our companies to earn credits for reducing greenhouse gas emissions.

- **Comprehensive Agreement:** The United States successfully pushed for coverage of all six greenhouse gases, which most other major economies opposed, as well as coverage of so-called "sinks", such as forests, which absorb carbon. The inclusion of sinks and all six gases is a major U.S. victory, ensuring comprehensive protection of the environment.
- **Developing Country Participation:** Global warming is a global problem requiring a global solution. We have therefore adopted a two-step process to address this problem. This agreement locks in hard commitments by the developed countries, and makes a down payment on developing country commitments through the the Clean Development Mechanism. But the President has made very clear that the United States would not take on legally binding targets until there is meaningful participation by developing countries. We will be working hard over the coming months and years to secure that participation.

THE PRESIDENT'S THREE-STAGE PLAN ON CLIMATE CHANGE

To achieve reductions in greenhouse gases, the President's plan will proceed in three stages:

- **Stage 1: Priming the Pump Through R&D, Tax Incentives, Incentives for Early Action, Federal Leadership, and Industry Consultations.** The first stage of the President's package includes a 9-point action plan -- including \$5 billion in tax incentives and spending for energy efficiency, incentives for early action, a set of Federal energy initiatives, and industry-by-industry consultations to explore their best ideas on how to reduce emissions in a cost-effective manner (including market-oriented standards for energy efficiency). The first economic review would occur near the end of Stage 1.
- **Stage 2: Review and Evaluation.** The second stage, which would begin around 2004, will build upon the programs adopted in Stage 1, by including a review of our progress and an evaluation of next steps as we move toward a market-based permit trading system for carbon emissions. During this second stage, the details of the permit system would be refined and perhaps tested. Such a permit system is similar in concept to the one that dramatically cut acid rain emissions -- although the scale would be significantly larger than that program. The second economic review would occur near the end of Stage 2.
- **Stage 3: Meeting Binding Targets Through Domestic and International Emissions Trading Program.** In the third stage, we would reduce emissions to below 1990 levels by 2008-2012, through a market-based domestic and international emissions trading system. Before beginning this third stage, the second economic update and review would allow Congress and the President to evaluate how the economy had responded to a decade's worth of experience in the first two stages of the President's plan. The President is committed to working with labor and Congress to insure that we give proper assistance to any workers dislocated by the changes in energy use from any climate change plan.

This three-stage program recognizes the long-term nature of the effort in three ways:

- By adopting a graduated approach to emissions reductions, it allows us to exploit the tremendous opportunities for win-win reductions first.
- By adopting a system of regular scientific and economic updates and reviews, it allows us to monitor our progress and re-assess our success in reducing emissions, the state of scientific knowledge, and how the economy is responding to our efforts. Only after we have accumulated ten years of experience with the first two stages of the program would we enter the internationally binding period.
- By insisting that the United States will not adopt binding obligations without key developing country participation and by emphasizing the importance of an international trading system and joint implementation, we take advantage of low-cost reduction possibilities wherever they occur -- either here or abroad.

Major Provisions of the Kyoto Protocol

On December 11, 1997, the Third Conference of the Parties reached agreement on a significant first step. The Kyoto Protocol contains the core elements of a strong, realistic framework to protect both the environment and the global economy. Together, industrialized nations agreed to significant reductions of their greenhouse gas emissions. In addition to these cuts, the most important elements of this agreement are the coverage of all six greenhouse gases and the flexible market mechanisms that the U.S. pioneered in designing. These elements are signal achievements, and mark an historic breakthrough of the world's industrialized nations for establishing a global and flexible framework for tackling this issue. These elements will significantly lower the cost of addressing climate change and will be the main engines to channeling investment and technology to the developing world.

Kyoto is only the first step in a long process, however, as we have to complete the task of integrating developing nations into this framework. This was the most disappointing aspect of Kyoto. While the United States saw some signs of progress on this front, we have considerable work ahead of us.

Binding targets: The treaty includes a target for all industrialized countries taken together of 5/6% below 1990 levels during the 2008 to 2012 timeframe.

- **Proposed national emission targets:** The EU committed to a 8% reduction; the U.S. to 7%; and Japan to 6%.
- **Later start date:** Nations agreed to begin reductions at a later starting date, allowing more time to replace capital intensive investments in their energy sector.
- **Five year budget periods:** The Kyoto Protocol adopted the idea of allowing nations to set their target for the average of emissions over a five year emissions budget period, a U.S.-proposed innovation. Allowing nations to reach their emissions budget over a multi-year period gives them flexibility in meeting their target and in responding to fluctuations in energy usage from economic performance, new investment in energy-efficient equipment, and weather variation.

All Greenhouse Gases: The agreement covered all six major greenhouse gases, including three synthetic gases whose use is growing at a rapid rate and whose impact on the environment is longer lasting. The U.S. urged this approach as a more comprehensive approach to addressing the issue.

Carbon sinks: The agreement includes accounting for so-called carbon sinks such as forests, which absorb carbon. By giving nations credit for protecting and promoting forests, the Protocol will encourage sustainable land management and provide cost-effective means of achieving emission reductions.

International market mechanisms: The agreement establishes market mechanisms such as international emissions trading. International trading is designed to achieve the greatest reductions in emissions at the lowest possible cost. Nations that effectively reduce their emissions can sell excess reductions to other less successful nations. Similar measures have helped to dramatically cut the costs of stopping acid rain and phasing out leaded gasoline. The rules for how this system will work are to be established over the next years, after which time nations may submit the protocol for ratification.

Developing Nations: Much work remains to bring industrialized nations into this framework; this remains the principal task ahead of us for the coming years. Nevertheless, the protocol contains several elements that encourage developing nations to reduce their emissions and prepare them to take steps as they develop to become full members of a global framework:

- **Clean Development Mechanism:** As designed by Brazil, this mechanism will allow developed countries to contribute to their target through emission reductions in developing countries, providing incentives for private investment in new energy-saving technologies in developing countries. It also will help to direct resources to developing countries particularly vulnerable to the adverse effects of climate change.

National Security Provision: Industrialized nations agreed that this treaty should not impede national security considerations. Emissions resulting from multilateral military operations were exempted from the agreement, as were bunker fuels stored in overseas bases.