

ROUGH DRAFT 4/18

DECISION

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN
GEORGE FRAMPTON
JIM STEINBERG

SUBJECT: Climate Change/Developing Countries

This memorandum seeks your approval of a modification in our developing country policy under the climate treaty.

BACKGROUND

No effort to address climate change can succeed without the participation of developing countries. Greenhouse gas emissions from developing countries are climbing sharply and will soon exceed those from the industrialized world. Emissions trading with developing countries could help keep costs of addressing climate change to politically acceptable levels in the United States. The U.S. Senate set a high bar for developing country participation in the Byrd-Hagel resolution, which passed 95-0 in July 1997. The resolution calls on the administration not to sign any climate change treaty unless developing countries accept "new specific scheduled commitments ... in the same compliance period" as industrialized nations.

Our current policy focuses on urging developing countries to take binding emissions growth targets (under which emissions could increase from current levels, but would stay below business-as-usual projections). Consistent with the Byrd-Hagel resolution, we insist that these targets apply during the first Kyoto commitment period (2008-2012). We point out that developing countries can benefit economically by agreeing to take targets and then participating in international emissions trading. We also urge countries to participate in Clean Development Mechanism projects, develop national action plans for controlling emissions and adopt other policies that will slow emissions growth.

Our policy has met with very limited success. To date, only two developing countries -- Argentina and Kazakhstan -- have publicly expressed a willingness to adopt binding emissions targets. Many developing countries -- most notably China and India -- are so hostile to the idea that they refuse even to discuss it. In general,

developing countries resent the effort to urge them take emissions targets, arguing that: (1) economic development is their top priority and emissions limits are more likely to hurt than help; (2) industrialized nations caused this problem, by emitting carbon that stays in the atmosphere for more than 100 years; (3) at the Rio Earth Summit, industrialized nations promised to lead the way in reducing emissions, but still haven't done so; and (4) the volatile nature of developing world economies make it too difficult to commit to emissions limits for a period 10 years hence.

Significantly, we lack strong allies in the industrialized world in our effort to engage developing countries. Even our "Umbrella Group" partners (including Canada, Australia, Japan and New Zealand) consider developing country participation to be a U.S. priority driven mainly by domestic political concerns.

In light of the foregoing, we face the real possibility of not making much progress in engaging developing countries under the climate treaty during your term. Of course, there are other important issues squarely on the agenda during the next two years (emissions trading, the CDM, sinks, compliance), so lack of progress on developing countries would not necessarily be equated with stasis in the Kyoto process. Still, developing country participation is the largest looming issue, and if we appear to be getting nowhere in the next two years, questions may be raised about Kyoto's continued viability.

This has led your advisers to explore a possible modifications to our current developing country approach. In particular, they recommend that we either openly support or take some preliminary soundings on two modifications: "adjustable targets" and "transitional targets."

Adjustable Targets. Under this approach, developing countries would accept binding targets now on the understanding that those targets would be adjustable based on future economic performance. For example, a country might agree to a target in 2001, with an understanding that the target would be increased in 2007 if that country's GDP were higher than projected. (Targets could be adjusted downward for lower GDP as well.) One way of expressing roughly the same idea would be for a country to commit itself to achieving a given ratio of emissions to GDP (e.g., X tons of greenhouse gas emissions per dollar of GDP). As GDP increases, allowable emissions would automatically increase as well.

The rationale for this approach is straightforward: it largely eliminates the risk that a target would inadvertently constrain economic growth. This both responds to concerns voiced by developing countries and reflects our own rhetoric on this topic (in particular the assertion that we are not asking developing countries to limit growth to address the problem of climate change).

This approach will not advance the ball with the biggest developing countries like

China, India or Brazil. But it might be persuasive to a number of other developing countries. The only way to know for sure would be to test it out.

There are two downsides to adjustable targets. First, from a technical standpoint, they may be too complex to be workable. In general, only very simple ideas can gain acceptance and be implemented among the more than 160 nations that are parties to the climate treaty. Second, if we support adjustable targets for developing countries, some critics of our climate policy will complain that these countries are getting a better deal than the United States, which agreed to a non-adjustable target. Public discussion of the adjustable targets could underscore the risk the United States has accepted should economic growth exceed projections during the decade ahead.

On balance, however, we believe this idea is worth pursuing. The technical issues are worth exploring internationally, and we do not expect domestic criticism of the idea to be intense. Senator Byrd, for example, has several times stated his view that developing country commitments under the climate treaty may be of a different type than those of industrialized nations.

Transitional Targets. A more significant departure from our position to date would be to support "transitional targets." Under this approach:

- Developing countries would take a *non-binding* target for the first Kyoto commitment period. If actual emissions ended up being lower than the non-binding target, countries could sell the excess on the international market. If actual emissions were more than the target, countries would not be required to make up the shortfall.
- Countries would also agree to take on a *binding* target for the second Kyoto commitment period (2013-2017). This target would be negotiated at the same time second budget period targets are negotiated for industrialized countries (2005, under the Kyoto Protocol).

This approach could provide developing countries with considerable incentive to limit emissions, without incurring the risk, since the target is non-binding. It could also help reduce costs in the United States, by creating a larger pool of emissions allowances for sale. "Transitional targets" would be consistent with the experience of industrialized nations, which took non-binding targets under the climate treaty before agreeing to binding targets.

However, this approach would be criticized by the Congressional majority (and by some Democrats). They would complain that "transitional targets" are inconsistent with the Byrd-Hagel resolution, which calls for developing countries to make "new specific scheduled commitments...in the same compliance period" as industrialized nations. We could respond (1) that these transitional targets meet the literal terms

of the Byrd-Hagel resolution (which does not use the word "binding") and (2) that this is a fair compromise, bringing developing countries into meaningful participation, but in a manner that recognizes their modest economic circumstances. But Congressional critics would still complain, some sharply.

Again, this approach will not draw in the large emitters (China, India, Brazil) in the short-term, since they will be adamantly opposed to accepting a binding regime even in the second budget period (and would almost surely be hostile to doing so even in a third budget period). But the approach might well attract a number of other developing countries, including Latin and African countries, and start to create a genuine fissure in the developing country bloc between those who want to be part of the solution and those who want to continue to just say no.

On balance, we believe this approach is worth exploring, provided we do so carefully. Rather than openly embracing this as a new American position, we would take quiet soundings to see whether, in principle, an approach like this would be interesting to other countries. And we would similarly take quiet soundings among some of our friends on the Hill. This would avoid the worst of all worlds, which would be to adopt this position openly, get attacked for it on the Hill, and then discover that it wasn't getting us very far on the developing country front in any event.

RECOMMENDATION

We recommend that our negotiators be given the flexibility to support "adjustable targets" and to explore the interest of other countries in "transitional targets" as tools for engaging developing countries under the climate treaty. We would move toward more public support only if events dictate.

[Gene Sperling, Janet Yellen, Bill Richardson, Carol Browner, Brian Atwood and Frank Loy concur in this recommendation.]

_____ Approve

_____ Do Not Approve

_____ Let's Discuss