

PRIVATE ACTORS AND THE GOVERNANCE OF GLOBAL CLIMATE CHANGE

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ABSTRACT

It is increasingly noted that ‘agency beyond the state’ may be needed for effective global environmental governance in view of deficiencies of ‘old’ governance, including the existence of regulatory voids and lack of implementation. The involvement of private actors is frequently seen as crucial in (re)creating new forms of global rule-setting. To assess such a (potential) contribution, it is important to understand how companies perceive the constraints and opportunities related to existing and forthcoming rules, and steps to be undertaken (or not) to help shape the tenets of (more effective) earth system governance. In this paper we will address these aspects, focusing on private actors in the case of governance of global climate change, presenting recent data reported by large multinationals. This may yield insights not only for policymakers active in engaging companies in the governance of climate change, but also suggest directions for further academic research.

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INTRODUCTION

In recent years it has been argued that governance patterns are changing as a result of globalization and the concomitant emergence of non-state, private actors (e.g. Arts 2006; Knill & Lehmkuhl 2002; Pattberg, 2005). Such new ‘arrangements beyond the state’ include a variety of governance concepts (public, private and mixed). Particularly global environmental issues have been used to illustrate the rise of this new global governance, with biodiversity and forestry as examples where private involvement has played a role in furthering implementation and consensus-building on international frameworks adopted earlier in the process (Arts 2006; Meidinger 2006; Pattberg 2005). Climate change can be mentioned as another case in point.

Although the Kyoto Protocol entered into force in 2005, some countries including the US and Australia have not ratified, while others such as Japan, Canada and Russia are still unclear about their exact plans on how to implement it. Political disagreements about the exact rules for the use of the Kyoto market mechanisms (particularly emissions trading) and the appropriateness of legally binding targets for emission reduction have made a global institutional framework for climate change mitigation, accepted by all countries, problematic. The most concrete steps have been taken in the EU, where an emissions trading scheme (EU-ETS) started per 1 January 2005. Even there, however, large uncertainty exists about details of implementation and particularly about the precise arrangements after 2008 (Markussen & Svendsen 2005).

In other countries, the situation is more fragmented though, with activities on a smaller scale and at a lower level. In the US and Australia, countries that have so far refused to ratify Kyoto, emissions trading has emerged at the sub-national (state) level, as public or private arrangement. Several non-European industrialised countries that fall under Kyoto, such as Japan and Canada, have not yet really implemented trading schemes. However, companies from these countries can use one of the other Kyoto mechanisms – Clean Development Mechanism (CDM) or Joint Implementation – to reduce emissions via reduction projects in developing countries or economies in transition. The diversity of approaches and the accompanying constraints and opportunities has a large impact on those companies operating in the various regions that are exploring concrete steps to face the new realities of market mechanisms for climate change.

In the management and organisation literature, the label ‘emergent institutions’ has been used to characterize arrangements that lack ‘taken-for-grantedness’ and are surrounded by uncertainty about their permanence (Henisz & Zelner, 2005; Suchman 1995). The lack of widespread acceptance and clarity means that such emergent institutions are highly susceptible to pressures for change. This offers opportunities for actors to become ‘institutional entrepreneurs’ (Dorado, 2005; Greenwood & Suddaby, 2006; Maguire et al., 2004; Seo & Creed, 2002) and help change the rules in the face of uncertainty and/or constraints. In the case of climate change it implies, for example, that

companies which are affected, intend to participate and/or are already taking steps have the possibility to influence the development of market mechanisms for climate change (cf. Lawrence 1999; Zucker 1987). This is openly acknowledged by some companies; Shell (2004), for example, notes that 'As governments develop trading systems and allocation plans are drawn up, companies have the opportunity to influence the direction of these developments'. In view of their size and spread, particularly the potential role of multinational corporations (MNCs) in helping shape policies globally, in both home and host countries, has received attention (e.g. Boddewyn & Brewer 1994; Prakash, 2002; Westney, 1999).

In the political strategy, environmental management and policy literatures, attempts have been made to classify companies' responses in this regard. In the case of climate change, this includes Kolk and Pinkse (2007) who focused on MNCs' political activity, and Orr (2006), who studied organized interests of which 'economic interests' were part. However, as Levy has pointed out in several publications (e.g. Levy & Kaplan, 2007; Levy & Newell, 2005), categorization alone is not enough: there is a need to consider the broader role of MNCs in global environmental politics as well, looking at the whole range of behaviours that play a role in such contestation. Particularly in the case of climate change, the evolution of the regime has been characterized by instability and fragmentation. Levy and Newell (2005) argue that only a neo-Gramscian approach may help to grasp the peculiarities of global environmental governance, and shed light on the various strategies undertaken by companies, covering the material, discursive and organisational dimensions.

This paper does not intend to cover the full scope of MNCs' strategies in the global governance of climate change, but ventures to contribute by exploring corporate strategies, relying predominantly on self-reported company information, supplemented with statements adopted collectively. For the company information, we use the Carbon Disclosure Project surveys, in both 2004 and 2006, which consists of questionnaires filled in by large companies at the request of investors concerned about climate change.¹ As a result of this approach, the discursive level prevails, although it is no longer the case that companies strongly challenge the scientific basis of climate change. The other aspects mentioned by Levy and Newell (2005, p. 63), as to questioning the economic justification for regulation and corporate communications about the environment, can be noted though. Moreover, companies also disclose information about issue-specific coalitions and market approaches, thus also providing us with their perceptions of the material and organisational dimensions.

Although this has its limitations, the paper does give insight into companies' framing of problems and solutions, and of constraints and opportunities related to climate change policy and implementation, at a time of flux and uncertainty as to future regimes. This can be input to a broader political economy discussion about the role of private actors in global governance, and in the rise of a new (hegemonic) conception of a climate change regime involving coalitions of companies and other actors. Our focus on MNCs adds a 'private governance' perspective that has not received much specific attention in the more general discussion on global ('earth system') governance (Biermann, 2007). Before exploring corporate strategies, we first briefly provide an overview of the policy landscape, particularly to categorise current climate change mechanisms, most notably emissions trading schemes and also the Clean Development Mechanism.² The mechanisms in the various regions and at the different levels will then be used to structure the further discussion.

MAPPING MARKET MECHANISMS FOR CLIMATE CHANGE

To give more insight into the peculiarities of the main climate change mechanisms, we take a new-institutionalist perspective, which asserts that companies do not necessarily have to comply with institutional pressure, but can also choose to respond strategically by avoiding pressure or use their bargaining power to influence actors that enforce institutions (Child & Tsai, 2005; DiMaggio, 1988; Ingram & Silverman, 2002; Oliver, 1991) or even (help) create new institutions. From such a viewpoint, institutions are defined as a set of rules that constrains organisations (and individuals) in conducting their activities (Ingram & Clay, 2000), but actors can also play an active role in shaping them, exerting influence on their institutional context (DiMaggio, 1988), sometimes phrased as ‘institutional entrepreneurs’ (see the introduction).

Starting with the constraint dimension, an emissions trading scheme for example is an institution which sets boundaries on the amount of greenhouse gases that companies emit into the atmosphere. As an institution, emissions trading has initially been shaped on a transnational level in negotiating the Kyoto Protocol (Grubb et al., 1999). However, instead of becoming a global institution, emissions trading has seen a trickle-down trajectory (Djelic & Quack, 2003) and has eventually been reshaped to fit climate and energy policies on regional, national, and sub-national levels, creating a whole variety of new ‘local’ institutions (Maguire & Hardy, 2006). It was the start of the EU-ETS in 2005 that has given an impetus to the international dispersion of trading schemes that enable emission reduction transfers between companies. Currently, even in the US the political debate to set up an emissions trading scheme on a federal level is gaining some momentum (Lohr, 2006).

Nevertheless, there are currently various trading schemes in place (or under development) that differ in the constraint they put on emissions. The type of constraint of an institution typically depends on the actor that sets the rules as well as the accompanying enforcement mechanism, if any (Ingram & Clay, 2000), since this affects the scope and the stringency. States create public institutions that affect a broad range of actors who cannot avoid being affected. Non-state actors can create private institutions that have a more limited scope because they are bounded to a specific group of organisations or individuals who are often voluntarily covered (cf. Ingram & Clay, 2000; Ingram & Silverman, 2002). Due to the fact that actors cannot opt out, a public institution generally produces a higher constraint, all the more because enforcement is in the hands of a third party (Ingram and Clay, 2000). In contrast, a private institution usually emerges more organically from unorganised interaction between actors (Fligstein, 1997a; Granovetter, 1985), and creates a lower constraint as it is enforced (or controlled) by other members of the same group (Ingram & Clay, 2000).

Most current schemes are of a public nature, with the implication that once companies fall under a scheme they cannot opt out (Ingram & Silverman, 2002). This includes the EU-ETS, its predecessors that were set up some years earlier in the UK and Denmark, the Regional Greenhouse Gas Initiative (RGGI) of the Northeastern states of the US, and Australia’s New South Wales Greenhouse Gas Abatement Scheme (NSW). However, due to their different geographical coverage, not all these public institutions produce the same, high level of constraint. The EU-ETS clearly stands out as it has been created on a regional European level. It regulates industrial installations located in the EU, including energy activities (combustion installations exceeding 20 megawatt, oil refineries, coke ovens), production and processing of ferrous metals, mineral industry

(installations for cement, glass and ceramic products), and pulp and paper production plants (EC, 2003). As a consequence, a broad range of MNC subsidiaries from different sectors could be affected. Nonetheless, the impact of the EU-ETS is not equal for all MNCs in the EU. Firstly, it depends on the number of eligible installations that are located in the EU. Secondly, because the exact rules for trading and enforcement have been delegated to EU Member States through National Allocation Plans (Ellerman & Buchner, 2006), it also depends on the specific country where installations are located.

Still, because the other schemes merely apply to national or sub-national levels, they usually affect a lower number of MNC affiliates compared to the EU-ETS. In the US and Australia, for example, the institution building process has seen a dynamic which is best characterised as a trickle-up trajectory (Djelic & Quack, 2003). State-level authorities have tried to bypass their federal governments by introducing emissions trading schemes on a sub-national level with the aim to influence climate policy on a federal level (Engel, 2006). Whereas in Australia, the state of New South Wales has created a trading scheme unilaterally, in the US several states have chosen to take a multilateral approach by setting up the RGGI (Engel, 2006; Rabe, 2006). However, it is evident that such a trickle-up trajectory creates discrepancies between states, as not all states in the country are subject to the new institutional constraints. There is thus the risk of ‘emissions leakage’ to neighbouring states (Engel, 2006). What is more, the RGGI is still in its formative years, and thus merely forms an anticipated constraint. The only private institution for emissions trading, the Chicago Climate Exchange (CCX), is also located in the US. The constraint it sets is different from the public trading schemes, because companies choose to be part of it on a voluntary basis. Nevertheless, once a company participates, the impact of CCX is not negligible, since the voluntary commitment is legally binding and is enforced by the CCX itself and the National Association of Securities Dealers (Yang, 2006).

The institutional constraint set by the Clean Development Mechanism (CDM) is more ambiguous because it is not purely an emissions trading scheme, but more an add-on to the intergovernmental emissions trading scheme of the Kyoto Protocol and the EU-ETS. Conceptually CDM takes the shape of a public-private hybrid institution. It draws on the public commitment that governments set as part of the Kyoto Protocol. CDM is therefore enforced by an MNC’s home and host country as well as the United Nations, which decide about the legality of CDM projects through the CDM Executive Board (Haites & Yamin, 2000). Nevertheless, for MNCs that operate in countries constrained by Kyoto, investing in greenhouse gas (GHG) emission reduction projects in developing countries, subject to the rules of CDM, is voluntary (Haites & Yamin, 2000); an attribute of a private institution. Moreover, private actors, predominantly financial middlemen and private investors, actually create the CDM market.

Figure 1 portrays the main schemes mentioned above and their position with regard to the public-private dimension and geographical coverage.

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Figure 1 about here
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It must be noted that, especially given the state of flux and the existence of a range of schemes, companies have considerable room for institutional agency. It has been argued that the potential to recognise and exploit such opportunities depends not only on the

(formative or turbulent) state of the organisational field(s) to which a company belongs (Fligstein, 1997b), but also on the degree to which there is overlap and inconsistency between fields (Dorado, 2005; Greenwood & Suddaby, 2006; Maguire et al., 2004; Seo & Creed, 2002). Seo and Creed (2002) point at the fact that actors may use inter-institutional incompatibility to their advantage. It can be stated that global fragmentation in emissions trading clearly leads to inconsistencies: carbon is already a constraint in Europe, but the situation is different in North America, where public schemes are in a much earlier stage. Moreover, as shown above, there are also many discrepancies amongst EU Member States and amongst states in the US that give companies quite some leeway to act strategically. Inter-institutional incompatibility particularly concerns MNCs, because they almost by definition belong to multiple fields, as they are active in different countries and/or industries. However, it is this 'boundary bridging' characteristic of MNCs that also awakens their institutional entrepreneurship because it makes them aware of alternatives to their existing institutional context (Greenwood & Suddaby, 2006; Maguire et al., 2004). Communications about the various schemes as well as companies' reactions to them may be important in this regard.

Nevertheless, even within the scope of a single trading scheme there may be institutional contradictions that companies can profit from. Although emissions trading in EU has, for example, been supported in a general sense by business, the interests of affected industries are not all aligned which may create tensions (Seo & Creed, 2002). Design of the EU-ETS particularly seems to have satisfied the interests of energy producers at the cost of large energy consumers. To illustrate, in the first trading period (2005-2007) of the EU-ETS, allowances to emit GHGs have been allocated at no cost. This has particularly benefited energy producers because they have been able to pass through the price of these allowances to their clients, even though they did not pay for these allowances themselves (Sijm et al., 2006). This outcome is not surprising given the fact that the energy producers' voice has been heard most clearly in the political negotiations surrounding the EU-ETS (Markussen & Svendsen, 2005). Nevertheless, it leaves large energy consumers dissatisfied, which gives them an incentive to try to change the current institutional arrangements (Seo & Creed, 2002), using all means at their disposal, including discursive strategies. It is to these stated perceptions that we now turn, considering the different levels as indicated in Figure 1.

CORPORATE FRAMING MORE GENERALLY

From the history of climate policy (and environmental policy more generally), business resistance to measures have been rather common, especially in the early phases. Cost of environmental compliance has been a familiar argument in this regard, even though evidence shows considerable overestimation of ex-ante costs, in many cases about twice as large as ex-post costs (Oosterhuis, 2006). Although the landscape regarding climate change has changed considerably, these types of responses can still be noted, but more than before focused on the implications of poor policy (design), unfairness in implementation, lack of feasibility, competitive issues and overall the uncertainty perceived by companies. Over the years, such criticism has shifted from more general to rather specific as policy evolved.

The risks of (poor) climate policy for a company was, for example, emphasised by Rio Tinto (2004):

‘Poorly designed and implemented policy has the potential to send the wrong signals to the market place and discriminate against some of Rio Tinto’s products without commensurate long term, meaningful and sustained reductions in greenhouse gas emissions. Poor policy has the potential for carbon leakage (driving emissions from one country to another), increasing production costs, effectively banning the use of some current products and stifling research and development to enable substantial long-term reductions.’

Most companies that are critical particularly resist emissions trading schemes, because they involve binding targets for GHG emission reduction. Air Products & Chemicals, for example, argued in 2004 that emissions trading schemes ‘penalize companies, like Air Products, that have been historically efficient in their management and consumption of energy.’ Tokyo Electric Power was ‘opposed to introducing regulatory measures such as emissions regulations or, in connection with emissions trading schemes, assigning emission quotas to companies’, because ‘it is impossible to assign emission quotas impartially and rationally.’ Particularly in the 2004 set of responses, the degree of uncertainty came to the fore prominently in a number of company statements:

‘However we haven’t engaged into active trading yet, because a number of important boundary conditions, especially the ones with respect to project based instruments still need political clarification at the EU/international level’ (DaimlerChrysler, 2004).

‘It is difficult to implement detailed plans until various procedures are established including the relationship between trading schemes in different countries, whether clean development mechanisms, joint implementation plans, and sequestration will be allowed and how reductions from combined heat and power projects will be treated’ (Abbott Laboratories, 2004).

It is this type of uncertainty that has incited corporate pleas, both individually and collectively, for a longer-term approach that creates clarity. This has taken place at several levels: globally, covering a range of industries; global but industry-specific; and targeted at particular countries/regions. While the latter will be dealt with in the various sections below, some examples of global efforts are given here. This includes a statement of the G8 climate change roundtable, which brought together 24 CEOs of large multinationals, mostly European and US, and a few from other countries such as Japan and Brazil, in June 2005. They pressurised the G8 to adopt climate stabilisation targets and set up a long-term, global climate change regime that would extend to 2030 at least, including a market-based system of emissions trading. Almost two years later, in February 2007, the multi-stakeholder Global Roundtable on Climate Change, which included a considerable number of large multinationals as well, endorsed, ‘as a significant step toward tackling climate change’, ‘a bold post-Kyoto framework for affecting change at the levels of policy and industry, particularly in regard to creating sustainable energy systems necessary for achieving economic growth’.³

Regarding the (global) industry level, Volkswagen (2004), whose CEO supported the first initiative, but not the second one, stated that ‘in order to lay the necessary political and economic foundations, it is important that the automobile industry should present a united strategic front to stakeholders and politicians alike.’ Similarly, Arcelor (2006), absent in both statements, emphasised the global sector perspective:

‘The allocation of CO₂ credits per country, and even per region, runs counter to the worldwide approach of large sectors such as steel. Furthermore, the steel

industry's major efforts to reduce greenhouse gases were not taken into account by the authorities. The existing system that can be called a "cap and trade" system is anti-competitive. Arcelor has participated to the works of several international roundtables, like the OECD roundtable that took place last June 2005, to elaborate new rules for a global governance of global warming, by proposing a new approach based on the "baseline and trade" concept, which means the CO₂ emissions quotas should be set in function of the average CO₂ emissions of a given sector which will help the best performing companies to invest in R&D and increase their production levels and the worst performers to update their process to use more efficient and cleaner production process.'

In this way, the company also showed the 'boundary bridging' nature of MNCs (Greenwood & Suddaby, 2006; Maguire et al., 2004), as mentioned in the preceding section. A global sectoral approach has also been advocated by Holcim (2006), and included in the recent cement sustainability initiative by the World Business Council on Sustainable Development.

There are several other global initiatives in which a considerable number of companies report to participate, most notably the International Emissions Trading Initiative, in order, as BP (2006) put it, 'to help provide a strong business voice for progressive policy development'. Deutsche Telekom (2006) explicitly mentions that it is 'actively helping to shape, trial and implement flexible and market mechanisms for climate protection'. Imperial Tobacco (2006) is perhaps most straightforward in its assessment that 'Engaging in the climate change debate should enable the Group to influence the emerging fiscal and regulatory instruments to achieve the necessary GHG reductions, while minimising the impact on business/sector competitiveness'. In terms of endorsement of the two global statements mentioned above, no clear line can be distinguished; only Deutsche Telekom supported the Global Roundtable, and BP the G8 statement.

Recent evidence from the BP Texas refinery explosion investigation reveals that a proactive role in climate change went hand in hand with explicit lobbying by the company against tougher emission controls in the US, as laid down in its 2003 47 page advocacy strategy document (McNulty, 2007). This sheds a different light on boundary bridging within MNCs. On the climate change issue such entrepreneurial exchange within BP did take place in a different form, as it noted in 2004:

'BP has actively promoted the use of market mechanisms, including Emissions Trading and the Clean Development Mechanism, which were both formally recognized in the Kyoto Protocol. BP helped to develop the existing UK Emissions Trading Scheme (ETS), in which it is now a participant, and is following the same course of involvement within the European Union (EU) scheme, due to start in 2005, as well as voluntary schemes in the U.S.'

This relates to a history of proactivity on the issue on the part of BP, which, however, in the late 1990s did not receive a very warm welcome within the oil industry, which backfired internally as well (Levy & Kolk, 2002). The BP example shows the complex interactions within multinationals, across issues and countries, and as part of a sector dynamic, which deserves further detailed investigation, beyond this particular case.

Overall, it can be stated that some companies take climate change policy as it is, fight it or comply, while others actively help to shape it, sometimes with a global (industry) perspective in mind, of which some examples were given above. Other companies focus much more, or also, on the regional/national activities under way. To

these more concrete schemes as indicated in Figure 1, we will now turn.

EU

As mentioned above, experiences from emissions trading in the UK have been used when creating EU-ETS, BP explicitly stated to have played a role in that. Companies participating in the UK trading scheme were temporarily exempted (until the end of 2006) from joining EU-ETS. Some companies, such as Schweppes, tried to 'opt out' EU-ETS for that reason. The political situation in the UK, where climate change has received considerable attention, has been somewhat specific in the European context, not only because the country was the first to adopt a trading system but also because a multi-stakeholder 'UK manifesto for the EU-ETS' was recently adopted. In March 2007, major companies, NGOs and the government (department of trade and industry; and department of environment, food and rural affairs) joined forces and called for action. This included a stable, predictable ETS framework, also beyond 2012, with harmonisation across Member States, expansion to other sectors and gases, and linked to other schemes.

EU-ETS is a moving target in a sense, with enormous degrees of uncertainty as to the future phases. On the other hand, compared to other countries/regions, it is the most specific scheme, and one that is up and running, implemented in EU countries. So in the current situation there is a range of aspects related to compliance, but also, throughout the years, there have been attempts to influence allocation processes and the rules for the next phase of EU-ETS. Both aspects, and corporate responses related to it, will be dealt with subsequently.

If EU-ETS, as public institution, would be effective it should create a high constraint, as its goal is to bring down GHG emissions, and since enforcement is stringent, non-compliance would lead to severe penalties. These attributes are indeed seen in corporate responses in 2006. With some exceptions, companies with eligible installations cannot circumvent EU-ETS; the scheme forces them to take their emissions into consideration. Enforcement is also taken seriously; a considerable number mentions that they expect to avoid paying non-compliance penalties. Correspondingly, compliance is the most often-cited motive for dealing with EU-ETS, which the following quote of Swiss cement company Holcim illustrates:

Our priorities for the EU-ETS for 2005-07 are compliance management – i.e. internal and external balancing of emissions and allowances – and learning to use the system as it is conceptually intended to be used. We do not engage in speculative trading.

The framing of trading as compliance, and not for speculation is shared by several other MNCs. ExxonMobil does not consider 'trading emission allowances as a business' and Repsol remarks that its 'participation in the market is orientated to low cost compliance and not to speculation'. Minimising cost of compliance is an often-heard argument, closely linked to companies buying allowances when they fear a shortage at the end of the first trading period, which runs until 2008.

Compliance does not always mean trading, however. Some companies have a 'no-trading' strategy because they own only a few installations. Even if they have a surplus of allowances, they believe administration and verification costs of selling them are generally too high compared to potential revenues. This also has to do with limited

necessity to trade in view of general over allocation of allowances. As a result, only a small number have done substantial trading, it is restricted to 'get the allowances needed' (Volvo, 2006). Although there are more companies that report a surplus of allowances, only a few explicitly state having sold excess allowances. Before selling their surplus, it seems that many MNCs first balance their allowance accounts on a corporate level. In other words, EU-ETS enables trading across Member States, and companies that operate in multiple countries can thus use the mechanism to safeguard against the inter-institutional incompatibilities across the EU (Seo & Creed, 2002).

Regarding attempts to influence the 'rules of the game', more activity can be reported. This reflects the fact that European companies have tried to affect the design of National Allocation Plans and lobbied for optimal amounts of allowances. Although companies tend not to be very open about these kinds of activities, and mostly report indirect efforts to influence EU-ETS, such as via trade and industry associations, some examples can still be found. The Italian oil company Italian oil company ENI (2006) asserts that it 'has played a proactive role in the process for the definition of the Italian National Allocation Plan and it has supported rational allocation methodologies in line with the Kyoto targets'. In addition, those disadvantaged by the rules of the first phase express their concerns about the existing unfairness. Particularly large energy consumers in chemicals, pharmaceuticals and metals complain openly about the fact that electricity companies have passed through the price of allowances to their customers. Mexican cement company Cemex warns for the consequences of 'leaking effects', meaning that energy intensive industries move their production facilities to countries that do not have an emissions target under the Kyoto Protocol. To prevent this from happening Cemex calls for a change in the EU-ETS to become 'a more efficient emission trading scheme' and it thus hopes 'that the current design will be improved in the near future'.

Electric utilities also continue to show their 'entrepreneurial' stake (cf. Seo & Creed, 2002), but focus more on the debate what happens to the EU-ETS after 2012, when the first commitment period of the Kyoto Protocol expires. For example, E.ON wants a continuation of the EU-ETS in its current form to create more certainty for their long-term investments, and, together with RWE, prefers a global framework to minimise the costs of reducing emissions. A range of other actors in the EU have also tried to improve the specific rules of the allocation system in the second phase. Carbon traders, for example, including major banks involved in that, have come up with recommendations, including the introduction of auctioning, to prevent windfall profits and create a healthier, more liquid market.

Influencing EU-ETS also takes place more indirectly, by using the opportunities offered, most notably by those companies that are not impacted by it in the sense of not having plants in the EU. Many banks, mostly European but some US as well, provide services to facilitate trading by clients, e.g. risk management services, or to trade allowances on their behalf. By doing so they help the further development of EU-ETS because, as Fortis argues, trading services have 'the effect of increasing liquidity by allowing many companies to trade small volumes while avoiding the administratively cumbersome of setting up of an in-house trading desk'. It is the limited size of the market that augments the role of financial middlemen. British bank Barclays illustrates this by stressing the impact of its trading activities on the evolution of EU-ETS:

Barclays was the first UK Bank to set-up a carbon-trading desk and we helped shape the development of the EU-ETS market (for example in helping create

standard contracts and in sharing our own trading experiences with new players). The Slovakian subsidiary of Belgian bank Dexia goes even one step further as it claims to be the only private actor administering a national allowance registry, thereby taking up a public role.

Another way of using agency in dealing with EU-ETS is by creating and trading emission credits from the Clean Development Mechanism or Joint Implementation. Since October 2004, CDM and JI credits can be used to fulfil the obligations under the EU ETS through the 'linking directive' (EC, 2004). By embarking upon particular projects that fit into regular business activities and at the same time lead to emission credits, they are able to influence what constitute legitimate CDM/JI projects. In this way, it is possible for companies without installations to also participate in EU-ETS. These Kyoto mechanisms are particularly attractive for MNCs because they enable them to further exploit their cross-border activities. AstraZeneca, for example, stated already in 2004 that:

'[...] The proposed inclusion of the JI and CDM Kyoto mechanisms in the EU-ETS may open a route for the involvement of AstraZeneca operations outside the EU to play a part in our response to the scheme.'

CDM

Responses reveal that the Clean Development Mechanism is becoming fairly popular among MNCs, also on the part of those not covered by EU-ETS, such as Japanese companies. The fact that CDM differs considerably from the EU-ETS in its institutional form is reflected in the way in which MNCs interact with CDM. Currently companies scarcely use CDM as mean for compliance, but rather expose entrepreneurial activity. Particularly the global dimension of CDM makes it attractive to multinationals. The boundary bridging nature of their operations stirs MNCs' awareness that they can further exploit their presence in developing countries through CDM. For example, many banks are trying to generate CDM credits by financing projects in developing countries that might generate credits as well. US electricity company Duke Energy exemplifies this seemingly opportunistic, profit-seeking behaviour:

Regarding the CDM, a number of energy projects that Duke Energy is developing in Latin America have the potential to be certified as CDM projects. If this occurs, Duke Energy will be looking to sell whatever credits are generated by the projects.

Opportunistic action is not necessarily unrelated to compliance though. Several MNCs facing low constraints on their GHG emissions are building a portfolio of credits for compliance in future periods of the EU-ETS (unlike EU-ETS allowances, CDM credits do not expire after the first trading period) or new, upcoming trading schemes. This might explain the interest of many Japanese companies in CDM. Toshiba argues for example that 'we have also started the acquisition of emission credits on the assumption that there will be a change in our business structure and the restriction of the emission cap will be legislated'. On the other hand, Southern Company, which has no operations outside the US, sees no need to participate in CDM 'since the US is not a participant in the Kyoto Protocol'.

The broad interest of a range of other companies in CDM seems particularly attributable to its private dimensions, which make it easily accessible; in contrast to the

EU-ETS it does not merely apply to energy-producing installations. It thus attracts a great diversity of companies, from different countries and industries, using CDM in many different ways. Moreover, because private actors are creating CDM, MNCs have a say in the development of the market for emission credits. By embarking upon particular projects that fit into regular business activities and at the same time lead to emission credits, they are able to influence what constitute legitimate CDM projects. There thus seem to be ample opportunities to play a part in CDM, and many MNCs look at CDM in terms of the opportunities it creates.

However, it difficult to draw the line whether companies actually engage in real activities or merely express their intentions to use this mechanism. The fact that it has attributes of a private institution also means that many just have a go at it. Nevertheless, enforcement is dispersed over various governmental levels, causing many corporate initiatives to hardly materialise. With some exceptions, the majority of the companies have not yet been able to already certify the credits associated with the projects they set up as possibly eligible for CDM. It seems that passing all the hurdles before a CDM project is approved, is relatively cumbersome. Matsushita Electric Industrial, for example, states that for a particular project in Malaysia ‘the approval of Japanese Government was obtained in February 2006. It will work aiming at the approval of a Malaysian government and registration to the United Nations in the future’.

SCHEMES AT (SUB)NATIONAL LEVELS

While EU-ETS makes up most of the currently existing emission market, with some linkage to CDM, and thus attracts most attention, MNCs also report to follow initiatives in other countries. MNCs engage in alternative trading schemes to indirectly prepare for larger schemes expected to emerge in coming years, or lobby (sub)national governments elsewhere, most often their home country. This is most notable in the US, where a range of activities is under way in what can be seen as an unstable, still forming field as well.

US

One of the few companies that early on mentioned its efforts to directly influence the US government is utility PSEG (2004):

PSEG is a founding member of a utility-sector coalition known as the “Clean Energy Group” (CEG) which is actively lobbying the Bush Administration and Congress for a fixed cap on domestic utility-sector GHG emissions to be implemented through an emissions trading program similar to the U.S. program for controlling utility-sector sulphur dioxide emissions.

Especially collectively, the past year has seen a wave of activity in the US. Apart from the Global Roundtable (mentioned in a preceding section) launched at Columbia University with a considerable number of US participants, one month earlier, in January 2007, the US Climate Action Partnership called on the federal government to rapidly adopt legislation. It consists of four leading NGOs as well as Alcoa, BP America, Caterpillar, Duke Energy, DuPont, FPL group, General Electric, Lehman Brothers, PG&E and PNM Resources. Energy CEOs belonging to this group also urged Congress, during a senate panel, to adopt mandatory emission reduction regulation.

In addition to lobbying government, activities have also taken place to mobilise

the financial community. As PSEG already mentioned in 2004:

Simultaneous with our policy-making efforts, we are working with the Coalition for Environmentally Responsible Economies (CERES) in a dialogue between leading companies in the U.S. utility sector and the U.S. financial community on the climate change issue. The goal of this dialogue is to get the financial community to pay more attention to the climate change issue and how it may influence future investment decisions. Our hope is that a financial community that better understands both the science and economic implications of climate change will be better prepared to recognize and reward those companies that begin to make investment decisions with the climate change issue in mind. We also believe that a more engaged financial community will lead to the development of economically sound state and federal climate change regulations.

Indeed, in March 2007, a statement of this nature, 'Capital to the Capitol', appeared, in which 'leaders from investing and business' called for leadership and action in view of the risks and opportunities of climate change. They insisted on a mandatory national policy to reduce emissions, one that would account for early efforts by first movers. Moreover, it was a plea for a clear role for the government in encouraging the uptake of relevant technologies, and for the Securities and Exchange Commission in explicating material risks and appropriate disclosures in relation to climate change. In addition to pension funds, and state treasurers/controllers, financial services, asset managers, investors, foundations, and labour, the signatories included some of the leading energy companies as mentioned above in other initiatives (though not PSEG). It would be worthwhile, also for stimulating effective public-private coalitions for climate change, to investigate such networks and particularly reasons for companies to participate (and/or play a leading role) or not in some (or all) initiatives. Obtaining more insight into issue-specific coalitions could also extend to emerging trading schemes in the various regions.

The oldest example of such an alternative voluntary scheme in the US context is the Chicago Climate Exchange. As a purely private institution, CCX leads to a positive selection effect: it only attracts those companies that can achieve their voluntary binding targets rather easily. What is different though from EU-ETS is that the CCX merely involves US companies. Participants, and most notably the founding members, clearly use institutional agency, aiming to influence the development of a federal US emissions trading scheme. It is thus a form of institutional entrepreneurship as they motivate their participation as a way to prepare for a public trading scheme, because they anticipate a high constraint in the future. Already in 2004, American Electric Power framed its involvement as a corporate effort to give emissions trading moral legitimacy by demonstrating that it is 'the right thing to do' (cf. Suchman, 1995: 579):

AEP has supported CCX in numerous ways, including serving on the board, providing input on the development of the rulebook (including protocols concerning accounting, verification and validation of emission reductions), and by purchasing allowances in the initial CCX auction. We are doing so to demonstrate the cost-effectiveness of reducing emissions by utilizing this market-based instrument. It is our hope that the 'lessons learned' will inform the policy debate on climate change and positively influence the design of greenhouse gas mitigation policies at the international, federal and state levels.

The underlying political objectives of the CCX also seem to deter some companies,

however. Electricity company FPL (2006), for example, states to believe that it is ‘not yet representative of what a real regulatory driven greenhouse gas market program will be like’. Occidental Petroleum (2006) more generally argues that schemes other than the EU-ETS ‘offer little business reason for most companies to participate’. There is a considerable number of MNCs that does not agree with this statement, and instead uses institutional agency to help shape schemes expected to emerge in the near future. This includes public announcements as to their concerns. In the case of RGGI of the Northeastern states in the US companies worry about the potential adverse effects, as mentioned by for example PSEG (2006):

PSEG is, however, very concerned about ‘leakage’. Leakage refers to the market imbalance created by requiring generators within the RGGI region to internalize costs of emitting CO₂, whereas generators located outside of the region, but connected on the same electric grid, are not burdened with the same costs.

Some European companies follow developments in the US and elsewhere via their subsidiaries. An example is Suez North America (SENA) (2006) which mentions to be ‘actively tracking and participating in the development of US climate change legislation, such as the RGGI. While SENA supports linkage with international programs such as Kyoto, it appears that offset programs for the next few years will be limited to the US’. Involvement in potential future schemes in Japan, Korea, Australia and Canada is also mentioned, but to a lesser extent than the US.

Other countries

Looking at the corporate responses regarding other countries, companies particularly anticipate schemes in Japan and Canada, because these countries ratified the Kyoto Protocol. General Electric (2006), for example, ‘is monitoring and in some cases participating in the process that other Annex B countries, such as Japan and Canada, are undertaking to ensure that they meet their Kyoto commitments’. Involvement in potential future schemes in Japan, Korea, Australia and Canada is also mentioned. The National Australia Bank (2006) is a case in point:

We continue to observe the possible development of an inter-state emissions trading scheme in Australia, and are indirectly involved in its development via our membership of the Australian Financial Markets Association.

Nevertheless, most companies just wait for more clarity about the exact rules for trading before taking concrete action with regard to potentially upcoming schemes. Suncor, for example, stated in 2004 that ‘a clear direction from the Canadian government with respect to Kyoto obligations and standards to ensure emission reductions are standardized across an international market’ is a prerequisite for engagement in trading schemes outside the home country. Canadian oil and gas producer Encana (2006) asserts that it ‘does not have any production in the EU and does not currently envision becoming an active participant in any emissions trading scheme beyond that required to maintain compliance with any future Canadian GHG legislation’. This shows not only how the degree and spread of internationalisation matters, but also how linkages between international (Kyoto) and domestic developments can affect MNCs. The cautious position also reflects the uncertainty created by the Canadian government for domestic companies with the relatively long period taken to come up with concrete policies to meet Kyoto commitments – a similar situation still exists in Japan. In the

case of Canada, the situation is even worse in view of government and policy changes, with the incoming government distancing itself from the previous plan (and from Kyoto more generally).

Although the US and Australia have not ratified Kyoto, MNCs from these two countries do, interestingly enough, not lag behind MNCs from Japan and Canada, countries with a binding commitment. Several US and a few Australian MNCs express an intention to participate in EU-ETS and in locally-oriented schemes such as CCX and the NSW Scheme. This implies that Kyoto ratification is not decisive for MNCs: it seems more important that policies are actually being implemented in home or host countries (such as in the case of the EU). EU climate regulation may also create some spillover effects as (non-Kyoto) emission markets in the US and Australia seem to attract relatively much attention from MNCs in metals, manufacturing, oil, gas, mining and utilities – sectors covered by EU-ETS.

CONCLUDING REMARKS

This paper has explored multinationals' framing of problems and solutions, and of constraints and opportunities related to climate change policy and implementation, at a time of flux and uncertainty as to future regimes. The existence of an emissions trading scheme in the EU has influenced the level of attention by MNCs in Europe, particularly in those sectors covered by EU-ETS. However, the fact that a country has ratified the Kyoto Protocol does not necessarily mean that national industries take a similar position towards climate change measures; clarity about implementation and instruments seems more important. The long period taken by the Japanese and Canadian governments to reveal their approach to reduce emissions has led many MNCs from these countries to adopt a wait-and-see attitude. The unambiguous rejection of Kyoto by the US and Australia, on the other hand, seems to have given MNCs from these countries much more leeway initially to get acquainted with emissions trading in host countries, and to explore such involvement if they see this as compatible with their overall strategy, including their presence in the countries involved. More research on how degree and patterns of internationalisation affect companies' responses, and perhaps more notably, how their engagement and 'boundary bridging' works out, seems very fruitful for understanding their (potential) role in global governance, and might be helpful for policymakers interested in involving companies.

MNCs' prevailing view seems that they have to deal with distinctive national patterns and their responses vary according to the national situation, reflecting different levels of institutional constraint. Emerging schemes, particularly in the US, haven't given rise to considerable institutional entrepreneurship, with companies trying, both individually and collectively, to influence them. This also applies to Europe, however, in view of continuing uncertainty as the next phase(s) of EU-ETS. At the same time, it is noteworthy that MNCs are frequently responding to the existing variety with an eventual global (sector) approach in mind. They explicitly consider the possible impact of international diffusion of market mechanisms and reckon with the move towards a true international institution, in this way thus in fact helping to create and shape it. Follow-up studies into this unfolding situation would be worthwhile to unravel these dynamics that may have interesting implications for the future of global (private) governance.

This links directly to an area for further research has already been mentioned above when discussing corporate involvement in various collective approaches to influence policy. It would be interesting to examine how and to what extent companies, faced with a range of schemes and options to shape the public debate, actually participate and/or lead in these initiatives (or not). For policymakers such network patterns and corporate drivers could be valuable input as to which global/(sub)national institutional entrepreneurs may be targeted for forming effective public-private coalitions for the governance of climate change, and in which way they may best be reached. Discursive strategies as explored in this paper are likely to play a role in this respect and can thus better be reckoned with.

The material dimensions should be considered as well, however. Although the paper may have given the impression that many companies are disclosing their views about emissions trading schemes in particular, there is also a perhaps even greater number that has not done this so far. The reason why many MNCs may continue to be able to neglect emissions trading is because it does not seem to become relevant to their business operations. We examined a broad sample, which included many companies that do not have energy-intensive activities. However, the companies that explicitly maintain not having a strategy also include major energy users. They can uphold this position on emissions trading, because as a result of their geographical spread they are not covered by the EU-ETS. Since companies always incur some (initial) costs by engaging in emissions trading, those that are not expecting to make a profit out of it do not seem to be willing to join a scheme voluntarily and/or undertaking other related activities.

Whether this is a wise approach for companies can be doubted, however, and corporate perceptions differ. There are MNCs that have no plan to start emissions trading but nevertheless monitor international developments. This appears to make sense because once a trading scheme is implemented in the form of a public institution, companies cannot get round participation. In that case, a more forward-looking approach will pay off. Moreover, it can be part of corporate proactiveness and social responsibility that embodies more than compliance, neglect or wait and see. The current momentum and awareness with regard to climate change may well have an impact in this regard, in which NGOs, policymakers and other, more proactive companies, are likely to play as well.

NOTES

¹ The survey was in both years to the Financial Times Global 500, in 2004 the response rate was 60%, in 2006 72%.

² Because CDM has grown much quicker and receives more attention from the private sector than Joint Implementation (Point Carbon, 2006), we will concentrate on CDM in this paper.

³ <<http://www.earth.columbia.edu/grocc/>>, accessed on 25 March 2007.

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FIGURES AND TABLES

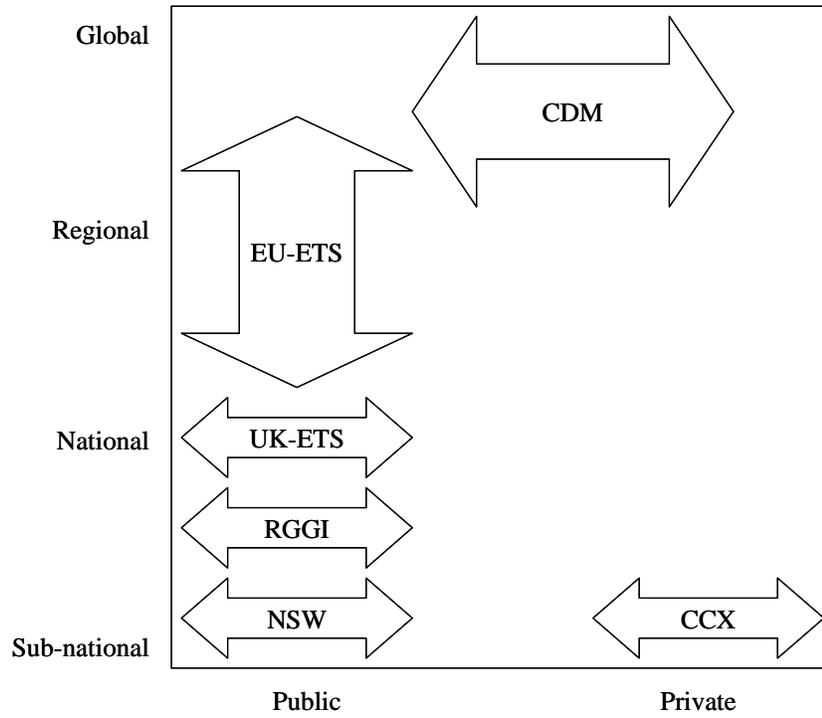


Figure 1 Mapping main Kyoto schemes