



Rob Bradley
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To: Ken Lay and Jeff Skilling/Corp/Enron
cc:
Subject: Topic of Discussion for Advisors Meeting

Ken:

I have recently realized that an international carbon abatement program through mandates (Kyoto or a substitute from the U.S. side) may be bad for Enron because of enforcement mechanisms that will restrict trade and investment in "noncomplying" or "nonparticipating" countries around the world. We have operations in many of these countries and will have many more in the future. I am assuming that any U.S. mandate would have with it some penalty on foreign imports from or foreign capital investments in "rogue" carbon countries to start a trade war.

If the risk is judged great that international coupling will occur with a U.S. program and innocents such as Enron would be hurt, we might begin to think of a corporate position against carbon mandates (including carbon trading unfortunately). We would still favor general concern about climate change and support voluntary actions to a very high degree--that will do nothing but help gas. But we would stop short of endorsing, and even actively question, international trading that would necessitate enforcement mechanisms that could cost us more than we make from trading. The same "voluntary" policy would help Enron by promoting high electricity growth at home and abroad for trading. (This analysis has never been done for the corporation--a matrix of Enron revenue with a carbon price on one side and an electricity quantity foregone on the other.)

Of course our public policy position should also be judged in light of other scientific, economic, and political factors including:

- * The chance that Bush or another Republican wins the White House;
- * the scientific momentum toward the lower end of the IPCC estimated warming range
- * the early crediting impasse between what enviros desire and businesses need
- * more normal temperature patterns over the next couple of years

I have already alerted Portney to think of this issue for his talk. Dr. Zoellick and others might help figure out where a mandate approach will end up in five or ten years in light of our global operations.

Let me know what you think. Maybe Enron can dodge the macro problem and have our micro benefits, but then again I have to think that a politicized international energy market for any reason will create as much or more downside than upside.

- ROB