

Q's & A's for Climate Change testimony 2/98THE PROTOCOL

How can you say the Kyoto Protocol is a success if there is no mention of developing countries? The Protocol is severely flawed.

On the contrary, most of the elements of the President's package were put firmly in place at Kyoto. The Protocol includes the market-based mechanisms of international emissions trading (across all six greenhouse gases) and joint implementation among developed countries. Moreover it allows for full flexibility on the kinds of policies and measures a country may enact domestically to achieve compliance, and sets the targets on the basis of a multi-year objective, rather than a single fixed-year obligation. With regard to developing countries, it allows for investment in projects in developing countries to be used as offsets against obligations in developed countries (through the Clean Development Mechanism (CDM)). The Protocol also beefs up all Parties' national communications and gives advanced developing countries the option of adopting an emissions budget and trading under the Protocol – potentially providing more development resources than the project-based CDM. There is of course more work to do, particularly on gaining the meaningful participation of developing countries, and we plan to make bilateral and multilateral efforts to this end.

INSTITUTIONAL/PROCEDURAL/SIGNATURE/RATIFICATION ISSUES

Do you plan to sign the Kyoto Protocol and then ignore Senate advice and consent?

Absolutely not, and we are here today to begin this dialogue. As we have said, U.S. ratification will require the advice and consent of the Senate. The United States may choose to sign the Protocol during the year that it will be open for signature, but that would not bind the United States to the Protocol's requirements.

When do you expect the President to sign the Kyoto Protocol?

The Kyoto Protocol opens for signature in March 1998 and remains open until March 1999. We hope and expect to sign during that period.

When do you expect the President to submit the Protocol to the Senate for its advice and consent? Isn't the President disregarding the Senate's appropriate constitutional role of advice and consent?

As we have said, U.S. ratification will require the advice and consent of the Senate. The United States may choose to sign the Protocol during the year that it will be open for signature but that would not bind the United States to the Protocol's requirements.

If the Kyoto Protocol is such a positive achievement, why has the Administration said it will not submit it to the Senate for its advice and consent to ratification?

The Kyoto Protocol is an historic step forward in the effort to meet the challenge of global warming. We believe it reflects an environmentally strong and economically sound approach to this very difficult problem. But there are details of additional elements we need to work out in order to have a package ready for submission to the Senate. In particular, we have not yet established the mechanism and activities to ensure that the President's requirement for meaningful participation from key developing countries is fully met. Though the Protocol makes a down payment on such participation, more needs to be done in this area. Additional work also needs to be done in fleshing out the rules and procedures for market-based emissions trading. The Administration is working hard to fill in these pieces and looks forward to submitting the Kyoto Protocol to the Senate once these objectives have been achieved.

Why did you agree to a provision that will allow this Protocol to go into effect all over the world without U.S. ratification? Didn't you intentionally diminish the role of the Congress?

The U.S. entered these negotiations with the very clear position that we did not want to reserve the power to block this important international treaty simply by not ratifying it. It is not in American interests to prevent the international community from acting against the very serious threat of climate change.

Nevertheless, for the Kyoto Protocol to be effective in reducing global emissions, it must apply to the majority of the world's large emitters. Accordingly, to enter into force, the Protocol must be ratified by at least 55 countries including Annex I nations, accounting for at least 55 percent of the total 1990 carbon dioxide emissions of developed countries. We anticipate that to meet this threshold, either the Russian Federation or the United States will have to ratify, even if the European Union and other developed Parties ratify as well as most developing countries. Regardless of when we ratify, we will still participate as a Party under the UN Framework Convention on Climate Change and have significant influence over the related processes.

SCIENCE

How do we know there is any reason for taking action? Isn't this just too costly?

The science of global warming is compelling. A 1995 report, representing the work of more than 2,000 of the world's leading climate change scientists, concludes that "the balance of evidence suggests that there is a discernible human influence on global climate." While a clear empirical relationship between cause and effect is difficult to establish, 1997 is the warmest year on record for average global surface temperatures, and nine out of the last 11 years are among the warmest

ever recorded. More record warm years are in the forecast. The Administration does not believe it is responsible to delay taking preventative action on the climate change issue; however, we recognize that any action must proceed sensibly in a way that is economically sound.

Background: The cost of inaction would be devastating in human and financial terms: a greater incidence of droughts and storms, relocating entire communities because of the inundation of our coastal areas, a higher incidence of tropical disease, and a threat to plant and animal species throughout the United States. Droughts and storms are indeed costly: the Southern Plains drought of 1996 was estimated to cost \$4 billion, and the Northwest floods of 1996-97 about \$3 billion. Although recent examples of severe droughts cannot be unequivocally attributed to global warming, they do indicate a pattern consistent with scientific understanding. Abroad, climate change could devastate the Middle East and Africa, exacerbating political tensions, and the world's poorest countries, already hurt by food production and distribution problems, are expected to suffer more in these areas because their countries will not be able to adapt to further challenges posed by climate change.

We are shown graphs and data depicting global warming, but we have heard reports that say NOAA satellite data refutes this warming; and in fact shows a cooling trend...How do you explain this contradiction?

There is no contradiction. Satellites measure temperature above ground (5,000-30,000 feet), taking into account aerosols and ozone loading (due to volcanic eruptions). Surface measurements are taken at ground and sea levels, where aerosols and ozone loading are not as effective as in the atmosphere. NOAA Satellite data consistently has shown over the past 17 years a global warming trend, when adjusted for the influence of aerosols and ozone loading due to volcanic eruptions such as Mt. Pinatubo. This pattern is consistent with the warming trend assessed from balloon temperature readings and surface temperatures readings.

Is it true that even if all the developed countries complied with their targets that their actions would be just a "drop in the bucket" in addressing climate change? Over what time scale is global action likely to be required?

The Kyoto Agreement is an historic step in the effort to address climate change. The binding targets agreed to by developed nations provide important real reductions and lay the groundwork for additional reductions in the future.

Clearly, however, Kyoto is only one step in a long process. To ultimately stabilize emissions at a safe level in the atmosphere, significant reductions – beyond those agreed in Kyoto – will be needed. Furthermore, developing countries – whose emissions are likely to eclipse those of industrialized nations by 2030 – must also begin to limit their emissions if we are to effectively address the problem. The Administration is firmly committed to working to secure meaningful participation from key developing countries and will not submit the Protocol to the Senate until such participation has been achieved.

Background: Even the most stringent proposal tabled for consideration by the Parties in Kyoto (that proposed) by the Alliance of Small Island States, requiring developed country Parties to reduce emissions by 20 percent below 1990 levels by 2005) would have had only a small impact on the overall problem. It is anticipated that to maintain global concentrations at current levels, global reduction of approximately 60-70 percent of CO₂ emissions would be needed. *End Background.*

How can we trust the data emerging from the Intergovernmental Panel on Climate Change (IPCC)?

The Intergovernmental Panel on Climate Change (IPCC) is the most authoritative body on the science of climate change reflecting the views of the world's pre-eminent climate experts. The more than 2,000 scientists concluded in the IPCC's 1995 Second Assessment that there is a "discernible human influence on the climate system." For the first time, we have a clear scientific indication from experts around the world that human emissions of greenhouse gases are affecting the climate system, and we have ample indications about the potential impacts of climate change.

ENFORCEMENT & COMPLIANCE/U.N./SOVEREIGNTY

Given the rules of procedure of the Conference of the Parties, aren't we turning over decisions that will affect the prosperity of American citizens to the very developing countries that are exempt from any obligations under the agreement?

No, we are not. The emission reduction commitments in the Kyoto Protocol were adopted with the full participation and consent of the Parties to which they will apply. To take effect, each of these Parties must ratify the protocol. In the United States, ratification would occur only after the advice and consent of the Senate under our Constitution. Moreover, under the Kyoto Protocol, we will have full national flexibility in how we meet our emission reduction commitment because we succeeded in Kyoto in rejecting calls for mandatory standardized policies and measures, such as energy taxes. Any change in the emission reduction commitments made in Kyoto could only occur through an amendment to the protocol. Any party that objected to such an amendment would not be bound by it. Thus, decisions that could affect the prosperity of American citizens will continue to be taken nationally by the United States and not by others.

If we ratify the protocol, won't developing countries be able to dictate the U.S. target in the future—and penalize us, if we fail to comply?

No. Any subsequent targets would have to be agreed to by the Parties to whom they would apply.

Is the Kyoto Protocol a threat to U.S. sovereignty?

No, it is not. Under the Kyoto Protocol, individual nations decide for themselves how best to comply with greenhouse gas emissions targets they have agreed to. The Conference specifically rejected proposals which would have imposed mandatory, standardized policies and measures, such as energy taxes. It does not threaten our sovereignty for us to agree to cooperate with other nations in combating climate change. We cannot solve a global problem alone. The Administration believes that the Kyoto Protocol is in the best interests of the United States and will provide important environmental protection while ensuring continued economic growth and competitiveness.

Isn't this just another way of establishing another UN mega-Secretariat? Do we need anymore big international bureaucracies subsidized by the U.S. taxpayer? Moreover, aren't these people going to become an enforcement operation – and if we don't comply – what will happen? International penalties for noncompliance?

The Protocol contains several provisions intended to promote compliance. It calls for each Party to establish a system for national reporting and measurement of greenhouse gas emissions. As a result of a U.S.-proposed provision, a Party not in compliance with its measurement and reporting requirements cannot receive credit for joint implementation projects. Thus, the primary responsibility for enforcement is at the national level, and the will to act is a domestic matter which cannot be imposed by any foreign authority. We will work with other Parties to ensure that future compliance systems, as yet undetermined, will be strong but not overly bureaucratic.

In the Protocol, the Parties sought to use existing institutions and to minimize the creation of new ones. For example, the subsidiary bodies and Secretariat under the Convention will continue their functions under the Protocol. Because the United States contributes approximately one fourth of the Secretariat's budget under the Framework Convention on Climate Change we have considerable influence within the Convention and vis-à-vis its Secretariat. In all of its actions under the Convention, the Secretariat looks to the Parties for guidance, and must answer to the Parties with respect to its activities. If the United States ratifies the Kyoto Protocol, we will have similar influence under that instrument. Furthermore, in the case of the Clean Development Mechanism, the Parties will oversee the mechanism with the help of a small executive board and "operational entities to be designated" will certify emission reductions from specific projects.

What verification procedures are there to ensure that other countries honor their obligations?

There are several examples of different types of verification procedures in the Protocol. In Article 8, expert review teams will assess Parties' implementation of their obligations. These teams, coordinated by the Convention Secretariat and nominated by Parties, would initiate a thorough and comprehensive technical assessment of all aspects of the implementation by Parties. These teams are taken from the model of the existing system of in-depth review teams that examine Parties' national communications. There is also provision for the creation of verification and monitoring systems for emissions trading (Article 16 bis), joint implementation (Article 6), and the Clean Development Mechanism (Article 12). These will be developed in the coming years, beginning at COP-4 this November, as stipulated in the Protocol. The U.S. will use every opportunity to influence their formulation to ensure their acceptability.

How will the Protocol be enforced? Either it will be an honor system, without any real enforcement, in which case the United States will get taken advantage of as we honor our obligations while others ignore their own; or there will be a real enforcement system, in which case international bureaucracies will be able to sit in judgment on whether we are meeting our obligations. Which will it be? And aren't both these alternatives unacceptable?

As with most compliance systems, whether they are legal or regulatory in nature, there is usually some middle ground. There is still a tremendous opportunity to craft the compliance system of the Protocol as effective procedures and a mechanism to determine and address non-compliance are to be decided at later meetings. For both environmental and competitiveness reasons, the United States will be working on proposals to strengthen the compliance and enforcement regime under the Protocol but no international bureaucracy will be able to "sit in judgment" on whether we are in compliance. The primary responsibility for enforcement is at the national level, and the will to act is a domestic matter which cannot be imposed by any foreign authority. We will work with other Parties to ensure that level of responsibility is preserved.

ROGUE NATIONS

Why doesn't the Protocol exclude rogue nations like Iran, Iraq or Libya? Do you think they should be able to benefit from this Protocol?

The Kyoto Protocol is a global effort to reduce the trend of dramatically increasing greenhouse gas emissions. All nations recognized by the United Nations are eligible to join in this effort. Because Iran, Iraq and Libya are oil-producing countries with significant contributions to global emissions, it is especially important to include them in efforts to reduce emissions. The alternative, excluding them from emissions reductions efforts, would allow these countries to be "free riders," that is, to enjoy the global environmental benefits without joining in the global effort. Any possible activities under the Clean Development Mechanism would be governed by existing sanctions or other trade restrictions.

TARGET/ECONOMIC ISSUES

While the President proposed in October that the U.S. reduce emissions to 1990 levels by 2008-2012, the U.S. agreed in Kyoto to a 7% reduction below 1990 levels in the same timeframe. Why did we accept a more stringent target?

The 7% target is close to the President's initial proposal. It represents at most a 3% real reduction below the target of returning to a composite of 1990/1995 baseline levels by 2008-2012.

The remaining 4 percentage points result from changes in the way certain gases and activities that absorb carbon are counted.

Why did the U.S. support binding emissions limitations? I understand that voluntary programs may be equally as successful.

Two factors prompted the U.S. to propose binding limits for greenhouse gas emissions. First, it became clear that only two industrialized nations would meet the voluntary aim, established in Rio, to reduce emissions to 1990 levels by 2000 (and neither of those for reasons related to climate change). Second, the IPCC's 1995 Second Assessment Report provided important new information on the science of climate change, further underscoring the need to take action.

While binding targets provide greater surety that obligations will be met, they by no means preclude voluntary action. Limited voluntary here in the U.S. have proven effective in cutting emissions, and the Administration has proposed significantly expanding such programs in an effort to meet the Kyoto target. As an example, the Administration will be working with industry over the next nine months to develop voluntary, sector-by-sector initiatives for reducing emissions.

What's all the fuss over "sinks"?

The treatment of sinks in the Protocol altered the accounting method for carbon-absorbing activities, such as planting trees, in the U.S. total: sinks account for about 3% of the 7% reduction. The President's original goal assumed that the 1990 baseline would be lowered by carbon-absorbing activities, but under the method agreed in Kyoto, such activities do not lower the 1990 baseline. Because the 1990 level baseline is thus higher under the Kyoto agreement, the U.S. target becomes somewhat less stringent. Specifically, had the U.S. maintained the same level of effort assumed by the President in October, and no other factors had changed, the shift in the accounting method for carbon-absorbing activities would, alone, have transformed the President's goal of 1990 levels into a goal equivalent to at least 3% below 1990 levels. (As noted above, certain carbon-absorbing activities will count against emission reduction commitments in the budget period.) Despite opposition from a number of countries, the United States insisted that they be included in the interest of encouraging activities like afforestation and reforestation. Accounting for the role of forests is critical to a comprehensive and

environmentally responsible approach to climate change. It also provides the private sector with low-cost opportunities to reduce emissions.

What is the Administration proposing to do to ensure that the United States is not put at an economic disadvantage?

While the U.S. and other industrialized countries would incur some reduction costs that would only gradually be borne by the developing countries, (e.g. higher short-medium term energy costs in the industrialized countries), the weight of the evidence suggests that, in the aggregate, these costs would be insignificant to U.S. competitiveness or exports.

Where the question addresses competitiveness concerns of a few energy-intensive manufacturing industries, such as aluminum, paper, and chemicals, we should consider the following: In her testimony, Dr. Janet Yellen noted the contraction of some industries and the expansion of others that one could expect in any instance of significant structural change to the economy. Some facts, however, provide a perspective on the issue: 1) on average, energy accounts for only 2.2% of total costs to U.S. industry; 2) energy prices already differ significantly between the U.S. and countries such as Venezuela, and yet U.S. industry does not generally flee to other countries; and 3) 2/3 of all emissions are generated by the transportation and "buildings" sectors – not manufacturing. To those observations I would add one more: the U.S. energy efficiency and alternative energy sectors are among the most advanced and competitive in the world. As other countries expand their own domestic climate change action plans, significant export opportunities are sure to open up for U.S. manufacturers in these fields.

How will the Kyoto Protocol impact the U.S. economy?

The President has put forward a comprehensive program that, if fully implemented, can reduce U.S. greenhouse gas emissions to the targeted levels while maintaining economic growth and competitiveness. In Kyoto, the U.S. succeeded in rejecting unrealistic targets proposed by other countries. Furthermore, we won acceptance of key market-based mechanisms, such as emissions trading, which will substantially lower the costs of complying with emissions targets.

But aren't there studies suggesting that the Kyoto Protocol will cost millions of U.S. jobs and tank the economy?

We see these kinds of studies every time this nation takes action to protect our environment. Whether it's climate change, clean air, or clean water, there continue to be those who believe that environmental protection must come at the expense of economic growth. We must look at the record: Today, unemployment stands at less than 5%, inflation is low, investment is booming, real wages are rising, and the economy has generated more than 14 million new jobs since 1993. All this good news despite the doomsday predictions of self-interested economic studies that

warned of the disastrous consequences of the Clean Air Act, Clean Water Act, and other efforts to protect the environment.

How do you respond to the serious concerns of U.S. business, agricultural groups and labor about the Protocol?

In the months leading up to Kyoto, the Administration conducted an extensive outreach effort to solicit the views of major interest groups, including the business, labor, agricultural, and environmental sectors. This effort included a White House Conference which brought together leading experts from around the country to explore different aspects of the climate issue. What we learned contributed heavily to the U.S. policy announced by the President in October.

In Kyoto, we succeeded in gaining agreement on the key elements of the U.S. position, including a realistic, achievable, and comprehensive emissions target and flexible implementation mechanisms like international emissions trading and joint implementation. Accordingly, a number of interest groups have been supportive of the agreement. That is not to say that all sides are happy. A wide range of issues have been raised, and we look forward to working with interested parties to address legitimate concerns.

Did the Vice President's visit – with his call for greater flexibility on the U.S. side – diminish your negotiating leverage and help lead to the cave-in of our position of 1990 levels by 2008-2012?

The Vice President's visit injected new life into the negotiations by urging all Parties to seek common ground. Earlier in the meeting, the U.S. signaled its openness to consider differentiated targets for developed countries. This move helped bring on board a number of critical countries and demonstrated that we were serious about obtaining a successful outcome in Kyoto. The Vice President's call for greater flexibility went further in building trust among our negotiating partners. We were able to convince them to lower their expectations of higher, unrealistic targets and include all six major greenhouse gases and carbon "sinks" – elements which they had previously opposed. In the end, the U.S. level of a 7% reduction in emissions actually represents most a 3% real reduction below the President's initial target for stabilization of emissions at 1990 levels by 2012 when the sinks and all six gases are factored in.

Does the Protocol create a perverse incentive for the destruction of rain forests around the world?

No. The Protocol actually creates incentives through the Clean Development Mechanism in developing countries. The CDM will encourage afforestation and reforestation projects, as well as investments in clean technology, and allow these efforts to partially fulfill the emission reduction commitments of industrialized countries. Thus, industrialized (Annex I) countries will see advantages to working with developing countries in these and other areas as a means of achieving cost-effective reductions. Through such projects, developing countries will be able to obtain the financial resources, technology and know-how to promote their own sustainable

development. In terms of temperate rain forests in developed countries, the way in which sinks are counted in the budget period actually penalizes countries that engage in deforestation.

Comment: The deforestation or loss of carbon sinks equates to increased emissions. Annex B Parties would have to reduce other emissions to a greater extent in the budget period to meet their targets.

GENERAL IMPLEMENTATION

What enabling legislation might be necessary to implement any agreement that would mandate legally-binding emissions reductions on the United States?

Legislation to implement the agreement domestically will depend on the policies chosen to implement it domestically. For example, bringing a domestic carbon emissions trading program into effect – as the President has proposed to start in 2008 – would in all likelihood require legislation. For now, the President has chosen to emphasize those measures that are more voluntary and incentive-based in nature, such as the his five-year, \$6 billion initiative involving tax cuts and R&D aimed at cutting greenhouse gas emissions. The greater the success of these early efforts, the less we will need to rely on tougher measures to bring us into compliance with our emissions target down the road. The Administration will seek Congress's assistance in fully funding these initiatives and is still evaluating a wide range of options for other domestic implementation efforts, and therefore I cannot state with any specificity what implementing legislation might be required.

Will we wait until the Protocol is ratified to take domestic actions to reduce emissions?

No. President Clinton has laid out a comprehensive plan for cutting U.S. emissions of greenhouse gases that will enhance, not diminish, our economic growth and competitiveness. The President's plan includes \$6 billion in tax incentives and R&D spending on energy efficient and low carbon-emitting technologies, restructuring of the electricity industry that will both cut emissions and save taxpayer dollars, overhauling of Federal energy use and procurement practices, and industry-by-industry consultations to develop specific voluntary plans for reducing emissions. We look to the Congress for support in these endeavors.

Taking quick, decisive, and economically sensible action to cut emissions will also send a powerful signal to the rest of the world that the United States is prepared to lead in the effort to address global warming. In particular, this will help in our efforts to recruit developing countries to play a greater role.

Are you planning to implement the Protocol by Executive Order?

The Administration fully recognizes the important role of the Senate in providing advice and consent to ratification of the Kyoto Protocol, and we look forward to working with the Senate, and with this Committee in particular, toward this end. The President has stated that we will submit the Protocol for ratification once we have secured meaningful participation from key developing countries and further elaborated rules and procedures for international emissions trading.

As the President said in his State of the Union address, there are actions that we can begin taking at home today that will reduce emissions while saving money and making our economy ore efficient. The Administration plans to pursue these initiatives – which began with our 1993 Climate Change Action Plan – with increased vigor in the weeks, months, and years ahead. We look forward to the support of the Congress as we move forward.

Isn't the domestic Climate Change Program just a way of implementing an international agreement without securing Congressional agreement to the policy first?

Absolutely not. The President's recent announcement of a new \$6 billion initiative to address climate change, which includes \$3.6 billion in tax credits and \$2.7 billion in new R & D spending, seeks to place the country on a path intended to reduce emissions before such reductions become binding (if the Protocol is ratified). It is necessary to start this process now, to avoid the much greater costs of starting later. The intent is to build upon the accomplishments of the U.S. Climate Change Action Plan launched in 1993 to meet the voluntary commitments under the UN Framework Convention on Climate Change. Although the Plan is not expected to achieve its stated objective of returning U.S. emissions to their 1990 levels by the year 2000, it has demonstrated that voluntary actions can be effective. As was the case in 1993 and after, the new initiative will require Congressional support to have the widest possible influence.

NATIONAL SECURITY

Is it true that the Kyoto Protocol's binding emissions limits could compromise our national security interests in some way by limiting our capability to participate in certain military activities?

No. In Kyoto, we got everything that the Department of Defense outlined as necessary to protect military operations and our national security. These objectives deal with the treatment of bunker fuels and with emissions related to multilateral operations pursuant to the UN Charter. Moreover, emissions of greenhouse gases by the U.S. military amount to less than one-half of one percent of total U.S. greenhouse gas emissions. Even if these were to increase modestly because of unilateral military actions, it is simply untrue that such an increase would make military actions politically or diplomatically more difficult. We have ample room within the emissions reductions commitments agreed to in Kyoto to accommodate U.S. military emissions, including any that might result from unilateral military actions.

(Background: More specifically, the Protocol exempts from emission limits those emissions from "bunker" fuels (for international maritime or aviation use), emissions from multilateral operations pursuant to the United Nations Charter (i.e., not only multilateral operations expressly authorized by the UN Security Council (such as Desert Storm, Bosnia, Somalia) but also multilateral operations not expressly authorized that are nonetheless pursuant to the UN Charter, such as Grenada). Countries may also decide, among themselves, how to account for emissions relating to multilateral operations (for example, U.S. training in another NATO country). This provision avoids the need to use emissions trading to allocate such emissions. End Background.)

Why don't you just exempt the military rather than use this complex formula for bunker fuels in the Protocol and the decision of the Parties to exempt certain well-defined military operations?

We have ample room within the emissions reductions commitments agreed in Kyoto to accommodate U.S. military emissions, including any that might result from unilateral military actions. Emissions of greenhouse gases by the U.S. military amount to less than one-half of one percent of total U.S. greenhouse gas emissions. To exempt the military would overlook opportunities for the Federal government to make its own operations more energy efficient, thereby saving taxpayers' dollars. DoD has already made significant strides in this area, reducing their logistical burden of procuring fuel.

EMISSIONS TRADING

Isn't it true that your own analysis showed that reducing greenhouse gas emissions would slow economic growth and raise gasoline prices at least \$0.26 per gallon?

The findings to which you refer are projections of the Interagency Analytical Team's draft analysis completed in June of 1997. Since this did not take into account the specifics of the Kyoto Protocol, or the elements of the President's domestic plan, the Administration is currently completing a new economic analysis. [Preliminary findings of the new interagency analytical effort]

How can the Administration set up a verifiable trading regime anyway?

The Administration will build upon its experience with the SO₂ emissions trading program in developing verifiable domestic and international trading regimes. This coming November in Buenos Aires, the Parties to the FCCC will continue their work on emissions trading to define the "relevant principles, modalities, rules and guidelines" for verification and monitoring of emissions trading.

Can you assure the Congress that every other party to the Protocol will have equivalent monitoring and verification procedures for emissions trading?

Parties participating in the international emissions trading regime will have to comply with the monitoring and verification procedures to be agreed in future meetings of the Parties. Compliance procedures and mechanisms also to be developed will help ensure that equivalent monitoring and verification procedures are maintained by all trading parties.

How can you be so sure trading will save us money?

A number of economic studies, as well as our own experience with domestic emissions trading to combat acid rain, indicate that international emissions trading has the potential to substantially lower the costs of complying with emissions targets.

It seems that the trading regime is constructed on the premise that we pay Russia for the reductions that occurred due to the collapse of their economy not because they have taken any action to reduce greenhouse gas emissions. Is this sensible?

The international emissions trading scheme agreed to at Kyoto will be open to all countries with targets. Countries whose actual emissions are below their allocated emissions can sell the difference to other countries seeking more economical emissions reductions. A country can enjoy excess emissions "credits" because it is more efficient at domestic reductions or, as in the case of Germany or several countries of the Former Soviet Union and Eastern Europe, due to a major economic transition. Allowing these countries to sell some of these credits can both help lower domestic costs of greenhouse gas reductions in the U.S., and provide those countries with the resources that will allow them to invest in the most climate-friendly technologies possible as their economies recover.

Aren't we giving Russia a potentially sizable transfer of resources with no guarantee that Russia will use it wisely? We will also have no leverage on Russian policies with these funds. Isn't this a giveaway of taxpayer money?

In funding additional energy research and creating incentives for increased use of renewable and alternative energy sources, the Administration's domestic implementation plan is aimed at creating the domestic capacity to reduce greenhouse gas emissions cost-effectively. However, U.S. firms – not the U.S. government – may also choose to purchase international emissions credits in order to meet their emissions obligations. As with any market transaction, purchases of these credits will have to comply with all U.S. legal and regulatory requirements. At the same time, Russia will have significant incentives to use the revenue generated to invest in the most modern, climate-friendly plants and equipment so that as its economy recovers, it continues to produce emissions credits that it can sell on international markets.

Comment: The Russian Federation will be on a more sustainable path in its use of energy. Initial projections by Department of Energy, Energy Information Administration, indicate that the countries of the former Soviet Union and Eastern Europe may have up to 800 million metric tons of emissions credits available for sale in 2010. End comment.

You claim that getting emissions trading was a great achievement and you base much of your economic case -- that this agreement won't be too costly -- on trading. But the protocol includes only the most general concept of trading, without the principles in your January 1997 proposal. Haven't we lost our leverage by signing onto a binding target and timetable without achieving the specifics on emissions trading?

Clearly additional work needs to be done in establishing appropriate rules and procedures for emissions trading. We will use every multilateral and bilateral opportunity until the November Conference of the Parties in Buenos Aires, Argentina to develop a consensus on the structure of an emissions trading regime. However, let me be clear. The Protocol locks in the right to trade emissions, and this is not a right that will be surrendered at any future negotiation.

You don't know how trading will be monitored, verified or administered, do you?

The rules and procedures for the international emissions trading regime are to be defined at the Fourth Conference of the Parties (COP-4) in Buenos Aires, Argentina this coming November. Until COP-4, we will work hard to build a consensus on the structure of an emissions trading regime which provides the greatest flexibility for our private sector and domestic implementation.

Can you explain how the system will work if some countries have domestic trading, as is anticipated here, and others, such as the EU, do not? Will U.S. companies trade with foreign countries? Will our trades have to be made through the government?

At this time it is premature to speculate on how foreign governments will choose to design their own domestic emissions reduction programs. From our perspective, however, the private sector will play a critical role; we envision U.S. firms actively participating in our domestic program as buyers, sellers -- and intermediaries -- of emissions trading. We will seek to structure a similar role for the private sector in the international trading regime. One could envision a U.S. company, for instance, purchasing emissions permits from foreign counterparts, or eventually, from private brokers (in the case of a private sector managed program) or dealing directly with a state-run emissions trading office in a foreign country that chooses to maintain more direct government involvement. Of course if need-be, the USG will be prepared to facilitate trades where foreign governments institute public sector managed programs, but we do not envision the USG funding trades directly.

UMBRELLA

You've talked about setting up a potential trading block of countries outside the EU -- an umbrella to counter their bubble. How would the umbrella work? Would you intend to limit trading to countries within the umbrella? Is that legal? Do you think setting up such a block that excluded the EU makes good sense from a broader foreign policy perspective?

We have proposed a meeting of the prospective members of an "umbrella" group -- including representatives from Canada, Japan, Australia, New Zealand, and Russia, among others, -- to discuss the function(s) that the group may have. The umbrella group will serve as a forum to develop consensus among the member countries on important issues involving design of an emissions trading regime leading up to the Fourth Conference of the Parties in Buenos Aires, Argentina this coming November. We will be reviewing other roles of the umbrella group with our partners during this meeting. Whatever function the umbrella serves will be fully compatible with applicable trade agreements (WTO, MAI, etc.) and our broader foreign policy objectives.

THE BUBBLE

If the "bubble" arrangement gives the EU an advantage, as Under Secretary Eizenstat admitted to congressional observers, why did the U.S. agree to it?

Accepting the European Bubble arrangement was essential in reaching agreement with the EU on a number of elements of the Kyoto Protocol which were key to the US, including international emissions trading, joint implementation, and project-based reductions in developing countries under the "Clean Development Mechanism." While we ultimately accepted their proposal, we succeeded in scaling down the benefits of the bubble by excluding new members to the EU from bubble allocation arrangements during an ongoing commitment period and defining the responsibility of the EU and individual members in case of non-compliance.

Haven't we just given the Europeans free "hot air" under their bubble and saddled ourselves with paying for it?

Agreeing to the European Bubble arrangement was essential in reaching agreement with the EU on a number of elements of the Kyoto Protocol key to the U.S., including international emissions trading, joint implementation, and project-based reductions in developing countries under the "Clean Development Mechanism." Depending upon how the EU decides to allocate EU-wide emissions to its members, several European countries could stand to benefit from reductions generated by the UK and Germany.

These reductions, however, came only at great effort by the UK and Germany, as the UK virtually shut down its coal industry and shifted to natural gas, and Germany's taxpayers funded industrial restructuring and expensive efficiency improvements in the former East Germany. In allowing their reduction to be used to subsidize emissions growth in Portugal, Spain, and Greece, it is the German and UK taxpayers who have "saddled" themselves with paying for it, as these tons will no longer be available for purchase by the U.S. or other potential buyers of emissions

credits in an international emissions trading market. At the same time, those same countries will likely be accepting more stringent internal reduction targets which will also have their costs.

DEVELOPING COUNTRIES

What exactly does President Clinton mean by “meaningful participation from key developing countries”?

Climate change is a global problem that requires a global solution. Current projections show that developing country emissions will surpass those from industrialized countries by 2030 or sooner. The problem of climate change cannot be solved unless developing countries take measures themselves to limit greenhouse gas emissions.

The U.S. will be working bilaterally, regionally, and multilaterally in the coming months and years to promote more active efforts by developing countries to limit their emissions. We will concentrate on key countries and on approaches that are consistent with the economic growth and development of these countries and with other environmental objectives. We will not submit the Kyoto Protocol to the Senate for advice and consent to ratification until we feel we have achieved meaningful participation from key players in the developing world.

We must also recognize that the term “developing country” encompasses a wide range of nations which are at various stages of industrialization and contribute differently to global emissions. Accordingly, there is no one-size-fits-all approach to measuring developing country participation. Clearly, a country with high GNP or one that emits a proportionally large share of global emissions should be expected to do more than one that is poor or whose emissions are negligible.

Can developing countries assume binding targets under the Kyoto Protocol?

Yes, they can. Developing countries seeking access to the benefits of international emissions trading may voluntarily assume binding targets through amendment to the annex of the Protocol that lists countries with targets. They may choose to do so to gain access to the (financial) benefits of international emissions trading.

Despite our efforts and the support of some developing countries, the Kyoto Protocol does not include a separate article for developing nations to assume voluntarily targets.

Did developing countries agree to do *anything* in Kyoto?

Yes. The Kyoto Protocol makes a down payment on the meaningful participation of developing countries.

First, developing countries agreed to the creation of a clean development mechanism through which industrialized and developing countries can establish partnerships to cut emissions in the developing world, to the benefit of both parties. Specific projects – such as construction of a high-tech, low-emitting power plant – can include direct participation from the private sector. Industrialized countries (and firms within those countries) will be able to use certified emissions reductions earned from such projects to contribute to their compliance with greenhouse gas reduction targets while developing countries get the technology they need for cleaner, more sustainable development.

Second, developing countries also agreed to advance the implementation of their existing commitments under the 1992 Framework Convention on Climate Change. These commitments, which apply to all Parties, include, in particular, more specific reporting requirements on actions taken to reduce emissions and also call for the identification of specific sectors (including the energy, transport, and industry sectors as well as agriculture, forestry, and waste management) in which actions should be considered in developing national programs to combat climate change.

Why did the U.S. agree to delete a key provision on developing countries from Protocol?

Although we would have preferred a free-standing provision permitting voluntary adoption of emissions targets by developing countries, we still succeeded in preserving this option in the emissions trading article. Developing countries may participate in emissions trading provided they take on a quantified emissions limitation or reduction commitment under Annex B.

Why did the U.S. agree to a Protocol which exempts developing nations?

The Protocol does not exempt developing nations from action. In fact, Article 10 of the Protocol includes obligations to advance the commitments of all parties, specifically including developing countries. All parties are obligated to implement national programs that consider actions in the energy, transportation, industrial, and other sectors to mitigate climate change. The Protocol also permits developing countries to participate in emissions trading, provided they adopt legally binding emissions targets under Annex B. We are planning further efforts to secure more meaningful participation by developing countries as we continue efforts to address global warming under the Framework Convention on Climate Change.

Isn't it true that the Protocol will permit developing countries to add new binding limitations on the U.S. by a simple 3/4 vote at future climate change meetings?

No. On the contrary, we would need to agree on new binding limitations that would apply to the U.S. and any such agreement would also require Senate advice and consent before the President were to ratify it.

Why do we need "mechanisms" to transfer resources from developed countries to developing countries? These countries are exempt from obligations under the protocol so why transfer resources to them?

These mechanisms are not simple resource transfers. They will accomplish the two important objectives of involving developing countries in reducing global greenhouse gas concentrations and allowing U.S. companies to achieve emissions reductions at lower cost:

First, by supporting Clean Development projects, they will produce real reductions in global greenhouse concentrations in developing countries.

Second, by participating in the CDM, U.S. companies will be able to partially offset their emissions reduction obligations.

The fatal error in this negotiation was the Berlin Mandate, which completely let the developing countries off the hook. Shouldn't we have just let this Kyoto process fail and started over on a sounder footing? As you have said, this is a problem that must be resolved over decades, so why get going on the wrong foot?

In fact, by agreeing in Kyoto, we satisfied the requirements of the Berlin Mandate and can now put it behind us.

Had the Kyoto Conference failed to produce a protocol, not only would international confidence in our ability to achieve an agreement have been eroded, we would still be left with an unfulfilled Berlin Mandate as an excuse for some in the developing world to refuse to take action.

What real incentive do developing countries now have to agree to tough limits of their own?

Developing countries have plenty of incentive to address global warming – most analyses indicate that it is developing countries that will suffer the most from climatic change and its associated effects.

Within the Protocol itself, the most economically attractive flexibility mechanisms – JI between Annex I countries and emissions trading – are only available to those Parties that have undertaken quantified emission limits.

What is the Administration's strategy doing to get developing countries to participate more fully in the Protocol?

We are currently engaging with key developing countries both bilaterally and regionally, as well as in multilateral fora, to discuss the ways in which they will fulfill their existing obligations under the Framework Convention and strengthened by the Kyoto Protocol, such as through the U.S. Country Studies Program and the Convention's "Activities Implemented Jointly" (AIJ) pilot phase.

We will also be discussing with them how to set the operating rules for the Clean Development Mechanism under the Kyoto Protocol so that they can participate as fully as possible in the CDM.

Through these discussions we will continue to explore formulations by which they could agree to upper limits on their future emissions.

You went into the Kyoto conference with very low expectations regarding developing countries – just seeking a provision that would have allowed individual developing countries to opt into the Protocol voluntarily. Even *that* modest provision was denounced and defeated. In light of that reception by the Chinese, Indians, Brazilians, and others, isn't it self-delusion to think that you will draw the key developing countries into the Protocol even in the next few years?

Given the lack of incentive for developing countries to participate and the lack of leverage over them, won't it be years before we can expect enough key developing countries to participate?

Although there clearly was not as much movement in the positions of the developing country blocs as we would have liked, the fact that the Kyoto Protocol includes provisions that many developing countries opposed prior to the conference -- such as emissions trading and joint implementation -- shows that negotiating flexibility does exist.

Many developing country governments stated bluntly before Kyoto that they would not discuss limits on their emissions until the developed world undertook its own commitments. However, we now have an opportunity to lead the global response by our own example – what the U.S. does matters vitally in these discussions, both because we emit around one-fourth of the world's greenhouse gas emissions and because others look to us for innovation and creativity in confronting problems and resolving them.

If [it does take years to secure meaningful participation by key developing countries], won't it be years before the Protocol is ready to be submitted to the Senate, by your own standard?

Securing more meaningful participation from key developing countries is a top priority for us. Kyoto made a down payment on such participation, and we believe more progress is on the horizon. That said, the President has made clear that the Protocol is a work in progress and that without more developing country involvement, he will not submit it for ratification.

And if years do pass, won't it in effect become impossible to achieve the target you have accepted in the 2008-2012 period?

Clearly, the sooner the Protocol comes into force the better. That said, we did not accept our target premised on immediate ratification and entry into force. The Protocol is a very complicated document, and many details remain to be worked out – entirely separate from the developing country question.

The President's domestic plan for cutting emissions reflects this by offering a phased-in approach to taking action. In the first few years, the emphasis will be on efforts that reduce emissions through creating incentives for the purchase and use of energy efficient technologies. These measures make sense in their own right – by reducing pollution, lowering energy use, and saving money for consumers.

Before the beginning of the first budget period in 2008, there is a window of several years, and I am confident that within that time we can accomplish what we need to submit the Protocol for your consideration.

CLEAN DEVELOPMENT MECHANISM

This CDM is clearly a scheme to saddle us with another international institution. How will this be funded? How will it be set up? Is this yet another arm of the World Bank?

The Clean Development Mechanism provides a means through which industrialized and developing countries can establish partnerships to cut emissions in the developing world, to the benefit of both parties. It was designed to make effective use of existing institutions, not to create a new one. It will be funded from a small share of the proceeds from each project certified to reduce greenhouse gas emissions. It is an arm of the Parties to the Protocol not the World Bank.

Why do we need "mechanisms" to transfer resources from developed countries to developing countries? These countries are exempt from obligations under the protocol so why transfer resources to them?

Climate change is a global problem that requires a global solution, and the U.S. will be working bilaterally, regionally, and multilaterally in the coming months and years to promote more active efforts by developing countries to limit their emissions. One way is to create partnerships through which we can share our technology and cut emissions. As developing countries

understand that they can protect the environment without compromising their economies, they may be more inclined to join us in taking on emission reduction commitments. Developing countries may participate in emissions trading if they adopt binding emissions targets under Annex B which could provide even greater benefits for their economies and for the global environment.

How will this advance "meaningful participation" with developing countries?

The CDM and the projects it will generate will advance the meaningful participation of developing countries by helping those countries to develop in a more sustainable manner. These projects may help them acquire and introduce new, less carbon-intensive technologies and show them that what is good for the environment can also be good for the economy.

How can we make this scheme work? What will it take?

With the cooperation of private industry in the U.S. and in developed countries around the world, the CDM can play an important role in advancing the mitigation efforts of developing countries. Ultimately, it will take the combined efforts of businesses in developed and developing countries, as well as the governments of both to adopt reasonable rules and efficient procedures to promote the greatest possible number of projects under the CDM.

As in the case of emissions trading, you are claiming the Clean Development Mechanism as a big success and as a key element in keeping costs down for American business, but, once again, the Protocol only includes the general concept, with no clear outline of how it would work. Haven't we lost our leverage by signing onto a binding target and timetable without achieving the specifics on joint implementation?

No, we have not. The creation of the CDM represents a significant success of the Kyoto Protocol. While currently the Protocol contains only a framework for how the CDM would be set up, modalities and procedures designed to ensure transparency will be elaborated at the Fourth Conference of the Parties in November in Buenos Aires. The U.S. will work throughout the upcoming year to ensure that the components of the program in its final form are as flexible as possible.

Can you describe in detail how the CDM would work?

Yes. The CDM largely embodies our ideas on joint implementation. It will enable help developing countries participate meaningfully in the global response to climate change by encouraging projects in their countries that promote energy efficiency, the diffusion of lower-carbon emitting technologies and the use of renewable forms of energy. The CDM will do so by enabling the private sector in the developed world to share in the greenhouse gas emissions reductions achieved as a result of these projects, either directly as a consequence of their active

collaboration and investment in these projects, or indirectly by purchasing the emissions reductions achieved on the open-market. The private sector will then be able to use these reductions to offset greenhouse gas reduction commitments at home.

Background: Parties to the Protocol will form an executive board to supervise the CDM. The will also designate multiple "operational entities" – existing institutions, such as stock exchanges, regional development banks or international agencies – that will certify the emissions reductions resulting from each project activity on the basis of agreed criteria. Participation in the CDM will be voluntary, and each Party must approve the project activities within its territory. These project activities will be designed to achieve real, measurable and long-term benefits related to the mitigation of climate change, and they will achieve emissions reductions that are additional to any that would occur in the absence of these activities. At their next session in November this year, we expect that the Parties to the Convention will begin elaborating modalities and procedures to ensure transparency, efficiency and accountability under the CDM, in particular through procedures for independent auditing and verification of project activities

A share of the proceeds from these project activities will be used to cover administrative expenses of the CDM as well as to assist developing countries that are particularly vulnerable to the adverse effects of climate change to meet adaptation costs. Importantly, certified emission reductions obtained during the period from the year 2000 up to the beginning of the first commitment period (2008-2012) can be used to assist in achieving compliance in that first commitment period.

The Protocol indicates that the part of a nation's target that can be met through the CDM will be determined by a later [Meeting of the Parties]. So it is possible that the ability of our companies to use the CDM to meet our target will be very restricted, isn't it?

If it is very restricted, will we walk away from the deal? Wouldn't it be foolhardy to sign the Protocol before we know how restricted our ability to use the CDM is going to be?

At present, the extent to which a country's target that can be met through the CDM is undefined. Our goal is to seek maximum flexibility in this regard.

How will the CDM be financed?

The Clean Development Mechanism is fundamentally a vehicle to allow cost-effective emissions reductions by facilitating private sector investment in clean technologies. Thus, we anticipate that the vast majority of financing for the CDM will be from private sources. Most of this financing will be channeled directly into investments in developing countries. We anticipate that there may be minor administrative transaction costs associated with using the mechanism. While governments would also be free to purchase credits, there is no obligation for governments to contribute in any way.

How big a share of the proceeds will be devoted to assisting developing countries with adaptation to climate change – 5%? 20%? 50%? Do we really have any idea? Who decides?

The Parties will decide. We anticipate that the “proceeds” to be shared will be derived from the value of the emissions reductions achieved by a project, not the value of the underlying project. The Protocol leaves the distribution of the certified emissions reductions up to the entities involved. We anticipate that this figure will be in the 10% range in terms of the funds collected, depending on projections of the volume of traffic under the CDM. Most Parties in Kyoto indicated that they would be comfortable with this figure.

The OPEC countries actually had the nerve to press for a compensation fund so that we would have to pay them to make up for the reduced use of oil that is likely to result from an effort to cut greenhouse gases. We opposed that demand, but couldn't these proceeds end up being applied, at least in part, to pay off OPEC countries?

Article 12 of the Protocol that establishes the Clean Development Mechanism allows for proceeds to go to Parties that “are particularly vulnerable to the adverse effects of climate change” to meet “the costs of adaptation.” The reference to “adverse effects of climate change,” as opposed to, for example, “adverse effects of response measures to climate change,” makes clear that it is intended to benefit small island states and nations with low-lying coastal areas. This concept differs from the so-called “compensation” fund – whose objective included assistance to nations that would be adversely affected by actions taken by developed countries to mitigate climate change.

Since projects under the CDM will be done in developing countries that do not have emissions budgets, who will monitor and verify that the reductions from a given project are real? Who will decide that those reductions are more than would have occurred anyway, and how will they decide that?

The Parties to the Kyoto Protocol will establish operating entities who will certify emission reductions from projects. This certification will verify that the resulting emissions reductions are real and additional to those that would have occurred anyway. Though the rules have to be fleshed out, the operating entities and their procedures will be subject to the authority of the Conference of Parties.

If credits were given for reductions that would have occurred anyway, then the CDM could turn into another environmental sham, couldn't it? That is, industrialized countries could be allowed to satisfy their reduction requirements by getting credit for reductions that were going to have to occur anyway in developing countries; and since the developing countries have no budget, there could be no offsetting reduction of their budgets. Isn't that right?

No. The Kyoto Protocol, in defining the Clean Development Mechanism, clearly establishes that CDM projects be certified only if there are "reductions in emissions that are additional to any that would occur in the absence of the certified project activity." Projects will be independently audited to verify that the emissions reductions are indeed additional. Over the course of the next year or so, Parties to the Convention will design procedures to ensure transparency, efficiency and accountability in the CDM processes.

How will the CDM be administered? Are we going to create yet another international institution? Who will control it?

The Parties will oversee the Clean Development Mechanism with the help of a small executive board, and "operational entities to be designated" (not "created") will certify project emission reductions. At this time the details have not been elaborated by the Parties – they will revisit these issues at the Fourth Conference of the Parties in November 1998.

You say that this idea is in effect the same as our idea for joint implementation, but JI would have operated on a company to company basis without new international bureaucracies, while the CDM will require a new bureaucracy, right?

The concept of the CDM is effectively very similar to that of joint implementation, with the crediting of investments for reductions made in another country. We do not envision the CDM as needing an additional bureaucracy. We plan to consult with already-existing organizations who are likely to be asked to serve as "operational entities" in the CDM. Some general types of organizations possible for this role would be: regional development banks or stock exchanges.