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BY COUNCIL ON ENVIRONMENTAL QUALITY

CHAIRMAN JIM CONNAUGHTON

AND

ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS DAN
SULLIVAN

The Radisson Hotel

Rostock, Germany

9:07 A.M. (Local)

MR. FRATTO: Good morning, everyone. As you know, the President made an important announcement as part of outlining his G8 agenda last week, in his speech that discussed the development agenda and the G8 agenda. And a major part of that is the work on climate change. There's been a lot of discussion since the President made his announcement, a lot of analysis and context, and we want to take the opportunity to be as clear as we can be, and bring as many facts as we can to the reasons behind the President's proposal and the impact of it, and how the discussions are going on here at the G8.

The President's Chairman of the Council of Economic Advisors, Jim Connaughton, is with us today -- Council on Environmental Quality -- is with us today, and will have an opportunity to talk about how his discussions have gone. He did some of this with German media yesterday in Berlin.

And we also have with us Dan Sullivan, Assistant Secretary of State for Economic and Business Affairs. And Dan has been working on the economic portion of the G8 agenda, as well. I'm going to bring Dan up later, after we get through our discussion on climate change. He'll be able to talk a little bit about some of that agenda.

So I'm going to turn it over to Jim Connaughton, and he'll give you a status report and put this into context. And then he'll be happy to take your questions.

Jim.

CHAIRMAN CONNAUGHTON: Good morning, everybody. We arrived in from Berlin yesterday, where the G8 sherpas had further discussions on closing out the text. I'm pleased to say that we're just down to a few remaining items, which is very encouraging.

I'm going to talk about the climate agenda, but I need to, of course, put that in context. The President has placed a very strong emphasis on global development, especially on the issues related to helping lift people out of poverty, and provide democratic institutions and more aspirations for better living conditions and better political conditions around the world.

As we look at the climate strategy, we look at it in that context. Our objective is stronger, more prosperous economies and people who are free. One of the components of that is being able to have access to a diverse supply of energy, and the ability to use that energy in clean and responsible ways. And that's how we look at the issue of climate change.

Climate change -- what is very important, we are at a point in time of a renewal of the climate agenda. And I think under Chancellor Merkel's leadership you're going to see a very strong statement of commitment by all of the G8 leaders on setting -- I call it the next big step forward on this issue.

What you see at this point in time is agreement among the G8 leaders, as well as other leaders of the major economies of the world, that climate is a serious issue; it must be addressed in near-term measures, midterm measures, and it must be addressed over the long-term. I think you're going to see a strong commitment of these leaders to a process

for establishing a long-term goal, long-term vision for substantial reductions in greenhouse gases.

We'll need a process to develop that goal. Some countries, such as Canada and Japan and the European Union, have articulated slightly different versions of what that should look like, countries such as the United States, Russia, many of the emerging economies, that's a conversation we're now willing to join, and looking forward to joining to see if we can establish a long-term vision. That has not occurred before in the climate context. It has largely focused on the near term, not the long term. And so that will be an important aspect.

Secondly, it is also the case that in the last 10 years, each of the major developed countries has established a very substantial portfolio of initiatives, mainly focused on a period of 10 to 15 years. And we have a very firm foundation for what can be achieved, as a matter of technology and as a matter of investment. We're going to be building on that experience, and the President has proposed and called on all nations to see if in the next 18 months we can define nationally relevant strategies in the near and the midterm toward achieving a long-term vision.

And those strategies, we know, include new binding programs at the national level, include new incentives, as well as including, very importantly, technology development and public/private partnerships to make progress.

The President is also suggesting that we expand and more comprehensively deal with some priority issues among all the nations, not just the major emitting countries of the world, but among all the nations in the key area of adaptation to climate change, the issues of land use, in particular addressing deforestation and illegal logging, preventing that, and trying to get to more sustainable forestry practices and agricultural practices, which happen to have a very significant net benefit when it comes to CO₂, and sequestering CO₂ in natural ways.

Efficiency is something that the entire world can benefit from, and that would be a third area on which we can pursue a fairly aggressive new agenda in the United Nations process. And then, finally, technology sharing. Most of you have heard the President repeatedly underscore the fact that the solution to climate change is through technology. And we need some fairly transformational technologies if we're to address two of the biggest sources of greenhouse gas emissions, and that's power generation, as well as transportation.

Third, the President -- his third plank he laid out was a technology plank. The President has made substantial new commitments to funding of research in advanced technologies in the United States, and the President will be calling on other leaders to consider similar increases in their own research and development efforts at the government side, while also calling forth the innovation and resources of the private sector.

The President has also indicated that we would like to see a few major economic decisions taken that will help us make progress in climate change. These include concluding several years of discussions on the elimination of tariffs and non-tariff barriers to trade in environmental and clean energy technologies and services. We impose billions and billions of dollars of tariffs on each other globally. They're an impediment to investment in these technologies. It's time to remove those barriers.

The President has also committed to bringing new focus in the multilateral development banks, to the clean energy set of issues. And we're looking at seeing if we can further prioritize our resources in those banks, and perhaps consider new funding instruments to provide financing at low -- very favorable terms for clean energy technologies.

So this is a bundle. It involves a very earnest conversation among the major emitters, the 10 to 15 countries whose emissions account for 85 percent -- 80 to 85 percent of global emissions and energy use. It includes setting some very tangible commitments, in terms of greenhouse gas mitigation. It includes enlisting the participation and partnership of the private sector, which has largely been left on the sidelines in the international conversations to date. And it includes a real step forward on technology advancement and technology investment.

So with that as an overview, I'm happy to answer your questions.

Q Can you explain why you guys are calling it leadership from the President to talk about continuing to talk, as opposed to just sitting down with the countries who are here and coming to some form of agreement? You've got a lot of stuff on the table that you can work from.

CHAIRMAN CONNAUGHTON: Well, actually, what we are doing is we are making a commitment to an accelerated process to see if we can get substantial agreement among the major countries.

Q But the purpose was to come to agreement now, not to continue talking about it.

CHAIRMAN CONNAUGHTON: Well, actually, you will see a G8 text that's 15 pages in length that reflects a remarkable degree of consensus on an accelerated process forward that involves the major emerging economies. It's going to focus -- this will have an emphasis on adaptation, it will have an emphasis on efficiency, it will have an emphasis on forestry. The very issues that the President laid out in his remarks last week, you will see brought into sharp focus in this G8 text.

So it is also one thing to achieve agreement on a process for a way forward, as well as specific substantive subjects that we are going to tackle. It's another thing, though, to engage the other countries who are part of the -- need to be part of the solution. And so we actually need to accomplish both.

Q You mean developing nations?

CHAIRMAN CONNAUGHTON: The major emerging economies, right. Now, by the way, the rest of the developing countries have an important role here, too, because adaptation to climate change is important to them, and access to the kinds of clean energies we're talking about is essential to their development. You don't have clean energy, you don't have clean water, you don't have sustainable agriculture -- that requires energy to make that happen -- our health care systems are dependent on access to reliable sources of energy.

So certainly, as we look at the rest of the world, they're an important part of this conversation, as well.

Q It would seem that the President and Chancellor Merkel have competing visions about how to achieve long-term reductions. The Chancellor has a specific framework that she wants adopted; the President wants the plan that you just outlined. So how will those competing visions be -- or differences be resolved today? And what will the document reflect? On whose side will it fall?

DIRECTOR CONNAUGHTON: Well, actually, I would disagree with the premise of your question. You articulated the premise of competing

visions when the opposite is the case. You have the G8 leaders who are firmly agreed to most of the elements I've just laid out here. Where there's disagreement is on one or two of the metrics, but even there, there is a process that we're putting in place to see if we can find common ground.

I think it is actually a gross distortion to suggest competition here, when, in fact, you have the leaders agreed that all the major countries should be involved, you have the leaders agreeing that there should be a long-term goal, you have the leaders agreeing that technology is the answer, you have the United States working in partnership with Germany for four to five strong years now on the technologies that matter -- carbon capture and storage to make power from coal with low or no emissions. You have the U.S. working closely with Germany on the fact that we need to find ways to low and zero emission transportation systems, over the longer-term, through hydrogen; over the near-term, through greater fuel efficiency, the use of clean diesels, and the development of hybrids and plug-in hybrid vehicles, in which both American and German technology providers are expert.

You have agreement between the U.S. and the EU that we need to come up with common standards to enable the introduction of these new technologies on a global scale. I could spend 20 minutes talking about the areas of agreement. And so this notion of competition is just flatly wrong.

Q But Merkel actually said that she had hoped that an agreement would be reached now, at this meeting. You guys are pushing it off, in your strategy --

DIRECTOR CONNAUGHTON: You are mistaking the nature of the outcome of this discussion. There will be an agreement; there will be an agreed G8 text at this meeting. There is a huge amount of work left to be done that will fill out the details of the framework that the G8 leaders will commit themselves to. But the details are not on the table, and have not been on the table in any of the discussions yet. There is an agenda that the leaders will lay out for very rapid progress. We're talking about trying to reach an agreement within 18 months. This is very different than the five to six years that the international process typically takes. This is quite consequential, so please, please do not misread the nature of what will come out of this process.

Q But that agreement is not going to include a specific amount of reduction in greenhouse gases by a date certain, correct?

DIRECTOR CONNAUGHTON: The European Union has articulated its energy strategy and laid out specific goals for the European Union. The United States has already articulated a massive amount of commitments on reducing greenhouse gases. Japan has a set of programs and measures already in place. Canada has a set of programs and measures already in place. We are now talking about the next step of developing metrics, developing programs, developing technology initiatives that carry us beyond 2012.

Most of the initiatives that we have been working from ended in 2012 with the end of the Kyoto Protocol. That's when it expires. What we are talking about in this process is what do we do that takes us beyond 2012. That's a lot of hard work. You've got to roll up your sleeves - - that's a lot of ministries involved, it's finance ministries, it's transportation ministries, it's energy ministries, it's the private sector. We are talking about a huge amount of work. That is not the kind of work that the G8 does; the G8 sets the framework, and then we carry the framework out. That's the way it works.

Q But that is precisely the kind of agreement that Chancellor Merkel had hoped to have at this particular meeting.

DIRECTOR CONNAUGHTON: No, that would be a mischaracterization. The details -- a detailed action plan on climate change is not something that the G8, itself, has ever, or would develop itself. It's something we need to do in partnership with the other countries in the United Nations, and then we're bringing a focused discussion among the major emitting economies to see if we can develop a common agenda.

You're going to see a very consequential articulation of what the shape of that discussion should be, and you're going to see quite significant agreement among the G8 leaders on that.

Q Jim, what is the U.S. prepared to accept, and what will the document that you're talking about contain as it relates to the two degree centigrade increase in global temperature, the 20 percent increase in fuel efficiency, and the 50 percent cut in emissions by mid-century?

DIRECTOR CONNAUGHTON: First of all, the President has laid out his domestic agenda on climate. And it includes the replacement of 20 percent of our gasoline usage within the next 10 years; 15 percent of that will be achieved through new alternative fuels and a mandate that petroleum be replaced with alternative renewable fuels. And then 5

percent of that will be achieved through new mandatory fuel economy regulations on our vehicles.

The President has set out between now and 2012 achieving an 18 percent improvement in our greenhouse gas intensity. That's an energy efficiency goal for the nation. And I'm pleased to say that we're on track toward meeting that goal. In fact, we had a banner year where we doubled the annual rate of improvement toward meeting that goal, and we hope we can sustain that.

The President has laid out a goal for the federal government to improve its energy efficiency by 30 percent within the next 10 years. That's twice as fast as the government was able to achieve its last 30 percent improvement. The President has set out his support at the state level for renewable power mandates, and we now have the United States of America, 80 percent of our power under state renewable power requirements. Those are mandatory programs. And the Department of Energy is currently working on a U.S. model standard that would promote a 30 percent improvement in building efficiency.

And so you asked what goals are we setting. The President is setting a broad suite of goals for the United States. Now, the area of disagreement is we believe that each nation's circumstances has to be reflected in the policies that we set. So, for example, we have not come to the G8 insisting that the European Union adopt as aggressive a goal as we have set for alternative fuels. In fact, the European Union has adopted a less aggressive goal. Why? Because it's harder for Europe to do renewable fuels than America.

Europe has suggested a goal on energy efficiency of the economy, which they only adopted a few weeks ago. America -- our Congress is in the middle right now of deciding where we want to go next when it comes to energy efficiency, and the White House is constructively engaged with the Congress on that issue.

So you have already seen, and you will see some very ambitious commitments among the G8 member countries, and we're taking those commitments to our partners in the major emerging economy.

There is no one-size-fits-all to this. Now, we have also opposed -- what we have opposed is the two-degree temperature target. We're not alone in that. Japan, Russia, Canada, and most other countries that I've spoken with do not support that as an objective for a variety of reasons. However, as I've indicated, you are seeing a strong and growing interest in the articulation of a much more practical and

manageable long-term goal of significantly reducing greenhouse gases. And you'll see in a very short period of time -- we hope, assuming the other countries will join in the consensus -- you'll see in a very short period of time a global statement on that point. And that's good.

Q Okay, so we've taken two degrees off the table. What about the 20 percent and the 50 percent? The U.S. achievements aside, and the administration's own goals aside, what is the administration willing to accept in this document -- I gather two degrees is off. Twenty percent and 50 percent, what about those two issues?

CHAIRMAN CONNAUGHTON: As we've indicated, we are going to commit within the next 18 months to reach global consensus on a long-term goal. And that -- you should stay tuned for that, and the announcement of that when the conversations have been had. We have not sat down with China, India, Brazil, Mexico, South Africa. We have not sat down with Australia, South Korea, and a number of the other major emitting countries on this issue. And so until we've got everyone in the room, and until we have consensus among all of them, you won't see a collectively stated goal on that yet, but it's coming.

On the efficiency point, as I've made clear, it's our position, but it's also the view of other countries in the G8 -- the U.S. is not alone in that point, either -- that efficiency goals should be decided and developed on a national basis. So here, too, is another one of those areas where there is strong agreement that we should be establishing efficiency goals. There is significant agreement that those should be established on a national basis. And the only area of disagreement is that the G8 should dictate the national policies of its members, and that's not typically the way the G8 acts.

Q You talk about efficiency and conservation, can you tell us what the administration has done beyond setting numbers and goals on actually practicing conservation and efficiency?

CHAIRMAN CONNAUGHTON: Yes, sure. First, let's take the federal government, itself. The federal government in the last 20 years has achieved a 30 percent improvement of efficiency of all of our operations globally. The President issued an executive order a few months ago where he has directed the federal government to achieve a 30 percent improvement of efficiency within the next 10 years. So we're going to double the rate of progress.

Q Doing what?

CHAIRMAN CONNAUGHTON: We're talking about building efficiency, alternative vehicles, better design of our facilities, lighting replacements. I'm about to issue a guidance to all federal agencies -- this is an area under my authority -- that will direct them to make greater use of energy savings performance contracts. We're talking about what will ultimately be in the hundreds, possibly billions of dollars of new investment in new energy systems and services at all government facilities worldwide.

The U.S. government is the world's largest industrial organization. And certainly we can lead by example, and we're going to. The White House has just had a major facelift, the whole White House complex, and we've done a lot of new green design into those decisions -- just the White House itself -- of course the President's ranch is a model of energy efficiency.

Now beyond the federal government, the President has called for new mandatory -- I'm sorry, the President has already instituted two rules that will lead to a 15 percent improvement in vehicle fuel efficiency of our light trucks and our sport utility vehicles, including the big ones, the Hummers, for the first time. Those have never been subject to mandatory regulation.

Again, here's an area of contrast with Europe. Europe doesn't have mandatory fuel economy regulations. They have high taxes. We have chosen the regulatory approach when it comes to vehicle fuel efficiency.

But in the State of the Union, the President has called for improving fuel efficiency to save up to 8.5 billion gallons of gasoline annually within the next 10 years from the entire vehicle fleet. And so that's a gigantic improvement in vehicle fuel efficiency, especially for America.

As I indicated, the Department of Energy is developing a new model building code that the states can refer to as they develop their building efficiency standards. In America, we set those on a state or local basis. That's not an area of federal legal jurisdiction. But we can provide support to the states in development of those standards.

It is also the case that not just at the federal level, but at the state and local level, there are very substantial new programs on

energy conservation -- so not just efficiency, but just ways to eliminate the waste of energy. And then we have new programs in our energy bill, in the energy law that was passed toward changing out of lighting systems, not just from incandescents to compact florescents, but moving to the next generation of lighting systems, which is solid state lighting, which sips energy -- you know, uses tiny, tiny amounts of energy.

And so you're seeing a transformation in America. Now we're a big country, we have lots of different geography and different settings, whether you're in Alaska or down in Florida, so these strategies need to be tailored to the particular environment in which they're occurring. But there's a strong commitment. I could -- if you want, I could go on and on about efficiency, but just to give you some of the big ones

Let me give you one more: trucks, trucks on the road. We are working on a national program to allow trucks to plug in at night, rather than running their engines all night long, and running their air conditioners or their heaters. The fuel savings is enormous, the greenhouse gas avoidance is enormous, just from a very simple shift in technology from running a big diesel engine all night long to plugging in at night. That's a huge opportunity, it saves money for the truckers. That just requires a lot of infrastructure and a lot of common standards to make that happen. So that's another telling example. We call that the Smart Way transportation program.

Q Can you tell us why the United States is opposed to Germany's proposal of reducing emissions by 50 percent by --

CHAIRMAN CONNAUGHTON: I've not indicated either opposition or support to that. The United States, we have not concluded our own process of deciding what a long-term goal should be. And so at this point in time, we're not prepared to adopt that proposal. We believe we need to get all the major emitting countries at the same table and lay down the different proposals. Germany has its, Japan's has been stated differently, Canada has yet another expression of that, I think China and India will have a different vision as to what that might be. So we think we need to get all the ideas on the table and come up with a common vision rather than at this point in time, pick one or the other.

Q While acknowledging the many areas of agreement, can you rule out agreement this week on a firm target for either temperature or greenhouse gas emissions? There's not going to be a figure set this week that the U.S. agrees to, is that correct?

CHAIRMAN CONNAUGHTON: We've been consistent in stating that for months now, for four months. That was our position going in, and not just the U.S. Again, I think many of you have not reflected on the fact that Russia and Canada and Japan are also part of the discussion, along with Italy and France and the U.K.

We have -- at this moment in time, on that one particular issue, we do not yet have agreement. Will we have agreement? The answer is, yes. From the U.S. perspective, we want agreement on that point, and we want it within 18 months. So stay tuned.

Q Just on that issue --

Q -- is these emerging economies, getting, as you said, China, India, Brazil, South Africa, et cetera, to the table. But some of those countries have said they don't want to be at the table. They don't think that at this point they have to be part of a solution. So what then? How do you arrive at a target?

CHAIRMAN CONNAUGHTON: Well, it's critical that we find an approach that works for everybody. And why is that critical? The United States can tap its emissions, along with Europe, but if the other major emitting countries aren't part of that equation, what that means is our energy intensive industries go overseas to these other countries. Now, not only do you get the economic losses associated with that, not only do you get the social issues associated with that -- the job loss and other things -- but you get an increase in greenhouse gases in those other countries. So you haven't even solved the climate change problem.

That's why we need to find a strategy that does involve all the large emitters, respecting national circumstances. China is in a very different point in its development than India, which is in a different point than where America is, which is a different point in terms of efficiency investments than, for example, where Sweden and Denmark are. So we have a wide range of different areas of success.

The United States is ahead on alternative fuels. Most countries are lagging way behind. So we have different opportunities for major success here. But if we do not come up with a shared vision, if we do not come up with a common portfolio of measures, even though the metrics may be a little bit different, all we're going to be doing is moving greenhouse gases around the world, rather than actually reducing them. And so we need to be quite thoughtful about this.

It is also the case that up until now the focus has primarily been on near-term, low-cost emission reductions. Now, the near-term, low-cost emission reductions among the developed world are important, but are inconsequential in the long-term if we don't find a way to produce power from coal with very low emissions, and if we don't find a way to run transportation with very low emissions.

Anything we do near-term on efficiency will be overwhelmed by the rise of coal-based power generation in China and India and South Africa and Mexico and Central and Eastern Europe and in Russia. And these countries will use their coal. Why? Because they're trying to advance their economies, they're trying to lift people out of poverty, they're trying to provide clean water, they're trying to use energy to run air pollution controls. And you need energy to do all of that. And so the one area of emphasis the President has been particularly strong on is we have to find a shared technology-development pathway, and we have to bring the cost of these technologies down because they're quite expensive today, so that they will be used by China and India and these other countries.

Now, that's a winning place to have a conversation. Why? Because we all care about our energy security, we all care about eliminating the harmful health effects and natural resource effects of air pollution, and we have global consensus on real long-term action on climate change. You put those three together, that's a powerful combination. It just has to be designed to meet each nation's needs.

In the back.

Q It sounds like you're saying that we shouldn't expect any kind of clash or bloodletting among the leaders on this issue. Do we read you right?

DIRECTOR CONNAUGHTON: Yes. I do not anticipate any letting of blood in this discussion. (Laughter.)

Q That's no fun. (Laughter.)

Q I understand (inaudible) post-Kyoto framework, (inaudible) -- are you trying to put this idea into final declaration and what was the reaction from others?

DIRECTOR CONNAUGHTON: The question was, the emphasis on sector-based initiatives. In the last five years, there's been a very clear understanding of the power of breaking this issue into its component parts: How you deal with the issue of coal-based power generation; how we advance more civilian nuclear energy, which has no emissions; how we get more renewables into the marketplace in a cost-effective way; the transportation example I just provided -- how do we prevent waste in trucking systems and with trains. It is also the case that the major industries, themselves, are engaged today in a way unlike they were 10 years ago, which was largely in opposition to many of these measures.

And so it is very important that we break it into its -- the problem into its sectors. It is very important that we then bring the private sector to the table, as well as the relevant constituents who understand those sectors, to design aggressive strategies within each sector that will produce real investments when it comes to technology.

The global nature of that is important because if we can, for example, reach agreement on the clean diesel standard, the global standard for low-polluting fuels that can enable us to use more diesel engines, that's more fuel efficiency, and that's greenhouse gases. And if we do it on a global basis, that lowers the cost to everybody.

We're doing the same thing on alternative fuels. Right now we have different standards on biofuels. That makes it more expensive. If you're an engine manufacturer, you have to manufacture one set of engines for Europe and a different one for America. If America and Japan and the United States and China agree on a common biofuel standard, you just -- one engine can perform in any of those markets; that lowers the cost to everybody.

And some of these biofuels, like clean diesel has a greenhouse gas profile that's 70 to 80 percent lower than gasoline. I mean, that's a huge opportunity for us.

It also gets farmers -- we have to work with our farmers on how we get reforestation going on non-productive lands. And we have to find ways, working with our forest interest, to get verifiable methods of sustainable forestry so we have good, legally running forestry markets in this global world.

This is hard work. This is not setting rhetorical outcomes, this is the hard work on a sector-by-sector basis, solving the problem. Now, we can be optimistic. We pursued a similar strategy when it came to ozone-depleting substances, and we broke it down to its component parts. As a result, we've made enormous progress in the last 20 years in dramatically cutting ozone-depleting substances. I think you can expect the same kind of progress when we look at greenhouse gases.

Take one more. Right here.

Q The European perception is that the efficiency of (inaudible) attempts to achieve concrete goals, the goal of 50 percent by 2050. So, A, what are you going to do to make sure that this perception is not going to last? And, B, is everything you do going to be within the framework of the United Nations, meaning, is this going to be a parallel process to Bali, or are you going to be integrated into that one?

DIRECTOR CONNAUGHTON: The fixation with one proposal and one target has fascinated me. And the fact that it has been a sustained discussion for four months I find particularly fascinating, especially given the fact that we have hundreds of targets and timetables in the climate discussion. Hundreds of them. And so I think you're -- in America we have the expression, losing the forest for one tree. The amount of common action, especially between Europe and the United States, is unparalleled in where we've come in the last five years.

Together we're working to cut 50 million metric tons of -- actually, it's 180 million metric tons of carbon dioxide equivalent through the capture of methane at a profit, including in the developing world. And that's something we're doing with Europe. It's huge. I could give you dozens and dozens of these very specific targets and timetables. And so I would encourage you to move beyond your fixation on one particular target, and one particular goal, and lose sight of the big picture, which is this remarkable degree -- look at the U.S.-EU summit, huge success on climate change and energy security. Why? Because we made real strong commitments on power generation, on alternative fuels, on efficiency, on technology advancement and transfer, common standards. This is the real stuff that delivers results.

So that's what you should be focused on.

In terms of the U.N., this is another one -- a few uninformed activists generate controversy where it didn't exist. Neither we, nor our counterparts in Europe or anywhere else suggested that the U.N. is not

the right place for this discussion. No one has suggested that, that I'm aware of, among the government people dealing with this. And, yet, that has been transformed into, now, I guess a three-week sustained issue in which the Chancellor, unfortunately, is having to deny that that's the case, and we are having to deny something that was never a fact to begin with.

The G8 has consistently -- look at the last several G8 texts -- has consistently said the U.N. Framework Convention on Climate Change is the appropriate forum for handling global action on climate change. Look at the language. You can expect the same language this year. It shouldn't be news because we're consistently committing to it.

What we are doing is we are trying to find a place to have a focused conversation among the big emitters that we can then bring to the U.N. process. I think you've seen statements recently by Ban Ki-moon, the Secretary General of the United Nations; you've seen the head of the Intergovernmental Panel on Climate Change, Dr. Pachauri; you've seen Yvo De Bour, who is the Secretary of the U.N. Framework on Climate Change -- all of them have been briefed on our policy. All of them are enthusiastic about it. All of them see this as a -- really, under Chancellor Merkel's leadership in bringing all of us together to come up with a common framework to have this accelerated discussion -- all of them are quite enthusiastic that actually this will help advance the discussions at the United Nations, rather than detract from them.

And so I'm hopeful that -- and you will see that. And this is -- I do want to underscore, Chancellor Merkel, she was the Environment Minister when the Berlin Mandate was launched that created the Kyoto Protocol. I mean, there's no one that knows this subject better or more passionately than Chancellor Merkel. And she has done an amazing job of bringing the U.S., Japan, even Russia, Canada to the table and getting agreement. This is the pivotal point this year -- agreement that it is time to have the discussion on the way forward, post-Kyoto, and here's the essential elements that we need to address in having that discussion.

This is enormously consequential. And I want to commend her resilience and her zeal in bringing a bilateral discussion with the U.S., in particular, where we focus on very particular, practical items of importance to both of us; the success of the U.S.-EU summit under her leadership -- we had a three-page program of action, where we hadn't had one before with the European Union -- and now we have the culmination of this in the G8, where you've got eight countries, including the EU, about to have a very tangible discussion with up to 15 countries who are the large emitters. In less than a year, under Chancellor Merkel's leadership, you've seen what I said in the beginning, a big step forward. And that's what we want to capitalize on.

So thank you all very much.

MR. FRATTO: Thanks, Jim.

Now I'm going to ask Dan Sullivan -- if you would just come forward -- we're going to take 10 minutes, Dan, on all of the -- the entire rest of the agenda, if that's okay.

ASSISTANT SECRETARY SULLIVAN: Thanks, Tony.

Let me just introduce myself. I'm Dan Sullivan. I'm the Assistant Secretary of State for Economic, Energy and Business Affairs. And from the G8 perspective, I've been the sous-sherpa, which is the guy who is kind of in charge of doing a lot of the negotiations for the sherpa. So I've been working with my fellow sous-sherpa colleagues over the last several weeks on the leaders' text, and wanted to cover some of the non-climate issues. And maybe, perhaps, because we look as if we're coming to a fair amount of agreement in a lot of these areas, this subject might be a little less exciting for some of you than the climate issue, but I did want to give you an overview on some of these, and particularly if you have any questions on where we're moving forward, in this particular area of the G8, I'd be glad to answer them.

So I think we're moving forward well in terms of some core economic issues. The German presidency has focused on growth and responsibility as its agenda. And so we are looking at both agreement in terms of certain subjects, underlying principles, and possible actions that leaders, G8 countries will commit to in a number of areas.

I can -- I'd like to just highlight them briefly: transparent and open investment regimes, particularly timely given what's been going on in some countries, both in the G8 and other areas; anti-corruption actions, the status of the global economy and any actions that will continue to be needed to maintain the growth of strong focus on IPR and innovation; the importance, of course, of the Doha development agenda and open trading regimes; fighting terrorism and nonproliferation, expect strong statements and agreement on that; and then development principles, and particularly continue a G8 focus on development in Africa, and particularly from the U.S. perspective, focusing on African health and fighting infectious disease issues.

What will be interesting on these subjects is that, as you know, the leaders of China, India, Mexico, Brazil, and South Africa will be coming. And there will be good discussions. We anticipate good discussions on many of these topics and the principles underlying these, and we think it's particularly important with regard to these emerging economies.

So as I mentioned, we anticipate a lot of agreement in this area. The German presidency has been excellent in terms of shepherding these issues through the process. And if you look at the agenda for the leaders, there's going to be a lot of focus.

Just a few quick points -- a few more details on some of these points and how it relates to the U.S. agenda. I think it's important to recognize, with regard to the global economy, we are witnessing in the last five years one of the strongest, broadest, deepest periods of global economic growth that we've seen in decades. U.S. pro-growth policies have been a critical engine of this broader economic growth. You've seen some of the numbers are -- GDP growth has averaged 3 percent or above during this time, created almost 8 million jobs since August of '03, and have significantly reduced the federal budget deficit over the last two years, from 3.6 percent of GDP in FY '04, to 1.9 percent of GDP in FY '06. Obviously, an ambitious Doha agreement will help continuing this strong global economic growth, and there will be a lot of focus on the Doha issue among leaders.

With regard to African development, particularly with regard to health, it is important to note that the economy in Africa, in sub-Saharan Africa, has actually been doing fairly well. I think growth rates above 5 percent in general. The German presidency, in terms of development with regard to Africa, is focused particularly on private sector-led growth as opposed to previous focuses of G8 discussions on ODA and debt relief. We think that's important, the private sector-led growth element of looking at African development. But, as you know, significant challenges remain, particularly with regard to the area of health.

So I note that last week the President announced what we are doing in this area. I'm sure many of you saw that he announced his initiative with regard to a second round of the President's emergency plan for AIDS relief, PEPFAR, to another -- we're going to actually -- he has asked Congress to actually double the amount in PEPFAR, which was \$15 billion over five years, to \$30 billion over five years -- \$30 billion over five years. That's a very significant number. As I know you know, even with the previous \$15 billion, PEPFAR initiative, the U.S. has been the single largest donor. And as a matter of fact, has done -- has focused more for combating HIV/AIDS than all other donors combined.

He's also very focused, and he mentioned this -- the President mentioned in his speech last week on malaria -- the President's Malaria Initiative in 2005 was a \$1.2 billion initiative over five years. And so as he mentioned last week, he will be very focused on discussing these issues with G8 leaders and urging similar actions. And we hope to get a strong G8 commitment, particularly in these areas, with regard to the outcomes of the summit.

Finally, you've probably been seeing somewhat in the press, discussions on ODA. Every time we have a G8 summit, there's always discussions on who is doing what with regard to Official Development Assistance. And I'm sure there will be significant discussions on this topic. With regard to our commitments in 2002 at the Monterey summit, the President committed to increase ODA by 50 percent by 2006. We met that almost three years early. And then with regard to the G8 Gleneagles summit, the countries committed to doubling bilateral aid to Africa between 2004 and 2010. The U.S. is well on its way to meeting that. Our ODA levels to sub-Saharan Africa in '04, we're \$3.5 billion; this past year, in '06, there was \$5.6 billion. So we feel confident we'll meet that G8 commitment.

And then, more generally, just in terms of ODA number crunching -- these are preliminary numbers, but in the last five years, our average aid expenditures on ODA have been about approximately, adjusted for inflation, \$21.8 billion. There has not been a single five-year period since the Marshall Plan that has had such large inflation adjusted to ODA.

So that's just a general overview, some of the U.S. policy perspectives on this. And I'd be glad to take any questions on areas where we're going to agree. So maybe -- maybe we're going to likely agree.

Q Do you expect any statements or communiqués on Iran?

ASSISTANT SECRETARY SULLIVAN: I think what I want to do in terms of the -- some of the foreign policy issues, I know you're going to be talking to Steve Hadley later today, obviously the Iran issue will be discussed. With regard to communiqués, I'm going to defer some of those questions to your afternoon briefing. But I think as you saw, the Foreign Minister's statement last week focused on a lot of different areas, and whether there's a new communiqué or adoption of the Foreign Minister's statement, I'm not sure on that yet.

Q You talked about the U.S. being well on the way to meeting its Gleneagles commitment on aid, but the G8 as a whole is considerably behind. Is there going to be any collective agreement on making good on the Gleneagles commitments?

ASSISTANT SECRETARY SULLIVAN: I think that's a good question. I think countries are very focused on that. There's been a lot of discussion on that. And I think -- I would imagine that the leaders are going to be discussing this issue. It's very important from the credibility standpoint of the G8 to meet these commitments. And as I mentioned, we believe we're well on our way, some other countries are, as well. And so I would anticipate a focus on this and a continuing commitment to meet these goals.

Q Has there been any discussion about revisiting the commitment to doubling aid to Africa?

ASSISTANT SECRETARY SULLIVAN: You mean within the G8?

Q Within the G8.

ASSISTANT SECRETARY SULLIVAN: No, I think that -- I think the G8 countries -- you mean, coming out of Gleneagles?

Q Yes, I mean --

ASSISTANT SECRETARY SULLIVAN: No.

Q -- the fact that the U.S. and the U.K. basically are alone in having placed themselves on target to meet these goals. I may be missing someone else. But has there been any discussion about the inability of the others to sort of --

ASSISTANT SECRETARY SULLIVAN: Well, I don't think there's any -- there's no intention -- there's been no discussion in my negotiations on wanting to backslide on this. The focus has been on maintaining and meeting our commitments. So that's where the focus has been.

Q So there has been discussion about, you know, when are you planning to pony up?

ASSISTANT SECRETARY SULLIVAN: There's been discussion on the importance of -- from the credibility of the G8 to meeting these commitments.

Okay, thanks, Tony.

MR. FRATTO: As Dan mentioned, the National Security Advisor, Steve Hadley, this afternoon. I think Dana mentioned it yesterday also. I know we were going to try to have Steve come out here this afternoon, but I think we're going to have to do this by a telephone conference call. And so make sure you have the coordinates on that.

Q What time?

MR. FRATTO: On time?

Q What time is that?

MR. FRATTO: At 4:30 p.m.

Q At 4:30 p.m.

MR. FRATTO: Okay.

Q Tony, are there any additions to the President's schedule today? Is it just the lunch with Merkel and the G8 dinner tonight?

MR. FRATTO: That's what I'm aware of right now. I haven't seen any additions.

Q What about Abe?

MR. FRATTO: Oh, I'm sorry. Of course. I forgot the bilaterals with Abe.

Q What time?

MR. FRATTO: I'll check on the time.

Q Tony, just to wrap up on Jim's briefing, it seems as though when you folks laid out this plan last week, there was sort of great anticipation that this was a really big deal for the President, a big-deal commitment. Obviously, judging by the questions here and in Europe, it's met with a lot of criticism. So is the President disappointed about the reaction to this? And does he worry --

MR. FRATTO: No, I think that --

Q -- does he worry that it will damage his working relationship with Chancellor Merkel, who he sees as a very good ally?

MR. FRATTO: I don't think so. And, of course, Chancellor Merkel and the President speak frequently, and I don't see any way to really -- to damage that relationship. I think it's a strong relationship, and I think it grows stronger.

In terms of the public reaction to it, actually, overall we've been fairly pleased by the reaction. There have been voices that expressed skepticism, but I don't think that's unusual. And I think it was an important announcement. I thought Jim did an excellent job of putting it into the context of our broader agenda and how it works within the U.N. framework and other efforts out there.

I think there has been misinformed criticism, and maybe misplaced skepticism of our intentions and motivations. That's one of the reasons why we wanted to have Jim come out here today, and why we have been trying to talk about this as much as possible, to try to dispel

some of the myths of what exactly it is that we're trying to do and what our motivations are.

So I think the more people learn about what the President's intentions are with that proposal and what our goal is, I think you'll see more people coming around to understand that it's a positive contribution to the effort.

Okay. Thank you.

END

9:58 A.M. (Local)

