The Globalization of Carbon Trading: Transnational Business Coalitions in Climate Politics

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Introduction

Over the last decade, greenhouse gas (GHG) emissions trading, or carbon trading has emerged as the policy instrument of choice to address global climate change.1 Since the adoption of the Kyoto Protocol in 1997, a number of so-called “son-of-Kyoto” bills have been passed, or are under consideration, in the European Union (EU), the United States (US), Australia, Canada, Japan, New Zealand and other parts of the world.2 This regulatory approach has gained significant political momentum, leading to the emergence of new commodity markets: markets for carbon. In 2009, carbon markets were worth US$ 144 billion,3 and they are expected to grow exponentially over the coming decade. The global rise of carbon trading represents the single most significant case of the global trend toward market-based environmental governance.4

The diffusion of emissions trading across industrialized countries is puzzling. As a policy instrument it has been highly controversial. On the one hand, its supporters have long praised its efficiency and cost-effectiveness compared to other policy instruments.5 On the other hand, its critics have questioned the environmental effectiveness and moral value of emissions trading.6 Carbon trading was accepted only reluctantly by the international community. In particular, the EU initially opposed the use of market mechanisms, but then reversed its

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1. The terms emissions trading and carbon trading are used as synonyms here.
2. Some developing countries, notably China and India, are linked to the global carbon market through the Clean Development Mechanism, established under the Kyoto protocol as a way for Northern countries to assist Southern countries and meet their commitments at the same time.

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position to develop 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 business interests. While business initially opposed climate regulation, various firms started to advocate carbon trading as a policy solution in the mid-to-late 1990s.

Against this backdrop, this article asks what role the business community played in the rise of GHG emissions trading as the primary policy response to climate change. I argue that business was not able to prevent mandatory emission controls—the initial preference of the corporate mainstream—but that it was able to influence the regulatory style of climate politics by building momentum for carbon trading. Business support for carbon trading allowed governments to develop mandatory, yet market-based, climate policies. In the early phase of international climate politics, business stood largely united in opposition to caps on greenhouse gas emissions, effectively vetoing international emission reduction targets and carbon/energy taxes in the EU and the US. The anti-regulatory coalition was dominated by fossil-fuel interests, in particular by US oil companies. This started to shift in the mid 1990s, in the run-up to the Kyoto conference, as a split in the business community emerged. More proactively minded companies began to promote emissions trading in tandem with business-oriented NGOs and a few public actors. This led to the emergence of a business-centered “pro-trading coalition.” At the heart of this coalition stood the political goal to promote emissions trading as the primary policy response to climate change, and to avoid carbon taxes. Key actors included firms from the oil, power and energy-intensive manufacturing industries in the UK and the US as well as market-oriented NGOs from the US. The group was essentially an Anglo-American advocacy coalition, which advocated carbon trading at multiple political levels, shared information and generated market infrastructure.

The business-centered reading of the rise of carbon trading advanced here complements the very limited body of literature on the emergence and globalization of carbon trading. Existing accounts of the spread of carbon trading point to the role of liberal norms, the role of states or supranational institutions—especially the European Commission, the role of global capital and the role of financial service centers, such as New York and London, as driving forces. A comprehensive discussion of these approaches is beyond the scope

11. See also Convery 2009.
of this article. This article complements these existing explanations of the rise of carbon trading by focusing on the key role played by business in promoting carbon trading.

In the following, the argument regarding the role of business coalitions in the diffusion of market-based climate policy unfolds in four steps. First, transnational business coalitions are introduced as a conceptual lens for studying business involvement in global environmental politics. Moreover, I discuss why transnational coalitions are a key source of corporate power. Thereafter, the article analyzes the influence of competing business coalitions across three stages of the global diffusion of carbon trading: the internationalization of the policy instrument through the Kyoto Protocol; the U-turn of the EU from skeptic to frontrunner on emissions trading; and the attempts of the US to catch up with the global project of building carbon markets.

Business Coalitions in Global Environmental Politics

Business is a powerful force in global environmental politics, not least because of its preponderance of economic resources. However, as with any other interest group, business faces a number of constraints to its influence. 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 within and between business sectors, which constrains the overall political clout of business. Given these limitations to their influence, I argue, firms face the challenge of organizing collective action to achieve political clout. As Cerny 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.” In short, while business conflict diminishes corporate influence, coalitions are a key source of business power.

The Rise of Transnational Coalition Politics

Traditionally, business interest representation is organized in sectoral trade associations. However, in the last two decades “complex multilevel and institutional advocacy coalitions” have grown in number in both Europe, the United States and at the international level. Such coalitions emerged in virtually all major environmental policy fields, including ozone, biosafety and climate change. Trans-

19. Cerny 2003, 156.
national coalitions have become a pivotal “policy arrangement” of global policy-making. A number of factors have contributed to this trend including the demand from public actors for broad-based representation of interest groups (as in the case of the EU), increasingly diverse interests among large firms, and the need to accommodate non-business interests. Thus, according to Coen, “the most successful lobbyists are not necessarily those who paid the highest political contributions, but those who extract the broadest support from the greatest number of actors, and for this reason the US system, like the EU, can be seen to be based upon alliance building, bargaining, and compromises.”

Given the variation in intensity and duration of cooperation across coalitions, business coalitions show different degrees of institutionalization. While highly institutionalized coalitions are easy to detect, non-institutionalized coalitions can be neglected by scholars because they are more difficult to identify. Often coalitions are embedded in broader policy networks of actors who share interests and norms but do not necessarily coordinate their strategies. Networks thus provide the basis for coalition formation.

With regard to their political goals, I distinguish two basic types of business coalitions; anti-regulatory coalitions and pro-regulatory coalitions. Anti-regulatory coalitions aim to prevent environmental regulation in first place by opposing regulatory initiatives. Pro-regulatory coalitions either advocate the least costly regulatory option or they support policies that create new business opportunities. Pro-regulatory coalitions often include environmental organizations, as “firms have learned to ‘mix and match’ their political alliances with various environmental and business interests groups to create flexible advocacy coalitions.”

Finally, a single coalition can also change its strategy from mobilizing against regulation to advocating a particular policy over the course of its lifetime, as it accommodates pressure from countervailing forces. Given the political-economic importance of business-centered coalitions, anti-regulatory coalitions have often proven to be the stumbling blocks of global environmental politics, whereas pro-regulatory coalitions can be the engines of environmental policy-making. I now turn to identifying the unique power advantages of transnational coalitions.

The Power of Transnational Coalitions

Coalitions represent a source of “power through organization.” This organizational power manifests in at least three ways: (1) coalitions allow for the pool-
ing of political resources such as funding; (2) they broadly aggregate interests which allows them to mobilize state allies; and (3) they allow activists to play multi-level games. The extent to which coalitions perform across these dimensions plays into whether their campaigns succeed or fail.

First, it is a classic function of collective action to leverage and pool resources in the competition over influence. Financial resources—and the organizational, technical and human resources that come with them—matter in lobbying. Material resources are key input factors for advocacy campaigns—they represent a source of instrumental power. The fungibility and scope of material resources play a role in two ways; to fund lobbying activities and to run public campaigns. Often, lobbying success depends on long-standing relationships and networks between lobbyists and policy-makers. Such networks are a function of a number of factors, including the availability of financial resources for maintaining a permanent office with skilled lobbyists. Especially at the international level, policy processes move very slowly and have multiple intervention points, making engagement with these processes particularly costly. Furthermore, funding is required to run effective advocacy campaigns, which requires staff, consultants, events, publications, and advertisements. These inputs represent the material underpinning of framing strategies, which are essential in agenda-setting.

Second, a major function of coalitions is to aggregate interests across classic lines of interest representation. This is of high relevance in advocacy, as policy-makers look for signs that a policy idea has broad support across interest groups. The broader the support for an idea, the more legitimacy it has in the eyes of policy-makers. While the pooling of resources generates instrumental power, the aggregation of interests generates discursive power in the form of legitimacy. Interest aggregation can occur across industrial sectors, indicating an economy-wide interest as opposed to a vested interest of a particular sector. Moreover, coalitions can aggregate economic and environmental interests. NGO-business coalitions have emerged since the mid-1990s as a key element of the strategies of corporations and business-oriented, cooperative environmental organizations. Such coalitions are referred to as “Baptist-and-bootlegger” coalitions because two groups that are unlikely to cooperate find themselves working for the same goal. In global environmental politics, firms are the bootleggers, while green groups represent the Baptists. While they not only signal

broad support to policy-makers, they also signal that differences between two adversarial interest groups have been resolved.\textsuperscript{39} This essentially renders a service to policy-makers who are offered a policy idea that has been “pre-negotiated” between interest groups.

Indicating broad support to policy-makers is key in mobilizing state allies in support of one’s agenda. In the complex multilateralism of global governance, nation-states remain the primary actors.\textsuperscript{40} Given the central role of the nation-state in global environmental governance, business groups and other interest groups rely on state allies to exert political influence.\textsuperscript{41} Interest groups exploit differences in state preferences to mobilize like-minded state allies, thus creating transnational public-private coalitions. Differences in policy preferences exist across nation-states, but also within states between different branches and/or agencies in government. This creates opportunities for coalitions to seek an alliance with a particular agency in the attempt to outcompete other agencies in agenda-setting and policy formulation.

Third, transnational coalitions allow activists to effect change at multiple political levels. Robert Putnam famously observed that domestic and international politics are closely intertwined in two-level games.\textsuperscript{42} In many cases, global governance has become a game of even higher complexity, in which multiple levels of policy-making interact.\textsuperscript{43} Global agendas and political outcomes are determined by processes and events at the sub-federal, national, regional and international levels, as political authority is highly decentralized in systems of multi-level governance. Large-scale global policy shifts thus require change at a number of political levels. The success of business coalitions therefore also hinges on how well they are capable of affecting political change across these levels.

Playing multi-level games requires in most cases the capacities of a transnational coalition. Individual firms can rarely affect such change. Firms often hold strong political capital in their home country, but are weaker at other political levels.\textsuperscript{44} Moreover, engaging with multiple political processes at the domestic level, the international level and in countries outside their home base generates costs that are often prohibitive even for multinational corporations. Transnational coalitions, instead, are “plugged” into a range of political processes. Usually, member firms have public affairs offices in their home governments or are members in domestic trade associations. The coalition benefits from the political clout its members have in different countries and from the local knowledge and networks with government officials.

In sum, coalition-building is a key political strategy in global environmen-
tal politics, as it allows actors to pool power resources, aggregate interests to mobilize state actors and to influence multiple political systems in multi-level governance. It represents a strategic form of power that allows actors to leverage other power sources.\textsuperscript{45} I now turn to the empirical story of the evolution of business conflict and business coalitions in the global rise of carbon trading, exploring the level of influence and the strengths and weaknesses of competing business coalitions. The narrative presented here is based on extensive empirical research, including document analysis and 52 interviews with policy-makers, lobbyists and NGO representatives, which were conducted in 2007 and 2008 in Brussels, London, Washington, D.C. and by telephone. All interview-based data used in this article has been triangulated, through cross-checking with another interviewee or with documents. For confidentiality reasons, the names or affiliations of the interviewees could not be published. The empirical story has been developed through process-tracing.\textsuperscript{46}

The Kyoto Protocol: Internationalizing a US Regulatory Approach

The 1997 Kyoto conference established emissions trading on the global climate agenda. Prior to 1997, emissions trading was a US regulatory approach that had been successfully implemented at a comparatively small scale in the Acid Rain Program and other domestic programs in the US.\textsuperscript{47} Emissions trading was only included in the Kyoto Protocol because US agreement to the treaty was made conditional upon it.\textsuperscript{48} The shift in US foreign policy from opposition to international emission controls to support for a market-based international regime correlated with a change in the associational politics of business in the mid-1990s. While in the early 1990s business stood united in its opposition to climate policy, business conflict emerged in the mid-1990s, which led to the rise of a pro-trading coalition that promoted emissions trading as the new climate compromise.

The Industry Split, the Campaign for Market Mechanisms and US Foreign Policy

In the first phase of industry engagement with climate politics, the major fora for collective action were the Global Climate Coalition (GCC) and a few allying organizations, including the American Petroleum Institute and the International Chamber of Commerce.\textsuperscript{49} They organized US and transatlantic industry opposition to climate regulation with US oil companies being instrumental in the process.\textsuperscript{50} Until the mid-1990s, this anti-regulatory business coalition was

\textsuperscript{45} Levy and Scully 2007.
\textsuperscript{46} George and Bennett 2004.
\textsuperscript{47} Gorman and Soloman 2002.
\textsuperscript{48} Grubb, Vrolijk et al. 1999.
\textsuperscript{49} Goel 2004.
\textsuperscript{50} Levy and Kolk 2002; and Pulver 2005.
highly successful in averting international and domestic emission reduction obligations.\textsuperscript{51} Key strengths of the coalition were its strong funding base, broad industry representation and strong support for their agenda from within the administration and the Senate.\textsuperscript{52}

The balance of power between environmental and business interests began to shift when the Berlin Mandate was agreed at the First Conference of Parties (COP) to the UN Framework Convention on Climate Change in 1995. The mandate asked governments to adopt quantified emission reduction commitments by 1997. This represented a clear success of the environmental movement which had organized primarily in the Climate Action Network (CAN).\textsuperscript{53} While the global momentum for mandatory carbon regulation was growing, the GCC, the main voice of business, continued to reject emission reduction mandates. However, a number of member companies increasingly grew uncomfortable with the adversarial style of the GCC, which was losing its legitimacy as an industry voice. This led to a crack in the anti-regulatory coalition.\textsuperscript{54}

A small set of firms and NGOs joined forces to advocate a market-based climate regime. Key actors were the International Climate Change Partnership (ICCP), British Petroleum, now BP, and DuPont, as well as Environmental Defense. The ICCP was a business group mainly convening firms that had already participated in the negotiation of the Montreal Protocol, and that wanted to maintain a more proactive attitude in the climate negotiations. Both BP and DuPont were key members of the ICCP with a BP representative chairing the ICCP. The ICCP was the first business organization to advocate market mechanisms as part of a climate treaty.\textsuperscript{55} While they did not push for carbon constraints, they strongly advocated market mechanisms. The ICCP’s role was closely linked to the emergence of BP as an outspoken advocate for market mechanisms. Upon leaving the GCC in 1996, BP worked closely with Environmental Defense, a long-term advocate of emissions trading.\textsuperscript{56} Just as BP and other ICCP members had broken with the mainstream business community, Environmental Defense broke with the mainstream of the environmental community organized in CAN when it decided to work with BP on market-based climate policy.\textsuperscript{57} The two organizations cooperated on the development of an internal emissions trading scheme for BP. BP hoped that a successful demonstration of emissions trading would help to set the agenda for emissions trading and thus forestall alternative policy responses such as an emissions tax, which was perceived to be more costly.\textsuperscript{58}

\textsuperscript{51} Skjaerseth and Skodvin 2003.
\textsuperscript{52} Levy and Newell 2002; and Levy and Egan 2003.
\textsuperscript{53} Betsill 2008b.
\textsuperscript{54} Leggett 2001; and Levy and Kolk 2002.
\textsuperscript{55} ICCP 1996.
\textsuperscript{56} Samson 1998. Environmental Defense promoted SO\textsubscript{2} emissions trading as a test run for emissions trading of greenhouse gases.
\textsuperscript{57} Alcock 2008.
\textsuperscript{58} Victor and House 2006.
Reportedly, the emergence of a new voice of industry on climate policy played a significant role in President Clinton’s decision to support the international negotiations for a global agreement. In a situation of stalemate between environmental and economic interests, the pro-trading coalition legitimized mandatory, yet market-based, climate policy as a compromise solution between two adversarial interest groups. The lobbying success of the anti-regulatory coalition in the early 1990s had made policy-makers wary of attempting to introduce environmental legislation that had no business support at all. The pro-trading advocates found a natural ally in the Clinton administration, as President Clinton had campaigned on ambitious environmental goals. Moreover, the administration had an institutional preference for emissions trading, given the success of the domestic trading scheme for sulfur dioxide in the US electricity sector. Hence, a number of observers suggest, the evolution of the US foreign policy on climate is best understood as the result of a reciprocal process, in which the pro-trading coalition lobbied the administration and in which the administration was actively seeking broad support among key interest groups to legitimize its support for international emission controls. At COP-2 in Geneva in July 1996, the US put market mechanisms on the negotiating table. In October 1997, Clinton said that he aimed to “harness the power of the free market” in mitigating greenhouse gases. He continued to say, “(if) we do it right, protecting the climate will yield not costs, but profits, not burdens but benefits, not sacrifice, but a higher standard of living.”

The Kyoto Protocol: The Emissions Trading Compromise

Against this backdrop, the US delegation went to Kyoto. The conference was at risk of ending in a stalemate between the EU and the US and its allies in the Umbrella Group over the level of emission reductions and the use of market mechanisms. The EU had been adamantly opposed to emissions trading at the time. To resolve the stalemate, the chairman of the conference, Argentinian Ambassador Raúl Estrada-Oyuela, suggested the inclusion of the article on emissions trading, but said the modalities and rules of emissions trading should be dealt with at COP-4. This compromise resulted from a deal between the EU and the US; while the US accepted the EU “bubble,” the EU accepted emissions trading as part of the Kyoto Protocol. That the compromise came about is

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63. The Umbrella Group is an informal coalition of states originally convened by the US. It includes Australia, Canada, Iceland, Japan, New Zealand, Norway, the Russian Federation, Ukraine and the US. The Umbrella Group evolved from the JUSSCANNZ Group, which included Japan, the US, Switzerland, Canada, Australia, Norway and New Zealand.
64. IISD 1997.
65. The overall emission reduction target of 8 percent for the EU is called the EU bubble, as it applies to the EU as a whole.
also partly due to the leadership of the UK government which—holding the EU presidency—negotiated on behalf of the EU. The UK was more inclined toward market-based instruments than the majority of member states in continental Europe. BP had been lobbying the UK government to accept the emissions trading clause, thus acting as a key broker in the climate deal at Kyoto, according to industry insiders and government officials. Moreover, members of the pro-trading coalition had actively educated negotiators about emissions trading, as the instrument was rarely understood at the time. While the GCC had superior funding and staff compared to the pro-trading coalition, it could not prevent international carbon constraints.

In the aftermath of the Kyoto conference, the previously loosely organized pro-trading lobby began to institutionalize. New key organizations included the Pew Center on Global Climate Change with its associated Business Environmental Leadership Council, which was set up in 1998, and the International Emissions Trading Association (IETA), the association of firms interested in emissions trading that was launched in 1999. These two organizations represented the central nodes of the pro-trading coalition, henceforth advancing the agenda for international emissions trading. While the pro-trading coalition was on the rise, the fall of the GCC had begun—largely because it was no longer perceived to be a legitimate voice. A number of multinational corporations left the GCC, which from 2000 only represented trade associations. Reflecting on the decline of the GCC in the aftermath of business conflict, William O’Keefe, former head of the GCC, said: “Prior to Kyoto, the business community was focused, united and forceful [...] Momentum was on our side. Unfortunately, we did not sustain it because many in the business community do not understand perseverance.” Representing a “relatively closed fraternity,” as a key lobbyist said, the pro-trading coalition was influential in so far as it helped to legitimize the US administration’s negotiating position domestically and mobilized support for it internationally. Yet, the implementation stage would prove to be the real litmus test for the new international agenda of market-based climate policy.

The European Union: From Foe to Friend of Carbon Trading

Governments, firms and environmental groups in the EU were the leading skeptics of international GHG emissions trading before Kyoto. The instrument was publicly perceived to be granting a “license to pollute” to industry and to allow industrialized countries to escape domestic emission reductions. Yet, in January 2005, the EU launched the EU ETS, the first cross-border trading scheme for GHG emission permits.

70. Quoted in Layzer 2007, 112.
71. Interview with industry lobbyist, 2007.
Oil and power companies in the UK were among the early pioneers of carbon trading in the EU, communicating their interest in a European trading scheme to the European Commission as early as January 1998. Among UK firms, BP acted as a policy entrepreneur and coalition broker for emissions trading. The company endorsed the Kyoto Protocol, put its stamp on the policy positions of several business associations and, most importantly, demonstrated the feasibility of GHG emissions trading through an in-house trading scheme. In 2000, Shell launched its own in-house trading scheme, following the footsteps of its competitor.

In June 1999, the UK ETG, a group of 30 organizations convening under the auspices of the Confederation of British Industry and the Advisory Committee on Business and the Environment, was set up at BP’s headquarters in London. Founding members were predominantly oil and gas producers, as well as electricity utilities, including, among others, BP, British Gas, National Power, and a number of industry associations such as the Association of Electricity Producers. The group set out to develop—in close collaboration with government officials—recommendations for a domestic trading scheme, which it first announced in October 1999. The UK ETG’s proposal for a national trading scheme was a response to the so-called Marshall report, which had favored a carbon tax over emissions trading. “Unofficially, it [the UK ETG] was a politically well heeled advocacy coalition . . . with a core of elite business representatives determined to put emission trading back on the policy agenda after Marshall’s less than favorable report.” The symbolic value of the UK ETS and of the in-house trading schemes was considerable, policy-makers said. It demonstrated the feasibility of emissions trading and created political momentum for the approach. Importantly, the UK’s policy leadership put pressure on actors at the EU level to develop a Europe-wide climate policy to avoid regulatory fragmentation.

BP also reached out to the European Commission and member states that were hesitant to support emissions trading such as Germany, thus targeting a number of levels of political decision-making. BP representatives occupied key posi-

74. Confidential interview, 2007. See also Langrock 2006; and Victor and House 2006.
76. Rees and Evers 2000.
tions in business organizations such as the World Business Council for Sustainable Development (WBCSD) and BUSINESS EUROPE, formerly the Union of Industrial and Employers’ Confederations of Europe (UNICE), the umbrella association of European industry. This allowed the company to critically influence the positioning of European industry on emissions trading, as industry representatives said. 81 Alongside the oil majors, the European power sector was “blazing the trail” for emissions trading. 82 Eurelectric, the association of the European electric utility sector, ran the Greenhouse Gas and Energy Trading Simulations (GETS), a series of computer-based trading simulations, starting as early as May 1999. The idea was to see if emissions trading would work and how it would affect electricity companies. 83 The simulation helped to mobilize internal support for emissions trading, not least because power companies understood that they could pass on the cost of trading to their customers and reap extra profits. After GETS 1, Eurelectric was saying that emissions trading worked and that politicians should go ahead implementing it. 84 The pro-trading coalition at the EU level was loosely organized, shared no resources, but was considered a credible voice, as it engaged constructively with policy-makers.

Support for emissions trading from factions of industry co-evolved with the emergence of the European Commission as the single most important public supporter of the instrument and a crucial state ally for the pro-trading coalition. A number of factors related to political opportunities at the European and international level account for the European Commission’s decision to promote emissions trading within the Union. 85 First, having experienced the failure of the carbon tax proposal in 1993 due to ferocious business opposition, key officials in the Commission considered emissions trading politically more opportune. In addition, a number of Commission officials, who had been trained as economists and formed the “Bureaucrats for Emissions Trading” group, were generally in favor of market-based policies. 86 Second, the pioneering work of member states to develop domestic emissions trading schemes created pressure on the European Commission from “below.” 87 In order to protect integration achievements with regard to the internal market and environmental policy, the Commission had to prevent the emergence of numerous incommensurable domestic schemes. Third, the development of international climate politics made a case for EU leadership. 88 By late 1998, US ratification of the Kyoto Protocol became increasingly unlikely, given the opposition to the treaty in the US Congress. This led to doubts about whether the Kyoto Protocol would ever enter

83. UNIPEDE/Eurelectric 1999.
84. Interview with association representative, 2007.
86. Skjaerseth and Wettestad 2008.
into force. However, it was clear to the European Commission that any future participation of the US in a binding international climate treaty would be bound to the inclusion of flexible mechanisms.

While a small group of energy companies and the Commission were driving the carbon trading agenda, the policy instrument did not rise to the top of the agenda without significant struggle. The German Industry Confederation and German labor unions were adamantly opposed to emissions trading, as were energy-intensive industries more generally. German firms resisted emissions trading because they had in place voluntary agreements and were skeptical of market-based policies. Eventually, opposition started to fade as actors got more acquainted with the idea of a trading scheme. In addition, BP reached out to the German parliament and government on behalf of the UK government, mobilizing support for market mechanisms in Germany. Among energy-intensive industries, the chemical industry in particular resisted emissions trading. The opposition from Germany and energy-intensive industries had significant impact on the design of the scheme, but did not bring the development of the EU ETS to a halt. Several observers suggest that a reason for the failure of industry opposition to emissions trading was a strategic miscalculation. Anti-regulatory business groups expected emissions trading to be defeated in the same way as the carbon tax was. Hence, they did not organize as a single voice. Only after the Directive was passed, did energy-intensive industries form the Alliance for Energy Intensive Industries to represent their interests more powerfully.

In July 2000, the Commission set up the European Climate Change Policy Working Group on Flexible Mechanisms, moving from agenda setting to developing legislation. The multi-stakeholder group was mandated to develop a regulatory framework for emissions trading. The 30 participants came from the Commission, member states, industry associations and environmental groups. The group included major industry stakeholders from both camps—the proponents (UK ETG, Eurelectric) and the opponents of emissions trading (European Chemical Industry Council, German Industry Confederation). Over time, participants from all three sectors—government, business and the environmental community—developed an institutional interest in the work of the group, starting to advocate the regulatory approach in their respective constituencies, participants said. The Commission played an important role in mobilizing such broad-based support. Environmental groups had initially opposed emissions trading, but were now trying to ensure the environmental effectiveness of a future trading scheme. In particular CAN Europe and WWF acquired expertise on emissions trading and became vocal voices.

89. Skjaerseth and Wettestad 2008.
93. Watanabe and Robinson 2005.
95. Interviews with working group participants, 2007.
By the time the working group completed its task in May 2001, the proposal for a European trading scheme had sufficient political momentum to stay alive. From then on, political battles were fought over the design of the trading scheme, including issues such as voluntary versus mandatory carbon trading. The general notion of carbon trading had been accepted as the policy instrument of choice. The Council and Parliament adopted the final directive in October 2003, foreseeing the implementation of the EU ETS for January 2005. The Commission and a small group of UK oil and power companies had succeeded in persuading other actors, notably mainstream business groups and environmental groups, that carbon trading was an acceptable compromise solution. The relationship between the Commission and carbon trading advocates from industry was one of partial interest alignment and mutual political support. The European Commission relied on industry backing to be able to go ahead with mandatory climate policy, given the abortive attempt of the carbon tax. According to a key Commission official: “[i]t would have been extremely difficult to be successful hadn’t it been for allies in industry.” The pro-trading coalition in return relied strongly on a powerful ally such as the Commission to put the least-costly policy option on the table.

The United States: Re-importing Carbon Trading

As the cradle of emissions trading, the US was the main driving force behind the internationalization of the policy instrument. However, after its withdrawal from the Kyoto Protocol, the US federal government withdrew from the international political project of developing carbon markets. Yet, actors on the ground continued to keep emissions trading on the climate agenda. By 2009 a regional emissions trading scheme was operational and the House of Representatives had passed a market-based climate bill.

Pioneering Emissions Trading from Bottom-Up: Firms and States

The US withdrawal from the Kyoto Protocol and the promotion of voluntary climate policy by the Bush administration represented the last major success of the anti-regulatory business coalition in preventing mandatory climate legislation. Glenn Kelly, the GCC’s executive director, acknowledged the lobbying success, saying that the White House had received “a lot of communications . . . Fortunately, the president responded quickly.” During this time period, the
activities of the pro-trading coalition focused on keeping emissions trading on the agenda. Firms and US states pioneered emissions trading from bottom-up in a similar fashion as the UK industry had done in Europe. The first real-world GHG trading scheme in the US was developed by the private sector. The Chicago Climate Exchange is a voluntary binding trading scheme which was developed between 2000 and 2002, with trading operations beginning in 2003. The scheme was initiated by Centre Financial Products Ltd, a Chicago-based firm that had already played a key role in developing sulfur dioxide trading in the US. The key advocates of emissions trading, BP and DuPont, were among the members, but also electric power companies such as American Electric Power and Cinergy.

The activities of the corporate sector on emissions trading extended beyond pilot trading to advocacy. In October 2000, Environmental Defense joined forces with a group of seven energy and manufacturing companies, namely Alcan, BP, DuPont, Ontario Power Generation, Pechiney, Shell International and Suncor Energy, to form the Partnership for Climate Action. “The primary purpose of the Partnership is to champion market-based mechanisms as a means of achieving early and credible action on reducing greenhouse gas emissions that is efficient and cost-effective,” according to the Environmental Defense press release. While this partnership was the first attempt to broker a pro-trading advocacy coalition for a market-based US climate policy, it was not a success story. Since the Republicans controlled Congress, there were no political opportunities to move US climate policy forward. In parallel to private initiatives, individual US states were fertile ground for the development of market-based climate policy. While US states’ GHG emissions are in the order of European countries, the significance of state initiatives lay in the pressure they created for federal climate politics.

In 2003, New York Governor George Pataki invited 11 governors from the Northeast to develop a regional cap-and-trade program for power plants. This process finally led to the creation of the Regional Greenhouse Gas Initiative (RGGI) in December 2005, with trading becoming operational in January 2009. The pro-trading coalition got involved only moderately in the RGGI process because it only affected power companies and the state administrations involved had a clear preference for emissions trading. BP was quietly involved in the process, as policy-makers and industry representatives say. Though the company does not have any energy-intensive facilities in the Northeast, it wanted to make sure RGGI would set a precedent for a federal trading scheme that was favorable to the company. Beyond BP, the strongest supporters were the Nuclear Energy Institute, while the New York State Coalition of Energy and Business Groups.

103. Rabe 2004; and Rabe 2006.
104. Selin and VanDeveer 2007.
was an ardent opponent of a mandatory climate policy. The Northeastern states were soon followed by California and other states.

In June 2005, California’s Governor Schwarzenegger signed an executive order that set several emission reduction targets, including the goal to reduce greenhouse gas emissions to 1990 levels by 2020. This initiated a legislative process that finally resulted in the California Global Warming Solutions Act, which was adopted in August 2006. Unlike RGGI, the Global Warming Solutions Act provides for an economy-wide and legally binding emission reduction target. While the act does not mandate a cap-and-trade program, it says that implementation may occur through a cap-and-trade scheme. In California, the use of market mechanisms was much more controversial than in the northeast. A small band of corporate leaders including California’s predominant supplier of gas and electricity, PG&E, the Environmental Leaders group, BP, DuPont and the ICCP put their weight behind market mechanisms, supporting the Governor’s policy preference. On the other side of the divide, the Environmental Justice Movement was highly skeptical of emissions trading and anti-regulatory business groups tried to prevent mandatory carbon regulation per se. Yet, both of these groups were lacking sufficiently powerful allies within the administration.

US states had offered public emissions trading schemes a point for re-entry to the US federal policy arena. Alongside like-minded public actors at the state level, members of the pro-trading coalition had fought for the use of market mechanisms in state climate policies. These activities stirred fears of a regulatory “balkanization” of the US, raising the heat for federal action on climate policy. Henceforth, the center of gravity of climate politics shifted back to Washington, D.C.

**Business Calling for a Domestic Cap-and-Trade Scheme**

When key political parameters changed in national politics, a window of opportunity opened for a mandatory federal climate policy. This led to a rift in the business community and the emergence of a pro-trading coalition in a similar way as in the run-up to the Kyoto conference.

First, state activities had put pressure on Congress, which was slowly gearing up for climate legislation. In June 2005, the Senate approved a resolution that called for “a comprehensive and effective national program of mandatory, market-based limits and incentives on emissions of greenhouse gases.” In addition, the mid-term elections in 2006 brought a Democratic majority in both

107. ICCP 2006.
houses of Congress, which increased the likeliness that mandatory climate policy would be passed. A second trend lay in the fact that the media and general public had awoken to the climate change issue due to, for instance, Hurricane Katrina.\textsuperscript{110} The event has been frequently cited as a “shock” that raised public awareness and mobilized the willingness to take serious action on global warming. Finally, as a third trend, international progress in climate politics increased the pressure on the US. After Russia had ratified the Kyoto Protocol, the treaty entered into force in February 2005. Moreover, it strengthened the international trend towards carbon trading, providing domestic advocates with additional authority as they could refer to the international process.\textsuperscript{111} In sum, unlike in any previous phase of US climate politics, from 2004 on climate regulation was looming over business as a realistic threat. This ultimately led to a deep split of US industry over political strategy, which was pioneered by a few corporate leaders.

Next to the long-standing leaders on climate change such as DuPont and BP, electric utilities, technology companies and financial services firms joined the call for federal climate legislation.\textsuperscript{112} Two companies played particularly prominent roles: Cinergy/Duke Energy\textsuperscript{113} and General Electric (GE).\textsuperscript{114} In 2004, Cinergy took a public stance in favor of mandatory climate regulation and emissions trading, and in May 2005 General Electric joined in the call for action, also launching a major investment initiative for low-carbon technologies. In January 2007, the US Climate Action Partnership (USCAP), a coalition of initially nine companies and four environmental NGOs, was created.\textsuperscript{115} Long-standing advocates for emissions trading such as BP and DuPont also participated in the coalition, which was initiated by the World Resources Institute, Environmental Defense and General Electric. USCAP represented the strongest pro-regulatory group in the US business community. A cross-sectoral alliance, USCAP called major companies from most economic sectors its members. Collectively, USCAP members had total revenues of US$ 2 trillion and employed 2.5 million workers.\textsuperscript{116} In its advocacy campaign, USCAP could rely on the extensive lobbying infrastructure and political networks of its member organizations. In its Call for Action, the coalition declared that the US should create a domestic emissions trading market, and that it should promote the creation of a global market.\textsuperscript{117} USCAP members had a number of interests, including ensur-

\textsuperscript{110} Mark Hertsgaard, “CA Leads on Climate,” The Nation, 14 September 2006.
\textsuperscript{111} See also Bernstein and Cashore 2000.
\textsuperscript{112} Goodfellow 2005.
\textsuperscript{113} Cinergy merged with Duke into Duke Energy in 2006. Jim Rogers, the former CEO of Cinergy, became the CEO of Duke Energy.
\textsuperscript{115} By October 2007, the coalition comprised 27 companies from a number of industries and six environmental groups.
\textsuperscript{116} USCAP 2007a.
\textsuperscript{117} USCAP 2007b.
ing that the economically most efficient instrument would be chosen, receiving credits for early action, stimulating demands for low-carbon technologies, getting certainty for investments, and influencing the rules of a trading scheme.

The re-emergence of the pro-trading NGO-business coalition in US climate politics co-evolved with activities in Congress. While market-based climate bills had been introduced since 2003, they gained considerably speed from 2007 onwards. The most marked advocacy success of the pro-trading coalition to the time of writing was the passage of the American Clean Energy and Security Act by the House of Representatives in June 2009. The bill—which had been introduced by Congressmen Waxman and Markey—incorporated many of USCAP’s recommendations, which the coalition had outlined in a blueprint earlier that year. USCAP welcomed the bill as a “strong starting point.” Anti-regulatory groups, including the US Chamber of Commerce, the American Petroleum Institute, the Industrial Energy Consumers of America and the National Association of Manufacturers, continued to oppose climate bills, but did not organize in a coalition. Similar to the EU case, anti-regulatory business groups in the US were confident that legislation would not happen, a lobbyist said. Their channel of influence was mainly senators from coal states in the Midwest. The obstructive strategy of the US Chamber of Commerce regarding the Waxman-Markey bill led some members to defect from the association in 2009. While the pro-trading coalition had managed to work toward trading schemes at the state level and to move carbon trading to the top of the climate agenda, anti-regulatory groups continued to be able to slow down the policy-making process. The balance of power between business coalitions had significantly shifted, but it had not yet tipped. It remains to be seen whether the momentum of the globalization of carbon trading can be sustained given the outstanding federal climate policy in the US and the pending international negotiations on a future climate treaty.

Conclusion

In the early phase of climate politics, the line of conflict ran between an anti-regulatory business coalition on the one hand and an environmental coalition that supported mostly command-and-control measures on the other. The emergence of the pro-trading coalition marked a distinct shift from this dynamic as the new agenda was supported by both firms and green groups as a new climate compromise. The initial coalition was an Anglo-American advocacy coalition. Moreover, the firms promoting emissions trading were all big emitters from the

118. USCAP 2009.
120. Interview with industry lobbyist, 2008.
energy industry or energy-intensive manufacturing sectors. Their support for
market-based policy was primarily a hedging strategy that would prevent policy
alternatives such as carbon taxes and command-and-control policies that were
perceived to be more costly. The campaign for emissions trading was in large
parts driven by an anti-taxation agenda, a constant theme across the three cases.

The emergence of a transnational pro-trading advocacy coalition
represents an important element in the explanation of the global rise of carbon trad-
ing. It is unlikely that mandatory emission controls would have been passed
without any support from major corporations. Business had previously proven
that it holds *de facto* veto power with regard to carbon taxes and command-and-
control regulation in both the EU and the US. While business could not prevent
mandatory emission controls, it could critically influence the regulatory style of
climate policy in favor of market-based climate policy. Yet, firms did not single-
handedly push carbon trading to the top of the climate agenda, but were
strongly supported by like-minded state allies who had an institutional prefer-
ence for market-based climate policy. The cases demonstrated a mutually ben-
eficial relationship between factions of business and factions of government in
the campaign for carbon trading. The pro-trading coalition created a window of
opportunity for governments to develop mandatory, yet market-based, climate
policy, while government actors were key state allies for business. Interestingly,
only US environmental groups were early allies of the corporate pro-trading ad-
voicates, whereas in the EU environmental groups refrained from joining forces
with business.

In this article I have argued that transnational coalitions represent a form
of organizational power for three reasons: they allow actors to pool resources; to
mobilize state allies; and to target multiple political levels. The pooling of fin-
cancial resources played a role in so far as it provided the pro-trading coalition
with a robust lobbying infrastructure. Yet, prior to Kyoto, the pro-trading coal-
tion had significantly fewer resources than the GCC, which suggests that other
factors were more important for its success. The pro-trading coalition mainly
outcompeted the anti-regulatory group by aggregating interests across environ-
mental and economic interest groups. The coalition thus presented policy-
makers with a compromise solution, which allowed it to mobilized powerful
state allies. While mobilizing state allies was partly a function of signaling to
policy-makers support for mandatory climate policy, it was also partly due to
the fact that some state actors had institutional preferences for market-based cli-
mate policy. Finally, the rise of carbon trading on the global climate agenda is
due to interventions at multiple political levels, including the sub-federal, na-
tional, regional and international levels. The pro-trading coalition successfully
targeted all key political levels to affect a shift in the agenda. The anti-regulatory
coalition, instead, started to lose influence in the EU. A common characteristic
of the EU and the US cases is the fact that the coalition first targeted sub-federal
political levels to leverage agenda shifts at the federal or regional level.

The preceding analysis suggests a number of conclusions regarding the
role of business in global environmental politics. First, business has been demonstrated to have considerable influence over the regulatory style of policies. The lens of business conflict and coalitions has proven to be helpful in analyzing the engagement of business with global environmental politics. It sheds light on the weaknesses and strengths of business as an interest group as well as on the broad patterns of contention. Second, transnational coalitions have become an important vehicle for interest representation of firms in global environmental politics, including institutionalized and ad hoc coalitions. This implies a shift in the representation and aggregation of business interests from a sectoral structure to a more diversified structure, which includes non-business actors. Third, in the highly contested field of global environmental politics firms rely strongly on alliances with powerful and like-minded state allies and/or green groups. This calls into question the classic binaries for studying conflict and cooperation in global environmental politics, such as state actors versus nonstate actors and business versus environmental groups. Rather, conflict and cooperation occur along competing agendas supported by alliances composed of factions of business, environmental groups and state actors.

References


122. See also Betsill 2008a.


United States Senate. 2005. Sense of Senate Regarding the Need for the United States to Address Global Climate Change. SEC. 1501. 109th Cong., 1st Sess. 22 June.


