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North American Business Strategies Towards Climate Change

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Business has become a key part of the fabric of global environmental governance, considered here as the network which orders and regulates economic activity and its impacts. We argue that businesses generally are willing to undertake limited measures consistent with a fragmented and weak policy regime. Further, the actions of businesses act to create, shape and preserve that compromised regime. We examine three types of indicators of business responses in North America: ratings by external organizations, commitments regarding emissions, and joint political action. We find business response to be highly ambiguous, with energetic efforts yielding few results.
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Business has become a key part of the fabric of global environmental governance (Levy, 2005). In their role as investors, polluters, innovators, experts, manufacturers, lobbyists, and employers, corporations are central players in environmental issues. The recognition by governments and NGOs that large firms are not just polluters, but also possess the organizational, technological, and financial resources to address environmental problems, has stimulated consideration of ways to harness and direct these resources toward desirable goals. This acknowledgement of corporate potential has occurred, not entirely coincidentally, in a period of growing concern at a 'governance deficit' at the international level (Haas, 2004; Newell and Levy, 2006; Slaughter, 2004).

During the 1990s, much of the energy of North American business, particularly in sectors related to fossil fuels, was directed toward preventing an international regime to impose caps on emissions of greenhouse gasses (GHGs). Indeed, industry groups such as the Global Climate Coalition and the Climate Council played a major role in preventing the United States from joining the Kyoto Protocol (Levy and Egan, 2003). More recently, many businesses have adopted a more constructive stance that acknowledges the reality of climate change and its responsibility for addressing the issue (Margolick and Russell, 2004). Increasingly, climate change is framed as an opportunity rather than a burden. A recent report from Ceres, a coalition of investors, firms, and environmental organizations, typifies the emerging optimistic view:

> Companies at the vanguard no longer question how much it will cost to reduce greenhouse gas emissions, but how much money they can make doing it. Financial markets are starting to reward companies that are moving ahead on climate change, while those lagging behind are being assigned more risk... Shareholders and financial analysts will increasingly assign value to companies that prepare for and capitalize on business opportunities posed by climate change (Cogan, 2006: 1).

This new approach is reflected in high-profile corporate initiatives, such as 'Beyond Petroleum' from BP and 'Ecoimagination' from GE, which indicate that business is taking climate change seriously and anticipates some profitable opportunities. Simultaneously, investors are increasingly alert to the financial risks of neglecting climate change as a strategic issue. Sectors, such as agriculture, insurance, tourism, and real estate, face potential risks from the physical impacts of climate change, such as rising sea levels and more frequent and intense storms. Fossil-fuel related sectors are recognizing the inevitability of carbon constraints, with significant impacts on markets and costs. The Carbon Disclosure Project, representing investors with more than $31 trillion in assets, collects annual data from large multinational corporations about their climate-related risks (Lash and Wellington, 2007). Groups such as the Investor Network on Climate Risk and the Climate Group have played an important role recently in highlighting the risks and opportunities facing various sectors and encourage companies to assess and manage these risks rather than ignore them (The Climate Group, 2005). A more proactive stance is likely to provide companies with some protection against litigation and damage to their reputation and litigation (Wellington and Sauer, 2005), as well as more influence in shaping the detailed mechanisms of climate governance systems, such as allocation and trading of carbon credits.

Meanwhile, local government and voluntary initiatives have emerged in response to the perceived lack of guidance from national and international authorities. In the United States and Canada, individual states and new regional associations are formulating policies in areas usually reserved for Federal action. Recent agreements include the Regional Greenhouse Gas Initiative (RGGI) covering nine Northeastern and Mid-Atlantic States, and the Western Regional Climate Action Initiative, signed by five Western governors; both are centered on emission-trading mechanisms for achieving reductions in greenhouse gas (GHG) emissions. The prospect of mandatory cap-and-trade systems is stimulating a reconsideration of corporate climate strategies. Business journals and consultants proffer advice on carbon management systems that entail, among other activities, assessing risks, conducting emissions inventories, setting targets, and assigning responsibilities (Hoffman, 2006).

These business initiatives represent real and significant organizational changes and financial investments on the part of firms. Yet, the contrast between this beehive of corporate activity and the relentless upward trend in emissions presents something of a paradox. Global carbon emissions in 2005 were 28% higher than in 1990, and show no sign of slowing (EIA, 2005; Wynn, 2006). United States emissions were estimated to be 17% higher in 2005 than 1990 (EIA, 2006), while even many who are parties to Kyoto, including Canada, are on a trajectory to miss their Kyoto targets (UNFCCC, 2005). The disconnect between the growing wave of business action and these disappointing results raises some important concerns. Even more puzzling is the resurgence of corporate political activity in the United States against climate policy initiatives, particularly those emerging at the state level. This renewed opposition to regulation is occurring in the same sectors, and even companies, that are embracing a range of carbon-related initiatives and strategies.

To explore this apparent paradox, we examine the political economy of the emerging global governance regime for GHG emissions. Global governance here refers to:

> the multiple channels through which economic activity and its impacts are ordered and regulated. It implies rule creation, institution building, monitoring and enforcement. But it also implies a soft infrastructure of norms, and expectations in processes that engage the participation of a broad range of stakeholders (Newell and Levy, 2006, p. 149).

This conception of governance, which has become prominent in international relations, displaces government from its traditional, sovereign role in establishing and securing order (Rosenau, 1992). Instead, governance is viewed as a more diffuse form of authority and control operating through a network of actors at multiple levels. Within this system, states act as economic agents concerned about their 'competitiveness' (Palan *et al*., 1996), while firms are important political actors with significant policy influence. Bargaining over regime structures and processes engages actors in a complex set of strategic maneuvers in the economic, discursive, and political spheres (Braithwaite and Drahos, 2000; Prakash and Hart, 1999). Markets and the private decisions of firms are themselves part of the fabric of governance, as the day-to-day production, research and marketing practices of large MNCs are decisive in shaping environmental impacts.

In this paper we argue that the business community has played an important role in shaping the system of global GHG governance, and is generally willing to undertake measures consistent with a fragmented and weak policy regime, while at the same time taking political action to create, shape and preserve that compromised regime. To describe the action businesses take in regards to GHG governance, this paper examines the history and current nature of corporate responses to climate change In particular, we look at three indicators of the nature of corporate response: reports by outside organizations that document corporate responses and achievements; commitments to action undertaken by firms regarding emissions; and membership of firms in associations or alliances which take collective political action.

We try to explain the paradox between the energetic efforts of firms and the lack of meaningful results by considering the multiple dimensions of a firm's response. The position of firms is not merely for or against action on climate change, nor even along a continuum between those two extremes. Rather, a firms response to climate change occurs in many dimensions, including political, technological, organizational, financial, and public relations components. The prospect for a relatively weak carbon regime, the considerable uncertainty associated with

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