



David Gardiner
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To: George T. Frampton/CEQ/EOP@EOP, Roger S. Ballentine/WHO/EOP@EOP

cc:

Subject: Strategic Thinking



new strategic thoughts.d

TO: GEORGE FRAMPTON
ROGER BALLENTINE

FROM: DAVID GARDINER
JEFF SEABRIGHT

RE: CLIMATE STRATEGY

September 10, 1999

In preparation for the Vice President's September 22 meeting with environmental leaders and for COP-5, it is timely to rethink aspects of our climate policy and consider changes. This memo considers approaches to international and domestic climate policy, and proposes changes. Since it would be highly unlikely that we could develop any new policy changes by September 22, you should seek approval to begin a broader process within the Administration to consider those changes. That would enable the Vice President to use the meeting to congratulate environmental leaders for strengthening public and congressional base of issue, to announce a process for developing new climate policy, and to seek input on the content of those new policies.

suggests "old" policy was a failure; not acceptable.

STRATEGIC CHOICES

There are three possible approaches to shaping our international and domestic climate policy.

The first approach is to stay the course. We would continue to advocate a domestic agenda based on voluntary actions by businesses and other actors, dramatic expansion of clean technology R&D funding, and other small measures, while pushing an international approach of the Kyoto Protocol, with meaningful participation by key developing countries. This strategy may continue an approach that makes no one happy - the business community fears and opposes Kyoto, while the environmental community doesn't give the Administration much

credit for Kyoto and is upset with absence of mandatory domestic actions. More generally, there are also increasing concerns that Kyoto could not be ratified in its current form, even with developing country participation.

The second approach would be reenergize and refocus attention on the domestic climate actions. The Administration would develop and announce stronger domestic action for the transportation and electric power sectors. There are a number of options here for either sector or both, and most of the mandatory options would involve legislative action. Careful consideration would need to be given to the interaction between measures for climate change and steps that might be taken under the Clean Air Act. The environmental community would respond well to further mandatory domestic actions, while we could anticipate strong opposition from affected industries, their unions, and large elements of Congress. In particular, any action that we propose is likely to be labeled as "Kyoto implementation". Any additional domestic mandatory domestic action announced prior to COP-5 would be well received by other countries and would strengthen the US negotiating position on flexibility mechanisms and developing countries.

what does this mean?

The third approach would focus on proposing additional changes to the Kyoto Protocol to enhance its prospects for ratification. Most specifically, the US would call for a safety valve or a price ceiling to be set in the Protocol as part of compliance mechanisms. This action would almost certainly be interpreted as a "weakening" of the US position, and would encounter opposition from the environmental community, the European Union, and others. The business community would be likely to favor this move, although some opposed it several years ago because they thought it would mandate a world price at the ceiling price – something most economists would think contrary to normal market behavior. We could also anticipate that opponents in Congress and elsewhere will falsely accuse us of having instituted a mandatory tax.

RECOMMENDED COURSE OF ACTION

The recommended course of action is for the Administration to pursue both Options 2 and 3 simultaneously, and do so prior to COP5. We would have strong support in the environmental community for stronger domestic actions which may minimize their concerns about the safety valve. The business community would get a price guarantee on the costs of the Protocol to offset their concerns about mandatory domestic measures. The combined actions would reenergize the debate on domestic action, and continue progress from voluntary and incentive-based to mandatory.

With respect to timing for the decisions, any decisions taken prior to COP-5 would advance the US international negotiating stance. If the Administration believes that changes in policy are necessary sometime in the next two years, it would be highly preferable to make changes in 1999, rather than in 2000, to minimize charges that the Administration was politicizing the climate issue.

NEXT STEPS

If you share our views on the recommended course of action, we would urge four next steps be taken urgently. First, you should immediately schedule a meeting with the President's and Vice President's other senior advisors to discuss these approaches. Second, you should direct us to draft a memo from you to the Vice President regarding the meeting with the environmental community. Third, you should direct us to prepare an options memo for you regarding the possible domestic strategies for the transportation and electric power sectors. Finally, we should discuss the options for announcing these policy changes.

How about an option 4: Entirely "new" international program, not driven by State Dept, based on trade-based/market-based plan on international sustainable energy technologies. Buildy on PCAST, independent of Kyoto (although certainly could relate later), but intended to go forward irrespective of Kyoto, maybe Commerce/Energy/Ag with lead, along with Ex-Im, EPA^{OTIS}, somehow linked to ECAs.