

THE BROOKINGS INSTITUTION

U.S.-CHINA CLIMATE CHANGE COOPERATION:  
OVERCOMING OBSTACLES

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**Welcome:**

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Chairman of the Board of Trustees  
The Brookings Institution

**Opening Remarks:**

AMBASSADOR ZHOU WENZHONG  
Ambassador of the People's Republic of China  
to the United States

**Presentation:**

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Visiting Fellow, The Brookings Institution

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Senior Fellow, The Brookings Institution

**Commentary:**

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## P R O C E E D I N G S

MR. THORNTON: I want to welcome everyone and thank you for coming. This is -- hard to imagine a more important topic than this. I, myself, have come to this really through the lens of U.S.-China relations. (Inaudible) certainly come at it from a very different lens. For quite some time, I have been very, very interested in the question of how can the U.S.-China relationship get meaningfully closer, and personally I've come to the view that the single best way to do that was to focus on the issue of climate change, clean energy, where the two countries of -- on the one hand the United States has been responsible over history for the largest amount of greenhouse gas emissions, and China has only recently overtaken us on an annual basis, but between the two of us we're accounting for about 40 percent of the world's greenhouses gases, which any way you look at it is not good. So, through that lens, saying to myself well, if U.S. and China on this issue can make very meaningful progress and that progress can be seen by the citizens of both countries in the world, then that would start to develop habits of behavior which could then be applied in other areas. So, I see this as kind of a template. And that's why I regard this as very, very important, and I'm particularly thrilled with the orientation of this particular report, which is, to my mind, focused very much on how to get things done, how to make things happen, and I regard

that as a, needless to say, crucial, crucial question of life generally but particularly when it comes to getting things done in this country or in China or dare I say the two of them together. So, against that background, I can't be more pleased with the attention this report will get and is getting from all of you this morning.

Now, we're very fortunate to have Ambassador Zhou Wenzhong with us this morning. He's going to say a few words. He really needs no introduction. He's been the ambassador to the United States since 2005. He's been a very, very positive and strong supporter of not only U.S.-China relations but of the Brookings Institutions. Before he goes home, we're going to make him an honorary Fellow at Brookings. He's been such a positive contributor, so please welcome Ambassador Zhou.

MR. WENZHONG: Thank you, John.

First of all, I want to thank the Brookings Institution for doing this today, and I also want to thank the two authors of the paper.

I do know climate change is very high on the agenda of U.S.-China bilateral relations, and it's also very high on the agenda of the multilateral efforts, so in this context I think we welcome input from the two authors, and we are working very hard at home to figure out what China should do, and China has done quite a lot, but of course not enough, so it's my pleasure to present to you some of our thoughts about China's role

and our views on climate change and, you know, the multilateral cooperation on this issue.

Energy and climate change are major issues attracting international attention and are bearing on the sustainable development of mankind. Effective cooperation between China and the United States is an important part of the appropriate bilateral and global response to these issues. I appreciate the attention of the [scholars] of the Brookings Institution and the report that identifies obstacles, provides information, and makes recommendations. The hard efforts of Professor Kenneth Lieberthal and Professor David Sandalow in promoting China-U.S. cooperation on clean energy and climate change are most welcome and deeply appreciated.

As a responsible, developing country, China attaches great importance to climate change and fully understands the importance and urgency of this issue. We have formulated and implemented a national plan on climate change and have adopted a host of policies and measures. We are trying to tackle climate change by implementing a sustainable development strategy by building a resource-saving, environmental-friendly, and innovative society. Our focal point is economic growth. Our priorities are achieving energy efficiency, optimizing energy mix, and strengthening ecological protection and a

regeneration. And we will rely on scientific and technological progress to achieve all these. We will work hard to control and reduce greenhouse gas emission and to continue to build up our adaptability to climate change.

China has taken an active part in the global efforts to address climate change by implementing the U.N. framework convention on climate change and the Kyoto protocol in good faith and playing a constructing role in international cooperation.

Due to China's national conditions, we are still faced with enormous challenges in addressing climate change. We have a huge population, and the level of our economic development remains low. Therefore, our most urgent mission is to eliminate poverty and develop the economy for the well-being of one-fifth of the world's people. China is on the upward curve of industrialization, which means there will be reasonable growth in our need for energy in the coming years. This is the basis for all developing countries to achieve economic growth. In addition, the dominance of coal in China's energy mix points to more arduous task in controlling the emission of greenhouse gas.

Technology innovation and the transfer are the basis for address climate change. The Chinese government has published a special science and technology action plan on climate change. Over

7 billion yen, equivalent to \$1 billion U.S. has been released in 2006 and 2007. The first two years covered by (inaudible) five-year plan for national science and technology development. The fund was designed for scientific and technology development targeting emission reduction and climate change. Additional funds have been released through other channels.

Meeting the challenges of climate change is the common but differentiated responsibility of all the countries of the world. The developed countries, while developing and applying advanced technologies at home, have the obligation to promote international cooperation and the transfer of technology, including honoring their commitment of providing fund and technology transfer to developing countries, such as China. Having access to the fund and environmental-friendly technologies they need, the developing countries will be able to build up their capability of slowing down and adapting to climate change and to make concrete contribution to the global efforts to address climate change.

China and the United States have many shared interests and extensive area for cooperation on energy and climate change. China is the biggest developing country in the world. The United States is the biggest developed country with advanced technologies and the rich

experience in energy efficiency and the clean energy. (Inaudible) cooperation between all two countries, energy and environmental issues will enable China to respond to energy and the climate change issues more effectively while at the same time offering enormous business opportunities and a considerable return to American investors. There has been effective cooperation between China and the United States under the mechanisms of the strategic, economic dialog, the (inaudible) Science and Technology Commission, and other climate change-related dialogs, and within the frameworks of the China-U.S. energy efficiency and the renewable energy protocol and the fossil energy protocol.

Last year our two countries signed the 10-year energy and the environment cooperation framework, bringing our cooperation another step forward. Working together on energy and climate change, China and the U.S. will open up a future win-win cooperation. We are pleased to know that the new U.S. administration equally emphasizes energy and climate change issues. The Chinese side is ready to maintain the close cooperation with the U.S. side and continue to be an active and responsible participant and contributor to international cooperation on clean energy and climate change.

Thank you very much.

MR. THORNTON: Ambassador, thank you very much for



those words.

Okay, now the rest of the morning I want to try to be as efficient as possible, and I'm going to say just one sentence about each one of our four panelists in a minute, and then the order will be -- in this order they'll be speaking, Ken and David presenting their report and then Stu and Liz commenting on it. You've got their bios in front of you, so I'm not going to belabor that.

I'm just going to say one thing about each person to highlight what jumps off the page at me, starting with Ken who -- I'm going to use my own sentence, because he and I have known each other a long time. I'll simply say about Ken there's nobody in this country who knows China better than he does. He's uniquely positioned from his days in the White House and his knowledge of China to kind of understand exactly where things go wrong in both countries and therefore to help us out and figure out how things go right.

David Sandalow, next to Ken -- my one sentence on him comes right out of his bio, which you will see. He is the author of Freedom from Oil: How the Next President Can End the United States Oil Addiction and the editor of Plug-in Vehicles: What Role for Washington. And he's had a long, long experience in energy and environment and we're looking forward to his comments.

Stu Eizenstat, who I've also known for quite some time -- my one sentence on him is that he led the U.S. delegation at Kyoto and he has been negotiating all kinds of treaties for many, many years and is uniquely positioned to comment on the report.

And then Liz Economy, of course, has written the very, very important book, *The River Runs Black: The Environmental Challenge to China's Future*, and I think is -- no one in this country any way who has more intelligently commented on environment in China than Liz.

So, without further ado, I'm going to turn it over to Ken, go down the line. When they're finished, we'll then get into Q&A.

Thank you.

MR. LIEBERTHAL: Thank you very much, John. It's really a pleasure to have the opportunity to address you this morning.

And thank you, Mr. Ambassador, for coming and making your very welcome remarks.

Let me position what we're trying to do in the report that you've all just received. We're seeking to address what we regard as really a critical missing link in U.S.-China cooperation on climate change to date. As the ambassador noted, there has been cooperation, but this cooperation really has not gotten to the level where the senior-most leadership in each country can embrace this cooperation as a politically

attractive proposition for them domestically and internationally. So, it stayed more at middle levels bureaucratically in each government and with a lot of cooperation among scientists. But an overarching political framework for this cooperation that can really energize the effort on both sides and provide a path forward we feel has yet to be established. Our report seeks to address that missing link and develop a path to accomplishing that goal of getting the senior leaderships onboard with the political enthusiasm for this kind of cooperative effort.

To date, the U.S. side politically has worried about cooperation under conditions where the U.S. is imposing a price on carbon as we go forward. If the Chinese side doesn't take comparable measures, that will affect American competitiveness. It has been a problem in the U.S., as we've discussed, taking more affirmative measures such as cap-and-trade legislation to deal with the climate change issue.

The Chinese side has worried among other things that the U.S. will use climate change issues in order to slow down China's economic development to create obstacles to China's moving forward as rapidly and as effectively as it thinks it needs to do. Essentially, we need to develop ways to get around these problems and move forward on a more affirmative basis. We need to do that in part because the science

indicates the climate change is an issue that cannot tolerate substantial additional procrastination, and the U.S. and China are the two most important national players on this issue, given that we're the two largest carbon emitters in the world.

Secondly, U.S.-China cooperation we think will facilitate climate change effectiveness, effectiveness of policies in both our countries individually. Such cooperation will remove (inaudible) the contentious issues as President Obama seeks I believe this year, perhaps going into next year, to move cap-and-trade legislation through the U.S. Congress. Among the arguments against it is the competitiveness argument that I just suggested. If we can demonstrate -- if he can demonstrate that we can work with China, that China is serious about this issue, and we can move forward, that will weaken that argument as a basis for opposing strong measures by the U.S.

At the same time, if we move forward in the U.S. more effectively on climate change, it will affect somewhat the U.S. model as a life style for upwardly mobile Chinese, many of whom look at U.S. housing and U.S. transportation and say that's the way we want to live, if we can move our image, if you will, to more of a green image in China, that will make it easier for the Chinese government to take its own measures to deal effectively with this issue. And, more broadly, it is now relatively easy

in China to argue that if a rich country like the U.S. that has emitted so much carbon over the years is not really serious about climate change, then why should we take on the burden of doing it as a poor and developing country. So, again, if we can get cooperation going that moves it forward in both countries, what each is doing will facilitate moving the issue ahead on the other side.

And U.S.-China cooperation, as the ambassador suggested, can also facilitate global negotiations as we look forward to Copenhagen in December and to developing a post-Kyoto protocol. We will affect the climate of those talks as the two biggest players. If we can cooperate and show momentum, that will be a positive contribution.

I also think, frankly, U.S.-China cooperation will open up areas for regional cooperation on climate change in Asia involving Japan and others in the region.

So, in sum, to move ahead on U.S.-China climate change cooperation, we need to forge a meeting of the minds at the highest levels politically in both countries, and our report seeks to lay out the issues that need to be addressed to make that an attractive proposition for the highest level leaders in both countries and to spell out the details of that and others to provide the information for each of the five building blocks to get from here to there. Let me briefly review what those five building blocks

are. Read the report for how we handle them.

First, each leadership has to understand the core essentials about the climate change issue and the concrete challenges it poses for each country. That is, we need to provide a digestible synopsis of the science and of its implications for each country.

Secondly, we seek to inform each leadership of what the other country is in fact doing to address this issue. This is an area where misconceptions abound, where each country's top leadership I think has a very poor understanding of what is in fact going on in the other country on the issue. Most Americans feel that China is doing extremely little to address climate change. As the ambassador suggested, that is wrong. China has, in fact, been doing quite a bit. It has programs on energy intensity. It has renewable energy mandates. It has adopted mileage standards for its vehicle fleet that are far ahead of U.S. mileage standards, and so forth. The U.S. has taken many important efforts on climate change. These have tended to more at the local level but therefore more difficult to pull together and to understand than if we had simply national level rules and regulations that address this issue in a very effective fashion. So, while neither side is doing enough, it's simply wrong to view either as shirking its responsibilities completely. Rather, we need to understand what each side brings to the table, and our report tries to do

that.

Third, we need to understand the system capacities of each political system to deal with this issue. What is it realistically feasible to expect? This can reduce, in fact, a lot of misunderstanding. My own sense here is that the highest levels on the U.S. side -- when I say the highest levels, I don't mean President Obama personally and only he, I mean the upper stratum here. So I think on our side we have a relatively poor understanding of the political economy of China and how that impacts on China's capacity to make progress in different areas. If we have a better understanding of that, we'll be better able to judge what they are doing, what they are likely to be able to do, and what are the areas of cooperation that really make the most sense to move forward. And I think to some extent the same is true in the other direction.

Fourth, we need to understand the politics of the climate change issue in each country. What are the basic perspectives that the U.S. and China respectively bring to bear, the perspective of an advanced developed country and of a developing country, respectively, and where can we bridge those gaps? And, very importantly, we need to understand the role that each country plays in the politics of the other country on this issue. In fact, each of us plays a significant role in the politics of the other country on the issue, and neither leadership, I think, is very sensitive to

that at this point.

And then, finally, we need to address the implications of cooperation, or let me say of the failure to cooperate, in terms of U.S.-China relations going forward. As the ambassador suggested, the climate change issue is moving to very prominent place in U.S.-China relations. In many ways, that's a new development, at least in terms of the degree to which it will move to the center of the relationship. If we can cooperate effectively here, it will be a major pillar of support for long-term cooperation between the U.S. and China. If we seek cooperation but find we are unable to get a meeting of minds on this issue, I would argue it can have quite deleterious effects on the U.S.-China relationship. So, it needs to be understood in that framework also.

Now, the assumption of our report, which I am confident is accurate, is that our national leaders in each country are very intelligent -- and therefore given the above -- ah, yeah -- but seriously, so that if they have the above types of information in a readily digestible form, that they're smart enough to then be much more creative and effective in figuring out how to get wide-ranging cooperation, because one of the big problems has been simply a lack of the right kinds of information getting to the right levels in the right form, and our report, frankly, seeks to at least go some distance toward plugging that gap.



We go on, then, to provide nine recommendations specifically to move forward concretely. These are geared to being at the level of the conversation of the senior-most leaders, so they don't go into detail, project analysis, or anything like that, and David Sandalow in just a moment will summarize those nine recommendations for you.

I want to conclude with just a broader comment, which is that our report is wholly focused on the United States and China, and the question is, is that focus sufficient; and the answer is, clearly, it is not, and we recognize this. The focus reflects the limited objective of getting a positive trend going on cooperation on the energy and climate change issue at the highest levels of the U.S. and Chinese governments. This obviously is only a part of a much larger and more complex situation, but it's been a neglected part, and it's a necessary part, and it is therefore the part that we've sought to target in this report.

We assume throughout this report that both the U.S. and China are also involved in much broader efforts multilaterally and so forth, and we also assume that if U.S. and China cooperation moves forward, countries like Japan will see this, or should see it at least, as an opportunity to be much more effective in promoting what they've been trying to promote for years now, which is greater attention by all the countries in the region to effective cooperation to address the climate

change issue. So, we see this report as addressing a necessary gap that has to be filled and in turn if successful providing a series of open platforms that will engage a larger region and will have a positive impact on the global talks.

Well, with this summary of the framing of the report and the thinking behind it, let me now ask David Sandalow to stand up and give you the real recommendations that we make growing out of this report.

David.

MR. SANDALOW: Thank you, Ken, for those thoughtful remarks.

Writing a report with Ken is a lot of fun and very stimulating. What's even more fun is traveling around Beijing with Ken, which feels a little bit like traveling around, you know, the neighborhood of a town that you've live in for many years. It's hard to turn a street corner in Beijing without Ken bumping into somebody he knows and has known for many years, so.

I first visited China in the summer of 1982, lived in Shanghai for a month on one of the early exchange programs, and at that time there was one international phone line in the entire city that we could use to call home. We used to go down to Ho-ping Hotel to call home. The last time I traveled to China, I landed in Beijing after the long flight, pulled out my

Blackberry, and was frustrated when my emails didn't load within five minutes sitting on the tarmac in Beijing airport. The pace of change -- it did after six minutes, Mr. Ambassador -- the pace of change has been extraordinary, and to anybody who thinks that this problem is too hard both in the technological sense or in terms of getting two superpowers together on such a tough agenda, I would commend you to just think about the pace of change over the past quarter century that we've already witnessed.

In our report, we highlight nine specific recommendations that leaders can use, we hope, in order to move this forward on a political level, and the first one is to highlight one or more major headline initiatives. So, when it comes to cooperation on climate change and clean energy, we think the United States and China should think big and aim high, and that's both because these are two great nations addressing one of the great challenges of our time and small measures will not suffice, but also for politically sustainable work in this area, capturing the public imagination is key, and there are so many ways to do that, and we suggest for candidates, for different possibilities, for major headline initiatives there are others, but we suggest first electric carbon program. Beijing and China has already made dramatic progress just in the past five years in electrifying dirty diesel scooters, and we are now on the cusp of

enormous progress in electrification of auto fleets. Both of our countries have enormous benefits to be gained from reducing our oil dependence and electrifying auto fleets, and one could imagine, for example, pilot projects in the capitals of both countries that would capture the public imagination and help to drive cooperation forward.

Another area we commend looking at is green buildings. Buildings use 30 to 40 percent of all the primary energy resources in the world. More than half of the new building space in the world in the past couple of years has been in China. Both our countries waste prodigious amounts of energy in our building stock, and joint programs to combine expertise and invest in clean energy in the building sector we think could help spark the public imagination in this area. There's enormous funding that may well be going into the green building sector and clean buildings in the United States over the course of the next year in the Economic Recovery Act, and that could build a platform for cooperation with China in these area.

A third and key area is on clean coal technology. Our countries obviously both depend very heavily on coal, and there is no solution to global warming that does not involve figuring out ways to manage our use of coal in a way that works for the planet. The United States and China bring strong complementary capabilities to the task of

developing clean coal. The United States has a very strong basic science infrastructure and lots of experience with moving applied science to commercial application. China has a lot of relevant scientific capability, lots of engineering talent, and a great capability to scale up rapidly on test beds in this area, and joint programs on carbon capture and sequestration in clean coal could make a huge difference.

And then, finally, we recommend as a candidate a U.S.-China clean energy corps. This could start out as a bilateral program in which the two countries exchange expertise and potentially even move out to a program, somewhat unprecedented, of bilateral exchanges in this area where U.S. and Chinese young people and experts go out and work on clean energy projects around the world. But it's the type of project we think could capture the public imagination and build a sustained and long-term base of support for clean energy cooperation between the United States and China.

So, our first recommendation is to focus on a major headline initiative.

A second recommendation is to focus on clean energy. Clean energy as a concept can provide a more politically attractive framework for cooperation in many instances in climate change. Climate change can evoke ideological differences and disputes whereas clean

energy often evokes economic opportunity and can be a powerful framework for long-term cooperation. Now, to be sure, clean energy doesn't encompass every issue related to climate change. There are issues related to deforestation and adaptation expenditures that are important for the two countries to engage on. But a framework of joint cooperation on clean energy we think provides a very important way of moving forward.

A third recommendation is to emphasize co-development of technology. I talked a moment ago briefly about some of the complimentary strengths the United States and China have with respect to development of clean coal technology. Those complimentary strengths apply more broadly, and programs in which the two countries apply their respective capabilities in developing technology across a wide range of area make a lot of sense and we think should be a focus of long-term cooperation.

There's more detail on all this in the report. I'm rushing through this, given time constraints.

A fourth recommendation we provide is a focus on local-to-local cooperation. In both the United States and China, there is enormous excitement at the local level in some of these areas. There are eco cities in China that are very powerful in some of the work that's being taken on.

Tremendous upwelling of work in the United States over the course of the past five or ten years at the local level on climate change and having national leaders provide a framework validation and support for sister city programs and spirited local-to-local cooperation could provide sustained long-term political support for cooperation in this area.

Our next recommendation -- and this actually is basic, and we put this first in the report -- is simply to acknowledge legitimacy of each other's perspectives. Now, the U.S. and China start from very different places when it comes to global warming. If you listen to United States officials talk about the issue of climate change or even members of the public in this area, you often hear that China's the largest emitter of greenhouse gases in the world but has a steep upward curve of emissions and that without getting China into the game of solving this problem we can't solve the problem of global warming. In China, you hear the other side of the story. You hear how the United States is the largest cumulative emitter of greenhouse gases over the course of the last century, how per capita emissions in the United States are five times or more as high as they are in China and how the United States has already been through stages of development that China has not yet been through. Well, both of these frameworks, both of these perspectives, have objective merit, and it is not realistic to expect either of these great

countries to relinquish this viewpoint. But what we can do is recognize the legitimacy of each other's perspective in this dialog and go forward to find areas of cooperation.

Our next recommendation is to seek common ground on commitments in multilateral fora. This has been an issue of contention over the course of the past several decades and multilateral negotiations on global warming. The issue of what developed and developing countries will agree to and commit to has been contentious. It will be an important negotiation going forward. The issue of what the United States and China will agree to in multilateral settings is not going to be resolved in any type of bilateral discussion between the two countries, but a dialog on that topic can be extremely productive and we think can contribute to its success in the multilateral negotiations as the largest developed emitter and the largest developing country emitter in the world. If the United States and China can bring at least a greater level of understanding of each other's concerns into the multilateral dialog, we think that can be extremely productive for the global solution which is so necessary for this global problem.

I think I'm on number 8. Our eight recommendation is to use and improve existing forms of cooperation -- to use and improve existing forms of cooperation. High-level cooperation between the United States



and China is not new. In the 1990s, Vice President Gore had high-level cooperation -- a structure for high-level cooperation with Premier Lee Pung and with Zhu Ronji. There was a hiatus during the first term of the Bush administration, and then in the second term of the Bush administration a similar structure to the one that Vice President Gore had created was picked up by Secretary Paulson. Secretary Paulson, of course, led the strategic economic dialog, and as has already been mentioned, there's a ten-year framework for energy and environment cooperation that was recently negotiated between the two countries. Although there's been a change in administrations, we don't recommend sweeping away the existing structure of bilateral cooperation. We think it's important to build on what's been productive to seek opportunities for improvement where those exist. So, we would recommend using and improving existing structures for cooperation.

And our final and ninth recommendation is to highlight clean energy in a U.S.-China summit. There will be meetings between the leaders of these two countries. When that happens, there will be a number of important items on the agenda, and this one offers an important opportunity both for moving forward on this issue but also for cementing positive elements of the relationship. The next U.S.-China summit will certainly take up the issue of economic recovery. In an important way it

will take up cross-strait relations, I'm sure, and energy in a bilateral cooperation can be an important pillar of that next summit.

So, I don't -- I hope to be traveling to China 25 years from now just as I traveled 25 years ago. I hope and expect that the pace of change in the energy sector over the next 25 years will be every bit as great as the pace of change was in the communication sector for the past 25 years.

Thank you very much.

MR. EIZENSTAT: Mr. Ambassador, John, thank you for chairing this panel and particularly to Ken and David, my great compliments for a tremendous job that you've done on this.

The world has changed greatly since Kyoto. China is now, as we know, the largest emitter, although certainly not on a per capita basis. The U.S. continues to be a very large emitter. And we have done precious little over the time since Kyoto to really come in to even marginal compliance with the targets that we agree to, and of course during the Bush administration the President withdrew entirely from the Kyoto framework and in the last year of the administration set up a major emitters program on a voluntary basis. It's therefore clear that if we expect to have closer cooperation with China, the U.S. has to lead. We have to pass our own cap-and-trade legislation. We have to do it promptly

or we will have no credibility to ask China, India, or any other developing country to take obligations.

At the same time, we should remember that the 1992 Rio convention, which really set the framework for everything else that's followed, called for common but differentiated responsibilities. That did not mean no responsibilities. It mean common but differentiated responsibilities.

Now, as we move toward passing our own cap-and-trade legislation with the enlightened leadership of our new President, we have to make sure that in that legislation we don't have any WTO inconsistent sanctions against China or India or other countries that don't take exactly the same obligations, and what I mean by that is that there was in the Lieberman/Warner/Boxer legislation that was debated on the Senate floor this past spring a form of potential sanction, a sort of carbon tax, on countries that haven't taken obligations. It was done in such a way that it might well be WTO-consistent, because there were all sorts of diplomatic efforts and the President had waiver authority and so forth, but waiting in the wings and not offered, because the Bill was pulled after three days of debate when the opposition successfully and unfortunately incorrectly labeled this as a cap-and-tax bill, was a amendment by the steel industry and the steel unions which would have required China, India, and others

to take the exact same reductions as the U.S. or be subject to this kind of carbon tax. This would have been, in my opinion, a clear WTO obligation violation, but we have to make sure that we don't do that. At the same time, I believe unfortunately that the cost of getting 60 votes in the Senate, even with the new Senate, is going to be some kind of even rhetorical admonition tilting in that direction to countries that don't take any obligations at all.

And going to a post-Kyoto treaty, which requires not just the 60 votes you need to shut off a filibuster for cap-and-trade legislation but 67 votes for a treaty is, in my opinion, an impossible challenge absent concrete and specific obligations by China and India.

Now, what beyond the very creative proposals that Ken and David have proposed, what I suggest, and I do so on the basis of the scars I still bear from Kyoto:

No. 1, at Kyoto, China not only refused to take, as did India, any binding obligations. It refused to allow developing countries that wish to do so to be able to do so. That is, it built into the Kyoto protocol, in effect, a preclusion for developing countries to take binding economy obligations even if they wanted to, and there were some, like Argentina for example, that wished to do so. It's very critical that as we go to Copenhagen in December of this year that China change that policy. If

there are developing countries, as Mexico has already announced, that are willing to take their own obligations, they shouldn't be precluded by some notion of G77 solidarity. That is to say, let the developing countries that wish to do so take those obligations.

Second, it is important that China and India permit developing countries to take different types of obligations. There are, for example, some dozen rain forest countries that are willing to take binding sectoral obligations not to cut their forests down in return for getting tradable credits and also funds from a general climate change fund to do so. When we consider that 20 percent of all the CO<sub>2</sub> emissions in the world come from the cutting of trees in developing countries, making Indonesia and countries like -- and Brazil -- the fourth and fifth largest emitters of CO<sub>2</sub> simply because of the cutting of their trees, then we understand that it's incumbent on all of us, including China and India, to allow those countries that wish to take that kind of an obligation on a binding basis to be able to do so and not block them as again occurred at Kyoto.

Third, as we look to how to shape the Copenhagen framework, I believe that there is a way to do so, and I think that Ken and David's paper opens the way to consider that, that also leaves flexibility for the U.S. and the European Union to differ. And let me explain what I

mean by that. At Kyoto, we essentially had Japan, the E.U., and the U.S. in a lock step on the amount of reductions from 1990 levels to achieve by 2012. It averaged 5 percent. There were slight differences, one took 5 percent from 1990, one 6 and one 7, but basically we're in lock step.

Unfortunately, we cannot get through the U.S. Congress even with strong leadership from the President. Anything approaching the obligations the European Union has already taken as a binding basis, which they call the 20-2020 process -- that is, 20 percent reductions from 1990 levels by 2020. There is no way on God's green earth that U.S. Congress is going to be able to pay us something that ambitious. And, indeed, the President himself, who is a fervent believer in action, has talked about more modest targets, given where we are and the time we wasted over the last ten years, which are roughly going to 1990 levels by 2020. Now, there should be a convergence by 2050 at 80 percent reductions. That's something where the E.U. and the U.S. can converge, and China as well.

Now, this actually opens up an opportunity for China to participate in a different way. That is, instead of having a sort of one-shoe-fits-all process, even for developed countries -- since, again, the U.S. and the E.U. are going to have very different levels -- what we should do at Copenhagen is allow each country to make its own binding

commitments with international audits and sanctions if they violate their own national obligations. This would allow us, for example, to make a commitment, as I suggested, a 1990 level by 2020 and then an 80 percent reduction by 2050. It would allow China to make the kinds of commitments and other developing countries that didn't wish to take an economy-wide target that are both on the Council on Foreign Relations Task Force on Climate Change in which I participated and which are creatively in Ken and David's report, and I quote that "China could take binding intensity targets" -- that is, efficiency targets -- they were already working toward that, "limiting emissions per unit of GDP, renewable energy requirements, emission limits on specific sectors." In other words, China could do sectoral agreements in steel and autos where, as David and Ken have already mentioned, China's actually ahead of us. So, instead of, again, a one-size-fits-all, we could allow and encourage China and India and other emerging economies like Brazil to take their own commitments on a sectoral basis. Brazil's could be not cutting their rain forest down, which would be an enormous contribution -- indeed, more important than getting them into this box of taking an economy-wide target with, again, a convergence by 2050. I think what it is reasonable to suggest, however, is that China and India agree to take binding targets on an economy-wide basis by 2050 so at some point we do all converge,

although perhaps with different limits at 2050.

Another thing we can do, which I think is in the report but I'd like to elaborate on a bit, is to reform the clean development mechanism, which was our way at Kyoto of trying to build some bridges between the developed and developing world, getting credits, in effect, for transfer of technology. We need a more robust transfer of technology. We need a more robust, clean development program in which we provide funds for China to develop -- and India -- to develop clean technology but NOT -- and I stress NOT -- at the expense of intellectual property protection. We cannot let this become the equivalent of the AIDS-HIV fight in the WTO in the DOHA Round where in effect pharmaceutical companies just gorge their patents to give inexpensive cocktails in this area. That's fine in this area. We cannot do it. It will not be permissible. The Congress won't allow it and shouldn't allow it in this area. We have to have intellectual property protection. At the same time, we do have to have a genuine transfer of technology.

And then perhaps last -- and this is again suggested by David and Ken -- we need to do this with the E.U., and we need to do it with China. It would be disastrous to go into Copenhagen with the kind of misunderstandings and divisions we had coming into Kyoto. The E.U. and the U.S. were complete loggerheads. We didn't understand our own



politics. I've had a recent dinner with Karl Falkenberg, who's the new director general of DG Environment, and I've suggested starting early understanding the different politics of the two entities -- the E.U. and the U.S. -- and this is what I know Ken and David have suggested with China - - we need to have serious dialog so that when we go into Copenhagen we don't have to fight out the issue of what kind of obligation China is willing to take -- sectoral, efficiency, and so forth -- and there's some understanding of how that's done. If we can do that, then Copenhagen can be a sort of blooming of flowers going in different directions but all with a common goal and all oriented toward the type of development and stage of development that each country is at. But no country can get the kind of pass at Copenhagen and beyond that China and India not only got itself but forced on developing countries that wanted to take more obligations.

Thank you.

MS. ECONOMY: Thanks very much, and thanks to John and to Ken and David as well for inviting me here to talk about this incredibly important issue in this report.

I think it's no surprise that when you mix a top China expert with a top climate and energy expert that you're going to get a very smart, extremely well-written, I have to say, report that makes a compelling case

for why the United States and China both need to get onboard to take action on climate change and to do it jointly. In effect, the report is a kind of (inaudible) call to the leaders in both countries to place the issue at the top of the agenda and to make it salable and sustainable.

I think a real strength of the report is that it speaks to multiple audiences. It talks to China people who may think, mistakenly, that the currency issue is as important as the climate issue. It talks to climate people who know that China matters but don't really know to do about it. And I think it talks equally well to people who really don't know much about either issue at all.

For me, as someone who knows a little bit about both issues, I think the question that kept running through my head as I was reading the report was really whether this report is primarily an effort to address the climate change issue by forging a partnership between the two leading greenhouse gas emitters -- China and the U.S. -- or whether it was really more fundamentally an effort to use the climate issue to help bridge the divide between the United States and China. In either case -- or maybe it's both -- and in either case I think the question raises some additional issues that should be further explored, and I just want to tick off three that come to mind.

First, if the effort is to primarily to address the climate issue,

then I think we need to consider this bilateral effort in a broader context, and I think that Ken started to make that point toward the end of his remarks here, but it's not really fleshed out in the report and obviously on purpose. But I think if you look at the headline programs, if you look at a number of the initiatives that are discussed in the report, you find that many of them are actually already underway in China but with the support of Japan or the European Union -- for example, carbon capture and sequestration or building energy efficiency or renewable efforts -- all of these things are already starting up or already well in place.

Now, it may make sense for us to duplicate these efforts. China is a very large country, and there's always room to do more. But I think we do need to consider our comparative advantage. You know, where should the U.S. fit in best in terms of this sort of joint effort along with the E.U. and Japan and how do we work with them? I think that's very important. We certainly maybe don't mind duplicating their efforts, but I am sure we don't want to undermined them in some way.

I think the other question it raises -- if we start to think that there's been a lot of energy poured into this China issue already, and if you look at the CDM projects, for example, that are underway, I mean, China is just the most massive recipient of CDM compared -- I mean, there's nobody in the same league as China. So, maybe it bears thinking

for round 2 about India, right, and whether or not we should be looking ahead 5, 10, 15 years and thinking about how to get India on the right track where maybe China's already starting to move. So, that's the first point that I'd like to make.

The second is if the report is, you know, foremost an effort to improve the U.S.-China relationship, I think we need to talk more about what this is going to necessitate, and I think Ken here, too, began to talk about this. It's true that the environment has been a boon to an otherwise shaky Japan-China relationship, but I think this is because, you know, for a decade has used a significant percentage and in some cases now all of its overseas development assistance to promote environment cooperation with China, and Japan has done things like build an entire building for China's Ministry of Environmental Protection in Beijing. It has a very focused, highly coordinated public/private enterprise to promote environmental protection in China and joint cooperation. It's not clear to me that we're prepared to devote those kinds of resources to this issue, and in fact I think the report suggests, quietly, that we don't have those kinds of resources to devote to this issue. For example, it mentions, you know, a lot of projects may have to rely on private funding, and in fact, you know, money will flow to good projects. That may be more difficult today than it was five years ago and even five years ago it was quite difficult to

have that happen.

So, then the question becomes if we really don't have new resources to put into this issue, are we going to end up with sort of unfunded mandates and unhappy Chinese? So, I think as we move forward with this kind of bilateral partnership, we need to think so what we can honestly devote to the issue if we're trying to make this sort of a new pillar of the relationship.

Finally, I think in preparation for launching such a bilateral initiative, we need to consider the history of our environmental and energy relationship, and I think David started to talk about that in his remarks a little bit -- what's worked, what hasn't, and why. As David mentioned, he would have a strategic economic dialog for three years, you know, run by former Secretary of Treasury Hank Paulson, who devoted an enormous amount of his personal energy and effort to this. I think he came in with a very strong commitment to get things done. And beyond that, of course, we've had almost two decades of energy and environmental cooperation in one form or another.

But I think that if you would ask Chinese -- any Chinese -- or any Americans who've been involved in those discussions, in those sort of efforts, they'd point -- be able to point to a few successes, but I don't think anybody would call it a resounding success. So, then why, you know,

have we gotten maybe so little bang for our buck after all these years of effort. And in part, of course, it's because probably there haven't been many bucks flowing from the U.S. side to China, and I think that, you know, pretty straightforward. I also think that there are some serious challenges within China, though, that need to be addressed, and here the report I think did a very good job of talking about the issue of political economy and constraints but primarily side, right, so that local officials in China have few incentives to do the right thing on the environment, many incentives to continue to grow the economy, which, as you noticed, the ambassador said still remains their number one priority. At the same time, I think there are those kinds of political constraints, and we have to be up front and transparent about them, and because effective (inaudible) policy is going to depend in the end, as all environmental policy does, on transparency, on official accountability, and on the rule of law, you need those things for effective intellectual property rights protection, you know, for accurate reporting of emissions once they actually have the capacity to monitor for things like just enforcing building codes. So, I think that there is a -- these kinds of issues have bedeviled the U.S.-China cooperative effort on the environment for a long time, and I think we need to think through again as we push forward with this kind of initiative how we are going to ensure that those kinds of fundamentals within the Chinese

political economy that will make all the other proposals actually workable, how we can help China push forward to develop that kind of capacity.

And the last point I want to make is that I think too often environmental cooperation has been driven by the U.S. understanding of the Chinese need . (Inaudible) says our ideas about what would be most helpful. I think that's begun to change in the past several years, but I think we need to hear more from the Chinese about what it is that they need, what it is that they are prepared to do, and how we can best work with them and what kind of stake they're prepared to take in these issues. And I again think the report does a nice job of suggesting some things that the Chinese -- you know, some of the constraints, that they're thinking about some of the directions that they want to move. But I think we're going to need to hear a lot more from the Chinese side itself about what it's prepared to do and how we can best help.

So, you know, where does this all lead us? I think there's a lot of energy right now behind this idea of a U.S.-China bilateral effort on climate change, and I think, you know, Ken and David have taken this, you know, in a very important way, you know, almost as far as one can go toward setting out the case for why this is so important and how we might be able to make it work, and, you know, there's another report coming out from the agency side that Ken and David and I were all part of that

similarly points to the need for this kind of U.S.-China bilateral relationship. My only hope is that before we tell President Obama and President Hu Jintao, you know, to sign the dotted line to advance this great initiative that we spent a reasonable amount of time laying sort of groundwork that I think is going to be necessary to ensure that we just don't end up with, you know, another 20 years of sporadic kind of runoff agreements or an SED that really tried very hard but didn't amount to much in the end, I think, because I think it's too important not to take the time to plan out and to do it right.

Thanks.

MR. THORNTON: Okay, now we're going go straight into a discussion and questions, and while you are thinking of the thousands of questions you want to ask, I'm going to take the prerogative of the Chair and ask one myself.

Liz just made a very, I think, interesting comment, good comment, about getting input from China and the Chinese, and so my question for Ken and/or David is to give us a better understanding of how much input you've already gotten from the Chinese.

Who wants to take that?

MR. LIEBERTHAL: Actually, I'm glad you raised that issue. We tried to position this report not as being an American report that gives



advice to China and gives advice to the U.S. leadership. We did as much interviewing in China as we did in the United States for this report. We circulated it for comment in China, as well as in the United States during the drafting of the report. We've tried to write it in a way that is equally sensitive to the perspectives on both sides, and it is being published simultaneously in English and Chinese, and we'll have an event like this in China later this month to introduce the report there.

Let me -- just to highlight this -- add one more comment.

The Chinese translation differs from the American edition only in the following way. Everywhere in the American edition, we put the United States first. You know, U.S.-China. In the Chinese edition, it's Sino-U.S. But even in sections, paragraph by paragraph, wherein the American report it typically brings up the U.S. side first and the Chinese report always brings up the Chinese side first. If we really have solved to make equally palatable to both leaderships, and as we've gotten comments back from Chinese colleagues on this, we felt pretty good about at least what we know about it to date, and hopefully it will appeal to both sides in equal measure and substantial measure.

MR. THORNTON: Sir.

MR. KATZ: Yeah, I guess -- I don't know if --

MR. THORNTON: If you'd also identify yourself when you're

up there.

MR. KATZ: My name is Seth Katz, and I'm just here as an interested citizen. I agree and appreciate with what you guys have generally said in terms of we don't want to have a one-size-fits-all approach for every country. But one thing that I see with that is if you're going to have a cap-and-trade system, that's going to require some sort of broad liquid efficient marketplace for those types of credits to be traded. When I was at the Senate hearing, it sounded like one of the alternatives that was being debated was just to have a carbon tax that would be established by some sort of public utility commission. Does the fact that we want to pursue different approaches in different countries and may therefore have some trouble creating a global efficient marketplace for carbon credits -- does that potentially buy us a solution maybe in terms of the legislation that's being pursued to favor more of a tax or a government-imposed price versus a true marketplace? Because otherwise, I don't see how you would really get that to work.

MR. SANDALOW: I'll start and then Ambassador Eizenstat can add to this, just to pick out a couple of themes in your very interesting question.

First, climate change is one of the broadest challenges facing the world, and it happens as a result of activities in every country,

and it happens as a result of activities in, you know, energy sector, agriculture, a wide range of areas. There is going to be no single cookie-cutter solution that applies uniformly in every country, and I think if we build a global response, it's extremely important to take that onboard. Different cultural patterns and historical patterns are going to be extremely important as each country, you know, builds up its (inaudible). I wouldn't look for the kind of uniform global national or, you know, uniform global national response dictated, you know, in exactly the same way everywhere. That's one piece of your question.

Second, on cap-and-trade, you know, versus (inaudible), I think the dynamic is very strong in this country towards one of those and not the other, and that, you know, it's very strong towards cap-and-trade. In the United States, the cultural reaction to taxes -- I know, it's -- on higher taxes (inaudible) higher taxes is pretty strong, different than in other places such as Europe, but it's pretty strong here. So, I think cap-and-trade has got considerably more (inaudible) here, and I wouldn't see that changing.

MR. EIZENSTAT: Let me go a step further. What I had testified to some months ago as a way of trying to get around the two-thirds requirement for a treaty is to come up with a concept which isn't embedded in the Boxer/Lieberman/Warner legislation, in which you would

allow a U.S. company to trade internationally with the European trading system or Japan or any other country (inaudible) targets and vice versa, so that in effect with a 60-vote requirement for beating a filibuster, you could have the equivalent of an international trading system. The problem is the one that you mentioned. If we have a cap-and-trade system in which the obligation is to go to 1990 levels by 2020 and the E.U. has an obligation to go 20 percent 1990 levels, you've obviously established a very different cost of carbon, and you've complicated enormously the capacity to have a liquid international trading system, which is what I had hoped to achieve. Now, there may be ways around it. I mean, you could purchase more units in one than the other, but you certainly have a more complicated trading system than if you had the same obligation. We have to just face that, and so we end up by starting with just the U.S. trading system. If we did an international trading system, it's much cheaper the more units you trade. The cheaper the price of the unit would be. But that may be unlikely for the reasons that David mentioned. Even more unlikely, although this makes all the economists upset that one carbon tax and then recycle that tax right back into the pocketbooks of individuals is that it's not going to happen. I mean, I started with President Carter with a -- in the '70s with an effort at a small tax on gasoline. President Clinton, during the administration I served there, tried to have a small BTU-type

tax. It just won't fly. And we have to come to that reality and do the best we can, given the political system we face.

MS. MORGAN: Jennifer Morgan. I work with E3G, which is a European environmental think tank, and first I just want to congratulate you, because I think this is fantastic timing, and I agree with much if not all of what you've been saying. I've spent a bit of time on the European side of things, and, Liz, I wanted build a bed and ask a question on that side to see what you thought on the E.U.-China relationship. And as we did our research -- and then I was thinking as an American, okay, where does the U.S. come in here -- I thought well, actually, there are competitive and comparative advantages of each and strengths, and I was curious to get your thoughts on where do you think there could be joint pieces? Is it on the technology cooperation? We've been trying to get E.U.-China-CCS cooperation going, but the money is very hard to get. Is it on standards or other areas? We're working on low carbon development zones. But where do you see perhaps an E.U. lead or an American lead or a joint effort?

MR. EIZENSTAT: Let me take a stab at that.

MS. MORGAN: Yeah.

MR. EIZENSTAT: I was ambassador to the European Union for two and a half years, and I continue to spend a lot of time in Brussels.

First of all, even though the E.U. has taken ambitious targets, it also signed Kyoto and didn't make those targets. We have a history when we -- it may take a long time for us to agree to something. When we do, we really fight internally about making sure we obligate ourselves to fulfill it.

No. 2, the E.U., for reasons which I think are at this point inexplicable -- even though Kyoto allowed credits for afforestation and reforestation projects, European Trading System bans any trading in that, and even on avoided deforestation, which is the big deal coming out of Kyoto, that is incentivizing the Indonesian and Brazils and rain forest countries, not to cut their trees down and to get credits, they've opposed that as well. So, very important that they come on board on the forestry issue.

And, No. 3, it's also important that when we have our dialog with the E.U. that it not just be about how the E.U. and the U.S. address our respective differences, which, again, hopefully will converge in 2030 and 2050 when we can have international trading across the Atlantic. It's also important that we have an understanding of how we're going to jointly treat China and other countries. I could tell you as sure as I'm sitting here that the inclination of the E.U. is going to be to give a pass to a lot of the developing countries, whereas we're going to try to, you know, have some

more binding obligations. It would be disastrous if we go into Copenhagen with that kind of diversion. So, we need to have a better understanding between E.U. and the U.S. Army. Bilateral cuts -- we also have to have a better understanding of how we jointly deal with China. Even a (inaudible) might be useful, very useful, so that we get the three big entities in the room at the same time and not have multiple bilaterals where each is cutting deals behind the other's back.

MR. THORNTON: Liz, doing anything?

MS. ECONOMY: Yes, I heard your question slightly different but -- which was, you know, how can the United States and Europe cooperate in terms of actual on-the-ground activities in China, and my feeling is that European Union and Japan and the United States should all sit down together. I don't think it should be just a U.S.-E.U. discussion, because Japan I think is probably further ahead than the European Union or the United States in terms of actual on-the-ground either projects or projects that have been approved by both countries to start. You know, in the transportation sector, in the building/energy/efficiency sector, certainly in the steel industry, Japan is very far ahead in working with the Chinese in that area. So, you know, my sense is I don't know enough about what the E.U. has been doing precisely with China already on low-carbon zones, for example, to know whether, you know, that's the best area. But

I think there ought to be a discussion among the three to get a good sense of what's going on.

I remember when I spoke with some people who were engaged in the SEC early on, and I said well, what's Japan doing on all of this, and they hadn't even thought to look at that. Now, I think they have (inaudible). I mentioned it to them. But I think there just has been this sense that we're creating anew, and Japan (inaudible) what's it's doing, but I think there has to be some synergy and, you know, I know our building efficiency standards at the top are great, but Germany's are -- maybe better. I don't know.

MR. THORNTON: Sir.

MR. BURNHAM: I'm Jeff Burnham. I teach government at Georgetown University, but I worked for many years in the Senate, and I think if I were a negotiator I think I would tell other countries that this is an issue that requires 60 or 67 votes. This is like -- as Senator Moynihan said about health care, you need 80 or 90 votes, and that's certainly been the history of the Clean Air Act and other strong environmental measures. So, I think we're being a little bit too ignorant of the debate that's going to occur in the Senate over economics, and I think it's very important that the majority of Republicans support whatever the Senate passes. I think it would be just handing the other party an issue if the Bill came through,



you know, with 60 votes, and so I'm just wondering if we don't need somehow to confront the economic issue more boldly because all these things that David is suggesting -- maybe David would like to comment on this -- those are all very nice things to do. But the fact of the matter is that there are very important jobs and economics issues even if we go with the Obama proposal of 20 percent by 2020. That's going to be a very tough thing, and so -- and nobody said anything about public opinion, and I'm -- although the science is there, I'm sure that I'd be interested to know what the public opinion in China is. I mean, do people in China feel that this is affecting them so much that they're willing to sacrifice some of their future economic growth? Do people in the United States feel that way? I'm convinced we're quite there yet, and I don't think that Congress is going to act with the necessary broad support until we get there. So, I don't know, would you want to comment a bit on that, David, or -- I mean, do you think that -- the political feasibility of this issue at the moment domestically.

MR. SANDALOW: I always want to comment when Jeff talks. It's always provocative.

Let me just pick a couple of your items, and Ken might want to comment on public opinion in China.

In terms of public opinion in the United States, the (inaudible) is pretty clear and interesting that the American public thinks

that climate change is an important issue, and the huge majorities of the public think that it's an important issue. However, not many Americans think it's an urgent issue. See it as important but not urgent. And I think that affects the politics. I mean, if you start to think about how this can move the (inaudible) as a political issue, one you can focus on is the disconnect between what you hear from the scientific community, which focuses on the enormous urgency of this problem, and the public, which doesn't see it as nearly as urgent.

Your point on cost -- I think there's been a lot of discussion of cost. There is huge economic opportunity for (inaudible) on this issue, and, you know, millions of new jobs to be created in new clean energy industries and the path forward, you know, economically and economic recovery is going to depend upon investing in low-carbon technologies. So, this is -- in many ways, it needs to be a good news story and part of the solution, and, you know, we've seen, for example, job loss in wind factories over the course of a couple of months as a result of the slowdown. We need to be able to build up the economic base of this country with new clean energy technologies.

And I want to -- I don't want to leave without -- stop without focusing on your point on the Senate, which is extremely important, and there is no question that developing a broad bipartisan, you know, majority

in favor of this action is key and that engaging the Senate in the pre-development process here is going to be important for any long-term effort on this, and, you know, in other treaty context we've seen bipartisan groups of Senate observers travel pretty regularly in the treaty negotiation process. In my own, it would be very important to do that here going forward.

MR. LIEBERTHAL: Just kind of briefly on public opinion in China. Ten years ago when you ask Chinese what are their top 15 concerns, the environment wasn't on the list. Climate change certainly was not on the list. When you, in recent polling, when the question has been asked would you be willing -- this is not only China but multi-country polling -- would you be willing to sacrifice some economic growth in order to improve the environment, what you find is that Chinese respond affirmatively at the highest percentage of any of the major countries. Now, frankly, how well the question was understood and what the (inaudible) set apart I'm not sure whether -- how significant that is. But it does reflect that an environmental consciousness is growing in China enormously overall. Within that, I would argue on the last year and a half or so, focus on climate change as an important issue for China has mushroomed dramatically -- has mushroomed dramatically primarily at an elite level. But they are now -- for example, in October they put out a White Paper that --

the basic argument is that China is one of the most vulnerable countries in the world to the ravages from climate change and therefore needs to focus not only on a new (inaudible) but also adaptation since there's no way to avoid many of the problems that climate change is raising. Given the Chinese system, as we all understand, while public opinion plays some role, it doesn't play as powerful rule in elite decision making as it does in the United States. So, I think that the public opinion, especially among those who matter most for taking some tough measures in China -- has actually moved ahead on this issue in a very significant fashion in the last couple of years.

MR. EIZENSTAT: I want to add three points on the Senate, because it's really crucial.

Point number one. We couldn't have a worse environment to try to pass this legislation than what we have now with the economic crisis. It puts a cloud over the whole issue. It's going to take a supreme effort by the President, which I know he will give, to try to break through on that.

Point number 2. As shown in the debate in the last Congress, (inaudible) will come back again to bite us here, there are three issues which are critical: cost, cost, and cost. And we have got to everything possible to demonstrate through offsets, through creative

credits, and the like, that we can manage the costs and create new jobs. Waiting in the wings will be an amendment probably by Chairman Bingaman, the Chairman of the Energy Committee, which will impose a cap on the price of carbon. That is, it will say the carbon can't go over X-price. You try to develop a trading system with that kind of a system, even domestically, and there may be some, even in the administration, who may favor that kind of a cap to make sure that energy prices as we're struggling to get out of this recession don't impede by going much higher the ability of the recovery.

And, third, Senator Boxer, the chairman of the Environment and Public Works Committee, has done exactly the right thing. Instead of putting out a Bill with specific targets, she has sought bipartisan cooperation by yesterday putting out a series of principles on which there is going to be fairly broad agreement. Even Senator Inhofe had some positive things to say about it. That's the way one will have to deal with it. Try to deal with principles and then work down to the legislative details. If the first thing out of the box is to start putting targets out, particularly in this environment, we'll have problems, so this is a problem that has to be nurtured. It will require a great deal of political leadership, and I think Senator Boxer really is going in the right direction by trying to get agreements on principles and then working down to the details.

MS. FREEDMAN: Thanks. My name is Lisa Freedman. I write for Climate Wire, and I guess bouncing off the previous gentleman's question, I wanted to go back to the issue of carbon tax. Just about every analyst, activist, big finger on climate change points out, as you did, Ambassador, (inaudible) said of the dangers of a carbon tax at the same time as you also alluded to -- and I understand the conventional wisdom on Capitol Hill is that any domestic legislation that passes will have some kind of carbon tariff included. I wonder if you could speak more specifically about what is the way forward. Have you seen since the Senate debate last year a hardening, a softening among members of Congress that you've talked to on this issue? Are some of the bilateral cooperation measures that you, David, kind of mentioned in your report -- are those enough to work past as contentious issue of carbon tax and where do you see this coming to ahead? Thanks.

MR. EIZENSTAT: Well, I think that, you know, there are a lot of positive developments. Number one, we have a Senate and a House much more conducive than the previous Congress to passing this kind of legislation. So, I think we're closer to a 60-vote margin in the Senate, and the House with its tight rules has a real capacity to pass legislation.

Second, we have a president who is light years beyond

where his predecessor was on this issue and who's not looking at simply voluntary measures. There is one thing that President Bush did that perhaps is a way of getting at the point that Liz and others were talking about (inaudible) -- that is the major emitters notion. As long as that's done under a U.N. umbrella, getting major emitters together might be useful as long as it's not an excuse, which certainly under this President it would not be for just voluntary measures. So, presidential leadership can't be underestimated. He's a great speaker. He will elevate this issue. Hopefully, David, he'll (inaudible) the sense of urgency, which, as you say, public opinion doesn't yet have to why this is being done, because he has that sense of urgency. So, that's a second (inaudible).

Third, business is changing, John, in a major way. I mean, it's now become a positive marker for a company to participate in the U.S. cap effort. You know, to participate on the Chicago Climate Exchange Board, on which I sit with, 400 companies (inaudible), they see this as an important stakeholder issue for them. You've got California, which this year -- this very year -- will have (inaudible) targets, very tough Kyoto-type targets, so every company in California will have to start reorienting itself, and that will, as it often happens in the environmental areas, spread eastward and spread nationally. You've got in the utility area a dozen mid-Atlantic and northeastern states this year which will have requirements for

utilities over time to burn a certain amount of their -- to use a certain amount of energy from the alternative energy sector. So, there really is a C-change going on here and with a President who is so committed and so eloquent on this topic so able to capture that, I think you can begin to build the kind of political support but not for carbon tax, for the kind of cap-and-trade legislation that the President talked about during the campaign and that Senator Boxer and others are moving toward. I think if we exhaust our energies, satisfying the economists on a carbon tax, we will have lost an enormous opportunity.

MR. THORNTON: Sir, first row.

SPEAKER: This has been really interesting, and I'd like to get your reaction to a different approach. It strikes me you will always have this argument. If you have differentiated approaches, as you're considering, each country with perhaps different targets by different timelines, each country with its own approaches to take, you're always going to have an economic effect that is differentiated, and there will be always be the argument that we can't afford to do that. It puts us at a competitive disadvantage. If, on the other hand, we start to think beyond Copenhagen toward a global cap-and-trade environment, one simple global cap-and-trade system, no emission allowances, everybody buys their emissions at the auction whether you're a Chinese company or an



American company, etc., and you couple that with a phase-in that says this isn't going to be fully effective until 75 percent of the world's GDP is participating, and the cap would be adjusted based upon participating GDP going forward. Then everybody would be on the same playing field. There would be no competitive or advantaged or disadvantaged anyone playing or not playing. The Chinese have already seen that their economy is very linked to ours. When ours slows, theirs slows. So, if we slow our economy by taking something on they're not willing to take on, they're going to feel the effects of it regardless. A system like that, it strikes me, would be simpler, easier. You could impose a cost for deforestation. Anybody who wants to deforest, they're going to pay the price. Now, obviously, you've got to have audit systems, etc., but the companies could pay the money in for their initial allowances. The countries could receive 90 percent of it back and use it to reduce other taxes or whatever as long as they didn't rebate it to those companies. Now, you might argue that the Chinese would therefore benefit tremendously because (a) they're not as far as long the addiction to carbon that the developed economies are on the curve and therefore they might perceive this as, you know, a playing field that is tilted in their favor; and (b) they get the money back and therefore their attitude is well, my right hand is paying it and my left hand's getting it back. So, would they buy into a system like that, and might that

be the next step beyond Copenhagen that we could be working towards because it would be more likely to get their buy-in than this, you know, artificial set by 1990 that the developed world sort of developed for itself and ignoring the fact that the developing world didn't have much of a carbon load in those years.

MR. SANDALOW: It's an interesting and creative idea, and given the nature of the talent, we need to be considering all interesting and creative ideas. I heard some things I like; there are some things that I think, based on first reaction, I'd be less enthusiastic about.

I'd be concerned in particular about trying to mandate a uniform approach globally that didn't kick in until 75 percent of the world agreed. As I was saying a while ago in response to another question, this challenge is so widespread and comes up in different countries of so many different types of histories that moving (inaudible) spectrum (inaudible) I would be very concerned about slowing progress and that, you know, I'm not sure I understood exactly everything you're proposing, but if that were the template, I'd be worried that it would be 2100 before we successfully negotiate an agreement like that.

SPEAKER: (Inaudible)

MR. SANDALOW: Potentially. So, I mean, if this were a model and you could negotiate in different ways, there could be something

there. I do -- I thought I heard you question the 1990 baseline as a basis for international negotiation, but I want to strongly embrace that idea. The 1990 baseline is a relic of negotiations dating back to about 20 years. It's become quite an anomaly. It has a particular impact for Europe, which is particularly helpful for Europe in kind of presenting its case, and we ought to move away from a 1990 baseline (inaudible) international negotiations it seems to me.

MR. LIEBERTHAL: I just would add a couple of things.

First, I agree with David that we should really move away from 1990 and look at 2005 or some other baseline.

Second, there is going to be some competitive differences, because unfortunately the scenario you lay out simply not going to happen in the short term, because China is not going to take binding targets. They made that absolutely clear. So what we need to do is (inaudible) that is binding economy-wide targets. What we need to have them do is take binding efficiency targets. And that begins at least to reduce the competitive advantage and then move in a 2030, 2040, 2050 scheme to the type of system you're talking about where we have a convergence and a uniformity, but that will not happen in the short term, and I agree wholly with David that if we wait until we get that, then no progress will be made.

MR. LIEBERTHAL: If I can just put a gloss on that, the

Chinese have binding efficiency targets domestically now. The issue that we're trying to encourage is (a) to make them more challenging than the ones are now, and the ones now are not (inaudible), but (b) to make them international obligations. Chinese tend to take international obligations extremely seriously. So, if we can have them make that transition to where this is international with transparency (inaudible) that is international, that is a huge step forward on this issue for them. I agree. They aren't going to accept a binding cap any time soon unless the amount of money that they are promised in return is more than I think would be feasible as this thing gets negotiated out.

The other issue I just want to raise briefly and just comment on is that I think that -- and this is just central to the thing in my report -- that in a pervasive way, the failure of the U.S. and China to much more together on climate change and in some ways the limits of what each of has done domestically and our approaches to it domestically have provided a very ready excuse in each country for not doing more by pointing to the other country. We've seen that, you know, play out in both countries so that with fully acknowledging the importance of working with the Europeans and working with the Japanese and so on, everything that's been said on that is both correct and significant this morning. But beyond that, there is an enormous amount to be gained by just getting this started

at a senior level in both countries -- changing the momentum and changing the public framing of that -- and I think that that will itself get a lot of other things moving. It creates a lot of possibility that now is undermined by our failure to achieve a kind of sense that each of us is moving forward, we respect what the other is doing, and we're cooperating in a significant fashion. So, that's really why our report takes the particular focus that it takes on this issue.

MR. THORNTON: I'm going to take one final question.

Sir, right here.

MR. CHEN: (Inaudible) Chen, National Science Foundation.

My colleague's right in front of me. I always enjoy his remarks. And thank you for the excellent remarks.

About two months ago I came back. I was head of the National Science Foundation Beijing office and of the U.S. Embassy, and we are the staff working level. We worked on the SED and also working on the development and energy activities, and obviously some you endorsed it and some of you not endorsing it, and I would like to know what you recommend for the new administration to take on, and obviously some of them they would take on and some they would not. And also just one very interesting issue that we fight very hard is Indonesia's illegal logging, and we fight very, very hard with China. So, thank you.

MR. LIEBERTHAL: Well, you know, our report focuses on a couple of issues that we suggest as ways to get started, right? That, by no means is a full agenda of what ought to be done, and that agenda has to be fleshed out once there's agreement on how to get started I think. Inevitably, you can't get all good things accomplished, and so there's going to have to be a sense of what package will fit together and really enable solid cooperation to develop. That gets beyond the specifics of our report and it's a more detailed conversation. My sense is, for example, a lot of the illegal logging in Indonesia feeds into particular corporate interests in China, and it's, you know, it's politically difficult for them to manage that situation.

But, I don't know, Liz, do you want to add something?

MS. ECONOMY: Yeah, you asked about Indonesia logging with China, right? Yeah.

No, I just -- I remember talking to people about it.

I think -- you know, there's a number of parts to the SED in the environment and energy and none of them, you know, is the wrong thing to take on. They're all important. I think I'd go back to the earlier point, though, that I guess I'd want to know how much of the SED agenda emanated from us and how much of the agenda emanated from China and what we can get from the Chinese first, because I think otherwise we

have a situation where we present the Chinese with a lot of things, a lot of great ideas, and then they sort of go yes, no, no, no, no, no, no. no, oh yes, yes. But I think we need to hear from them what is it that they want, what are they prepared to bring to the table. That's I guess how I would begin, because I think for too long our environmental cooperative effort has been things that we think and know, and some people in Beijing, too, know and think they want to get done but they don't really have the capacity to get it done, and a lot of the tugging -- I think the tug of war that goes on between the two sides, you know, sort of -- we're going to do this initiative, but then the meeting fails to happen, you can't figure out why the Chinese aren't responding, what's going on. I think that happens because they don't really have the capacity to do what it is that they want to do. So, I think, you know, it needs to come a little bit more from them. That's my --

MR. LIEBERTHAL: I just want to make one last comment.

There is one of our recommendations that we forgot to mention as we kind of did this, and that is one of the nine recommendations is that there are specific things we can do that will assist in capacity building in China that we ought to do that will better enable the national level government to understand what's happening on the ground in China and to gain leverage. You'll find that in the report. It's a very important issue. Will not

solve all problems, but it's certainly an issue that we need to address and I think that we can address at least in some positive fashion.

Any other comments?

SPEAKER: Thank you. I just want to make an announcement that we think alike, and the National Science Foundation will start a climate cooperation with our counterparts. We're going to have a program on that particular issue.

MR. LIEBERTHAL: Thank you.

MR. THORNTON: Okay, well, all good things come to an end unfortunately. I want to thank you all for coming.

Brookings has three core values -- quality of its research, independence, and impact of its research. This particular session is focused very much on impact of a very high-quality, independently produced report, and if you're here I'm assuming you're sympathetic to this either through the U.S.-China lens or through the clean energy climate change lens, either one. Please read the report carefully, go out, help us make an impact. You've got good and better ideas, offer them up, and really help us all make a difference.

And then, finally, join me in thanking Ken, David, Stu, and Liz for this wonderful session.

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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