

How Big Business Can Save the Climate

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Jerry Patchell and Roger Hayter

In September 1987, representatives of 24 countries met in Montreal and accomplished a rare feat in international politics: a successful environmental accord. The Montreal Protocol on Substances that Deplete the Ozone Layer, which UN Secretary-General Kofi Annan later called "perhaps the single most successful international agreement to date," set the ambitious goal of phasing out chlorofluorocarbons (CFCs) and other dangerous chemicals. It worked: by 1996, developed countries had stopped their production and consumption of CFCs, and by 2006, the 191 countries that had ratified the protocol had eliminated 95 percent of global ozone-depleting emissions.

On its surface, the Montreal Protocol was an agreement among countries. Each signatory agreed to report its emissions and face trade sanctions for failing to meet reduction targets. Developed countries committed to help developing countries

meet their targets with side payments
JERRY PATCHELL is Professor of Geography in the Division of Social Science at the Hong Kong University of Science and Technology.
ROGER HAYTER is Professor of Geography at Simon Fraser University.

and technological support. The treaty's main targets, however, were companies. By preventing the production and consumption of ozone-depleting substances within countries, as well as the trade of those substances between countries, the treaty gave multinational corporations a clear and short deadline to find substitutes for the chemicals or face being forced out of the world market. The results were dramatic: the companies responded to the pressure by developing alternative methods, going a long way toward solving the problem at its root.

Unfortunately, this success has not been matched when it comes to the world's greatest collective challenge: stopping climate change. For 20 years, national governments have sought to slow the heating of the planet and the rise of the oceans by apportioning blame and attempting to spread the financial burden. The vehicle for their efforts, the UN Framework Convention on Climate Change (UNFCCC), is a negotiating process aimed at getting countries to commit to reducing their emissions of heat-trapping greenhouse gases, the main cause of global warming. But the UNFCCC has floundered because of disagreements between developed and developing countries; difficulties in credibly measuring, reporting, and verifying emissions reductions; and the power of vested interests in the energy sector.

Above all, the UNFCCC has failed because it does not provide powerful enough directives for companies to develop and use technologies that could radically reduce their greenhouse gas emissions. Unlike the Montreal Protocol, the UNFCCC does not focus on specific internationally traded products that

generate harmful emissions. Instead, countries with little power to enforce how products are made are expected to reduce their greenhouse gas emissions on a national basis, leading to quarrels among a wide range of stakeholders and industry sectors. The framework's reliance on emissions-trading schemes, meanwhile, offers countries and companies a cheap out, allowing them to forestall investments in clean technologies.

Climate diplomacy urgently needs a new approach. Borrowing from Montreal's playbook, the international community should shift its focus from setting targets that countries cannot meet to setting directives that multinational corporations have to follow. Relying on the threat of sanctions, the UN should compel the multinational corporations that dominate important sectors to define and adopt ambitious targets for driving down their greenhouse gas emissions. Third parties would evaluate the reductions throughout the corporations' supply and distribution channels.

Individual countries contain multitudes of competing voices and interests, which complicate efforts to get them to change their behavior. But corporations are authoritative organizations that can channel extraordinary levels of human, technical, and fiscal resources toward specific problems and missions. Multinational corporations dominate markets, trade, investment, research and development, and the spread of technology. To fight climate change, the international community needs to harness this power.

WHY MULTINATIONALS?

It is worth taking a look back at the Montreal Protocol to consider just why it was so successful. What really sealed

the deal was oligopoly. At the time, several large multinational corporations—most notably the chemical giants DuPont and what was then Imperial Chemical Industries—produced a majority of the world's CFCs. Even as the Montreal Protocol was being negotiated, DuPont began to develop alternatives to the problematic chemicals and rapidly scaled up its production of those substitutes, forcing its rivals to follow suit. Just as important, corporations that consumed ozone-depleting substances in large quantities figured out how to eliminate processes that depended on them and thus reduce their emissions of CFCs. Within a couple years, these companies created alternative refrigerants, aerosols, and electronics-processing methods. In turn, the U.S. Environmental Protection Agency awarded and provided technical support to a diverse range of compliant firms, including SC Johnson, AT & T, Ford, Nissan, and Coca-Cola.

The fact that most of the world's ozone-depleting substances were produced and consumed by a relatively small number of mammoth corporations led to a straightforward solution: when those companies devised substitutes, much of the problem was eliminated. Scientists helped develop technical solutions, nongovernmental organizations advocated change, and local and national governments made important regulatory demands. But it was profit-motivated, competitive multinational corporations that actually implemented the technologies required to stop ozone depletion on a large scale.

Unlike the small number of similar companies that accounted for most CFC emissions, a huge number and wide array of businesses contribute to



A fridge too far: refrigerators awaiting CFC-free destruction, London, January 2000

the emissions of greenhouse gases that drive climate change. But only a relatively small number of companies account for a very large proportion of the research and development of new technology, which most experts see as the most important aspect of addressing climate change. In an influential 2004 study, the Princeton scholars Robert Socolow and Stephen Pacala showed how the world could stabilize its emissions simply by increasing the use of seven groups of existing technologies. More recently, in a 2009 report, the consulting firm McKinsey & Company concluded that by switching to technologies that already exist or are being developed, the world could reduce its greenhouse gas emissions by 35 percent below 1990 levels with an increase of only five to six percent in business costs. The hard part is implementing the right policies—specifically, finding ways to ensure that climate-friendly technologies are adopted on a large scale.

This is where multinational corporations come in. Their global reach and

tremendous capacity for the research, development, demonstration, and diffusion of new technologies offer the best chance of addressing climate change. In the United States, McKinsey estimates that multinational corporations account for 74 percent of private-sector research-and-development spending. And the biggest 700 multinational corporations—just one percent of the world's roughly 70,000 multinationals—make up half of global research-and-development spending and two-thirds of research-and-development spending in the private sector.

Of course, what matters most is how that research and development is put to work. Profit-hungry corporations tend to waste little time in creating, patenting, and exporting new products. Each year, they invest hundreds of billions of dollars in production processes, product development, factories, offices, transportation, and stores. By themselves, multinational corporations account for a quarter of global GDP—\$16 trillion in 2010—and well over \$1 trillion of yearly global

investment. If every large multinational corporation demanded that its facilities and those of its suppliers reduced their greenhouse gas emissions by just five percent each year, or by some other substantial, self-determined goal, the results would ripple across the global economy. Moreover, the corporations' efforts would generate reduction technologies that could be adopted broadly.

Compare the ability of multinational corporations to make use of their research and development with the technology-transfer schemes built into the current climate change framework. Under the UN'S Clean Development Mechanism, developed countries wishing to offset their own emissions can transfer money to the developing world, so long as the funds are used to reduce greenhouse gas emissions in some manner. From 2006 to 2012, the program channeled somewhere between \$22 billion and \$43 billion to the development of new technologies, including plants that turn manure into electricity. But all this work has led to only modest emissions reductions and no significant research and development. A far more promising approach would be to make sure that greenhouse-gas-reduction technologies and practices were integrated into all the massive investments that multinational corporations undertake each year.

CHOOSING THE RIGHT TARGETS

One sensible-sounding proposal to reform the UNFCCC would target specific industry sectors that contribute the most to climate change, require them to invest in new greenhouse-gas-reduction technologies, measure their progress, and force them to pay for carbon reductions elsewhere. This is, in essence, what the

European Union has done, developing an emissions-trading scheme involving electricity- and heat-generating plants; oil refineries; coke ovens; metal ore and steel installations; cement kilns; glass and ceramics manufacturing; and pulp, paper, and board mills. Such facilities account for about half of the EU'S carbon dioxide emissions and thus seem like the smartest targets for stricter rules.

But lining up the usual suspects may not be the best way to regulate the climate. Some industries are inherently dependent on emitting greenhouse gases—and not even the most clever environmental rules will change that. The petroleum, gas, and coal sectors, for example, might discover new ways to reduce emissions during production and distribution, but they prosper only by selling more carbon. Cement and steel are not much different. Asking firms in these sectors to make incremental reductions in the emissions they produce, even by smacking them with carbon taxes or offsetting requirements, would do little to stimulate the development of renewable energy. That approach would only lock in technologies that would continue to produce unsustainable levels of emissions for decades to come.

It would make more sense to concentrate not on the industries that produce fossil fuels but on those that consume energy—and can thus more realistically make changes. Most multinational corporations make goods or offer services that are not dependent on any one type of energy or energy-intensive material. Moreover, since they respond to the needs of consumers, they do not have to support vested interests (of which there are plenty in energy sectors) the way that governments do. For these companies,

energy expenses are minor, and it would cost relatively little for them to switch to renewable energy and environmentally friendly materials. Doing so would also help them avoid the increasing regulatory penalties on fossil fuel usage and, at the same time, improve public perceptions of their behavior.

To be sure, multinational corporations are not altruistic organizations and will not want to pay for these changes themselves. Today, corporations make countries compete for their investments by offering flexible working conditions, low wages and taxes, infrastructure subsidies, and limited environmental regulation. But if multinationals were compelled to reduce their greenhouse gas emissions, countries and regions would have to compete to attract them by providing clean energy, research-and-development support, and workers and consumers who were dedicated to a low-carbon future.

HOW IT WORKS

Collective action against climate change has proved elusive because it requires cooperation among deeply divided camps. Developing countries such as China and India—the first- and third-largest emitters of carbon dioxide, respectively—argue that developed countries are responsible for historical emissions and are most able to afford contemporary reductions. They expect rich countries to lead by reducing their own emissions and paying for reductions in the developing world, while excusing themselves from environmental constraints. Meanwhile, developed countries want poorer states to rein in their increasing emissions before receiving funding.

The impasse runs even deeper, however. It originates in governments' fear that attempting to stop climate change will harm economic growth and reduce standards of living, all with a regressive distribution of costs and benefits among rich and poor countries and among rich and poor people within countries. This fear is what prevented the UNFCCC from trying to secure direct funding for emissions reduction from developed countries and what led it to rely instead on the Clean Development Mechanism. This approach was supposed to be market-driven and efficient, but it has been hampered by bureaucracy.

To avoid these obstacles, the climate diplomacy expert David Victor has suggested that the UN should set aside its quixotic attempt to create a global set of rules acceptable to so many divergent countries. Instead, he argues, countries with a similar commitment to and capacity for governance and socioeconomic change should form "carbon clubs" that reward members for sound climate change policies and penalize inaction.

But since countries differ wildly in terms of their interests and capacities, an even more effective and equitable approach would be for the international community to compel similar multinational corporations, the oligopolies of global industry, to form climate clubs that would set targets for emissions reduction and standards for product design and share knowledge about renewable energy technologies. The clubs would comprise not only multinationals from established rich countries but also the rapidly emerging businesses of the developing world. As a result, the clubs would draw developing countries

into the global climate change framework by enlisting companies capable of acting rather than making demands of people who are not.

The UN could delegate governing the system to the World Trade Organization, taking advantage of the WTO'S established dispute-resolution mechanism. However, since the WTO mediates trade disputes only between national governments, its procedures would need to be modified for the direct evaluation of multinational corporations. (Such a shift would be rather simple to implement, since many multinational corporations already adhere to common standards, particularly those of the Greenhouse Gas Protocol, and the WTO could enlist the help of many recognized third parties to do the evaluations.) Large multinationals would need to meet deadlines to establish clubs and regulations, and smaller corporations would be expected to join the clubs once they hit a certain level of international production or imports. Penalties for noncompliant companies could include taxes paid to countries or fees paid to the UN.

The greatest difference between this proposal and the status quo is the role played by national governments. At the moment, the UNFCCC sets carbon targets and asks each country to figure out how it will meet them. The pressure to do so leads countries to focus on carbon-dependent industries—for the most part, energy producers—which are inherently disinclined to reduce their greenhouse gas emissions. Moreover, most governments lack the capacity to credibly monitor carbon emissions across their countries. That task is better performed by individual corporations, which can benefit from combining

carbon audits with the quality-control and supplier audits that they use to control their supply chains.

Focusing on multinational corporations is also a more equitable approach to dealing with climate change. Less developed countries and the less well-off within countries would not have to pay a higher price for energy. Nor would farmers and small businesses be saddled with the higher energy costs that would come from a carbon tax or carbon trading. The people around the world who buy products made by major corporations—the relatively and absolutely wealthy—would end up paying the true costs of their carbon consumption. Multinationals would have to account for environmental damage in their production costs, creating an incentive for them to eliminate or reduce the source of any additional costs rather than charge their customers higher prices.

The system would also avoid the problem of "carbon leakage," whereby one country's setting tighter limits on emissions simply leads emitters to move elsewhere. Corporations can be held responsible for emissions anywhere along their supply chains, regardless of which countries host the more pollution-heavy aspects of their businesses.

As the world continues to climb out of a recession, multinational corporations are far better placed to tackle climate change than deficit-ridden or poor governments. The concentration of immense power in a small number of corporations—long a fear of concerned citizens everywhere—might turn out to be just what is needed to save the planet.