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PRESS BRIEFING
James L. Connaughton, Chairman, Council on Environmental Quality
and Karen Harbert, Assistant Secretary for
Policy and International Affairs,
Department of Energy
at the Major Economies Meeting on Energy Security and Climate Change

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KRISTEN HELLMER: Okay, we're going to go ahead and get started. Thank you for coming. We're going to start off with Jim Connaughton, the Chairman of the White House Council on Environmental Quality, and Karen Harbert, who is the Assistant Secretary of the Department of Energy. We have got about 30 minutes for the conference, and we're going to go ahead and make some opening remarks, and then we'll open it up to questions, okay. So, Jim, we'll go ahead and get started.

JIM CONNAUGHTON: Okay, thanks. And good afternoon, everybody. We're in the middle of discussions right now, so we just stepped out to be with you to give you an update on the conversation. You all saw the opening remarks by Secretary Rice and myself, and Yvo de Boer from the U.N. We then went into a session that lasted about two hours where each country sort of laid out its national strategies for taking action, and then had a series of comments then about the process and how we carried this forward, and we're just in the middle of sessions on how to advance technologies.

So I just wanted to just give you an overview of the sense of the discussion and then we'll open it for questions. It's clear that based on the leaders' direction, you know, this group is very oriented on placing a high priority on action to address energy security and climate change in the context of development. That was a particularly important issue especially for the major emerging economies who are still – have a lot of people in poverty and they are working to lift them out of poverty.

There was a clear stress on a clear distinction, which is there is actions we can take now and how do we focus on those, and there are actions – hello? And there are – do our tech folks want to fix that? Okay, there we go. There are actions that we can take now, and how do we orient ourselves with respect to those, issues such as efficiency, sound land management, some of those issues.

And there is also – this afternoon's discussion is very focused on some of the longer-term challenges and technology needs if we want to meet an ambitious emission reduction objective, and that is in the area of how do you get to low and ultimately zero-emission coal, fired-power

generation. How do you get to lower and ultimately, you know, zero transportation? How do you get the CO_2 out of the transportation equation? These are very consequential challenges, and we're just beginning the discussion on how we can mobilize collective efforts around those activities.

Every speaker underlined, without any dissention, the essential role of the framework convention -- the U.N. Framework Convention in advancing ultimate agreement on the global effort on energy security and climate change. Every nation underlined the fact that we want to use this discussion as a mechanism of providing a good contribution not just into the Bali discussions in December this year, but as we carry this forward toward reaching ultimate agreement.

Many of you know that the G-8 countries are committed to reaching ultimate agreement in 2009. Other countries have not spoken to that yet, so that remains a question of the agenda from Bali, but there is a lot of strong support for rapid action, given that the Kyoto protocol will end in 2012 and the need for a system that will be ready to start at the conclusion of the Kyoto protocol.

I think there is a central theme to discussion of course; it's technology and then the mechanisms by which that technology can find its way into the market, and those will continue during the course of the day. We will have a finance discussion a little bit later this afternoon and then well into tomorrow.

A number of the emerging economies wanted to stress the importance of adaptation. The major economies – the major developed economies all acknowledge that adaptation was important. There is a little discussion of how much of that conversation should occur here versus more broadly with the countries who are heavily affected by climate change and the adaptation issue. And so we're just doing a little bit of sorting out of the focused agenda of the major economies discussion, and then the broader and more expansive and inclusive agenda on things like adaptation that needs to begin right away. We have the mitigation obligation as the major economies, and we're working together to address adaptation with the other lesser-developed countries.

I guess the other point I would just emphasize, there has been a stress on the need to define more specifically a long-term global goal. We'll be focusing on that tomorrow. Again, I think that's a conversation that will take some time; that will not resolve itself tomorrow. But we hope as we go forward on that to use today's discussion on technology pathways, on financing, and on national strategies – we can use that as a sense of the level of ambition to help inform what we need to find common ground on a long-term goal.

I think I will stop there. I have Karen Harbert with me. This is the secretary from the Department of Energy who helped – who gave the U.S. paper on what we are doing domestically. And she'll be happy to answer questions about that, and then the broader technology issues as well.

KAREN HARBERT: Thanks, Jim. I thought I might just add a couple of things about some of the strands that are being woven together throughout the course of today, and to start with the scope of the challenge, as Chairman Connaughton mentioned, of addressing climate change

while increasing energy security and sustaining the economic growth. There is broad agreement that those are the three objectives that we are all trying to accomplish, and we need to accomplish it together.

And in that, we have to acknowledge that energy demand between now and 2030 is going to go up by 60 percent, and electricity demand is going to go up by 100 percent. And electricity is responsible for about 50 percent of the world's emissions, and transportation is responsible for about 24 percent of all those emissions. And we have about 700 million cars on the road today, and we're going to have about 1.2 billion cars on the road by 2030.

So as we start from a common framework on the two areas that we are focusing on this afternoon of electricity and transportation, there really is a consensus of the scope of the challenge, the urgency of the need to really define the solution. And I think what differentiates this group and what we're talking about today and tomorrow, it's about the practical solutions, finding the solutions, not redefining the problem. We agree that it's urgent and we agree we need to do something, and can we find a way for these 17 economies that represent over 80 percent of the world's emissions to come together and act in a collective manner?

And three things have come out as some of the principal challenges and opportunities, quite frankly. Technology is fundamental, is paramount to be able to address the climate change challenge. And investments – there are tremendous amounts of investments that need to be made not only in advanced technology, but in expanding access to energy. We want to sustain that economic growth – 1.6 billion people don't have access to electricity. Countries and economies and nations want to address that. We need to do that in a framework of being good stewards of the environment. And there has been quite a little bit of a discussion on human capital and the lack of enough human capital to fuel the intellectual revolution that needs to happen to address climate change. And that's something that certainly we here in the United States are investing in, to graduate more professional engineers and technology experts to be part of the solution.

So this really is about the solution. And what we said today in the U.S. statement outlined the myriad of efforts that the United States government has undertaken in the last seven years or so to frontally address climate change. We've invested heavily in the area of climate change science to better understand the science in order to design an appropriate set of responses to the climate change challenge. And those range from regulations to mandates to incentives to voluntary partnerships to international collaboration.

And we have seen, since 2000 to 2005 in that time span some success in our efforts. Our greenhouse gas intensity has gone down by 8.5 percent, yet at the same time, our economy was growing by 12 percent, and our population grew by 5.3 percent. So we're living proof that we can actually begin to address climate change, sustain economic growth, and do it in an environment where we are addressing energy security. Thanks.

MR. CONNAUGHTON: Great, thanks, Karen. One final point: I mentioned today in my remarks the idea of convergence. After two hours of hearing each nation outline their current plans, you saw that portfolio in every country, a series of mandatory approaches, incentives,

partnerships, and technology development. Every country had a portfolio with all of those elements in it.

And then there is currently a subset of countries that have begun the process of putting in place domestic policies that take us beyond 2012. The European Union and several of the member countries -- the United States and a few others being among them -- have actually fairly well-evolved policy, not just proposals, but a number of them are now implemented into law or regulation or budget processes that take us actually well beyond 2012 in some respects.

And that was very important and useful to the discussion because there are a number of countries that indicated they are working on theirs. Russia, for example, is working on a new plan. India is working on their new plan. Mexico just released a strategy and there was one other country. China – China just released their strategy earlier this year and there was one other that released in just August, just a couple of weeks ago and it now escapes me, but we'll get that to you.

So there's a lot of effort now underway at the national level to understand and define national levels of ambition and the mechanism for carrying that out. That will be a very important foundation to reaching global agreement under the U.N. by 2009. So questions, please.

QUESTION: You told us today about a mix of strategies. Why haven't you, the U.S., set yourselves a goal for emission strategies – (off mike).

MR. CONNAUGHTON: Well, in 2002, President Bush set a goal for emissions of improving greenhouse gas intensity by 18 percent by 2012. And he made a commitment that our long-term commitment is to slow the growth of emissions and then stop them, and as we continue to learn more, ultimately reverse them. We have not taken a decision yet beyond 2012; that's five years from now. But we will be looking at a post-2012 set of strategies as we work through this process this year, just like all of the other countries.

QUESTION: What is Europe doing? Why do they have the greenhouse cap? Can you comment on that?

MR. CONNAUGHTON: Well, let me underline, Europe just produced their council statement in the spring of this year. So Europe's commitment is a very recent vintage. We are just several months beyond that with all of the other countries. So even Europe, having gone first is great, and we think that this process – and certainly, as we all prepare for Bali and prepare beyond, all of the countries are now orienting themselves toward trying to define their 2012 strategy.

Can we all do it? Of course we can. President Bush already set a few markets down, and so this is the other piece. In the State of the Union this year, the president made a very ambitious proposal to cut gasoline consumption by 20 percent by 2017; that's within 10 years. And then, that policy, which is a regulatory policy, will take us well beyond 2017. Europe set one; it's 10 percent by 2020.

So we have a higher level of ambition. Now, we have a little further to go because the fleet mix in Europe is more efficient than our fleet mix. So this is an example with a common set of commitments with different metrics depending on our own circumstances.

But that's one example. We've already made a strong commitment beyond 2012 in terms of many billions of dollars in incentives to our farmers, which will include biological sequestration. And then, over at the Department of Energy, they have set some very ambitious post-2012 technology goals.

So America is doing it. I think part of your question is a one-size-fits-all question, which is you can do it with a series of commitments, you can do it with one overarching commitment, or you can do it with both. Now, through 2012, we've done it with both. And we'll be looking at the question as to whether President Bush should be stating for the U.S. a new overarching commitment. We'll be looking at that question just like every other country.

Right here.

QUESTION: (Off mike) – have a question about the PowerPoint. I found it quite informative – (unintelligible) – but missing from it, what I didn't see, there wasn't any mention of the mechanism to achieve – (inaudible).

MR. CONNAUGHTON: First of all, the purpose of the slide was to do as you described, so we could all have a foundation of the scale and also not just the total scale, but the relative scale, coal-fired electricity being the biggest, transportation being the second-biggest, swallowing together almost 75 percent of the challenge, deforestation the next, and then all of the other contributors, which are very important because we have to do it all if we want to be successful being the smaller set.

In terms of pricing, actually, we had a good discussion today already about that. There are many pricing mechanisms. Government incentives have implicit pricing mechanism as of right now. So for example, I believe – so this – we'd have to get you the facts – I believe the current subsidy on solar power in America has an implied price of about $90 a ton. On the other hand, there are other things we're doing, for example, the subsidies we're providing to farmers, come in much less expensively. But we're trying to achieve different things. Solar is expensive right now; biological sequestration is cheap, and so, you know, there're different signals you're trying to send to achieve different policy objectives.

Certainly, the president's 20 in 10 initiative, which is a direct, mandatory program that will use market-based flexibility mechanisms, certainly that is going to come at a very substantial price per ton in achieving its energy security, and its greenhouse-gas reduction benefits. So, and by the way, the good old-fashioned market in America, we've had one of the biggest price slugs in recent history with the dramatic increase of gasoline prices, the dramatic increase of natural gas prices, and the substantial increase in the price of coal. I think the market has done more than any of these individual policies might have contributed. I don't know, Karen, if you wanted to speak to that.

MS. HARBERT: Well, I was going to say one thing about the president's 20 in 10 initiative. The thoroughness and the directness of that targeted initiative was made possible by years of investment in science to very clearly understand the nature of the problem, invest in the technologies that will provide the alternative and renewable fuels that we can actually succeed in meeting that mandate. And so it is not something that we set out in an arbitrary manner; it was based on very sound analysis. It was very ambitious, but it was based on sound technology. And it challenges the market to step up and step into the area that we know that they can do it because we're investing the technology to help them do it. So there's a continuum in the way that we look at our policies and our mandate.

MR. CONNAUGHTON: And one other comment when it comes to pricing, you have to be careful because you could price something and not get what you're looking for. Right now, in the alternative transportation setting, and in the setting of low-carbon coal, it is so expensive that any of these pricing proposals don't get you there. And so you end up – you might end up pricing yourself right out of the market, and not get the emission reductions you need in the place you need it most. So that's why we have to be thoughtful about our choices, and that's what we saw today, a mix of measures.

Right in the middle, a yellow shirt.

Q: (Off mike.)

MR. CONNAUGHTON: The U.S. and many other countries have not supported that. On the other hand, if you take a look at the G-8 leaders' declaration, what we have all made clear is each country should be free to choose their mix of strategies, both domestically and internationally, in terms of how they're managing their costs.

So for example, you know, Europe has chosen to take a piece of their emission-trading system and make that available for offsets in countries such as China and India. Japan and the United States, by contrast, we have pursued a direct-incentive approach, where we're working on technology partnerships with some of the developing countries, and trying to work on lower-cost financing opportunities with them in order to deliver a shared, interactive benefit. Each of them seeks to accomplish the same objective; we prefer to have a little stronger look between what we're spending overseas and what it's delivering, rather than have that occur very indirectly through this alternative mechanism. These are differences of approach; our goal is the same.

In the back.

Q: (Off mike.)

MR. CONNAUGHTON: Sure. The agenda here is now focused on the specific building blocks of a future agreement. And so we are looking at a long-term global goal that has not come up in the context of the U.N. discussions yet. And the question is, will this group be prepared to bring that conversation into the U.N.? Some of us are ready to do that; other countries are not yet on record as being ready to do that. We'll have to explore that.

One of the agenda items we'll touch on briefly tomorrow is the need to carry forward work on a harmonized system of measurement and accounting. Right now, each of our countries uses a different set of protocols, and so we have different outcomes when it comes to measuring the greenhouse gas emission reduction of a particular, you know, organizations or facilities. And so that's a work-stream that's essential to the long-term integrity of the accounting system, for whatever reason.

We are also looking at the building blocks, potentially, of some focused technology work that can be done among a grouping of countries within the U.N. framework convention, guided by the U.N. framework convention process. And that's these issues of low-carbon fossil generation, alternative fuels to petroleum, the deforestation set of issues. So, what you're seeing is an overlap of some of the discussion items that have started in the U.N. and a series that have not yet been introduced in the U.N. And then there's a big open question as to what kind of a finance discussion we're going to have and we hope in this process to develop that.

Right now in the U.N., the finance discussion has been limited to the CDM, the Clean Development Mechanism, and it's been limited to the joint implementation, the emission trading joint implementation component. The U.N. framework convention actually outlined a broad array of financing needs and tools, which we will be exploring this afternoon and actually this evening at a dinner with Secretary Paulson. The Indonesians have invited the treasury ministers and the finance ministers to come to Bali the week before the big meeting and that's very important.

Secretary Gutierrez, if you got a copy of his remarks, you would've seen that, I think it was 86 percent of the financing for future energy and related systems will come from the private sector. And so far the U.N. discussion is largely focused on government flows, so we need to find a way to expand the discussion and do that in the right fora too, you know, take guidance from the framework convention and then make sure that it is being pursued, whether it's in the World Bank, at the Global Environment Facility, or even through new mechanisms and there's a lot of interesting ideas being discussed.

All the way over here.

Q: (Off mike) – you ruled out cap on carbon domestic on post-2012, then that is a – to reach this technology revolution, you're talking about hundreds of coal fire, nuclear power plants, zero emission. Why would I – (off mike) – invest in a plant that was twice as expensive as – (off mike) – if there is no incentive? What is the incentive to what we have on the carbon – (off mike).

MR. CONNAUGHTON: Yeah, that's a very important question and it's as much a question of timing as it is of policy mechanism. For example, if you put a cap in America, so each country will be different, but if you put a significant cap on the electrical utility sector today and it's very substantial, the only choice the utility has actually is to go to natural gas and expand their renewable portfolio, but that will be relatively incremental.

America gobbling up even more natural gas on the global marketplace is not just bad for our economy, it's bad for the global economy, especially in countries many of which import a lot of natural gas and rely on that for their economic growth because they don't have coal. So we have some very important issues – so if the technology is not available, then the cap doesn't get it into the marketplace. And so, that's a sequencing issue.

We did that, for example with SO2, remember America originated the cap and trade concept, but during the '80s, there was not a commercially viable technology for SO2 control, which is why you didn't see regulation of the utilities. It was only until 1990 when the technology came within the commercialization horizon that you saw a policy developed and in that case it ended up being a cap and trade policy. And then what we saw – and by the way then, that was a modest cap and we have since dramatically tightened it. I mean, President Bush – the original cap was 50 percent and President Bush tightened it 70 percent more. We are not there yet on CO2 from power generation.

So, what we need to do now on power generation in America – again each country will be different – is pursue the research agenda and with massive incentives. Now, this is the other part of your question. We are putting billions of dollars into helping pay for the added cost of this more advanced technology. The private sector has to build the clean coal plant; the government's helping them pay for the cost of the advanced CO2 plant – you know, control plant. And this is how we are using the resources of the economy to pull this process forward.

And by the way, I have to say, we're doing more than anybody else. We actually have, you know, a zero-emission coal fire power plant moving through the process. We hope to get it done by 2012. We have nine projects already receiving a billion dollars worth of tax credits to build these advanced plants. We're going to award another $650 million before too long. And then, this year and next year, we have $13 billion in loan guarantees that plants such as this can qualify for. And these will be performance-based grants. No country has come close to that yet. Some have stated intention, but we actually have the resources flowing to this. That is step one.

MS. HARBERT: And in addition, we are making some of the investments that aren't economical right now for the private sector to undertake. For example, no company and no country has sequestered carbon at the amount and for the time that it needs to be seen. So we are looking at seven different geological formations across the United States, going to take four of them, sequester a million metric tons of carbon and watch it and see what happens so that we can ensure, as this technology comes along, that it is safe and is effective and that it will be commercially viable. It's trying to advance the technology's success.

QUESTION: (Off mike, inaudible) – what would be the incentive then to still invest in what is going to be more expensive – (inaudible)?

MR. CONNAUGHTON: Well, I don't want to speculate on that yet, and here is why. Nuclear power, today, is now cost-competitive with the clean-coal sources. There is a regulatory risk that is impeding nuclear power. And so the policy choice today on nuclear power is actually to provide some financial incentives for the first six plants – so create a little strong carrot – but

also work to reduce the regulatory risk of these first plants getting up and running so that there would be market confidence.

There is a great example where, when we are successful – because I believe we will be – you won't need a regulation for companies to build nuclear power stations as part of their fleet. What we have to see in this next period of time and technology investment is what is the ultimate cost on carbon capture and storage and how does that link up with other opportunities like enhanced oil and gas recovery and other activities? It's only when we have a clear sense of the economics that we can sensibly define a policy. And that policy could be incentive-based; it could be penalty-based; it could be regulatory. But you don't want to decide that until you actually see what the right – the bottom line is you want to use the right tool for the right job, and you need to know what the job is before you can pick the tool out of the toolbox.

Right here in front?

QUESTION: (Off mike.)

MR. CONNAUGHTON: The discussions on the long-term global goal will start tomorrow. And I will be chairing that session. We had some initial foundation laying for that in my remarks, just so we can appreciate the scale of what it takes to get to 50 percent. I think the number was at least – you know, it was more than 25 gigatons. A gigaton is a billion tons. And you saw in my chart all the different pieces you need to get moving to accomplish something of that ambition.

Claude Mandil, the former head of the International Energy Agency – and he has a presentation he gives on this, so you should get a hold of that – he expressed clearly that that is a very, very difficult technology challenge, and that currently we are not on the pathway to produce and provide the level of technological outcomes to meet a goal such as that. And so, what we will take on tomorrow is how do we understand our long-term goal in relation to the technology challenge? And what other pieces need to go with that discussion to be sure that we are orienting ourselves appropriately?

We do not yet have a position on that as the United States. In fact, only – I think right now it's the Europeans, Canada, and Japan that have taken a position on that. The other countries want to use this process to provide a base of understanding for those proposals and get a sense of how each of the proposals – how each country making the proposals sort of views the pathway toward achieving it. So it will be a good, open, fact-based exchange, and that is what we were hoping for.

MS. : We have time for one more question.

MR. CONNAUGHTON: All the way in the back.

Q: Yeah, I was wondering, you said about today's central theme was technology. You also mentioned that the emerging countries wanted to stress adaptation. Is there a conflict between the two?

MR. CONNAUGHTON: No, actually. Everybody was – there was unanimity that we've got to do both – unanimity. And there were strong expressions that we need to pursue an agenda that looks – that places significantly more weight on adaptation than we've done in the past. So there is unanimity on that point. The discussion on adaptation, though, is already properly underway in the U.N. framework convention process because it must involve – from the get-go - it must involve the key developing countries who are most affected by the observed effects of climate change.

So in that sense, in this setting, we're trying to stay focused on the areas where we need to do a lot more together on mitigation, even as we are all committed to advancing the adaptation discussion that is already underway in the U.N. process.

MS. : Thanks everyone very much. We will have a transcript of this meeting – (off mike).

MR. CONNAUGHTON: Thank you, everybody.

(END)