

U.S. Climate Policy: Toward a Sensible Center

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Excerpt: James Connaughton, Chairman, White House Council on Environmental Quality

MR. TALBOTT: Good morning. We're going to get started in just a few minutes. I'd like to encourage people in the hallway to take their seats. Our first speaker, Jim Connaughton, is on his way and should be here just in a couple of minutes. So hopefully everybody can come in from the hall and take their seats. Thanks very much.

[Pause.]

MR. TALBOTT: Good morning. If I could encourage people in the hallway and standing in the back to take their seats, our first speaker is here.

Good morning. If I could encourage everyone in the hallway to come in so we can get started.

MS. CLAUSSEN: Good morning. Before I introduce our speaker this morning, I thought I would say one or two things about yesterday, because in a sense, the session this morning sort of follows on yesterday's session about U.S. national policy.

I think we had a lively and entertaining session yesterday. I think for the most part, the speakers that spoke talked of a mandatory program and a cap and trade program. We had some very good discussion, I thought, of technology and the importance of that both from Secretary Abraham and from Mike Morris. I think we heard some differences in the policy discussion, but they were relatively small. And so, Jim, I don't want to set you up totally, but just a little teeny bit.

In your remarks, if you could say something about if we did go into a mandatory system at some point, whenever, if you have any thoughts on what that might look like or what kind of direction that might take and/or some thoughts about when you think the time might be ripe for something like that, that would be great. If you don't want to, that's fine. But there was a lot of discussion about those kinds of questions yesterday, and so it might be interesting to get your perspective.

And so, with that, let me introduce Jim Connaughton, who is the Chairman of the White House Council on Environmental Quality. He was a lawyer with the law firm of Sidley, Austin, Brown & Wood before. I've often wondered what would make someone leave a presumably good law practice and go and work at CEQ, but Jim has done it for three and a half years, and he is still smiling, so I guess there's something in it.

I think it's really important for us to hear sort of administration policy on this issue, and there is no better person than Jim to give us that.

MR. CONNAUGHTON: Thank you, Eileen. Good morning, everybody. I understand that several folks who are here today flew back from Bonn so they could come here--not me, of course, but all the speakers yesterday. So I'm glad to see that the Pew Center and Brookings are as big a draw as the large international meetings.

I was very much looking forward to this day and a half of activities, and I particularly appreciated the title given this conference, "Toward a Sensible Center." The underlying theme of my remarks this morning is actually going to focus on that, which is actually I think we have arrived at the sensible center in our discussions both domestically and internationally. And certainly from the remarks that I looked at from yesterday and I think what you will see during the course of the morning is a fairly dramatic common ground across a wide range of activities and thoughts and approaches in terms of action, in terms of forward progress on the subject of climate change that leaves, I think, a lot of the rhetorical flourishes that tend to dominate much of people's attention, leaves that sort of the wayside. So that's what I'm going to focus on.

I'm actually pleased to go ahead of Wayne Gilchrest, a Congressman that I have worked with extensively over the last couple of years, and who is among the more thoughtful Members of Congress that I've dealt with on these highly technical issues that involve very complex policy solutions. He gives a lot of thought to them, and certainly as do Senator McCain and Senator Lieberman, they really do dig in and do their homework. So I feel privileged to be part of that conversation.

In my travels around the world and my work domestically--and this, again, is the overarching view--I think where we are in the discussion on climate change is on a remarkable 80, 85 percent common ground. When I talk to my counterparts, whether it's in Australia--and Australia is not going forward under the protocol, as the United States is not--or whether it's with Canada and the U.K., when we sit down and dialogue as to the suite of domestic measures that are being employed to make meaningful and real progress in reducing the growth of greenhouse gases, that suite of measures looks a heck of a lot alike. The only thing that I take away of difference is in many respects the U.S. remains--in most respects, the U.S. remains the leader on each of the major areas of action. There are a few innovations occurring in other parts of the world that we can look closely at and we can learn some lessons from as well, and I will take some questions on that.

But when I look at the common ground, when I look at the common cause, and I look at the common understanding, it exists. It's in this room as well. And so that's where we need to go. I was tasked with domestic policy, but I'm going to bleed into international a little bit toward the end. But it's actually building on that common ground. It's growing the understanding, continued understanding of the issue, and that's by advancing the science. It's growing the inspiration toward the longer-term solutions, and that's the transformational technology that Secretary Abraham talked about yesterday. And it's building the architecture, our capacity to think about, to analyze, to have the data we need to make smart economic decisions to further promote productivity and efficiency and reduce greenhouse gases, as well as the information networks among and between sectors by which more sensible capital reinvestment occur that is, in fact, the answer to reducing and eliminating greenhouse gases in many areas.

And so we are well underway, so I will highlight, I will talk about a few key areas. One is how we are advancing the science and what we are looking at and what matters from an immediate policy perspective; two, I won't spend a lot of

time on the transformational technologies, but I will highlight a few that Secretary Abraham did not mention because he had a very sort of energy technology focus; and then, three, I will get into a range of these sensible mitigation measures nearer term and how we are constructing a domestic constituency around that, and then also how that is expanding out into the network among those most in need of taking action collectively. And so that is where I am going to take us this morning.

In the back, when you leave, I've got a little--I always have a fun CEQ packet, and there will be a few charts in there, and I am going to speak to a couple of them. But you don't need them because my points are fairly simple.

Advancing the science, I need to begin there. There's a lot of talk about what the Bush administration does or does not "think" about the science. And I'm always amazed at the different reflections as to what my boss, the President, has to think about the climate on science change. The best place to go to see what the President thinks about climate change is to the two speeches he gave about the science of climate change which were largely guided by the work that we got from the National Academy of Sciences. What we think about climate change science is no further or no less than what the National Academy had to tell us, and it told us a lot of interesting and useful things.

I'm not going to give you a paraphrase of what we think about climate change because I've found in the area of climate change science, one of the most challenging and most controversial aspects of it is attempts to summarize. So I will leave the President's words, and I invite you all to read his words, because that is what he think about climate science. And I will leave you to the National Academy--and all of you, many of you were students of that very good piece of work and guidance in terms of a sense of what we are working from in setting our policies.

I would note, though, the National Academy gave us a clear direction that we have taken a major stride, and that was to finally come forward with a major strategy on how we are going to deploy over \$20 billion of U.S. taxpayer money, complemented by almost an equal share from every other countries of the world combined. The U.S. still funds about half of all climate science under the Bush administration. And we went through a very challenging and very open process of developing the ten-year strategy. It was a process led by and completed by the scientists, and we received a lot of good commentary, some harsh criticism along the way, but we ended up with a product around which everyone can orient themselves. We have for the first time in the world a comprehensive ten-year strategy that will help to deploy not just our funding, but also help deploy the funding of the rest of the world in a much more targeted way and in a way that produces science outputs that are of higher--of increasingly higher relevance to us as policymakers.

So, again, most of you are in the club and pay attention to that. It's a fabulous document from which we can now work and orient ourselves. It will sustain a lot of the efforts, but it's placing renewed emphasis on still some areas of high interest to us as well in terms of some of the gaps that have been identified in understanding and some of the areas especially in terms of other

greenhouse gases or constituents that could affect forcing, on which we actually may have some pretty cost-effective ways of dealing with them, if, in fact, the science, you know, continues to bear out, issues such as methane or black soot, if it continues to bear out that they do have a substantial contributing effect. We know there are things we can do there, too, and make some real progress. So we have to calibrate the science to action in terms of knowing what we're delivering.

On the technology side, there's not a single person--I don't imagine I'd catch any different view here in this room, certainly don't catch it internationally. Technology is a major component and good practices are another component. I actually put that in under technology in the modern age. I mean, that's how we're going to slow the growth of greenhouse gases. That's how we'll do it in the United States. That's how we'll do it in China. That's how we'll do it in India.

Now, to pay for technology requires money, and so much of our activity has to be oriented around the kind of growth in capital--in sort of economic infrastructure that fosters capital stock turnover, so getting rid of our old stock in the U.S. and getting investments in higher-yield, more efficient stock when it's brand new in places like India and China. It's a very simple--I mean, at the end of the day, there's nothing complex about it. It's very simple. You need new stuff, and new stuff tends to be more efficient and it tends to utilize fewer resources these days. It tends to intersect and interact better across sectors, and so we really--we actually need more tax experts and finance experts and, you know, economic experts working on these issues both here and abroad, because unless you have the wherewithal, you don't get the reductions.

Now, the other approach, which we reject, is an approach of just shut things down. That's the anti-economic growth path, and that's not one that most people in the sensible center support. You know, shutting down jobs, shutting down enterprise is not--you know, it is not a winning or long-term sustainable strategy, although it could deliver short-term gains, as we saw with the economic slump that occurred a couple years ago.

No one take credit for that, I was glad. Neither the Bush administration nor anyone on either side of the ideological spectrum took credit for the reduction, the absolute reduction in greenhouse gases that the U.S. enjoyed two years ago. We shouldn't take credit for that. That's not the kind of--that's not the basis on which we should praise progress. However, what we can take credit for is when we're reducing greenhouse gases in the context of growth, and we should be applauding that.

So where do we begin in terms of understanding where we go with technology? I'm going to begin with Eileen. It is Eileen who, in her wise words, said climate change is too big a challenge for any one solution. It is going to take a wide-ranging portfolio of technologies, from energy efficiency technologies in hydrogen to carbon sequestration, renewable fuels, coal-bed methane, biofuels, nanotechnology, and biotechnology. Developing these technologies and getting them to market is going to take a lot of hard work. We cannot just snap our fingers and make it happen. Eileen Claussen, our esteemed host today--and we are pleased that she gave such a solid endorsement of the Bush administration thinking on the very same subject.

We recognized this back in 2001. It actually followed from a number of conversations we had with Pew and a whole host of other people contributing to our Cabinet process. And you needed an orienting concept. Everyone talks about targets and timetables and all these things. You needed an orienting concept. We came up with ours. It's the one in which we thought we could build not just a domestic audience and constituency for action, but it's also one upon which we are fairly well assured we can build an international one, especially with the key developing countries who are going to rely on fossil for their future. And that is to come up with an intensity.

We've picked an intensity as our metric of choice for recognizing real gains in improvement, and the President, as many of you know, set a goal for 2012 of improving the greenhouse gas intensity of our economy by 18 percent. That prevents the emission of over 500 million tons of carbon over that time, and, again, all of you know that climate is largely an issue of the accumulation of greenhouse gases in the environment. And if we can get more people oriented toward reducing the accumulation rather than a select few, which was the Kyoto construct, we can make sustainable gains in reducing those accumulations.

It also then spreads the progress--you know, by focusing on intensity, it spreads the progress and recognizes the investments that are more productive and efficient. You don't get credit by reducing your population very much. You get a little bit. You don't get credit by shutting down enterprise and moving it to other countries. You know, it softens the credit scale. And it also happens to be, if you're talking to a China or an India, that's the thing they want to talk about. They want to talk about economic growth, and they want to talk about being an increasingly efficient and productive place for people to invest. Investors like to go to productive and efficient places. And so if you align the self-interest of countries who are developing in terms of economic growth and quality of life for their people with your greenhouse gas interest, you can actually make great strides. If you cut against them, you can just bring things to a crashing halt.

That's why we're focused on intensity. It is not an original concept. It was much in discussion in the early '90s. It was renewed as a discussion in the mid-'90s--I'm sorry in the late '80s. It was renewed as a discussion in the late '90s. But it was overtaken by the sort of absolute reduction approach of Kyoto. I think that was an unfortunate development. I think we need to get past that.

Now, on technology, Secretary Abraham went on at length about the energy-focused ones--the hydrogen fuel piece. I would note, one of my charts as we look at the technology piece, as we stand here today, if you look at the direct and indirect emissions attributable to our four major sectors--this is Energy Information Administration. I keep hearing manufacturers need to do more, is what I hear all the time. Manufacturers have to do more. Now, they represent one of the largest shares. But it is a fact as we stand here today that the attributed greenhouse gas emissions to our industrial sector are at or below their 1990 levels. Yes?

MR. : Could you just explain [Inaudible]?

MR. CONNAUGHTON: It's the percentage change, U.S. carbon dioxide emissions percentage change by sector. And I've got the residential sector, the

commercial sector, the industrial sector, and transportation. And they're in the packets. But it's a simple equation I want to give to you.

Our manufacturers are as productive or more productive, more efficient than ever before, and they're getting better all the time. But their attributed greenhouse gases are at or below where they were in 1990. Where we've seen the rise is residential, people in their bigger--more people in bigger and larger homes; commercial, more people in America in bigger and larger office buildings doing more and more service work that's part of our expanding economy; and in transportation, more people owning more vehicles, traveling more miles, with an integrated economy that ships goods from California to Maine within an 18-hour period of time very cost-effectively.

And so when you're talking about people, more people in bigger and expanding homes and more people doing more services and more people moving goods by wheel and by plane, that requires a fairly comprehensive and sort of tailored set of solutions and choices, but, again, nearly all of which turn on innovation and advancement in technology. People will not move into smaller homes. I cannot come up with a legislative proposal to get someone to move into a smaller house and to turn off all of their computers and stop buying them. But what you can do is work to bring forward the products that deliver those amenities in a way that uses a lot less energy and, therefore, produces a lot fewer greenhouse gases, and, by the way, fewer pollutants to boot. You get the near-term benefits of pollution reduction as well as the longer-term benefits of greenhouse gas reduction. Which is why, in addition to all the technology pieces on energy that Secretary Abraham talked to you about, we have a host of other things going on. One is sound tax policy. Very few in this group I think have really focused on the fact that the new rules on expensing, which is, you know, fixing the depreciation schedules for the purchase of large capital goods, the new rules on dividends, which actually allow for the formation of more capital toward the purchase of large capital goods, is going to have an enormous benefit in terms of pollution reduction and reducing greenhouse gases.

We are already seeing in the current boom major investments in turnover of equipment that's often 30 and 40 years old for equipment that is much more productive and efficient. And it is U.S. technology providers largely who are providing those goods and services. So it also has the benefit of fostering further U.S. job growth. But it's tax policy that is making the difference there, and it's macro tax policy, not micro tax policy, that is going to make the big difference there.

Now, at the micro policy basis, economic policy basis, we're still waiting for Congress to unleash over \$4 billion in tax incentives that are targeted at the very technologies that can help jump-start some of these transformations, whether it's hybrid vehicles or increased solar, geothermal, and wind power. I think Secretary Abraham mentioned to you that the U.S. has more installed capacity in all of those than much of the rest of the developed world combined. We can do a lot more in that area, and we should do a lot more in that area.

At the same time, we know that there's technologies available to us to substantially cut not just the pollution from coal, but the greenhouse gases from

coal. And that's a big deal because coal is cheap, it's reliable, and it's here in the United States of America. And I think you heard from West Virginia yesterday and you heard from some of the coal-based users, they want to be part of the solution, and they are working hard to be part of the solution, not to be the problem.

It is incumbent on us in the United States to bring forward those technologies and develop policies that will attract new clean-coal technologies, because if we don't get it right here, it won't be gotten right--pardon my English--in places like China, Poland, India, and other places that are going to grow their economies on coal. So we need a strategy that creates a massive increased capitalization for new clean coal.

Now, even the current generation of clean-coal technology produces electricity more efficiently from coal, even before you get to some of the sequestration approaches. Things like gasification, they're showing, you know, 10 to 40 percent efficiency improvements from the same amount of coal. That alone reduces or offsets the growth of greenhouse gases.

We need an air pollution strategy, which we've got, that will spur what will amount to about a \$50 billion market for advanced coal technology to be retrofitted on current plants and to be installed new with newly built plants.

Now, you only get that investment if there's a certain and clear path for coal. If there's not a certain and clear path for coal, the investment shifts to things like natural gas and other sources, which affect energy security and other issues. So we need to strike that balance, that sensible center.

Also, we talked about--Eileen asked about mandatory programs, but we still have a mandatory program that has a significant effect currently on checking the growth of greenhouse gas emissions, and that's our fuel economy--our CAFE system. We, the Bush administration, moved forward with the first increase in over a decade targeted at the most consequential vehicles, the SUVs and the large trucks. We are impeded with the current design of CAFE because of the way it was constructed, well intentioned, but it has led to some unintended consequences. We are impeded with its current design.

We can do more incrementally in terms of fuel economy with the current CAFE system. It is our view that we can further increase fuel economy while saving lives and keeping jobs in America with the reform of the CAFE system. But all three are important. You've got to want to save lives. If you have an approach that produces more deaths, that is not a winning strategy in terms of fuel economy. If you've got an approach that drives jobs out of America, that's not a winning strategy either because you're affecting our ability to grow our economy, to keep people employed, and purchasing the very new technologies that we need that turnover in. We care about jobs and keeping them here.

That is one of a series of mandatory programs that are currently in place that actually we do employ, including energy efficiency standards and other programs. They exist today in America. They'll continue to exist, and as it turns out, we have more mandatory programs on the books today that either keep greenhouse gas emissions in check and are reducing them than many other countries around the world in the developed world. And it continues to amaze

me when we receive criticism as Americans when, in fact, we still are sustaining some of the more innovative programs.

The other thing overlooked: diesel. By pushing for tighter standards for diesel, the technology, the automakers have been struggling, but they are now on the brink of perfecting up the technology that will deliver clean diesel. These are diesel passenger vehicles and trucks and what have you that have the same pollution--very good pollution profile of our gasoline-powered vehicles. We're talking about 99-percent cuts in pollution from diesel--pollution from diesel, which means we can continue to have a market for diesel. And those of you who track diesel, again, you're talking about 10- to 30-percent improvements in fuel economy just by shifting to a diesel fleet. And to create the opportunity for diesel rather than eliminate that as a technology is also something that we're about.

Just in the last year, we've had these breakthroughs on hybrids and diesel and hydrogen all in the same year. That's a good, winning strategy because you have a portfolio of competitive technologies. That's what economies are built on. And all of them are lower polluting and lower greenhouse gas emitting, and that's a very positive development.

Now, the farm bill. Overlooked in our strategies is the farm bill, \$40 billion over the next ten years that is going to mobilize our farming and agricultural community. A plank of those programs is dedicated to carbon sequestration. There's now a massive incentive that will go to farmers and ranchers coupled with the infrastructure that we're building on reporting and quantifying reductions from that activity that's going to bring our farmers into a very active mode, applying for incentives to do sequestration, at the same time then understanding how they're doing and rewarding those who are doing the best when it comes to sequestration. That didn't exist two years ago, let alone ten years ago. But we are now coupling real incentives with real measurement and reporting regimes that will engage our agricultural community in a very affirmative and proactive way. You will not regulate them into reducing greenhouse gases, but you can incentivize them and give them the tools they need to manage better. And that is unfolding, and we're very excited about that.

And then every title of the energy bill except the climate title has an action-oriented component to it, whether it's bringing forward--allowing us to add some nuclear capacity, especially to existing facilities. The ethanol piece has net greenhouse gas benefits. I could go on. But each title of the energy bill that's not labeled climate has action that will go toward reducing climate change, even the provisions on transmission. A more dynamic and open transmission system actually nets greater efficiencies. It delivers more electrons to the source with less output. That's why we need to rehabilitate our transmission infrastructure.

Then, finally, on climate vision and climate leaders, you heard about that. We, the Bush administration, got the major emitting sectors to make specific commitments. Now, people can talk about whether the commitment was good enough or went too far or--you know. The point is they're taking specific commitments, and as sectors, they are mobilizing their own information channels to work toward this efficiency and productivity in reducing greenhouse gases in a

way they hadn't done it before. That's building the fundamental infrastructure constituency for success. It also means they'll be looking each other's shoulders to see who's doing it in a way that's making a buck. And the way American industry works and the way globally successful industry works is, if you can do it in a way that makes a buck, people will do it if it makes a buck. And that's information exchange. That's how markets work. If it's a cost, if it's a net cost to an organization and their shareholders, they tend not to invest in that kind of activity. And so bringing them in a constructive way toward an organized and common target, it is my expectation that every one of these sectors will exceed their targets, because that's what they tend to do, have been taking a target. We know that from the EPA's 3350 program. But working together as a sector with some leaders within their sectors, we think that's a very positive step forward, and they'll be leaders worldwide.

Finally, on the domestic side with funding, Secretary Abraham went on at fairly large length on the energy-related components. I just want to highlight in addition we have the farm bill money that gets overlooked, and that is a massive investment. We have the \$200 million going right now toward foreign aid programs that are deploying advanced energy technologies in the growing and developing world. And then these tax incentives, before you even get to the tax package, the targeted tax incentives is a \$700 million increase for greenhouse gas reductions through these energy tax incentives. And that's before you account for the huge benefits of the tax reforms that have gone through.

I will conclude on the international piece, which is focused on--and, again, you'll see this chart in your packages. It's our view that the real opportunities in the near term for reducing greenhouse gases--this is the near term internationally--are with those countries who rely on fossil fuels. And what we really need is a constructive engagement with those countries, and it's the countries that have like portfolios that will be able to come together on common strategies because they're all oriented around making the same kinds of economic choices, you know, to enhance the quality of life for their citizens.

I always say, when China emerged on the stage with respect to climate change, the first time they emerged publicly on the stage is when UNEP, the United Nations Environment Program, applauded them for substantially improving their greenhouse gas intensity. That was the first time you saw a press release out of China because they want to be--you know, they're citizens of the world. They are a big player in the world stage. And to have acknowledgment for improving their efficiency and productivity and reducing greenhouse gases is important to them. But growth is important to them, too.

Now, when you look at this chart, you will see huge opportunities for substantial reduction in the growth of greenhouse gases if we can organize the fossil fuel-using countries of the world around common strategies and shared technologies and capacities. So that's the take-away point there.

We have started that architecture through over 14 bilateral partnerships with most of these countries, in addition to some of the broader multilateral ones, as Spence Abraham talked about yesterday. That architecture is underway. The conversation is two years underway already. We're not waiting for it. The Kyoto

process is going along and this process is going along as part of our shared commitments under the Framework Convention on Climate Change. That's a common platform from which we all can act, and I can't tell you--I can't underemphasize the enthusiasm for these discussions that we're getting on a bilateral basis. And I cannot underestimate the action that is flowing from these conversations, which is not currently flowing out of the Kyoto discussions. I only contrast them; they're all moving together. So please don't take that as a disparagement. I just want to highlight that we need all these pieces moving in concert, and that's how we'll make progress.

So, in conclusion, I think as we stay focused on the sensible center, as we stay focused on the portfolio of action, as we get away from the rhetorical demonization that continues to captivate some of the front pages and some of our--even I've seen speeches recently where some of the remarks on all sides, I mean, it's just been wrong. We need to stay focused on the sensible center and focused on action, lots of--it's hundreds of actions, it's hundreds of thousands of individual actions, and reward those who are doing it best and most efficiently because that will spur greater action.

So that's where I'll conclude, and I'll take questions for a few minutes.

[Applause.]

MR. CARTER: Hi, Jim. Tom Carter with the Portland (?) Association. How are you? I have a question about the climate vision program. I know that the participating industries have been farmed out to various agencies, in our case two different departments. But my question is: How engaged has the White House remained in the program since the rollout last year?

MR. CONNAUGHTON: We have remained regularly engaged. The President set forth, as you know, in 2002, a very comprehensive strategy directing each of the departments to take on certain tasks. We have regular follow-up meetings that I conduct across the suite of programs--the technology programs, the science programs, the Climate Vision Partnership.

You know, to throw out one example, methane is an area I mentioned earlier. In the United States, we've actually reduced our absolute methane emissions. You know, we're focusing on these other partnerships, too, not just the climate--you know, the climate vision was built on some of those successful partnerships.

We're finding some sectors are ahead of others in making progress. All sectors are moving forward. My benchmark is forward progress and expanding the base of participation, and that is occurring. And so I see all that as a very positive development. Again, we stay very closely attuned, and if you pay attention, we get reports, you know, written reports from different Secretaries on their progress to the President. And then that gets worked back through the Cabinet process. We circulate that back out to all the members of the President's Cabinet review group. So it's been very active. There's not a week goes by when we're not having a meeting on one issue or another related to the President's plan.

QUESTIONER: Mr. Connaughton, you observed, I think very accurately, that probably the most important thing going on now or one of the most important things going on now is the technology choices that are being made in India and China and the other fast developing countries well endowed with coal.

Dr. David Montgomery, who is a quite well known energy economist, has recently published a paper suggesting that one of the ways that those countries might dramatically improve the energy efficiency of the technologies in which they're investing is through eliminating some of the barriers to foreign direct investment that blocks more modern technology from being employed.

You referred to the U.S. Government's program to encourage more benign technological choices. I wonder if you've looked at the issue of barriers to foreign direct investment as an impediment and what more generally the U.S. strategy--what you believe the U.S. strategy should be for encouraging those more efficient technologies to be employed rather than less desirable ones.

MR. CONNAUGHTON: I've got two of three components. Thank you for the question because it is fundamental that we get more foreign direct investment in these other countries. And you are correct, there are some fundamental barriers to doing that.

It is our hope at the diplomatic level--it's not our hope, actually. It is our current realization that with these bilateral conversations we're able to identify in a setting that is policy relevant and high enough to effect policy some very targeted opportunities to remove barriers. So that's focused on energy and pollution and greenhouse gases.

At the broader level, as you know, our broader trade agenda and our broader development agenda is very much oriented toward opening up these markets for--and reducing--providing the surety. You need to address corruption, you need a good system of private property rights, and you need a stable economic system where people invest for 30-year and 50-year horizons rather than currently in many of these countries where it's cut-and-run investment. You go in, you take what you can, and you get out because there's no certainty.

So, again, our macro policy related to our development agenda, and countries like those who are qualified for the Millennium Challenge Account, that whole process is going to create a very intense competition in the developing world for countries that do get their act together on anticorruption measures, rule of law, do get their act together on stable economic institutions where investment can occur over the long term. And I am very confident that those MCA countries, or the ones in between developed and developing, I'm very confident that they're going to create that kind of competitive pressure, which will then open up some of these other markets.

The third component in countries like China and India is we should focus on their needs, and their immediate need in this area is for cleaner energy, i.e., lower criteria pollutants, because their people are living in choking smog and their people are inhaling particulates and getting huge, huge health impacts, much like we experienced, you know, in many of our industrial areas around the turn of the century and shortly thereafter.

If we can work with them on their immediate need, which is choking pollution, we can develop the policies and help them to construct the policies that will also then bring forward these very technologies that produce massive efficiency gains as well. And until we work with them and focusing on their immediate need, they will not talk to us about greenhouse gases. That is not their

immediate need. That's why the winning strategy is that common ground. Let's work with them on air pollution, and the greenhouse benefits will follow, in my view--not just my view, in my experience. That is where we are having the most proactive and constructive gains, not just at the diplomatic level, but in terms of getting technology partnerships going. And that's what we need to focus on. It's what happened in America. I mean, that's how--our energy is going up and our air pollution is going down dramatically. With that is increasingly efficient energy output. That's a winning strategy for the near term as we work for the transformational technologies in the long term.

Right here in front.

QUESTIONER: Peter Frumhoff (ph), Union of Concerned Scientists.

Given the administration's current opposition to establishing a cap-and-trade approach to regulating greenhouse gas emissions at a federal level, can you give me your and the administration's perspective on the nascent efforts to do so at the state and regional level in the United States, particularly the regional greenhouse gas initiative in the Northeast, and whether you're in any discussions with governors of those states about that process.

MR. CONNAUGHTON: The President called for--and it's been reflected by other thoughtful people like Eileen--a comprehensive nationwide set of activities. There are things we can and should do at the federal level, there are things that states can do at the state level, and there are things, by the way, that localities are doing in terms of building codes and other things at the local level. We are a strong endorser of actions and policies at all levels of government.

We also have a fairly high level of confidence that at the state level, states will not choose policy measures and design them in a way that will hurt their economies. And as I see some of these proposals being revised through state processes, that seems to be bearing out.

And so the extent states come up with state-relevant experiments that can produce meaningful outcomes without hurting their economies, that's a good thing that we could all learn from, and we certainly encourage and support that.

I won't speak to any specific initiatives because they're all--I mean, there are hundreds of them. It's very enriching to see. Some would appear to me to be problematic in their initial proposal from this economic perspective of doing it in a way that grows economies. But they're still early on in their policy development process, so I would expect them to be adjusted over time.

One thing we cannot do, whether it's at the federal level or the state level, we cannot design solutions that merely shift not just the greenhouse gases but merely shift the pollution someplace else. That's not a sensible outcome from an environmental perspective. That is why Kyoto wouldn't work even if you wanted it to work in America, because the net outcome would really be to move the emitting jobs to countries that don't have requirements, most of which are less efficient and less productive than we are, which means all that happens is greenhouse gases go up. You know, the goods and services still occur. The jobs are still there, but they're in places that don't have a commitment, and we're increasing the pollution load and the greenhouse gas load. That is not a sensible outcome, which is why we need these common-ground strategies.

The same occurs at the state level. It's not a winning strategy for a state to merely have a policy that forces the emitting sectors someplace else. I just would--if any state person asked me, I would not recommend that strategy because you haven't solved the fundamentals of this transfer and this reinvestment in capital as the solution rather than just shifting the burden someplace else.

Two more questions. In the back, sitting down, yes, you, ma'am?

QUESTIONER: Ann Canby, Surface Transportation Policy Project. A lot of the discussion over the last day and a half in the transportation arena has been on technology, and I'm wondering if you see any role for incentives to encourage a more balanced use of our transportation system, i.e., better transit, better pedestrian, and also the integration of land use and transportation to help reduce demand as a part of this solution.

MR. CONNAUGHTON: I think, at least the limited amount of data I've seen, we are headed on that path as a result of good old-fashioned macroeconomic activity in and the market forces. We need to stay focused on things like subsidies that do not make sense. We need to stay focused on policies that are creating the wrong incentives. There are some policies that create barriers to some of the outcomes you're talking about.

I will always remain cautious about micromanaging a particular suite--again, three years ago, nobody was talking diesel. And, in fact, people were vilifying diesel. And yet, you know, the manufacturers toiled away and are coming up with a technology solution to eliminate the pollution from diesel. Diesel is a huge opportunity for us that, if we got into a micromanagement mode saying, well, we don't want diesel because of this, even though it delivers, you know, pollution, because it delivers a greenhouse gas benefit and improved fuel economy, I want to stay away--government is not very good about picking winners and losers among those competitive sources. But what government can do and should continue to do is remove the barriers that can impede some of these better approaches. And you are certainly right when you're talking about consolidation and better integration of goods and services, that's what biotechnology is about, increased yields from less land, more consortia working together using more--you know, the platforms for rail. I mean, rail is a very efficient mode of transport. But that requires a different infrastructure. And we've got lots of issues. You know, people want to see more natural gas and less coal. I see that from a lot of folks. But getting the gas pipeline built creates its own set of environmental issues and it's own challenges. So there's not a single solution to this. We have to keep pushing for just--let the market keep driving us toward greater efficiency and productivity and rewarding that behavior.

One more question. Right here in front.

QUESTIONER: Laura (?) , I'm a counselor at the French Embassy. I'm particularly grateful to your presentation and the file you gave us with some charts. It is very important to get the facts straight. I'm going to ask some questions about the charts.

First, there is a chart comparing the emissions in 1970 and 2002. So I'd like to check if it's not a typo because there is CO, which is carbon monoxide and not carbon dioxide. And also to check one of the figures, because at some--

MR. CONNAUGHTON: Are you referring to this chart?

QUESTIONER: I'm referring to the chart that was circulated. That's coming from your service, I understand.

MR. CONNAUGHTON: Yes, sure.

QUESTIONER: I'd like to have the answer, but maybe you can't give it just now. Again, on data, there is another chart that says, "Path to long-term stabilization," and I'd like to check if you're talking only on intensity, because you don't have a figure of absolute emissions here. So I'd be very grateful either from you or from whatever specialists in this room to see where we can get the best and available data as regarding absolute emission from the U.S. in the past decades, because, you know, let's get the facts straight.

Again, on the following chart, which is UN carbon dioxide emissions, percent change by sector and GDP, I assume that is, again, a percentage change and an intensity change. But we don't have the absolute figures, so it would be very helpful for us.

Thank you.

MR. CONNAUGHTON: Yes, I'm happy to provide--one of my folks is in the back. We can get together. I'm happy to provide you--I've got charts, all the charts you could want.

On your immediate question, CO should be CO₂--oh, I'm sorry. I take it back. I'm sorry. These are the pollutants. I'm sorry. Thank you.

These are criteria pollutants in America, so these are the air pollutants that have immediate health consequences, okay? And we have cut our pollution in half in America while our economy has about increased by 2.5 times. And I highlight that from the pollution side because we know we can--what we did in America is where we're heading on greenhouse gases. And what happened in France, too, by the way. You had increased industrialization, and you had pollution increasing with economic growth. Okay? There then came a period in our histories--it was about a few decades ago--when we began to slow the growth in pollution. It was still going up as our economies went up, but we began to slow the growth in pollution. We then stabilized. There was a time--actually, I need to get it. I don't have the date in America--when all of a sudden we stopped increasing air pollution. In fact, Brian, you've got to get me that date. We stopped increasing air pollution, and now in France, in America, in Germany, and a few other countries, we are now enjoying economic growth with decreasing air pollution. Again, these are the criteria pollutants that affect people's health as you breathe them.

We are going to follow the same path when it comes to greenhouse gases. It's a question of the time line. But we will follow the same path. I believe it's inevitable. And so what we have to do is we can orient our activities around slowing the growth in places where it's going to grow. That's where you get the investment that's the winning constructive strategy.

You're headed toward stopping the growth, and if the science justifies accelerating that time line--and that's why we have to keep investing in the science--then we've got to work toward measures to reduce the growth. All right? But it's calibrating our actions. If we are only focused on a handful of countries, developed countries, we will not put ourselves on the architecture or the diplomatic path toward a longer-term conversation and longer-term progress to keep everyone on that same curve and trajectory. And that's what this one is about. We've been through this transition many times in the developed world. We'll go through it again on many other issues. But I put that out there as a cause for great optimism, not pessimism, about progress.

So thank you all very much.

[Applause.]