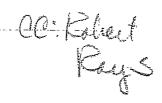


## DEPARTMENT OF THE TREASURY WASHINGTON



January 21, 1997

## MEMORANDUM TO DEPUTY SECRETARY SUMMERS

FROM:

Under Secretary Shafer

SUBJECT:

NEC Meeting on Climate Change

I filled in for you at a Katie McGinty chaired meeting on a new climate change convention last week. The meeting revealed very little consensus and not much success to date in thinking through carefully the issues involved in negotiating a new convention, which nonetheless seems to be on a fast track.

Many, although certainly not all, in the room seemed to recognize the danger of setting an overly ambitious emissions reduction target. I stressed that this would not only have very large economic costs but that a tough target is unlikely to be implemented as a result and therefore would not be responsive to the goals of the environmental community. I see the next period as one when learning how agreements can be structured so they can be implemented is much more important than reducing emissions. The time focus is the next century.

I see two problems that Treasury should focus on going forward:

- First, to find a politically acceptable way of building greater flexibility into any targets. For example, walking away from a 1990 base year would be a red flag to environmentalists. But, borrowing against the future within limits would not be. And, choosing to average emissions over a long period would allow for borrowing within that period.
- Second, to become more engaged in the process of accessing the costs of the various options. Ev Ehrlich has been charged with leading this effort, but there is nothing up and running yet. We will have to find a way to do a good, honest assessment of the economics involved in this issue, while recognizing that there are understandable political sensitivities (for example, recognizing that taxes are a non-starter, we don't want technicians running around looking at purely hypothetical alternatives). There appears to be a good deal of dreaminess about the possibility of accomplishing a lot at a low cost with new, warm and fuzzy technologies (such as windmills and solar power). Treasury will need to be realists.

cc Josh Gotbaum David Lipton Bill Schuerch