

GETTING KYOTO RIGHT

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Thank you very much. It is a pleasure to be here. And I want to pay tribute to all of you for your commitment to developing the technologies and the policies that are pointing the way to progress in protecting the global environment.

I am here, of course, to talk about the issue of global climate change. But before I go any further, I want to make sure there are no English teachers in the audience today. If there are, I want to apologize in advance for some of the phraseology that I will be using during my remarks. The global warming discussion, as you all know, has succeeded in massacring the English language, and I am sure other languages as well, by promoting the use of such abominable words as additionality (which, of course, is the opposite of subtractionality), supplementarity (which is merely another word for additionality, as if we needed one), and fungibility (which always conjures up images of mushroom soup).

A month or so ago, U.S. Republican presidential candidate George W. Bush received a drubbing in the press for mispronouncing the word “subliminal.” Imagine the delight of political reporters if the candidate were forced into a detailed discussion of global climate issues. I can see the headlines now: “*Bush Says No to Making Overseas Emissions Cuts Supplementarily.*” Of course, I mean no offense to Governor Bush. After all, Vice President Gore probably invented the term “fungibility.”

Like many of you, I’m sure, I have been more than a little disappointed that we have not seen more discussion of the climate change issue in this election. But when you really think about it, it is an issue that in its sheer complexity only highlights the weaknesses of each of the candidates. I can only imagine the horror on the faces of his advisors if Vice President Gore were to use the debates to present the American public with a tutorial on such topics as the Clean Development Mechanism and carbon sinks.

On the other hand, I can picture it coming to Governor Bush’s turn and him thinking that carbon sinks are some sort of high-end kitchen appliance. “Of course I’m for carbon sinks,” he’d say. To which the Vice President would surely reply, “But your plan only makes them available to the wealthiest one percent of Americans.”

Seriously, in their complexity and their sheer awkwardness, the words and the concepts we are using to address this subject are an accurate reflection of the difficulty of many of

the issues involved. No one ever said that structuring an effective, global regime for mitigating climate change would be simple. Setting politically acceptable, environmentally friendly, and economically sound targets has been an enormous challenge, and we still have not mastered it.

Adding to that challenge is the fact that we have not firmly established the rules that will govern how countries can achieve their targets.

These rules, of course, will play a decisive role in determining whether we can achieve our goals, and whether future generations will look back and say we got it right. But making the Kyoto mechanisms work, deciding how to address sequestration, and dealing with compliance in an effective way will not be easy things to do or decide.

Difficult or not, however, the bottom line is that we need clear and effective rules in all of these areas. Because without a viable framework, the targets and timetables we set will mean little, and countries will be free to follow the example of the writer who, when asked what he loved about deadlines, replied, "I love the whooshing sound they make as they go by."

The International Negotiations: Reflections on Where Things Stand

I will talk more about some of the specific issues that still need to be decided later in my remarks. But first I want to reflect on the international negotiations themselves, which will come to a head in November in The Hague.

As all of you know, negotiators met in mid-September in Lyon, France, in an effort to achieve progress on some of these issues. And, while there were no real breakthroughs, we saw clear evidence that many of the participants were beginning to understand the perspectives of their counterparts from other nations, and what the negotiators across the table might need to achieve in order to make the agreement more acceptable in their countries.

Over the years, I have been involved in a variety of global environmental negotiations, and I have noticed a clear pattern in how these negotiations proceed. It starts with what I call the rhetorical phase, but I suppose you also could call it grandstanding. This is when people lay out their initial and seemingly inviolable positions—boldly declaring that this is where they stand and they would no sooner compromise their principles than subject themselves to a public flogging, or something like that.

The rhetorical phase is followed by a period of stalemate while everyone argues about the big issues involved. This, then, is followed by a phase I call "traction" when the negotiators begin to understand each others' positions and we start to see the outlines of a compromise approach.

Traction, in turn, is followed by a phase—let's call it "clearing"—where the difficult technical issues are decided. And, last but not least, we move onto the final phase,

decision-making, where the big issues are decided once and for all, the once-considerable political obstacles to a deal fall by the wayside, and everybody gets a little something to take home with them to show they did their part for justice and a better world.

Right now, in my opinion, we are in the traction phase of this process. Although it might feel from time to time that we are actually “*in traction*”—in other words, unable to move forward at all—I *do* think that the Lyon meeting saw the negotiators exhibiting a new understanding of what it will take for the world to reach a deal. We have moved, in other words, from grandstanding and rhetoric and the subsequent stalemate phase to a phase in which we begin to see the outlines, however sketchy, of what will need to happen in order to resolve both the technical and the political issues that still stand in the way of a solution.

Of course, I am not saying that the resolution of these issues is preordained or that resolving them will be easy. These are all very difficult questions. Indeed, my belief is that some of them are difficult enough that they may not be amenable to resolution at the Conference of the Parties in The Hague.

The Issues: Deciding What Is Most Important

In my view, the key to resolving the remaining technical issues and moving forward from the traction to the clearing phase of the current negotiation—and then onto decision-making—is to answer a simple question: What is truly important? The sheer number of issues that still must be resolved make it clear that getting thoughtful decisions on all of them will probably remain elusive. What counts, I believe, is to get enough decisions made well so we can move forward to implementation.

In other words, it is better to do less and get it right than to do too much and get it wrong. As I say this, I hope you don’t consider me an advocate of doing nothing or of going slow for the sake of going slow. I strongly believe that we can *and must* make real and substantial progress on many of these issues, and that the meeting in The Hague provides an historic opportunity to do so.

In particular, I believe that the key to the success of the negotiations in The Hague will be continued progress in defining and clarifying the Kyoto mechanisms. These, of course, include the Clean Development Mechanism (CDM), Joint Implementation (JI) and international emissions trading. As the negotiators prepare for the November meeting, I feel it is important for them to remember that these mechanisms were included in the Kyoto Protocol so that countries could achieve their emission limits at a reduced cost.

In fact, a recent report prepared for the Pew Center found that hundreds of analyses using a wide array of economic models agree that the costs of reducing emissions will be significantly lower under an emissions-trading scenario.

Despite this, there is still language that is being negotiated that would make the Kyoto mechanisms totally inoperable or, at the very least, seriously limit their use. In my view,

this is a very serious problem. Why? Because if we define the mechanisms in ways that do not allow them to be used, or that allow them to be used in only limited circumstances, we are likely to increase the costs of complying with the treaty and make noncompliance the norm rather than the exception.

A closer look at the CDM illustrates the potential costs of placing onerous limits on how countries can use the mechanisms. At the Pew Center, we are very supportive of some tough requirements for monitoring and verification and for making sure that projects in developing countries result in clear environmental benefits. These requirements, if structured properly, will allow for some degree of international oversight to ensure consistency in project selection and accurate determination of credits, and they will allow for public participation to ensure transparency.

But we are not convinced of the need for a slew of so-called “additionality tests,” beyond environmental additionality. Nor do we believe there should be a prescribed geographic distribution of projects, or that every project should have to meet the test of “non perpetuity of inequity.” (I am not sure exactly what this means, but it sure sounds like a test that *I* would not want to take.)

Again, I will get to the bottom line: if the hurdles for using the CDM are sufficiently bureaucratic and cumbersome, they simply will not be used. And we will squander a wonderful opportunity to make known the very real environmental benefits that can come with the creation of the CDM—both to the firms that will make the investments, and to the developing countries that want to attract clean investment.

In a report issued by the Pew Center last month, we took a look at the Kyoto mechanisms in terms of equity, environmental integrity, and economic efficiency. Drawing on this report, we have reached a number of conclusions that I believe are worth repeating:

1. First, the Kyoto mechanisms will work best if substitution among the different mechanisms is permitted.
2. Second, the rules for international emissions trading should allow quote-unquote “legal entities,” including emitters and emissions brokers, to participate.
3. Third, the lack of harmonization among the three mechanisms may inadvertently restrict their use. Achieving harmonization, wherever possible and consistent with the language of the Protocol, should therefore be an important objective.
4. Fourth, significant penalties for noncompliance, together with effective enforcement of those penalties, are crucial to the environmental integrity of an emissions trading system.
5. Fifth, binding supplementarity rules could increase costs, thereby increasing the risks of noncompliance with no environmental benefit.
6. And sixth, the mechanisms are most amenable to use by those countries that adopt domestic cap and trade systems.

We believe that the mechanisms must work effectively and efficiently in order for the Protocol to achieve the goal of the United Nations Framework Convention on Climate

Change—that is, to stabilize atmospheric greenhouse gas concentrations. And, for this to happen, the final text that is agreed to in The Hague should reflect the conclusions in the Pew Center report.

Sequestration: Toward an Effective, Balanced Approach

One issue that I feel we may not be able to resolve this year—or, at least, not satisfactorily—is the issue of carbon sequestration. The question is this: if a tree falls in the forest and no one is there, does it count against your Kyoto target? Seriously, allowing countries to receive credit under the Kyoto Protocol for using lands and forests to store carbon is the most complex and potentially controversial issue that the negotiators face.

As all of you know, the Protocol sets forth a partial system for crediting land-use changes and forestry practices, but the negotiators still face the difficult task of defining exactly how this will happen. In doing so, the negotiators will have to answer such vexing questions as how to deal with the group of technically complex issues known as permanence, leakage and saturation. And not only that, but the issues are politically complex as well—involving such topics as sovereignty concerns. The resolution of these and other issues can have a substantial impact on whether a country will be able to meet its negotiated target, and that has caused some countries to urge that the quantity of credits available from carbon sequestration be capped. In this way, the debate over sinks resembles the debate over supplementarity or “hot air.”

Now I am a strong believer in the notion that forests and the way we manage them can provide significant opportunities to assist in stabilizing the climate. But the Kyoto language, because it deals with some sequestration activities and not others, could result in perverse effects. In its current form, the Protocol is inconsistent in how it awards credits for increasing carbon stored through forest and land management—sometimes it does, and sometimes it does not. *Decreases* in carbon stocks because of deforestation and other activities are treated in much the same way. Sometimes they are charged against national commitments, and sometimes they are not. It is enough to remind me of the quote attributed to the U.S. composer and actor Oscar Levant. “Once I make up my mind,” he said, “I am full of indecision.”

The bottom line, in my mind, is that because of the complexity of this topic and because of where the negotiations stand right now, it will be extremely difficult to make comprehensive decisions on what to include and how to do it. Of course, this does not mean that the negotiators in The Hague should completely set this issue aside. On the contrary, there are decisions that can be made and that should be made. One of these issues is the scope of activities that can count toward a country’s target, where we believe that a broad scope, consistent with the state of the science and with the concepts of permanence and saturation, should be accepted. Another is the inclusion of legitimate and well-thought-out carbon sequestration projects under the Clean Development Mechanism consistent with efforts to deal with the important issue of leakage. These

would be good and important decisions to make in the Hague, although if we cannot make good decisions we would be better off not making any decisions at all.

Additional Issues

Allow me to touch very briefly on two additional issues that remain in play as the negotiators prepare for their meeting in The Hague. Those issues are compliance and assistance to developing countries. On the compliance issue, the question is whether the Kyoto Protocol will include binding consequences for noncompliance. In other words, how will we penalize those countries that miss their targets? This is a crucial issue to the Protocol's success. Only by establishing and enforcing significant noncompliance penalties can we create a fair and efficient global system, and one that yields results.

On the second issue I mentioned, developing countries very properly argue that the industrialized world is not doing enough to implement provisions of the United Nations Framework Convention on Climate Change. In that precursor agreement to the Kyoto Protocol, the United States and other nations pledged to support developing countries in their efforts to reduce emissions through capacity building, technology transfer, and funding for "adaptation" initiatives. Decision makers in The Hague will have to respond seriously to these concerns at the same time that they are working on the more fractious issues of the Kyoto framework.

Looking to Industry for Answers

At the same time that the negotiators are addressing all of the issues that I have mentioned, I believe it is extremely important that the United States and other countries not put off those actions that we can and should be taking now to meet the challenge of climate change, outside of the context of the international negotiations. One place we can look for inspiration in terms of how to take the initiative on this issue is industry.

Over the past several years, we have witnessed a remarkable shift in business activity and thinking on this issue. Many businesses in the United States and throughout the world no longer view environmental concerns such as climate change as a threat to their very existence. Rather, they accept that something must be done to address these concerns, even when doing so will be difficult and expensive. Progressive business leaders also understand that the smartest approach for industry is to help shape solutions instead of having solutions imposed by others.

An additional incentive for many of the businesses that are dealing proactively with the issue of climate change is that doing so can promote new thinking, new efficiencies and new growth. Not only are companies pursuing opportunities in the development of renewable energy, new technologies and other strategies to assist in reducing emissions, but they are making new commitments to conservation and energy efficiency—commitments that could pay off for years to come.

Dupont, ABB, BP, Shell, Baxter, Toyota and United Technologies are just a few of the companies that already have set serious emissions reduction targets, and have developed programs to assure that these targets will be met.

Of course, these and other existing efforts will not be nearly enough to achieve the emissions reductions needed to stabilize greenhouse gas concentrations in the atmosphere. However, committed industry leaders in the United States and throughout the world are providing a window on what needs to happen—and how the necessary reductions can be achieved.

If I may, I'd like to pause here a moment to consider the difference between involvement and commitment. Many industries and individual companies are *involved* in climate change activities. But only a few are truly committed, and they include many of the companies represented here at this meeting. It is a bit like a ham and egg breakfast. The chicken was clearly involved, but the pig was truly committed. And I believe the challenge for the future is for more companies to follow the pig's example.

The Role of Government: Leadership Needed

In the end, however, it is governments and not the private sector that will create the frameworks that will allow us to achieve significant and wide-ranging progress in meeting the challenge of climate change. And it is my belief that the United States can and must play an important role in moving this issue forward—if only because we are responsible for one-quarter of global emissions of greenhouse gases.

I am pleased to report that we have seen some action on this issue in the U.S. Congress in recent months. A number of bills have been introduced, and last summer's hearings in the Senate Commerce Committee, under the leadership of Senator John McCain, provide some reason for optimism.

But for the Kyoto Protocol to be taken seriously in the United States, four things have to happen.

First, we need a good result at The Hague. If we can get a series of rational and thoughtful decisions on the Kyoto mechanisms and compliance (or even on sinks if that is possible), we will be moving the ball forward toward the end zone. But if the Conference of the Parties yields a set of decisions that render the mechanisms useless, then I believe we will have made positive political action next to impossible.

Second, we need to respond seriously to those who argue that the costs of complying with the Protocol will ruin the U.S. economy. Major changes, of course, never come free. But most of the cost studies conducted to date have been based on flawed or incomplete assumptions in the economic models that are used. Partisan analysts, I will remind you, rely on data the same way a drunkard uses a lamppost: for support rather than illumination. What we need to do is conduct more thoughtful economic analysis that delivers reliable results—and that takes into account such considerations as the remarkable ability of our economy to adapt to change, the very real costs of *not acting* to

address this issue, the policies that can be used to assist in implementation, and a realistic set of baseline emissions that reflect our best estimate of reality over the next decades.

I have no doubt that there will be costs involved and that important segments of our economy will be adversely affected. But the dire predictions we have seen to date appear to be removed from reality. They do not contribute anything to the debate, and they do not provide us with ideas about how we can help people and industries adapt.

The third thing we have to do is to deal seriously with the issue of developing country participation. To those in the U.S. Congress and elsewhere who continue to insist that China and other developing nations should have to live by the same requirements as the industrialized world, I say that fairness demands we think differently. I believe that the United Nations Framework Convention on Climate Change—which was ratified by the U.S. Congress—took the right approach in asserting that industrialized countries should take the lead in reducing emissions. The Convention went on to state that developing countries have a *right* to development, even though their development will surely increase these countries' greenhouse gas emissions.

Does this mean we should expect nothing of the developing world as we work to reduce emissions in the years ahead? Of course not. Without changes in the trajectories of these countries' greenhouse gas emissions, we will be no closer to successfully addressing the challenge of climate change than we are today. But rather than attempting to pressure developing countries into accepting binding emissions reduction targets in this decade, we should be working to influence the character of the investments made in these countries and to insure that these investments are climate-friendly. And, as I noted above, we should be dealing with the Convention's requirements for technology transfer, capacity building and funding for adaptation.

To sum up, there is no doubt in my mind that we can achieve a positive result in The Hague, and that we can make decisions on the Kyoto framework that will make it viable over the long term. But it will take hard work, concentration, and a willingness to make tough decisions.

As if resolving these immediate questions were not enough of a challenge, everyone concerned with this issue must also give serious thought to the future. After all, the 2008-2012 deadline for achieving the first round of emissions reductions under the Kyoto Protocol is fast approaching. And, even if these initial targets are met, which is an unlikely prospect, they represent only a first step toward the sustained and significant reductions in emissions that will be necessary to reduce the threat of climate change throughout the 21st century.

In closing, let me say that meeting the challenge of global climate change calls for no less than a second industrial revolution. We need to promote new technologies and new investments that will put the entire world on a path to clean economic development. And, in creating the global legal framework to make this happen, we need to make absolutely

certain that we get it right.

Thank you very much.