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Introduction

On May 19, 1997, John Browne, then CEO of British Petroleum (BP), entered the stage at Stanford Business School to deliver what would become a landmark speech. Breaking ranks with his industry peers who opposed emissions controls, Browne said that the time for action on global climate change had come—and that BP was working with the U.S.-based group Environmental Defense to establish an internal emissions trading system to meet its own greenhouse gas (GHG) emissions reduction target.¹ BP launched its in-house pilot trading scheme one year later. And by 2000, that pilot grew to encompass the entire organization, effectively establishing the first international GHG emissions trading scheme.

A decade into the new century, BP's internal experiment has become the global experiment of climate politics: by generating and trading the right to emit GHG emissions, firms, governments, and individuals aim to slow, stop, and eventually reverse the worldwide growth in emissions. Originally developed in the United States, carbon trading has emerged as the industrialized world's primary response to global climate change. A number of so-called son-of-Kyoto bills were passed over the past decade or are under consideration in developed countries, including the European Union (EU) and United States. In addition, parts of the developing world—in particular China, India, and Brazil—are involved in the global trade of carbon dioxide (CO₂) emissions permits through the generation of project-based credits. The regulatory approach, in short, has gained significant political momentum, leading to the emergence of new commodity markets: the carbon markets. In 2009, the carbon markets were worth US\$144 billion, and they are expected to grow exponentially over the coming decade (Kossoy and Ambrosi 2010).

The creation of new markets to solve an environmental problem is a new and striking phenomenon in global environmental politics. It represents the most large-scale manifestation of a broader trend toward

market-based global environmental governance. Since the early 1990s, the regulatory style of environmental policy has shifted markedly from command-and-control regulation to market-based forms of governance: “The Invisible Green Hand” (2002) has come to rule global environmental affairs. This trend follows the idea that the market is “the source of innovation, efficiency, and incentives necessary to combat environmental degradation without compromising economic growth” (Newell 2008a, 79). Market-based environmental governance mainly comes in two ways: the growth of private governance mechanisms, and the creation of property rights in regard to environmental goods (see Falkner 2003; Newell 2008a; Pattberg and Stripple 2008). While private governance includes voluntary agreements, ecolabels, and public-private partnerships, assigning property rights refers to ecotaxes and, most notably, emissions-trading schemes. When it comes to the scale and geographic scope of market-based environmental governance, carbon trading is the most significant case. The policy instrument has emerged as the central pillar of climate policies. In this process it outcompeted carbon taxes, regulatory standards, and voluntary climate policy. While these still play a role in climate policy mixes, they are not the major regulatory instruments.

The worldwide spread of emissions trading presents a puzzle. The approach has been a highly controversial policy instrument. On the one hand, supporters of market-based climate governance stressed its efficiency and argued that it unleashes the potential of the private sector in solving the climate change problem (Holliday, Schmidheiny, and Watts 2002). On the other hand, critics claimed that emissions trading grants firms a *license to pollute*, leading to a weakening of environmental regulation (Corporate Europe Observatory 2000; Bachram 2004; Lohmann 2006). Governments and green groups in the EU were initially opposed to the use of market mechanisms in climate politics. Yet the EU came to pioneer GHG emissions trading by developing the first cross-border trading scheme, the EU Emission Trading Scheme (EU ETS).

Interestingly, the rise of carbon trading in global climate politics coincided with a shift in the political strategy of a number of influential firms from opposing climate regulation to advocating for a specific policy solution. There is considerable evidence that the outcome of international climate politics in general and the rise of carbon markets in particular have been strongly affected by the political behavior of firms. Corporate activists such as BP and DuPont started to advocate emissions trading as a policy response to climate change in the mid-1990s, assuming a leading

role in popularizing the policy instrument across the Organization for Economic Cooperation and Development world.

This book sets out to explore the strategies, level of influence, and sources of influence of business with regard to market-based climate policy. It asks two questions: What role did business play in the global rise of emissions trading? And why did firms succeed in promoting emissions trading as the main policy solution to global climate change? In the following section, I lay out the key argument on the role and influence of business in the rise of emissions trading.

Business Coalitions in Global Climate Politics

The research questions speak to the debate on the power of business in global environmental politics. How powerful are firms in shaping the agenda and outcome of global environmental politics? What are their sources of influence? Over the last three decades, business has emerged as a critical actor in global environmental politics in several ways. Business actors lobby parties to international negotiations (Coen 2005; Fuchs 2005a), shape public discourses (Sell and Prakash 2004), and provide technological solutions to environmental problems (Falkner 2005); they are involved in rule setting as well (Falkner 2003; Pattberg 2007). While the economic preponderance of firms bestows them with a competitive advantage vis-à-vis other interest groups, corporate power also faces a number of constraints (Falkner 2008). First, countervailing forces, such as states and environmental groups, limit the power of business. Their relative political weight and the level of contestation on a policy issue affect the influence of business. In addition, divisions in the business community cause conflict between and within business sectors, which constrains the overall political clout of business as such (Cox 1996b; Skidmore-Hess 1996). The distributional effects of environmental policy, and regulatory policy in general, lead sectors and firms to different policy preferences, which can result in inter- or intraindustry conflict. After all, “political competition follows in the wake of economic competition” (Epstein 1969, 142).

Given these limitations to their influence, firms, I contend, face the challenge of organizing collective action to achieve political clout. As Philip Cerny (2003, 156) says, political 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” (see also Mattli and Woods 2009). Collective action,

in other words, becomes a source of “power through organization” (Offe and Wiesenthal 1980, 72), as it allows firms to pool political resources and pursue effective collective strategies. These arguments reflect a pluralist/neopluralist understanding of world politics (Mattli and Woods 2009; Avant, Finnemore, and Sell 2010; Cerny 2010), in which this book is firmly embedded. The central assumption is that individual and collective actors “engage in processes of conflict, competition, and coalition building in order to pursue those interests” (Cerny 2010, 4). With regard to the role of business in global environmental politics, Robert Falkner (2008) has developed a neopluralist approach, stressing the possibility of business conflict. This book builds on the neopluralist literature by advancing our understanding of transnational business coalitions as a source of corporate power. The role of firms in global environmental politics needs to be understood in terms of both business conflict and cooperation.

Through this lens, international climate policy appears—to a large extent—as the product of shifting and competing business coalitions along with their respective influence. Hence the title of this book: *Carbon Coalitions*. I argue that business could not prevent mandatory emissions controls but instead succeeded in influencing the regulatory approach in favor of market-based climate policy. In the early phase of international climate politics, business stood largely united in opposition to caps on GHG emissions. Dominated by U.S. fossil fuel interests, the antiregulatory coalition successfully vetoed international and domestic emissions controls (Levy and Egan 1998; Goel 2004). In particular, it fended off proposals for carbon/energy taxes in both the EU and the United States, effectively demonstrating de facto veto power with regard to environmental taxes.

This dynamic started to shift in the run-up to the Kyoto conference in the mid-1990s, as a split in the business community emerged. A number of firms based in the United Kingdom and the United States began to promote emissions trading in tandem with business-oriented nongovernmental organizations (NGOs) and a few public actors (Yandle 1998; Yandle and Buck 2002; Matthews and Paterson 2005). This effort led to the emergence of a protrading NGO-business coalition. At its core stood the political goal of promoting emissions trading as the policy response of choice to climate change. The coalition advocated carbon trading, shared information, and generated market infrastructure. While transnational in scope, the coalition crystallized in more local advocacy coalitions at regional, national, and subnational levels.

By joining forces behind a market-based climate policy, the protrading lobbies among business and NGOs sidelined more radical business and

environmental coalitions that favored no emissions controls, or carbon taxes and command-and-control policies, respectively. The protrading coalition came to define a climate compromise. Business supporters of emissions trading were initially driven by an “antitaxation” agenda that aimed to prevent the implementation of carbon taxes, which were perceived as a more costly form of regulation compared to carbon trading. Big emitters from the oil industry and especially the power sector were among the first movers. By showing policy leadership on emissions trading and legitimizing mandatory yet market-based climate policy, business created an opportunity for governments to push for binding emissions reduction targets and market mechanisms. While business did not determine political outcomes, it has proven to have considerable influence on regulatory style, effectively defining the range of available policy instruments. Without the emergence of transnational business support for the approach, carbon trading would have been unlikely to globalize within a decade.

Why did the protrading coalition succeed in grafting carbon trading on to the agenda of international climate politics? I argue that its success is a function of political opportunity structures, the political resources that the coalition could leverage, and the strategies it pursued. By considering these three elements—political environment, power resources, and strategy—this approach advances existing studies of the role of business in global environmental politics (Levy and Newell 2005; Falkner 2008; Clapp and Fuchs 2009a). Adopting a power-oriented framework, these studies predominantly focus on different forms of corporate power, such as instrumental, discursive, and structural power, thereby establishing a multidimensional understanding of corporate power. This book goes one step further by acknowledging that—next to power resources—the political environment (Cerny 2010) and political strategy (Levy and Scully 2007) matter significantly in the equation of business influence. It thus adopts an influence-oriented perspective as opposed to a power-oriented one (see Betsill and Corell 2008).

In terms of political opportunities, policy crises and international and/or domestic norms are key. The protrading coalition could capitalize on the political stalemate between environmental interests and economics interests, and between the EU and the United States, by suggesting a third policy solution: a mandatory yet market-based climate regime. In addition, carbon trading demonstrated a good fit with the liberal norms embedded in the system of global environmental governance. While political opportunities were critical, the coalition’s resources and strategies allowed the protrading advocates to exploit such circumstances. Coalitions allow firms

to pool material and immaterial resources—notably money and legitimacy. Effective coalitions also are able to pursue strategies that individual firms could hardly achieve.

Two strategies proved to be particularly crucial: mobilizing state allies, and playing multilevel games. The success of the protrading coalition relied on powerful state allies such as the U.S. administration and the European Commission. Given the key role played by state allies, the diffusion of emissions trading essentially represents a case of multileadership of factions of firms and market-oriented government actors. A second important strategy of the transnational coalition was that it targeted multiple political levels. It influenced policy processes at the subnational, national, regional, and international levels, which led to a broad shift in the global climate agenda. A single company could most likely not have achieved this. The confluence of these factors allowed the protrading coalition to outcompete other advocacy groups in influencing the regulatory style of climate policy. The transnational coalition became a vehicle for the spread of a U.S. regulatory approach. While I put forward a coalition-based, business-centered reading of the rise of carbon trading, the approach faces competition from another business-centered approach as well as more general international relations theories.

Alternative Explanations: Capital, States, and Ideas

The global rise of carbon trading can be viewed through a number of alternative theoretical lenses—notably neo-Gramscianism, neoliberal institutionalism, and constructivism. While neo-Gramscians offer an alternative business-centered reading with a focus on the structural power of global capital, neoliberal institutionalism and constructivism represent standard models of international environmental cooperation. Each of the three theoretical perspectives helps to explain different aspects of the spread of emissions trading. In what follows, I will discuss the contributions and limitations of these alternative theoretical views. While this is not the place to rehearse the entire literature on the different theoretical traditions, I will look at a few key aspects that are relevant to the empirical puzzle. It should be noted that the exploration here does not exhaust the spectrum of potential theoretical perspectives on the globalization of carbon trading. Neorealism and hegemonic stability theory would be, for instance, alternative lenses. Yet these approaches have existed only at the margins of the academic field of global environmental politics, as they have contributed

relatively little to explaining international environmental cooperation. I therefore will not include them in the discussion below.

Capital-Centered Explanations

Neo-Gramscian thought in international political economy (Gill and Law 1989; Cox and Sinclair 1996) has inspired a number of scholars working on the power of firms in global environmental politics (Newell and Paterson 1998; Levy and Newell 2002; Levy and Egan 2003; Levy and Scully 2007). Their efforts have led to a well-developed body of literature. Given its analytic focus on corporate power, the neo-Gramscian approach is the main reference point for an examination of the neopluralist perspective. Both represent business-centered approaches.

The conceptual cornerstone of the neo-Gramscian approach is global hegemony, or a historical bloc, which is to be understood as resting “on a specific configuration of societal groups, economic structures, and concomitant ideological superstructures. A historical bloc exercises hegemony through the coercive and bureaucratic authority of the state, dominance in the economic realm, and the consensual legitimacy of civil society” (Levy and Egan 2003, 806). Hence, hegemony is an alignment of political, economic, and ideological forces that coordinates the behavior of major social groups. Neo-Gramscian notions of a transnational historical bloc depart from classical Marxism insofar as social forces in a “war of position,” in which the structural power of business has to be continuously reinstated, are thought to contest the dominant state-business-civil society alliance (*ibid.*). These power struggles often result in the reconfiguration of the historical bloc because capital has to accommodate social pressure and redefine its general interest. In short, the neo-Gramscian approach puts forward the notion of contested business hegemony.

The notion of hegemony builds on a concept of the structural power of capital in the global economy. This power is derived from the tax revenue and employment provided by the critical economic sectors on which the state depends (Gill and Law 1989; Gill 1993). While the neo-Gramscian approach considers different forms of corporate power, it implicitly assumes a hierarchy among them. Structural power is the power of first order, from which all other forms of power are derived. Though this is rarely made explicit, the assumption that political processes gravitate toward the creation of historical blocs, which reflect the capital’s interest, suggests that structural power maintains the status of *primus inter pares* among the different forms of power. The concept of hegemony,

however, does not imply that capital, or business, is a homogeneous group with a single interest. Neo-Gramscians are well aware that different factions of business can have diverging interests because sectors and firms are differently affected by regulation (Cox 1996b; Skidmore-Hess 1996). Rather, the assertion is that core sectors in the economy represent “capital-in-general” (Newell and Paterson 1998). These are the strategic sectors that the entire capitalist system builds on, such as energy industries or finance—the so-called commanding heights. Accordingly, the historical bloc reflects the interest of those sectors representing capital-in-general. The role of the state in capital accumulation is to identify and advance the general interest of capital. In this process, the state itself internationalizes by creating multilateral and supranational institutions to promote as well as reproduce the global economy (Jessop 1990; Cox and Sinclair 1996). The neo-Gramscian approach and my focus on the role of state allies as a source of corporate power are in this respect similar.

With regard to climate politics, neo-Gramscians suggest a reconfiguration of the transnational historical bloc (Levy and Egan 2003). In the pre-Kyoto period, the fossil fuel and energy-intensive manufacturing industries were at the core of a historical bloc. They represented global capital, some scholars contend, due to the historically close link between energy production and economic growth (Newell and Paterson 1998; Levy and Egan 2003). The lobbies of these sectors, foremost the Global Climate Coalition, successfully prevented mandatory GHG controls for a long time (Levy and Egan 1998). In short, the fossil fuel industries and their state allies maintained an antiregulatory historical bloc. This changed when a rift in the business community appeared prior to the Kyoto conference in 1997. David Levy and Daniel Egan (2003) assume a reconfiguration of the transnational historical bloc. In response to miscalculations in political strategy and early regulation in Europe, which created prospects for markets for low-carbon technologies and made European firms move ahead, U.S. companies began to change strategy. “The climate regime associated with this bloc provides very limited targets for emissions reductions, market-based implementation mechanisms, and minimal regulatory intrusion upon corporate autonomy” (*ibid.*, 818).

The neo-Gramscian concept of contested hegemony and reconfiguration appears to offer a powerful explanation for strategic change in the business community, as it encompasses political, economic, and ideological phenomena. As far as the description of corporate political activity is concerned, neo-Gramscian thought has significantly advanced the study of the firm’s political economy. This is especially true for the ideational

dimensions of business activity, as neo-Gramscians have brought the discursive dimension of business power into the analysis (Levy and Egan 1998; Levy and Newell 2002; Fuchs 2005b). Moreover, the idea of the contestedness of business reflects on the role of conflict in the relations of firms with other actors, such as governments and civil society groups. This goes beyond notions of the embeddedness of firms, which stress that firms simply respond to institutional pressure (Granovetter 1985; Sally 1994).

Yet when it comes to an explanation, neo-Gramscian concepts of “contested hegemony” raise questions as to their internal coherence. While considering political struggles as the norm in capitalist states, neo-Gramscians also assume the existence of a historical bloc. The historical bloc is hegemonic, in short, but it emerges in a nonhegemonic way. This remains the central puzzle of the neo-Gramscian approach: Why should a bloc emerge if social contests dominate? Or why should pluralist struggles matter at all if the structural power of capital prevails? To be clear: neo-Gramscians pay close attention to the formation of historical blocs and alliance building (Levy and Newell 2002; Matthews and Paterson 2005; Newell 2008b). Hence, in terms of an empirical analysis, the neo-Gramscian and coalition-centered approaches advanced here are similar, as they both look at coalition building. But coming from a pluralist angle, I do not assume that the structural power of capital will ultimately lead to a dominant position of business. Neo-Gramscians instead assume that any war of position will gravitate toward a dominant, albeit reconfigured, historical bloc. The agency-structure debate thus is implicitly resolved in favor of the structural argument.

While both the neo-Gramscian approach and coalition-centered perspective advanced in this book stress the role of state allies as sources of business power, neo-Gramscians run the risk of overstating the alignment of state and business strategies. If the state was structurally dependent on business to the extent that neo-Gramscian approaches suggest, one could claim that there would be no need for lobbying (Falkner 2000). Yet firms invest significantly in lobbying activities to influence policy, as state allies cannot be taken for granted. Given this, neo-Gramscian interpretations tend to overemphasize the stability of the political order at the expense of acknowledging the contingencies of the actual political process. To use Alexander Wendt’s words (1987, 362): “*Structural* analysis explains the possible; *historical* analysis explains the actual.”

The neo-Gramscian approach, to wrap up, represents an appealing theoretical lens to study corporate power in global environmental politics due to its encompassing narrative of capitalist hegemony. It has critically

advanced the study of business in global environmental politics. Much of the alliance-focused analysis of this book fits in well with a neo-Gramscian interpretation. Nevertheless, the key difference is that the analysis offered here does not have an analytic bias in favor of the structural power of business. It instead explores the actual influence of business in contingent political processes. In the conclusion, I will discuss the neo-Gramscian interpretation of the rise of market-based climate policy in light of the empirical findings.

State-Centered Explanations

Neoliberal institutionalism has emerged as the mainstream explanation for international environmental cooperation (Young 1989; Haas, Keohane, and Levy 1993). The assumption is that states cooperate to maximize absolute gains in areas where mutual benefits exist. In these cases, states create institutional arrangements, or regimes. Two variants of neoliberal institutionalism have played an important role in the study of global environmental politics: the contractarian strand, and the constitutive one (Young 1997). Contractarians assume that state identities and interests are exogenously given. Based on set interests, states negotiate cooperative agreements in situations where a collective strategy maximizes the joint gains. In international environmental politics, the transboundary nature of global environmental problems creates situations where rational state actors can mutually benefit through cooperation. The constitutive strand instead argues that international institutions, such as international agencies, as well as treaties and informal practices are not only the outcome of interstate negotiations but also facilitate intergovernmental cooperation. These institutions in fact shape state identities and interests.

Regarding international climate politics, neoliberal institutionalists suggest that the Kyoto Protocol serves the interests of its parties (Rowlands 2001). Emissions trading was included not because of the overriding power of the United States but because the United States and the EU struck a deal: while the EU accepted market mechanisms, the United States agreed to a binding target. From the perspective of the constitutive strand of neoliberal institutionalism, the UN Framework Convention on Climate Change (UNFCCC) facilitated the protocol's negotiation. As a preexisting international institution, this convention facilitated the bargaining process. The spread of emissions trading as a policy instrument could be interpreted as the implementation of an international regime at the national level. It would thus be a case of state compliance. An interest-based, statecentric perspective on international environmental cooperation

takes into account that much of international environmental negotiation is essentially interest-based bargaining (see Barrett 2005). This approach also stresses that states are the primary actors in international climate cooperation, including the case of carbon trading. As I hope to demonstrate, business requires strong state allies to advance its agenda.

While neoliberal institutionalism offers complementary insights into the rise of emissions trading, it also shows blind spots regarding state interest formation and the content of international cooperation. First, in the classic variant of the contractarian perspective, state interests are exogenous, leaving their formation unexplained. Robert Keohane (1993, 285) eloquently makes this point: “In the absence of a specification of interests . . . institutionalist predictions about cooperation are indeterminate. That is, institutional theory takes states’ conceptions of their interests as exogenous: unexplained within the terms of the theory.” This explanatory void is due partly to the fact that nonstate actors are not an essential part of the neoliberal equation. While neoliberal institutionalists acknowledge the existence of nonstate actors (Keohane and Nye 1972), their analytic focus remains essentially statecentric. Accordingly, classic neoliberal institutionalism cannot explain why the United States pushed for the inclusion of market mechanisms in the Kyoto Protocol or why the EU shifted its position from strong opposition to strong support for emissions trading.

A number of institutionalist scholars have taken up this criticism, though, addressing the question of state interest formation in the context of neoliberal institutionalism (Milner 1997; Simmons 1997). They have done so by bringing domestic politics back into the equation, particularly by looking at the interaction of domestic actors and institutions. This strand of research converges with the neopluralist argument advanced here to the extent that it considers the role of interest groups in state interest formation. Neopluralism can essentially be understood as a theory of state interest formation with a primary focus on the role of business in shaping foreign policy. Yet the analysis in this book goes beyond the role of domestic firms in foreign policymaking by also considering the transnational organization of business and the engagement of business with international politics.

Second, neoliberal institutionalism does not make explicit assumptions about the content of international agreements. It is assumed that parties agreed on the optimal policy solution. Hence, it remains puzzling from an institutionalist perspective why states agreed on market mechanisms as opposed to competing policy instruments. Building on the rationalist assumptions of the approach, it could be asserted by theoretical extrapolation

that emissions trading became the dominant international response to global climate change because it represents the most efficient solution for all actors involved. While many political actors have often portrayed international emissions trading as the most cost-efficient policy solution, a number of economists actually question the efficiency of emissions trading. Neoliberal institutionalism leaves aside the notion that the choice of policy instruments is essentially a political battle over competing norms, as opposed to a search for the optimal global policy solution. The narrative presented here very much reflects that emissions trading did not simply present itself as the most efficient solution. Rather, it took a transnational campaign to persuade key actors to accept carbon trading.

In sum, contractarian neoliberal institutionalism retains explanatory power as regards the question of why agreements are reached and the premise that states are the final decision makers in policy choices. These insights will be reflected in the business-centered approach advanced here by considering state allies as a key source of business influence. Classic neoliberal institutionalism remains problematic as an explanation of the rise of emissions trading, as it does not open the black box of state interests. Still, more recent developments of neoliberal institutionalism accounting for the role of domestic politics in the formation of state preferences align with much of the neopluralist argument. I will return to the discussion of neoliberal institutionalism in the book's concluding chapter against the backdrop of the empirical analysis.

Ideational Explanations

Constructivism offers a third perspective on the rise of carbon trading: "Constructivists focus on the role of ideas, norms, knowledge, culture, and argument in politics, stressing in particular the role of collectively held or *intersubjective* ideas and understandings on social life" (Finnemore and Sikkink 2001, 392). As such, a central tenet of the approach is the idea that political action is driven primarily by ideational instead of material factors (Ruggie 1998; Wendt 1999). Ideas and norms are the structures that shape interests and identities. Constructivism emerged in the context of critiques of statecentric approaches that concentrate on material power (Finnemore and Sikkink 1998). It draws on older theoretical traditions such as the English school and the sociological strand of institutionalism (Finnemore 1996; Checkel 1998).

The role of ideas and norms in facilitating international environmental cooperation has been considered in a number of ways (Haas 1992a Litfin 1995; Keck and Sikkink 1998; Bernstein 2001). Peter Haas (1992b) for

instance, introduced the concept of epistemic communities, which are expert communities that build consensual knowledge about causal relationships. He argues that scientific knowledge about environmental problems is crucial to bringing about interstate cooperation. The Montreal Protocol on Substances that Deplete the Ozone Layer is a case in point, Haas says. While Haas focuses on causal beliefs, Margaret Keck and Kathryn Sikkink (1998) stress the role of principled, or normative, beliefs for cooperation to occur. They suggest that transnational environmental advocacy networks are vehicles for such norms in particular in issue areas such as the environment or human rights. Much of the constructivist notion of ideas in global politics is reflected by recent research on policy diffusion. This relatively new body of literature considers diffusion as a distinct social mechanism that builds on uncoordinated but interdependent decision making (Simmons and Elkins 2004; Busch and Jörgens 2005; Levi-Faur 2005). Such mechanism-oriented diffusion studies converge with constructivist notions of ideas and norms as ideational structures.

With regard to the marketization and liberalization of global environmental politics, Steven Bernstein (2001) has offered a powerful idea-based account in *The Compromise of Liberal Environmentalism*. His argument is that liberal—that is, market-based—environmental policies are the best fit with the underlying normative structure of a liberal international system. Bernstein sees global environmental politics as deeply embedded in liberal norms since its inception. The emergence of private governance and environmental markets are the visible reflections of the dominant idea of liberal environmentalism. Bernstein thus provides a powerful narrative for the marketization of environmental politics in general and the rise of carbon trading in particular. Concerning the latter, Bernstein (*ibid.*, 118) writes: “Perhaps no better example of the effects of liberal environmentalism exists than the signing of the 1997 Kyoto Protocol. . . . [T]he Kyoto Protocol is the most ambitious attempt to date to implement market and other economic mechanisms at the global level that I have identified as a key component of liberal environmentalism.” At first sight, the constructivist approach to international environmental cooperation appears to offer a powerful explanation. Both causal and normative beliefs play an important role in the process. Because the problems to be solved relate to the natural world, there is a high demand for scientific knowledge. The political goal of environmental protection also is highly contested and competes with other norms, such as economic growth and development. Constructivism has a strong appeal because it can explain the content of international cooperation.

The problem with structural constructivist explanations such as Bernstein's is that they fall short of explaining norm emergence and why certain ideas prevail over others. A significant, more agency-oriented strand in constructivism has tried to rectify this flaw by considering specific actors as vehicles of ideas. Epistemic communities (Haas 1992b) and transnational advocacy networks (Keck and Sikkink 1998; Risse, Ropp, and Sikkink 1999) are norm entrepreneurs that play an instrumental role in the emergence along with diffusion of ideas and norms.

This book builds on this agency-oriented strand of constructivist research, considering the role of business coalitions in struggles over ideas. The approach presented here goes one step further, however, by explicitly studying the capabilities that enable nonstate actors to spread ideas, thereby dealing with questions of power and influence. The existing agency-oriented perspectives of constructivism do not encompass whether ideas are driven by transnational nonstate actors, or whether transnational actors merely act as carriers of ideas in a quasiautomatic process of diffusion. As Jeffrey Checkel (1998) argues, even agency-oriented variants of constructivism lack an explicit theory of agency. My book clearly takes an agency-oriented standpoint, suggesting that ideas come to play a part in world politics only through the active promotion of agents. I view ideas as intervening variables between agents and political outcomes, not as causal variables. The spread of an idea is not quasiautomatic but rather depends critically on actors employing their power resources and skills in the process of "strategic social construction" (Finnemore and Sikkink 1998, 909).

This brings us to the question of the sources of power. Given its focus on ideas, constructivist analysis leans heavily toward ideational power structures at the cost of neglecting material forms of power. It can be argued, though, that interests and material forms of power often stand behind particular ideas (see Hall 1989). Material power, such as funding, is necessary to effectively advocate and disseminate an idea in a campaign. Yet the material foundation of the successful diffusion of ideas escapes the analytic lens of constructivists, because ideas are understood to be causal in themselves. In sum, constructivism offers highly valuable insights into the role of ideas in global environmental politics. Especially the agency-oriented strand in constructivism supplies helpful vantage points for developing an understanding of the role of business in political struggles over meaning. While making clear links to the constructivist research program, this study also departs from it insofar as it considers ideas as intervening variables driven by actors possessing both material and ideational power resources, as will be spelled out in chapter 2.

To conclude, this book positions itself in the debate on the power of business in global environmental politics. The arguments made here are embedded in a neopluralist understanding of business power, advancing our understanding of the organizational dimension of corporate power. This book thus complements the business conflict lens of existing neopluralist approaches to the role of business in global environmental politics with a coalition-centered analytic lens. Hence, the conceptual work on transnational business coalitions in this book is seen as a contribution to neopluralist thinking on business in global environmental politics in particular (Falkner 2008) and neopluralist approaches to world politics in general (Avant, Finnemore, and Sell 2010; Cerny 2010). The main advantage of a neopluralist perspective on the globalization of carbon trading lies in its high degree of analytic sensitivity toward nonstate actors as well as actual historical patterns of conflict and cooperation across state and nonstate actors. Neo-Gramscian scholars offer an alternative reading of the role of business in global climate politics. Beyond business-centered perspectives, neoliberal institutionalism and constructivism represent competing explanatory approaches.

All three contending approaches grasp important aspects of the diffusion of emissions trading. For instance, neoliberal institutionalism points to the crucial role of nation-states in setting the rules of carbon trading. Neo-Gramscian and constructivist analyses direct attention to the discursive processes around carbon trading. Moreover, the neopluralist reading of this book overlaps partly with certain aspects of the three alternative explanatory approaches. The narrative laid out here resonates with the interest of neo-Gramscians in alliance formation, the domestic politics approach in neoliberal institutionalism, and the concept of transnational advocacy networks in constructivism. For theoretical reasons relating to interest formation, assumptions about agency and structure, and the role of material power, however, this book advances a coalition-centered, pluralist perspective. It is argued that such a perspective sheds the most light on the actual historical role of business in the globalization of carbon trading. In the concluding chapter, I will return to this contention in relation to the empirical findings.

Methodological Issues

I now turn to this study's research design, which establishes the formal link between the theoretical argument and the empirical research. First, I operationalize the concept of influence and explain the methods used to

infer causality. Next I discuss the case study design and selection of the cases. In a final step, I explain the primary and secondary sources of data along with the process of empirical research.

Methods

The goal of this study is to explain the influence of business coalitions. Influence is one of the key concepts in political science. While widely used in the study of nonstate actors in global politics, it oftentimes remains undefined and nontheoretical. As early as 1998, Michael Zürn (1998, 646) maintained that “although there is a lot of good evidence about the role of transnational networks in international governance, more rigid research strategies are needed to determine their influence more reliably and precisely.” Since then, only a few scholars have answered this call (Arts 1998; Newell 2000; Betsill and Corell 2001, 2008). Building on this body of literature, and in particular on Michele Betsill and Elisabeth Corell’s book, I define influence, propose indicators of influence, and suggest methodologies to identify evidence for influence in the following paragraphs.

Influence “occurs when one actor intentionally communicates to another so as to alter the latter’s behavior from what would have occurred otherwise” (Corell and Betsill 2008, 24). While the concept of influence is intrinsically linked to power, the two differ from each other: power refers to the capabilities to affect political change, while influence refers to the actual effect of an actor on political outcomes. Different forms of power are the sources of influence, but power does not equal influence. Whether actor-related forms of power translate into influence depends on a number of variables, such as strategy and the political opportunity structure, as will be discussed in detail in the next two sections. In this respect, this study’s influence-oriented approach differs from the great majority of analyses of the role of firms in global environmental politics, which focus mostly on power resources.

For now, the question is, what would be the appropriate indicators for nonstate actor influence, and how can we detect influence methodologically. Goal attainment, generally speaking, is the indicator for influence (Keck and Sikkink 1998). It is essential to focus on the goal attainment of nonstate actor political activity in the attempt to infer influence. Previous studies have often simply looked at the activities per se, access to decision makers, and the resource equipment of NGOs as a basis for suggesting nonstate actor influence (Betsill and Corell 2001). It is highly likely that these approaches have led to overestimating the influence of nonstate actors.

For goal attainment to be operational, it needs to be differentiated in more specific political goals: to “assess the influence of advocacy networks we must look at goal attainment at different levels” (Keck and Sikkink 1998, 25). Nonstate actors may pursue different goals in the course of the policy cycle. While affecting the political outcome is most likely the ultimate goal, agenda setting is also a major political goal of nonstate actors (Arts 1998; Corell and Betsill 2008). Especially in battles over meaning, agenda setting is the primary goal of nonstate actors because the agenda usually has significant impact on the political outcome (Sell and Prakash 2004). Hence, we acknowledge influence if nonstate actors have attained their political goals regarding the agenda and/or political outcome.

If nonstate actor influence is understood as the effect on the agenda and political outcomes, the remaining question is how we can infer causality between nonstate actor activities and the observed agendas and political outcomes. For a number of reasons, this is an intrinsically difficult task to achieve (Corell and Betsill 2008). Advocacy activities, for one, frequently occur in private, hidden behind a veil of secrecy. In interviews, decision makers may not want to disclose information on the influence of particular interest groups. This is most likely the case when issues are particularly controversial and/or lie in the immediate past. Second, NGOs often demand different things in public than in private, which makes public statements a potentially unreliable source.

Given these difficulties, I suggest a range of methods including best and second-best ways to infer a causal link between nonstate actor activity and agenda/political outcomes, including process tracing, correlation, and counterfactual analysis. The research goal of explanation warrants clarification to avoid confusion regarding the epistemological standpoint of this study. This book deviates from the neopositivist notion of explanation as establishing formal causality by building on the idea of narrative causality. The Newtonian idea of formal, or mechanical, causality assumes that single causes can be identified as the necessary and sufficient condition for an effect. Such neopositivist assumptions of causality continue to exist in the study of world affairs (see, for example, King, Keohane, and Verba 1994). Yet there is a growing awareness in the social sciences and international relations that “the social world is inherently indeterminate” (Ruggie 1995, 95). The causation of social phenomena is most often complex, and defies explanations based on a nontrivial necessary or sufficient variable. Multiple causes play a role in the emergence of social effects. In light of these assumptions, scholars have proposed an alternative understanding, which has been referred to as narrative causality (Ruggie 1995) or complex

causality (George and Bennett 2004). Complex causality exists if “the outcome flows from the convergence of several conditions, independent variables, or causal chains” (George and Bennett 2004, 212).

Social scientists have increasingly relied on process tracing to establish narrative causality. Sometimes this method is also referred to as *thick description*. “The process-tracing method attempts to identify the intervening causal process—the causal chain and causal mechanisms—between an independent variable (or variables) and the outcome of the dependent variable” (George and Bennett 2004, 206). In the research process, process tracing requires two steps (Ruggie 1995). In a first step, events, or social facts, are identified and organized in chronological order, and their effects on each other are established to the extent possible. The second step is a dialectic process in which a story is woven by going back and forth between social facts and a theoretical theme. Such analytic process tracing organizes “descriptive statements into an inter-subjective gestalt or coherence structure. . . . The aim is to produce results that are believable and verisimilar to other observers of the same process” (ibid., 98). In other words, the goal is not to produce a law across time and space but rather to generate an analytic narrative that makes sense to others. Process tracing consequently is not conducive to developing generalizable and parsimonious theories (Checkel 2006). Instead, the approach produces causal narratives that are the “intermediate between laws and descriptions” (Elster 1998, 45). In the case at hand, process tracing would show how the political activities of a particular nonstate actor, such as providing information to decision makers, affect the political agenda and/or political outcome. While process tracing would be the method of choice, there are cases where a lack of evidence for the above-mentioned reasons prevents the use of this method.

A second-best method for such cases is correlation. If the agenda/political outcome reflects the preferences of a particular nonstate actor, this is most likely due to the influence of this actor (Corell and Betsill 2008). This method is not without flaws. Correlation usually relies on publicly available statements about nonstate actor preferences. As has been said, it is not granted that public preferences are the same as the policy preferences that interest groups communicate in private. Further, correlation can only be used to infer causality as long as no two actors in the game hold the same policy preference. Otherwise, the environment would no longer be controlled, rendering causal inferences impossible. Counterfactual analysis in these situations may be employed as an alternative second-best method. The guiding question, then, is whether the agenda/political outcome would

be the same had it not been for the influence of a given nonstate actor. These three methods—process tracing, correlation, and counterfactual thought experiments—should be understood in the sense of an escalation ladder. If the evidence is insufficient for the use of method A, then method B will be employed, and so on. Two methods also may be used for the same case to triangulate findings.

Case Selection

The empirical part of this book is designed as a comparative case study. To explain the choice of cases, I take two steps. First, I justify the selection of the overall issue of emissions trading in climate politics as an area to study the role of business in global environmental governance. In a second step, I explain why I chose the three specific cases—that is, the Kyoto Protocol, the EU ETS, and U.S. trading schemes. I have selected the rise of emissions trading as an issue area for studying the influence of proregulatory business collective action for two reasons: it represents the single most significant example of the marketization of global environmental governance, and it is an empirically rich case.

For one, the spread of emissions trading represents the single most significant example of market-based global environmental policy in a number of ways. Global GHG emissions trading represents a strong form of marketization, as the regulatory instrument itself creates a new market. In this respect, it is well suited as a case to study the broader trend toward the marketization of global environmental politics. Moreover, the scale and scope of carbon trading are unparalleled compared to any other market-based policy initiatives. Emissions trading affects a great number of industry sectors in several key industrialized nations. Hence, it is a highly relevant case in terms of sectoral and global coverage. And finally, global climate change is considered the most pressing environmental problem of the twenty-first century and has come to define global environmental politics. The rise of market-based climate politics thus is also highly relevant with regard to the gravity of the environmental problem.

The second reason for the choice of the diffusion of emissions trading as a case is that it is an empirically rich example of corporate involvement in global environmental politics. Protrading coalitions emerged in a number of different political contexts. Such variance in variables allows for maximizing observations through across-case comparison.

This book compares three cases that align with historical periods and milestones in the globalization of carbon trading: the internationalization of emissions trading in the Kyoto Protocol (1995–2000), the emergence

of the EU ETS (1998–2008), and carbon trading in the United States (2001–2008). These three instances have been selected because of their relevance to the overall process of the spread of carbon trading. Only the agreement of the Kyoto Protocol led to the internationalization of the U.S. regulatory instrument of emissions trading. The EU implemented the first large-scale trading scheme. The move of the United States toward emissions trading gets its significance from the importance of the United States in any effective international climate framework. In addition, the spread of project-based carbon trading to the developing world hinges on markets in the EU and the United States, as they represent the backbone of emerging carbon markets. The policy community widely perceives that the political action on carbon trading shifted from the international level to the EU and then to the United States. The case selection therefore is based on the chronological order of major events. Furthermore, the case selection allows for the analysis of business coalitions and their influence across political systems (the EU and the United States) and political levels (international, regional, and national).

Each case will explore the degree of business influence in the rise of carbon trading on the political agenda and the sources of this influence. Defining the boundaries of the unit of analysis of business collective action in each case study has proven to be difficult. When coalitions have a low degree of institutionalization, as in the run-up to the Kyoto Protocol and the case of the EU, it is often unclear who cooperates with whom. The reason is that corporate advocacy tends not to be transparent. The chosen solution to this problem has been to consider only those actors as part of the coalition whose membership could be confirmed by at least two independent sources—that is, through triangulation. Thus, the key actors could be identified, while actors at the margins might not be mentioned.

Data Collection

In order to collect relevant and comparable data, Alexander George and Andrew Bennett (2004) suggest the method of structured, focused comparison. The method is structured in that empirical research is guided by a set of research questions that are derived from the research objective. These questions are applied to all cases. The method is focused because it pays selective attention to particular analytically relevant aspects of historical cases.

Data come from both secondary and primary sources. In terms of the secondary sources, political scientists and management scholars alike have

investigated corporate involvement in climate change politics, especially that of the oil sector. The broader empirically founded research on international climate politics has proven to be a valuable source as well. Next to academic research, secondary sources, such as reports (for example, by the Carbon Disclosure Project and the Coalition for Environmentally Responsible Economies CERES), industry journals (*Oil and Gas Journal* and *Environmental Finance*), policy reports (*Economist*, *ENDS Reports*, *Environment Reporter*, and *International Environment Reporter*), and newspapers/magazines (*Economist*, *Financial Times*, *New York Times*, *Wall Street Journal*, and *Washington Post*) have been critical sources. With regard to the political role of oil companies up to 2000, I was able to resort to an extensive collection of data based on documents and interviews compiled by Levy and Ans Kolk.² I obtained primary data from documents and semistructured interviews. The documents reviewed include primarily corporate reports, press releases, policy papers, policy reports, and notes from parliamentary hearings. Most of these documents were obtained through the Internet, although my interview partners also provided some of them. In addition, I conducted fifty-two elite interviews of an average length of one hour with managers (ten), representatives of business associations (fourteen), policymakers (twelve), NGO professionals (eleven), and other experts (five) in Europe and the United States. The majority of the interviews were conducted in London, Brussels, and Washington, DC, in July and August 2007. A second interview phase took place in Washington, DC, in January 2008. A number of phone interviews with individuals in Europe and the United States also were conducted throughout 2007 and 2008. For reasons of confidentiality, the list of interviewees could not be included in this book.

I selected my interview partners on the basis of how often they were referred to in articles and conference programs as well as by other actors in the field. The interview partners represented all three key sectors involved in climate change politics: business, government, and environmental groups. If the information could be triangulated through sources from at least two sectors, it was likely that the presentation of the social facts was not distorted by a particular group's vested interests. This was not always easy to determine, as many interview partners seemed to want to take credit for a particular political event. Therefore, the total number of interviews had to be increased to satisfy the triangulation requirements.

The interviews were designed to provide background in arriving at an intersubjective explanation for the rise of emissions trading and the

emergence of protrading coalitions. They adhered to strict terms of confidentiality—that is, direct quotations were only allowed with the interviewee’s written approval. In all other cases, the information provided has been given anonymity. Anonymity was guaranteed to the interview partners because of the sensitivity of corporate lobbying. This sensitivity stems from the fact that effective lobbying frequently requires nontransparency, as corporate lobbying has a strong competitive dimension and is tied to reputational risks. Moreover, these effects were aggravated by the fact that most of the events discussed are recent. Prior to each interview, the interviewee was sent an information sheet including the terms of confidentiality. These terms build on a template used for a human subjects’ consent form provided by the London School of Economics’ Methodology Institute. Each interview has a number by which it is cited in the book.

Overview of the Book

This chapter has so far introduced the case of the rise of carbon trading as a manifestation of the broader trend toward market-based environmental policy. I have argued that the emergence of a transnational, protrading business coalition has played an essential role in the global spread of emissions trading. While firms could not prevent carbon controls, they had critical influence in shaping the regulatory style. Alternative explanations as offered by neo-Gramscianism, neoliberal institutionalism, and constructivism suffer from theoretical deficiencies that render their readings of the diffusion of carbon trading unsatisfactory. They nonetheless offer a number of helpful vantage points for the analytic framework advanced in this study.

Chapter 2 presents a theoretical framework for studying the role and influence of business coalitions in global environmental politics. The central assertion is that coalitions provide firms with a power through organization, which allows them to leverage political resources and strategies. Regarding the former, the framework discusses the role of funding and legitimacy as factors determining influence. With regard to strategies, I discuss the ability to mobilize state allies and play political games at multiple levels. Beyond these actor-related factors, the chapter contends that political opportunity structures relate to how successful a transnational campaign is. Policy crises along with international and domestic norms

particularly create opportunities or constraints for advocacy campaigns. I also introduce a two-by-two matrix of corporate political strategies in environmental politics, considering both the effects of institutions and compliance costs on strategy.

Chapter 3 considers emissions trading as a policy instrument, its intellectual history, and the state of the carbon market. Furthermore, the chapter explores how climate policy affects different industries and firms differently. To some industries, such as the oil, electricity, and energy-intensive manufacturing ones, engagement with climate policy is about managing and containing regulatory risk. Other industries including low-carbon technology producers, financial services providers, and investors can seize opportunities under a market-based climate regime.

Chapter 4 is the first original case study focusing on the internationalization of emissions trading by its inclusion in the Kyoto Protocol (figure 1.1).

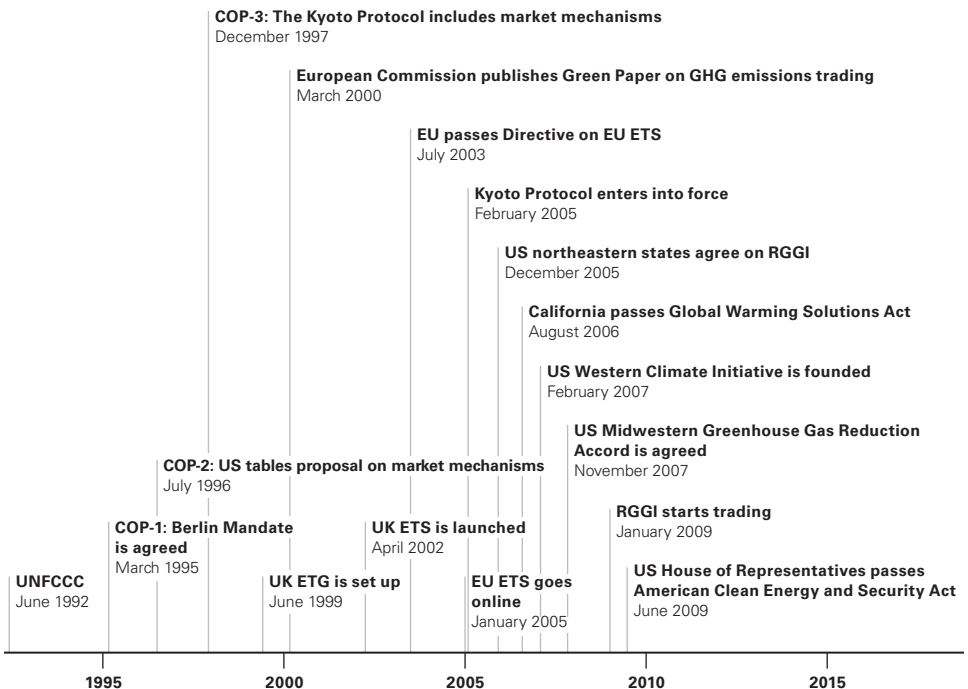


Figure 1.1
Milestones in the global rise of carbon trading

The chapter argues that a protrading business coalition emerged in the run-up to the Kyoto Protocol. This development represents a drastic shift from the early phase of climate politics in which business stood united in the opposition to emissions reduction targets. With BP and Environmental Defense at its core, the loose protrading coalition backed U.S. foreign policy, favoring a market-based climate regime in the international negotiations.³ This policy led to the inclusion of emissions trading in the Kyoto Protocol. In the conference's aftermath, the transnational protrading lobby gained strength as new organizations such as the International Emissions Trading Association were created. Meanwhile, the antiregulatory business coalition had started to disintegrate.

Chapter 5 zooms in on European climate politics, exploring the bottom-up process of coalition formation in support of a Europe-wide emissions trading scheme. It shows how BP demonstrated the feasibility of a global trading scheme by implementing an in-house trading scheme. Subsequently, UK oil and electricity firms organized a domestic coalition for a pilot trading scheme in the United Kingdom. Corporate pioneers thus leveraged action at the European level. Oil majors BP and Shell as well as the European electric utilities found a powerful ally in the European Commission. Together these actors successfully introduced emissions trading to Europe, ultimately resulting in the creation of the EU ETS.

Chapter 6 analyses the rise of emissions trading on the agenda of U.S. climate politics and the emergence of a protrading NGO-business coalition. The chapter considers first the alignment of business and government strategies around voluntary climate policy under the Bush administration. It then explores how the bottom-up activities of business and U.S. states created political momentum for a domestic cap-and-trade scheme. This led, among other factors, to the emergence of the U.S. Climate Action Partnership, an influential protrading NGO-business coalition. The chapter looks at how the coalition shaped proposals for a federal climate bill.

Finally, chapter 7 summarizes the empirical and analytic findings on the role of firms in the rise of carbon trading. It also reconsiders potential alternative explanations in light of the empirical findings. The chapter concludes by discussing the power of business in the rise of market-based environmental governance, examining the effectiveness of market-based climate policy, and outlining the implications of this book for the study and practice of global environmental politics.