5 Business and global climate governance

A neo-pluralist perspective

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Introduction

Business plays a critical role in global climate politics; this is widely agreed upon in international relations and political economy. Whether we should view business primarily as blocking political progress or as providing necessary solutions remains a matter of debate and contention. Analysts also remain divided on how we should assess the power of business in climate politics. For some, corporations are just one type of interest group that competes with others for influence in the political process. Others see business actors as relying on structural power, which serves to constrain the options available to politicians and diplomats. This chapter puts forward a neo-pluralist perspective on business in global climate governance. It argues that business is in a powerful, even privileged, position internationally, but doesn't always get its way. The process of international climate politics is more fluid and open-ended than may seem at first sight, and while business interests can predominate they don't always pull in the same direction, nor do they control the global environmental agenda.

The notion that business is in a privileged position was most famously given expression by Charles Lindblom over two decades ago. In his seminal book *Politics and Markets*, Lindblom famously declared that "businessmen occupy a privileged position" (1977: 175) in liberal democracies. In doing so, he sought to correct a central weakness of the pluralist tradition in political science, which had treated business as just one among many interest groups that vied for influence in an open and pluralistic democratic process. Business was different from other interest groups, as critics of pluralism had argued, because the wellbeing of society and the economy depended on investment, technological innovation and economic growth. Business performance was central to the functioning of market economies and had to be "induced rather than commanded" (ibid.: 176). Governments, therefore, often had to defer to business leadership and share their authority with corporate actors. Lindblom thus laid the foundations of a neo-pluralist perspective that continues to reverberate in contemporary discussions of interest group politics and business power (for an overview, see McFarland 2004).

Politics and Markets did not address the international dimensions of business power or the rise of environmentalism as a counter-balance to business.

This chapter builds on Lindblom's insights and extends them to the international level and to global environmental politics. It is based on a book-length treatment of the neo-pluralist approach to studying business in global governance (Falkner 2008) and offers a corrective to statist and structuralist perspectives that have characterized much International Political Economy writing on international business in the past. This chapter advances two related arguments about the international role and power of business. It seeks to highlight the many ways in which corporate actors operate from a privileged position *vis-à-vis* states and NGOs when it comes to setting global environmental standards and implementing environmental agreements. Due to their central role in directing investment and technological innovation, companies can set the parameters of what is politically feasible in international environmental protection. Yet business actors do not always act in unison, and references to an underlying business or class interest fail to explain the competitive dynamics that characterize business involvement in international politics. Business conflict opens up political space for other actors – states, international organizations and social movements – to press for global change. The bond that holds these two arguments together is the neo-pluralist perspective on business power that is developed in more detail below.

The analysis is structured as follows. The next section gives an overview of the neo-pluralist perspective on business in global governance. This is then applied to the case of climate change politics by tracing in outline the evolution of the climate regime from the 1992 UN Framework Convention to the 1997 Kyoto Protocol and beyond. The concluding section summarizes the argument and highlights the implications for the study of business in global governance.

The neo-pluralist perspective on business in global governance

One of the striking features of international environmental politics is the profound change in business involvement in the international process. In the early days of global environmentalism, during the 1960s and 1970s, the political role of corporations was limited to occasional, and largely reactive, interventions to prevent burdensome regulations. More recently, a growing number of corporations have begun to integrate environmental objectives into their business operations and have developed more proactive forms of corporate environmental strategy (Hoffman 1997). Some firms have actively sought to influence, and even support, the creation of international environmental regimes (e.g. the Montreal Protocol on ozone layer depletion) and are now actively engaged in the provision of environmental governance mechanisms outside the states system, so-called "private environmental governance" (Falkner 2003).

As a consequence of this evolution of business roles, a diverse set of business interests and approaches has emerged. Some corporations continue to oppose international environmental regulations as an unwarranted burden on their operations, while others now openly support higher international regulatory standards. Undoubtedly, some of the so-called "greening" of industry is little more than empty rhetoric. But in many ways it signifies a more profound and potentially lasting trend with significant implications for global governance, and corporations can now be found on different sides of global debates, arguing against *and* for environmental regulation. How powerful are corporations in international environmental politics? To what extent are they able to shape the emerging global governance architecture for environment? And how does the divergence of business interests affect corporate influence overall?

The neo-pluralist perspective on business power

Although business power has become a central concern in International Political Economy (IPE) (May 2006), it remains a contested concept. Economic globalization and the growth in transnational relations have underlined the fact that non-state actors such as corporations play a more visible role in international relations, but debate continues on whether they make a difference to outcomes of international processes, and, if so, in what ways. A standard approach to the study of business power has been to treat business actors as interest groups that seek to influence policy outcomes within the state. This pluralist perspective, originally developed in the context of domestic politics but applicable to international relations as well, was criticized for assuming naively that the international policy process offers a level playing field for all interest groups. As structuralists have pointed out, corporations play a critical role in the economy, as providers of employment and sources of growth and innovation, and their consent is needed if profound changes to the working of the global economy are to be achieved through international regulation.

Neo-pluralists are reflective of the structural power of business but emphasize the political agency of firms. They agree with structuralists that business is in a privileged position, but acknowledge the diversity of business interests and the potential for conflict within the business community over matters of political strategy. Neo-pluralism provides a perspective on business power as a multi-faceted and multi-dimensional phenomenon, and argues that it needs to be established in the context of specific issue areas and fields of activity. Countervailing forces, which are located in the international and transnational spheres, limit corporate influence, as do divisions within the business sector itself. Indeed, the potential for what has become known as "business conflict" (Nowell 1996), that is the cleavages between different firms and industrial sectors with regard to international politics, prevents an understanding of business actors as belonging to a monolithic block. Neo-pluralists hold that the unity of business interests and strategy is a matter of empirical study, not theoretical conjecture. Likewise, the existence of structural business power needs to be established empirically and cannot prejudge the question of how powerful business actors are in specific international contexts. In other words, not all business actors are engaged in international politics; not all of those that are share the same interest; and not all of those that seek to influence international politics succeed.

To understand why business power is limited, and why international political processes should be presumed to be open-ended, we need to briefly consider the countervailing forces that prevent business influence from becoming dominant. They can be found in the resilience of state power and the proliferation of new transnational political actors, but most importantly in the heterogeneity of the business sector itself. Neo-pluralism's key insight in the international context is that the diversity of business interests, combined with the persistence of business conflict, serves to limit business power overall.

Countervailing forces can be found outside and within the business world. With regard to the former, states not only retain their status as loci of authority in core state functions such as security, but also remain powerful gatekeepers and providers in other policy areas that are more open to the influence of non-state actors (Drezner 2007). Furthermore, new transnational actors have come to challenge the legitimacy and authority of business actors even in domains where they can be said to be in a privileged position. New channels of transnational communication and campaigning have empowered social actors, even though they often rely on only limited financial resources and lack access to established policy networks (Tarrow 2005). Particularly in the environmental field, grass-roots and transnational campaigns by activist groups have undermined the legitimacy of multinational firms and induced change in corporate behavior (Wapner 1996). To be sure, interest group competition in transnational and international realms is rarely conducted on a level playing field. Global political space is not entirely pluralistic, but existing balances of power between different transnational actors vary across policy domains and are more fluid and unstable in an era of globalization, leading to a more open-ended process of global politics.

The pluralist message is further reinforced when we consider dissent and conflict within the business sector. The straightforward but important insight that neo-pluralism offers is that business is often divided on matters of international policy and corporate strategy, and that business should therefore not be treated as a solidly uniform block. The corporate sector may, of course, in some vague sense, represent a capitalist class interest, but this claim amounts to little more than a truism that is of limited analytical value in the empirical study of business influence in specific policy contexts. Indeed, if we want to understand the sources and limits of business power and influence, we need to disaggregate the business sector and analyze its constituent parts, often down to the level of the firm. For particular business interests to exercise a dominant influence, achieving business unity is an important but highly demanding condition. Business conflict thus serves as an important brake on business influence in international politics.

Business conflict in international environmental politics

One variant of this line of thinking is the "business school model" in IPE (Skidmore 1995; Skidmore-Hess 1996). Societal approaches that focus on the domestic origins of foreign policy have been at the forefront of this development. By identifying cleavages that exist within the business sector, Frieden (1988) and

Milner (1988) have explained the shifting patterns of business support for free trade and protectionist policies in the US and elsewhere. Rogowski (1989) uses factor endowments theory to analyze how the gains and losses from international trade are distributed between different economic sectors, and how those distributional effects in turn influence business preferences in trade policy. Business factionalism is a pervasive phenomenon in the study of foreign policy, particularly in the US where domestic and internationalist coalitions compete for influence over state policy (see the contributions in Cox 1996).

The main focus of the business school model has been to explain outcomes in foreign policy and international politics from the bottom up. By reversing the perspective, we can also capture the ambiguous effect that globalization has had on business actors. While international business has been the main beneficiary of ever greater economic integration, it has also become more exposed to new political demands and pressures that globalized politics has created. The nature of the international political process has changed due to globalization, resulting in a more open and fluid process of policy-making that involves an ever greater number and diversity of actors. Whether it is the international politics of trade and finance or new issue areas such as blood diamonds or genetically modified food, business actors are now faced with a large number of civil society actors that seek to create new international norms and affect corporate behavior directly by challenging the power and legitimacy of business (Vernon 1998). The advent of new information technologies has significantly reduced the costs of "presence" and "voice" in global politics, and transnational campaign groups have skillfully leveraged their social and discursive power through the use of symbolic politics. As political globalization progresses, established positions of power and influence are being challenged and redefined. This, as Cerny points out, reaffirms the neo-pluralist insight that

> those social, economic and political actors with the greatest access to material and social resources generally marshal those resources in uneven and complex ways in order to pursue their own interests as effectively as possible in what is still a relatively open political process. They predominate, but they do not necessarily control.
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> (Cerny 2003: 156)

It should be noted that to place business conflict at the heart of the neo-pluralist perspective does not mean that such conflict is assumed to be the predominant pattern of behavior among firms. Indeed, business actors routinely seek to limit the potential for conflict and competition in an effort to stabilize the organizational field in which they operate. Students of business organization have long argued that the desire to reduce price competition and stabilize organizational fields is central to the strategy particularly of large multinational enterprises (Fligstein 1990; Spar 2001). Likewise, business actors will seek to minimize differences and tensions between them in their efforts to shape international political outcomes. On issues that affect most corporations in an equal way, business unity will be easier to achieve. But on other issues that have differential effects on individual firms – and regulatory politics is one such area – business disunity and conflict is a latent reality. It is therefore analytically preferable to treat the question of business unity as an empirical question, not as a given.

Business conflict arises in international environmental politics because of the *differential effects* that international regulatory measures have on individual companies or industries. Environmental regulations can take on many different forms and include a variety of mechanisms, including process and product standards, international monitoring or certification schemes, identification and documentation requirements for international trade and information exchange, targets and timetables for the reduction or elimination of harmful emissions, and emission trading schemes, among others. What they all share in common is that they rarely have a uniform effect on business as a whole, but target specific groups of corporations or industrial sectors, create new markets or transform existing ones. The aim of regulations is to change corporate behavior in a specific and targeted way, and it is this that creates uneven effects on business overall, potentially leading to a divergence of business interests, and even conflict. Business actors can therefore be expected to form interests and political strategies on international environmental politics that seek to limit the costs of regulation or maximize its benefits.

Several types of business conflict can be identified with regard to international regulation, norm setting and regime building: First, as suggested by studies on international trade policy (Frieden 1988; Milner 1988), a basic dividing line exists *between international and national firms*. International firms are more likely to support international rule-setting and the harmonization of national regulations. National firms have traditionally favored protectionism in trade policy and are more likely to oppose international rule-setting in environmental affairs. Firms that operate in different national markets and depend on the unhindered flow of goods will place a higher value on creating a level playing field than those that are concerned primarily with national markets and competition from abroad. This does not mean that international firms will always support international environmental regulation. They are likely to do so only where it provides them with a competitive advantage, by reducing the transaction costs of operating in multiple regulatory environments, and by raising the regulatory costs of competitor firms that operate in countries with lower environmental standards. This divide can be seen in the politics of ozone layer protection, where the highly globalized chemical industry was the first sector to support international restrictions on ozone-depleting substances, while many domestic industries that used these substances remained opposed to international restrictions for much longer (Falkner 2005). Vogel (1995) has referred to this effect as "trading up", where international firms promote the adoption of higher environmental standards in an effort to create a global level playing field.

A second, and closely related, form of business conflict can arise *between technological leaders and laggards* in the same industry or economic sector, be it nationally or internationally organized. In this case, the dividing line is found between competitors in a given market segment that are likely to experience

differential effects of regulation due to their uneven ability to comply with new standards. If market leaders can hope to lower their compliance costs relative to their competitors, then an increase in regulatory standards and compliance costs may shift the competitive balance in their favor, thus making regulation more acceptable to them. The degree to which companies can respond to new environmental regulations through technological innovation will thus be an important factor in determining their overall political strategy. In some cases, regulation can produce new markets based on technological innovation that would otherwise not have been commercially viable, and technological leaders can therefore use regulatory politics to create new business models and achieve competitive advantage (Porter and van der Linde 1995).

A third form of business conflict can arise *between companies that operate in different economic sectors along supply chains*. Wherever regulations target specific products or production processes, they will affect all companies along the supply or production chain, which links suppliers of input factors, producers and retailers together. The important point to note is that regulation is likely to have differential effects on the companies that operate along this chain, leading to divisions and competition between them. While companies operating at the consumer end of the chain (e.g. retailers) may support higher regulatory standards as part of their strategy to maintain consumer confidence or enhance their reputation, companies providing raw material inputs or intermediary products further down the chain may end up facing higher production costs without gaining any reputational benefits. For example, supermarkets in Europe and North America have generally supported higher food and environmental safety standards in food production, but smaller producers, particularly in developing countries, have experienced difficulties in meeting those standards in a cost-effective manner. European supermarkets were the first to ban genetically modified food from their shelves, against the wishes of biotechnology firms and agricultural exporters in North America (Falkner 2008, chapter 5).

In sum, business conflict is an important feature of business involvement in international environmental politics. Whether it exists in reality or is only a latent threat to business unity depends on the nature of regulatory policies under consideration and the strategies that different companies form. For business conflict to become politically significant, business actors need to be able to identify the differential effects of regulations and integrate these perceptions into coherent political strategies. We thus need to consider the strategies that business actors form with regard to international environmental politics, and the ways in which these intersect with the strategies of states and non-state actors. The following section provides an empirical case study of business conflict in global governance, examining business involvement in climate change politics.

Business and the global politics of climate change

Climate change is one of the most intractable environmental problems the world faces today. A vast range of industrial sectors are involved in producing and emitting greenhouse gas (GHG) emissions, and many different economic and technological changes are required to slow down the global warming trend. Unlike in other environmental cases such as ozone layer depletion, no technical fixes are available to quickly replace fossil fuels. The central role that oil and coal play in modern industrial systems has limited the scope for rapid climate action. It has also enhanced the veto power of recalcitrant business interests. Thus, it would seem, at first sight, as if the fossil fuel industry's structural position in the global economy is the central blocking force in climate politics (Newell and Paterson 1998).

Indeed, the first business reactions to the scientific discovery of man-made climate change were overwhelmingly negative, focusing on the uncertainties involved in climate science. As pressure grew to address the issue internationally, corporate representatives highlighted the economic costs of taking action and the threat to international competitiveness. Slowly but steadily, a more diverse field of business interests and strategies has emerged. However, powerful business actors continue to resist international climate action until today.

Nevertheless, business conflict and competition have started to change corporate involvement as well as the dynamics of international climate politics. The political field has become more fluid today, and a range of new political alliances between business actors, leading states and environmental campaign groups have sprung up that seek to advance the goal of reducing GHG emissions. Within the Kyoto Protocol and beyond, an increasingly pluralistic field of political activity has emerged, involving an ever greater diversity of business interests and strategies. Business power is a central fact of climate politics, having held back effective international action in the past, but business conflict has opened up avenues for new political strategies.

The UN Framework Convention on Climate Change: business unity, for now

During the negotiations on the 1992 UNFCCC, the business lobby was dominated by powerful fossil fuel industry interests. Shortly after the creation of the Intergovernmental Panel of Climate Change in 1988, over 40 corporations and business associations created the Global Climate Coalition (GCC), the world's first dedicated climate change lobbying group. The GCC was initially focused on the US political scene, and as the international efforts to create a climate treaty gathered momentum, it re-oriented itself to become the premier industry lobbying group at the international level (Pulver 2002: 61). Led by US companies, it emphasized the uncertainties that plagued climate science and demanded full scientific proof before mandatory restrictions on GHG emissions be adopted. It highlighted the costs of taking precautionary action against global warming and warned against the implications for international competitiveness. The GCC's anti-regulatory arguments fell on fertile ground particularly in the US, where key representatives of the Bush administration were ideologically opposed to international environmental regulation (Hopgood 1998: 155–68).

By contrast, the EU entered the UNFCCC negotiations with a more proactive stance and adopted a mandatory target of stabilizing industrialized countries' GHG emissions by the year 2000 at 1990 levels (Skjærseth 1994: 26–27). European business leaders were more conciliatory than their US counterparts, but the EU's position clearly went beyond what the European business constituency was willing to support at that point. The European Commission's proposal for a tax on carbon-based energy, in particular, put the EU in an international leadership position but antagonized a wide range of energy-intensive firms. Leading industrial firms in Europe found it easy to mobilize a broad business front against the tax proposal and put up one of the toughest fights against a European regulatory proposal – "the most ferocious lobbying ever seen in Brussels", as *The Economist* commented (1992; see also Ikwue and Skea 1994). In the end, the EU settled with a compromise proposal for a carbon/energy tax that was conditional on the adoption of similar measures in other industrialized countries. The measure never won the required support and remains one of the unfulfilled promises of the EU's early climate policy.

Despite transatlantic differences in corporate outlook and lobbying style, leading businesses from the major industrialized countries were largely united in opposing a strong international climate treaty with mandatory GHG emission reductions. The oil and coal industry dominated business lobbying in this phase, and was able to rally a wide range of manufacturing firms behind its cause. Many other business sectors with a lesser stake in the climate debate were either not involved in the international process or were indifferent, partly because the regulatory debate was focused initially on the major energy producers and users. That the final compromise on the UNFCCC excluded binding targets and timetables can therefore be seen as a major success for the fossil fuel lobby. The vast majority of business actors involved in the talks had warned against mandated emission reductions, and, apart from the nascent energy efficiency and renewable energy sectors, no major global firm or industry spoke out in support of a global limit on GHG emissions (Grubb *et al.* 1999: 257). But despite its impressive show of unity, the fossil fuel industry was unable to prevent an international accord on climate change, as many in the industry would no doubt have preferred. As some business observers had warned, the framework convention set a precedent for a future tightening of international commitments. The global environmental movement and progressive state leaders were able to define the agenda in ways that promoted a precautionary approach – and there was no guarantee that the fossil fuel lobby could maintain a united business front in a changing political environment.

The Kyoto Protocol: the anti-regulatory business front crumbles

The first signs of a crack in the business lobby had already emerged at UNCED, but it was in the run-up to the Kyoto Protocol negotiations that new, pro-regulatory, business interests came to leave a mark on international climate policy. The newly created International Climate Change Partnership (ICCP), which counted influential chemical and electronics manufacturing firms among its members, put forward a more moderate industry position. In contrast to the fossil fuel industry, the ICCP recognized the threat of global warming and the need to act against it. Still, it advocated a cautious regulatory strategy, one that took into account the long lead times needed to find and adopt new technologies (Giorgetti 1999).

Soon after Rio, further divisions within the corporate sector emerged, including within the core group of fossil fuel industries. Whereas most American oil and coal firms remained opposed to any binding climate targets, Royal Dutch/Shell and British Petroleum (BP), Europe's leading oil firms, began to take a more conciliatory stance from 1995 onwards. A Shell executive announced at the 1995 World Energy Congress that the world needed to start preparing for the orderly transition to renewable forms of energy while continuing to use conventional fossil fuels (Gelbspan 1997: 86). And in October 1996, the American subsidiary of BP withdrew from the Global Climate Coalition, in a move that signaled the deepest rift yet within the fossil fuel sector. The switch in strategy was confirmed in a high-profile speech by BP's then chairman John Browne in May 1997, in which he acknowledged the growing scientific consensus on climate change, advocated taking precautionary action against it and announced a major investment initiative in solar energy (Pulver 2007; Rowlands 2000; Skjærseth and Skodvin 2003).

The most radical departure from the anti-regulatory business lobby occurred in a sector that was set to be one of the major losers of global warming: insurance. The world's largest reinsurance companies, Munich Re and Swiss Re, for some time had been concerned about their exposure to rising insurance costs caused by more extreme weather patterns. As early as 1992, both Munich Re and Swiss Re claimed that in the long run climate change posed the risk of bankruptcy for the global insurance industry (Schmidheiny and BCSD 1992: 64–66). As a sign of the industry's growing involvement in climate debates, in 1995 fourteen insurance companies from around the world signed a Statement of Environmental Commitment by the Insurance Industry, in which they committed themselves to a more systematic inclusion of environmental concerns, including climate change, into their risk and investment assessments (UNEP 1995; Paterson 2001).

These changes in corporate strategy had two positive impacts on international climate politics. First, they laid to rest the claim that a united business front stood against mandatory emission restrictions, and that significant reductions in GHG emissions were economically and technologically impossible to achieve. This helped to shift the regulatory discourse into a more precautionary direction. Second, the growing diversity of corporate climate strategies opened up avenues for new political alliances between corporate leaders, NGOs and state officials in support of an international climate accord with binding targets. Indeed, the negotiations on the Kyoto Protocol would be the scene for a range of initiatives from such progressive alliances.

Business conflict, however, also had its limits. The pro-regulatory forces within the business sector, especially the renewable energy sector, are economically less significant and lack the fossil fuel industry's well-organized and richly funded

organizational basis (Sawin 2004). The insurance industry may have greater economic clout overall, particularly as a global investor, but it has found it difficult to shift its large-scale share ownership out of the fossil fuel sector and into renewables, thus curtailing its structural power (Paterson 2001). Furthermore, its lobbying effort has proved to be ineffective, held back by political naivety and inexperience with the complex machinery of climate diplomacy (Salt 1998).

The growing split in the business sector was in full show at the first meeting of the Conference of the Parties to the UN Framework Convention, held in Berlin in 1995. The GCC continued to oppose any move towards specific obligations while the insurance industry openly supported demands for a strong protocol. The middle ground was occupied by groups such as ICCP and the US Business Council for a Sustainable Energy Future, which played a more constructive role but warned against hasty decisions on the timing of future commitments. Observers felt that the arrival of more moderate business interests at the negotiations had transformed industry lobbying (Dunn 1995: 442). Governments willing to push for binding targets no longer faced a hostile and united business front, but could now draw more moderate voices into a constructive dialogue on how to reduce the technical and economic costs of climate action. The conference concluded with a decision to set up a two-year negotiation process on a climate protocol, which would include specific commitments by industrialized countries.

Faced with growing international resistance to its hard-line strategy, the US fossil fuel sector focused its lobbying effort on the domestic scene to prevent a change in US climate policy. It had good reason to do so. After the publication of the 1995 scientific report of the Intergovernmental Panel on Climate Change, which pointed to growing scientific evidence of man-made global warming, the US delegation began to signal more strongly than ever before that it was willing to negotiate mandatory targets. Alarmed by the apparent change in US strategy, US fossil fuel firms lambasted the administration for ignoring the economic costs of such a move and mobilized opposition on Capitol Hill against international climate commitments. The real battle was now over whether the new negotiating position of the US could find support among US senators. With both the Senate and the House of Representatives under control by Republicans after their 1994 landslide victory, industry was confident that Congress would rein in US negotiators. Following intense business lobbying, the US Senate passed a resolution in July 1997 (Senate Resolution 98, also known as the "Byrd–Hagel Resolution"), in which it expressed its fundamental opposition to any international climate treaty that would cause serious harm to the US economy and that did not include specific commitments to limit GHG emissions by developing countries (International Environment Reporter 1997a). The 95–0 vote on the resolution left no doubt about the US Senate's objection to a climate treaty as proposed by the EU that would create binding targets solely for the major polluters in the industrialized world.

Given the complexity of climate science and the high economic and political stakes involved in GHG emission reductions, few could have predicted the outcome of the Kyoto Protocol negotiations. At the start of the talks in November

1997, the US, together with Japan, Canada, Australia and New Zealand, once again urged the EU to lower its demands for emission reductions (International Environment Reporter 1997b). The US succeeded in inserting so-called flexibility elements into the draft treaty, such as the CDM (Clean Development Mechanism) and emissions trading, but was unable to win support for binding targets that included developing countries. Against domestic business opposition, the US delegation eventually agreed to a commitment for industrialized countries to reduce GHG emissions by, on average, 5.2 percent below 1990 levels, and within the commitment period of 2008–12. The outcome of the Kyoto talks disappointed environmentalists but went beyond what many business lobbyists had argued for. Whether the treaty would ever enter into force and whether the US in particular would ratify it was far from clear.

Business power and conflict after Kyoto

Business reactions would prove to be of critical importance to the future success of the Kyoto Protocol. For one, business lobbying at the domestic level played a critical role in delaying or preventing ratification in a number of countries, such as the US, Canada and Australia. Moreover, even in those countries that successfully ratified the treaty, business participation and cooperation were central to the implementation of the agreement. In this, industry's technological power, i.e. its ability to direct investment and innovation, would become a decisive factor in determining the ability of states to steer their economy into a carbon-reduced future. In a sense, therefore, there were close parallels between the climate treaty and the Montreal Protocol on ozone layer depletion. The Montreal Protocol was likewise aimed at changing production and consumption patterns that were central to modern industrial societies; and its success also depended on aligning corporate interests and patterns of business competition with the treaty's environmental objectives (Falkner 2005). But, unlike ozone layer depletion, climate change poses far more complex problems that no single company or industry can hope to solve through technological innovation. There are no substitutes that can fully replace fossil fuel-based energy, either in the short or medium term, particularly against the background of growing energy demand in emerging economies. Furthermore, reducing the economy's carbon intensity will require changes in production processes and products as well as consumptive patterns across all major industrial sectors. Technological innovation will thus be of central importance to climate action, but no single economic actor, or group of actors, possesses the same kind of technological power as DuPont and the chemical industry did in ozone politics.

Some of the first industry reactions to Kyoto were encouraging. Several business leaders, particularly in Europe, expressed guarded support for the treaty (Inter Press Service 1997; Business Wire 1997). Even though the North American fossil fuel industry remained united in its opposition, it soon became apparent that many other companies were beginning to re-define their corporate strategies in light of the successful conclusion of the Kyoto negotiations. The very fact

that an agreement had been reached shifted expectations regarding future carbon restrictions and made climate-related business risks more tangible. Given the uncertainty that this involved for long-term investment plans, particularly those of the energy sector (World Energy Council 2007), businesses, including those in the US, began to factor in the costs of climate action and demanded a stable regulatory environment for climate policy (Houlder 1998). Ford Motor Company, DaimlerChrysler, GM and Texaco left the Global Climate Coalition between December 1999 and February 2000, sending a further signal to policy-makers that business was no longer united (International Environment Reporter 2000a, 2000b).

A striking feature of the international climate politics after Kyoto was the growing divergence between EU and US approaches. Whereas the EU took practical steps to implement the agreement and threw its weight behind efforts to ensure its entry into force, the US failed to introduce domestic policies in line with its international commitment and became increasingly detached from the Kyoto Protocol, culminating in President George W. Bush's decision in 2001 to withdraw from the Protocol. By this time, it seemed that the obstructionist stance of the US fossil fuel industry had paid off. Despite failure to prevent an international climate treaty, the US oil and coal industries were able to undermine international climate efforts by mobilizing what was widely acknowledged to be America's *de facto* veto power in climate politics. As Dunn argues, "[t]he diverging policy paths of North America and Europe have both shaped and been shaped by the strategies of firms headquartered with their borders" (Dunn 2002: 28).

But closer analysis of post-Kyoto climate politics reveals that the Bush administration's hard-line stance against Kyoto did not reflect overall US business interests. If anything, corporate climate strategies became more diverse even in the US, and the ground started to shift in favor of US engagement with international climate action long before the end of the Bush administration. Indeed, as developments in recent years have shown, the White House and Republican leaders in Congress became increasingly isolated amidst a groundswell of support for climate action among municipal, state-level and corporate actors in the United States. The relationship between oil and coal interests and the Bush administration proved to be particularly close and provided core anti-Kyoto business interests with a privileged position among competing interest groups. But this position came under attack as soon as the combination of domestic political change, sub-national environmental leadership and corporate support for climate action began to alter the climate agenda in US politics (Rabe 2004).

The growing number of state-level, municipal and private climate initiatives (e.g. Cities for Climate Protection; Carbon Disclosure Project; Chicago Climate Exchange; see Selin and VanDeveer 2007) has had two effects on business perceptions and strategy in the US. The fragmentation of US climate policy has increased concerns among corporations that they will have to operate in a more uneven and uncertain regulatory environment, while growing support for sub-national climate action has raised expectations that climate policy at federal level is likely to shift towards stricter measures (Donnelly 2007).

Will the change in business strategy that has become apparent across major US industries directly translate into political change in the US, and thereby strengthen the international climate regime? The business sector has undoubtedly played a powerful role in shaping America's climate policy and, initially, helped to prevent US participation in the Kyoto Protocol. Now that the business sector has grown more divided and the fossil fuel industry's influence has declined, should we expect an early and decisive shift in US policy under President Obama? At first sight, the business conflict model would suggest that growing divisions among previously united business actors open up political space for new political coalitions in favor of policy change. But it would be a case of misplaced economic determinism to argue that this outcome is inevitable. While many leading US business leaders have started to lend their support to mandatory emission reductions, others remain skeptical, and while the ground has shifted in US politics, the balance of competing business interests remains uncertain. Business conflict has opened up political space, but viewed from a neo-pluralist perspective the future direction of US climate policy remains uncertain and subject to shifting political alliances and discourses.

The indeterminacy of climate policy notwithstanding, the overall significance of change in corporate strategy is clear. At a discursive level, it has helped to move the debate from whether there is sufficient scientific evidence of man-made global warming to the question of how societies and industries might best respond to climate change. As doubters of climate science are becoming less vociferous, more and more businesses are positioning themselves as climate leaders in their sectors, hoping to gain a first-mover advantage or seeking to create synergies between climate action and other corporate strategies (Cogan 2006; Hoffman 2006). Whether these initiatives can have a significant impact remains to be seen, but the discursive shift they have promoted is in itself noteworthy. The World Energy Council recently captured this new business sentiment in a policy statement of March 2007, in which it stated that leading electricity companies agree that "addressing climate change now will be less risky and costly to the world economy than postponing action", and that "[t]aking bold, early steps to curb greenhouse gas emissions appears to be profitable for business, government and consumers" (World Energy Council 2007: 1).

Conclusions

The case of climate change reveals an unambiguous trend towards greater business involvement in international environmental politics, with mixed effects on the possibility of effective international action. Early on in the international process, a formidable alliance of corporate actors arose that was threatened most directly by proposed restrictions on greenhouse gas emissions: industries heavily dependent on the production or consumption of fossil fuels. Led by the oil multinationals, this fossil fuel industry became the dominant business lobby group in the 1992 'Earth Summit' negotiations on the UNFCCC. Other business sectors with a different set of interests also started to engage more in the international debate during the

1990s, though their international presence never came to rival that of the fossil fuel industry's main lobbying organizations, the Global Climate Coalition and the Climate Council. They were either lacking in economic strength (e.g. renewable energy firms) or failed to develop an effective and sustained political strategy (e.g. the insurance industry). Thus, it was only when the fossil fuel lobby began to disintegrate in the mid-1990s that diversity in business representation and lobbying by more pro-regulatory business interests increased significantly, with new groupings such as the International Climate Change Partnership and the World Business Council on Sustainable Development taking a more conciliatory stance.

The evolution of business lobbying on climate change demonstrates how business representation has increased at the international level while becoming more diverse as the global environmental agenda has expanded. International regulation creates differential effects on business, in climate change as much as in other environmental areas. As the number of politically engaged business actors increases, so does the potential for divisions within the business community. Business conflict has had important political consequences. It undermines business power overall and opens up the space for pro-regulatory alliances between states, firms and NGOs. However, whether latent divisions in the business sector develop into business conflict, and whether such conflict significantly changes international political dynamics, depends on the relative strength of competing business interests and other contingent factors.

The field of climate change politics provides important lessons for wider debates on how to think about business power and its limits. In seeking to influence international outcomes, business actors rely on multiple dimensions of power: relational, structural and discursive. Relational power, the ability to prevail over other actors in situations of conflict, has been clearly visible in the environmental field wherever business actors have lobbied governments and sought to influence the design of international regimes. Overall, the business sector possesses superior financial resources and strong organizational capacity, particularly when compared to environmental NGOs, and is well placed to exploit the privileged access it has to key governmental actors. However, these power resources have not necessarily translated into a predominant position in international environmental politics. They have been challenged by NGOs' ability to overcome their financial constraints through more effective transnational networking and mobilization. The key role that environmental ministries play in MEA (Multilateral Environmental Agreement) negotiations has also deprived business of the advantage of close working relationships with more business-friendly government officials. The issue-specific characteristics of environmental negotiations and the rise of a new and often imaginative form of transnational activism have thus served to curtail the business sector's relational power.

Our analysis would be too limited if we did not also take into account the business sector's central position in the global economy, which gives rise to structural business power. It is in this area that the business sector is credited by some with a dominant, even privileged, position as it controls decisions on investment and technological innovation. The case of climate change has shown how this dimension of power plays into the dynamics of international policy-making. Corporations possess structural power in the traditional sense, in that policy-makers need to consider the broader economic impact that proposed restrictions on GHG emissions will have. They also possess what can be described as *technological power*, in that corporations largely shape perceptions of which policy options are technologically and economically feasible. In this sense, corporations indirectly shape international outcomes, by setting parameters for policy-makers (for a related argument in the case of ozone politics, see Falkner 2005). But the analysis also suggests that structural power needs to be translated into the international process through the agency of firms, and that we need to consider the contingent ways in which business actors bring structural power to bear. Divisions among them greatly limit the sector's overall structural power, and have in many cases opened up opportunities to overcome structural barriers through political agency. Likewise, the discursive power of the business sectors has been undermined by a lack of business unity and challenged by environmental campaign groups that call into question the legitimacy of business actors.

The neo-pluralist perspective advanced in this paper not only urges us to study business power in its empirical manifestations within issue-specific contexts; it also draws our attention to the close connections that exist between business power and business conflict. As can be seen in international environmental politics, inter-firm and inter-sectoral conflict is always a latent reality, and frequently serves to limit business power overall. Whether business conflict manifests itself and comes to shape business involvement in international politics depends on several factors, including the nature of the issue at hand, industry structures and the specific effects of regulatory politics. It is also influenced by the agency of other actors who seek to exploit the political opportunities of business conflict. Political pressure and social protest thus play an important role in creating the conditions for business conflict to emerge.

The business conflict model holds important lessons for political leaders and civil society actors who seek to steer society and the economy in the direction of greater environmental sustainability. It suggests that the dynamics of economic competition and the potential for conflict between corporations may enhance the capacity of campaign groups to exert pressure on companies and bring about a change in corporate behavior. Social movement theorists speak of "industry opportunity structures" (Schurman 2004) that empower activist groups in their political campaigns. Where the potential for business conflict exists, e.g. between market leaders and laggards, or between companies operating at different points in transnational production chains, activist groups have sought to exploit these divisions and create political alliances with companies more likely to support stricter international standards.

Environmental activist groups have traditionally targeted states and international organizations in order to promote international norms and rules that bind economic actors and force change upon them. While this remains an important avenue for creating global governance, social movements have long come to

realize that it is not the only, or even most promising, strategic option available to them. A growing number of activists have engaged in what Wapner (1996) calls "world civic politics", which involves targeting multinational corporations directly and creating governance structures outside the states system. Here again, neo-pluralism shows how business conflict provides activists with access points and powerful levers that allow them to pressure companies into change. It opens opportunities for such groups to engage and cooperate with more progressive companies in an effort to change markets and establish norms for good corporate behavior.

As Cerny has observed, political globalization that accompanies global economic integration has resulted in a situation where outcomes "are determined not by simple coercion and/or structural power but, even more significantly, by how coalitions and networks are built in real time conditions among a plurality of actors" (Cerny 2003: 156). Indeed, the proliferation of political alliances between diverse sets of actors, involving states, NGOs and business actors, makes for a more pluralistic and open-ended international politics of the environment. It does not create a level playing field for competition among equals. Significant power imbalances persist, and structural business power can constrain the search for political solutions to environmental problems. But business does not determine outcomes in international politics, nor can it control the global environmental agenda.

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