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How Climate Change has become a Business Risk: Analyzing Non-State Agency in Climate Politics

ABSTRACT: Recently, there has been increase in the number of transnational climate governance arrangements that do not involve state actors and consequently do not require their consent for the establishment of rules and norms at the global level. One striking feature of all these arrangements is the active participation of transnational corporations (TNCs), both in decision-making and implementation. This paper will investigate the agency of non-profit organizations in manufacturing the issue of climate change into a risk for business organizations. I address three related questions: First, what organizational form and strategy does the construction of climate change as a business risk (and opportunity) take? Second, how successful are civil society actors in driving corporate behaviour in a more sustainable direction using the concept of risk? And finally, what are the implications of this strategic reconfiguration of civil society engagement from confrontation to cooperation for our general understanding of climate governance? Empirically, this paper analyses the Coalition for Environmentally Responsible Economies, the Investors Network on Climate Risks, the Carbon Disclosure Project and the Global Reporting Initiative.

1 Introduction

Global climate governance is at a cross-road. After the widely acknowledged failure of the Copenhagen summit, international treaty-based climate politics (that is negotiations among more than 190 states) has lost much of its appeal. While governments prepare for a renewed effort to strike an international agreement, it is evident that neither full compliance with the Kyoto Protocol nor with the Copenhagen Accord will prevent ‘dangerous anthropogenic interference with the climate system’ – the overall objective of the 1992 United Nations Framework Convention on Climate Change. Within this context, a growing number of scholars have voiced their fundamental concern about the problem-solving capacity of the state and the international state-system. Increasingly, scholars and practitioners alike acknowledge that solutions to the challenges of global change do not exclusively originate from public sources (governments, and international organisations such as the United Nations), but are co-produced by a host of non-state actors whose authority is

contested and whose legitimacy is questionable. In other words, that climate governance is taking place ‘beyond’ the state (Andonova et al. 2009; Bäckstrand and Lövbrand 2006; Cashore 2002; Cutler et al. 1999; Dingwerth 2007; Hall and Biersteker 2002; Jagers and Stripple 2003; Author 2007; Author 2008).¹

Consider for example the C40 Global Cities Leadership Group that brings together London, Los Angeles, Tokyo and many other major cities in a substantive attempt to mitigate carbon dioxide emissions or the Carbon Disclosure Project (CDP) that uses the power of institutional investors to force companies to disclose their historic and future carbon emissions. Although many observers acknowledge that these transnational governance experiments have considerable impact (e.g. London has pledged for a 60% reduction in carbon dioxide emissions below 1990 levels by 2025; more than 2000 multinational corporations today report on their historic and future carbon emissions following the CDP guidelines), few scholars have studied this transformation of global carbon governance in more detail.

Non-state actors such as environmental non-governmental organisations, institutional investors and other financial entrepreneurs have used the idea of climate change as business risk to engage with companies in the governance of climate change. Two observations are noteworthy: first, the global risk of climate change is transformed into a specific risk, i.e. a business risk, through the agency of non-state actors; and second, novel instruments of disclosure and transparency are employed to manage the business risk of climate change. This paper elaborates on the transformation of global climate governance into a business risk by focusing on the increased usage of transparency and disclosure-based governance instruments in the climate change domain.

¹ On the general phenomenon of private governance and policy-making beyond the public domain, see Arts 2006; Falkner 2003; Hajer 2003; Rudder 2008.

In the following sections, I first briefly discuss the general trend towards transnational climate governance arrangements and non-state agency, before I analyse the transformation of climate change into a business risk, focusing on the governance mechanisms of disclosure and transparency in more detail. Empirical illustrations are taken from the Investors Network on Climate Risk and its initiator, the Coalition for Environmentally Responsible Economies as well as the Carbon Disclosure Project and the Global Reporting Initiative. Finally, section 4 concludes with some reflections on further research in the area of earth system governance.

2 Transnational Climate Governance

With the launch of the Kyoto Protocol and expanding greenhouse gas limits, power companies and other energy-intensive businesses face growing risks from the energy they use and how efficiently they use it. Companies also face risks from direct physical impacts, including stronger and more frequent storms, droughts, floods and sea level rise. In turn, forward-thinking companies that fine-tune their operations and develop new climate-friendly products can prosper from climate change.

Cogan, 2006

Recently, there has been an increase in the numbers of transnational climate governance arrangements that are neither a direct product of state authority nor primarily target the behaviour of states. Even when states participate in climate governance arrangements, they participate as one actor among others. Transnational climate governance arrangements come in many forms and perform functions ranging from providing information, creating markets, facilitating research, launching products, to educating the wider public and influencing decision-making processes. They are

transnational in nature and established as voluntary initiatives.² While political scientists and International Relations scholars increasingly acknowledge that private governance is a reality in world politics (e.g. Hajer 2003; Falkner 2003; Rudder 2008), the phenomenon has been discussed as one of the main empirical manifestations of agency beyond the state within the larger debate about earth system governance (Biermann 2007, 332; Biermann et al. 2009).

The analytical problem of agency begins with the assumption that credible, stable, adaptive, and inclusive earth system governance requires the involvement and consent of a wide range of actors including national governments and their bureaucracies as well as the growing population of non-state actors such as environmental organizations, expert networks, and corporations (Dellas et al. 2011). The latter are particularly important as global environmental change challenges the capacity of traditional state structures to effectively govern, particularly when many of the activities which give rise to global change fall outside the sovereign authority of the state (Biermann and Dingwerth 2004; Bulkeley and Newell 2010; Marauhn 2007).

Transnational arrangements are influential and have significant effects on global climate governance. They create markets through research and development of new products, seek information disclosure from companies and share information geared towards influencing climate governance, among other things. Transnational climate governance arrangements set rules and regulations, and companies, by and large, comply with these rules. For example, 1550 companies and 385 institutional investors from different geographical regions and business sectors participated in and complied with the 2007 questionnaire (CDP6) of the Carbon Disclosure Project (CDP)³, which

² For a detailed discussion of the concept and definition of transnational climate governance, see Pattberg and Stripple 2008.

³ Figures are based on the CDP6 Report, 2008.

request companies to disclose information on their carbon emissions. The Chicago Climate Exchange (CCX), being a US-based organisation regulated by US commodity exchange laws, has continued to increase its sphere of influence globally as its membership is growing across sectors and regions despite its voluntary nature. CCX has attracted membership from organisations and government agencies outside the US and established affiliates in Canada, Europe and China. The Global Gas Flaring Reduction Partnership (GGFR) actively involves a number of oil companies and oil producing countries in rule- and decision-making processes geared towards the reduction of gas flaring.

These examples illustrate how novel mechanisms are employed to govern the issue area of global climate change beyond the state and the inter-state system. In particular, these examples show how climate change has been manufactured and transformed into a concrete and measurable business risk through the agency of distinct actors in global environmental governance. What is most interesting in the context of global risk is the question of specific techniques of governance that are used to manage climate change as a business risk. This paper focuses on disclosure and transparency as two such governance techniques.

3 Climate Change as a Global Risks

That climate change indeed poses a risk for companies has been acknowledged, however, mainly with regard to the threat of regulatory controls that have prompted companies to aggressively reject the “global warming hypotheses” (cf. Kolk et al. 2008, 722). Only by the year 2000 did companies on both sides of the Atlantic move towards a more cooperative stand on climate change, acknowledging the risks and opportunities for business actors and the resulting responsibility to act.

The risk that climate change poses to companies varies, depending on the energy intensity and the fuel source mix for their production, the geographic location of production facilities, the product mix, the technological trajectory of individual companies, the company-specific risk management capability and the entrepreneurial risk companies are ready to take. Despite these differences, companies will nevertheless face some pressure from climate change.

Simply put, risks from climate change fall into the following categories. First, regulatory risks, when companies with significant greenhouse gas emissions or energy intensive operations face risk from new regulation, both at national and international levels.⁴ Second, physical risks for production and transport facilities deriving from increased intensity and frequency of severe weather events such as prolonged droughts, floods, storms and sea level rise. Third, reputational and competitive risks that will threaten companies that miss the opportunity for innovation. And finally, companies also face increasing risks from litigation. In particular carbon-intensive industries such as oil and gas, electric utilities, and automobile manufacturing are already starting to face litigation concerning corporate contributions to global climate change. For example, a number of attorneys general, the City of New York and three land trusts brought suit in 2005 against the five largest electric utilities in the US, on the grounds that they were substantial contributors to the ‘public nuisance’ of global warming (cf. INCR 2008a).

⁴ California and 10 Northeastern states have already taken regulatory action to require emission reductions within the US. Japan, China and other leading trading partners have instituted GHG emission reduction targets, fuel emission standards and renewable energy mandates.

4 Climate Governance by Disclosure

The perception of climate change as a business risk (mainly financial) and the conviction that companies have the responsibility to address these risks in their day-to-day operations as well as in their broader strategies is of fairly recent origin. In this section, I analyse how climate change has become a business risk for corporations through the agency of non-state actors and how this risk perception is consequently employed to govern through the mechanisms of transparency and disclosure. I focus on the Coalition for Environmentally Responsible Economies, the Investor Network on Climate Risk, the Global Reporting Initiative, and the Carbon Disclosure Project as empirical illustrations for how climate change has been transformed into a business risk.

4.1 What can be measured that can be managed: The Coalition for Environmentally Responsible Economies and the Investor Network on Climate Risk

As fiduciaries, long-term investors and asset managers, we have been examining the short and long-term risks from climate change to the value and security of our investments for several years. We have found that significant material risks exist, and we have been taking steps to engage companies and reduce climate risks in our portfolio. As a result, more businesses, responding to investor concern, have started to disclose their climate risks and account for the impacts of climate change on their financial performance and competitiveness.

INCR, 2008b

The governance technique of corporate carbon disclosure is embedded within the broader context of an increased agency of institutional investors and other financial entrepreneurs. A number of investor-led initiatives have emerged in recent years (e.g. Institutional Investor Group on Climate Change; Australian Investors Group on Climate Change; Investors Network on Climate Change) that aim at changing corporate behaviour and strategies in light of the perception of climate change as a business risk. The following sections analyse CERES and the INCR in an attempt to reconstruct the emergence of environmental disclosure as a transparency-based governance mechanism in the realm of climate governance.

The Coalition for Environmentally Responsible Economies

The Coalition for Environmentally Responsible Economies (CERES) was founded in 1989 as a partnership of the institutional investors and US-American environmental organisations after publishing the so called Valdez Principles, utilising the huge public outrage around the Exxon Valdez oil spill, which occurred on March 24 the same year. A group of socially responsible investors, mainly organised into the Social Investment Forum (SIF)⁵, and fifteen large environmental groups started discussing the possibility of using the power of investors (i.e. shareholder resolutions) against the power of the boardroom.

The novel idea behind CERES was to engage companies in an ongoing dialogue and work towards the subsequent endorsement of environmental principles⁶ that would establish long-term corporate commitment to continual progress in environmental

⁵ The SIF is a network of actors focusing on Socially Responsible Investing (SRI), understood as the integration of personal values and societal concerns with investment decisions. See, <http://www.socialinvest.org>.

⁶ The former Valdez principles have been renamed CERES principles in 1993.

performance. On this account, the ten-point *Corporate Code of Conduct* developed by the organisation establishes “an environmental ethic with criteria by which investors and others can assess the environmental performance of companies” (CERES 2002, 31). The pivotal commitment is the corporate obligation to report regularly about the state and the improvement of their environmental behaviour. Hence, the Code popularised the idea of environmental reporting, but also contributed to a stronger awareness of the financial consequences of environmental misbehaviour of corporations (cf. Author 2006). As a result, environmental improvements, lowered investment risks and positive corporate performance were expected to go hand in hand. In the words of Nash and Ehrenfeld (1997, 512),

“[t]he vision of CERES’ organizers was for firms to release to the public ‘consistent and comparable’ environmental data similar to what is used by investors for analysis of corporate financial performance”.

The original idea for CERES emerged at a board meeting of the Social Investment Forum (SIF) in 1988.⁷ The catalyst was the fact that although most of SIF’s clients considered environmental performance a key issue for investment decisions, serving those clients proved difficult because there was hardly any publicly available information on the overall environmental performance of companies. In the words of one SIF board member⁸:

⁷ The SIF is a US-based membership association for professionals and organizations engaged in socially responsible and sustainable investing. SIF’s members include investment management and advisory firms, mutual fund companies, research firms, financial planners and advisors, broker-dealers, banks, credit unions, community development organizations, non-profit associations, and pension funds, foundations and other asset owners (see SIF website).

⁸ Personal interview with CERES staff member. A similar view is voiced in Nash and Ehrenfeld (1996, 19-20): “In 1988, when CERES was put together, there was not enough information to make intelligent investment decisions. What we were hearing from environmental advocates like Greenpeace and what we were hearing from companies was often diametrically opposed. There was no way to know about environmental performance without investigating these companies ourselves”.

“Big companies had little coherent information on the issue [of environmental performance]; advocacy group information was not always applicable and accurate. Some of us had the idea of approaching environmental groups to do work on the environment to try to find out how to get information more consistently that would benefit the environment and serve investor interests”.

Crucially, the SFI convened a committee to explore ways for its members and environmental advocates to work together (CERES 2004, 10). This committee headed straight to Washington to explore the opinions and strategies of the leading environmental organisations such as the Sierra Club. However, in the beginning, most civil society organisations rejected cooperation with the social investment community. It took more than a year to convince leading environmental organisations to work with institutional investors, which were still largely perceived as the ‘bad guys’. During its first joint meeting in April 1989, the new coalition agreed to focus on two priority issues: first, the development of an environmental mission statement for companies, which was envisaged as being more than a management tool, but rather a kind of environmental ethic for corporations; and second, the development of adequate instruments for gathering and disclosing important corporate environmental information. This second priority proved to be highly influential in the broader context of transnational climate governance as it paved the way for disclosure to become a central governance tool in the environmental/sustainability domain. To quote a CERES staff member (quoted in Hoffman 1996, 54):

“The number one issue is disclosure. We want a standardized way of letting investment managers know about environmental aspects of the business”.

Closely connected to the aim of developing adequate instruments for gathering and disclosing important corporate environmental information, CERES has been active in

engaging a new class of actors, namely public pension funds. The 2003 Annual CERES Report (2004,9) recalls:

“Much of Ceres’ work in 2003 culminated in the historic Institutional Investors Summit on Climate Change held at the United Nations headquarters in New York City on November 21, 2003. There, Ceres, the State of Connecticut Treasurer’s Office, and the United Nations Foundation brought together institutional investors representing more than \$1 trillion in invested capital together to examine the financial risk of global climate change”.

In particular, the changed voting behaviour of large pension funds, which had started to vote in favour of resolutions calling for adequate policies concerning climate change, has attracted much media coverage over the past few years.⁹ In the view of one observer, CERES has been a prime mover and organiser of these critical resolutions, particularly by highlighting the business case and approaching mainstream advisors, convincing them that climate change is a core business risk and not just an elusive environmental concern.¹⁰

On this account, CERES is one of the primary agents of manufacturing climate change into a business risk. One good example is the recent attempt made by CERES to actively (re)define industry’s stance towards climate change. As part of this strategy, CERES has produced and commissioned a range of studies that raise the issue of climate change as a risk for business and investors. For example, in a 2002 report (Innovest Strategic Value Advisors, 2), CERES states:

“[t]he bottom line [...] is straightforward: climate change represents a potential multi-billion dollar risk to a wide variety of U.S. businesses and

⁹ One of these new actors is CalPERS (California Public Employees Retirement Fund) that in 2004 started to set aside \$ 200 million in a private equity fund for environmental investing.

¹⁰ Personal interview with CERES staff member.

industries. It should, therefore, command the same level of attention and urgency as any other business risk of this magnitude.”

Consequently, CERES has developed a number of tools to increase the transparency about corporate responses to climate change. In a recent report, the RiskMetrics Group (commissioned by CERES) employs a “climate change governance framework” to evaluate how 48 US companies and 15 non-US companies are addressing climate change through board oversight, management execution, public disclosure and strategic planning. In their own words (RiskMetrics Group 2008, 5):

“Given this rapidly changing landscape [of climate change and the political responses to it, PP], it is particularly important to identify which companies are making climate change a transformational issue for their business”.

CERES’ attempt to alter the existing discourse on climate change within the business community is also reflected in recent developments in its communications strategy. The media strategy that has been developed from 2001 on reflects the situation that CERES is often perceived as an environmental advocate, while its audience is really the companies and the financial markets. As one staff member recalls, “the shift that CERES tries to make is really about getting our issues into the financial press; not on the environmental page, but in the business section.”¹¹ This attempt has been rather successful with more than ten articles on the issue of climate change and business risk in major U.S. and international newspapers, including *The Wall Street Journal*, *Financial Times*, and *The New York Times*, in 2003 (e.g. Ball 2003a, 2003b; Burr 2003, Feder 2003a, 2003b; Murray 2003). Although the articles do not necessarily mention CERES, they make a strong case for the issue of climate change. The *Wall Street Journal* for example comments (Ball 2003a): “Here’s what companies’ direc-

¹¹ Personal interview with CERES staff member.

tors have to worry about these days: accounting scandals ... earnings problems ... oh, and global warming”. And the *Financial Times* recalls (Murray 2003):

“There was a time when the most prominent voices in the debate on climate change were environmental lobby groups, activists and non-governmental organisations. These days, however, new speakers are entering the fray: banks, insurers, investors and other organisations in the financial services sector”.

These examples show that CERES has been a critical driver in turning climate change into a business risk. In the words of a CERES staff member, “CERES has really driven this issue and made it into the press”.¹² This view is remarkable because, according to the same interviewee, in 2001 there would not have been an article on climate change and risk in the business press. The triggering events have been shareholder resolutions on climate change and the corresponding risk for investors.

A clear indicator for the success of CERES’ attempt to challenge the existing discourse on business and climate change can be found in the growing support for shareholder resolutions seeking greater analysis and disclosure from companies about the financial impacts of climate change. For example, at the 2005 corporate annual meeting of Exxon Mobil, 28.3% of the shareholders supported

“a resolution requesting that the company’s board of directors undertake a comprehensive review on how it will meet the greenhouse gas reductions targets in countries participating in the Kyoto Protocol. The 28.3 percent support represent 1.5 billion shares with a market value of about \$83.8 billion” (CERES 2005).

In a recent study (CERES 2010), the climate change proxy voting of 46 mutual funds in the US is analyzed and found to have grown from 14 percent votes in support in

¹² Personal interview with CERES staff member.

2004 to an all-time high of nearly 27 percent in support in 2009. When looking at the specific motions (resolved clauses) asking boards for action, it is interesting to note that not only relatively undemanding requests – such as producing a report on climate-related risks – were supported, but also far more demanding request. For example, resolutions asking the board to adopt quantitative greenhouse gas reduction goals received 38 percent support in 2009 (CERES 2010, 11).

After this discussion on how climate change has been constructed as a business risk through the agency of one specific actor, CERES, I continue with analyzing the role of institutional investors in transnational climate governance.

The Investors Network on Climate Risk

In 2003, and as a result of these developments, CERES successfully institutionalised the Investors Network on Climate Risk (INCR), following the Institutional Investors Summit on Climate Change held at the United Nations headquarters in New York. INCR, coordinated by CERES, is a network of institutional investors and financial institutions that aims at promoting better understanding of the financial risks and investment opportunities posed by climate change.¹³

Since its launch in 2003, INCR's membership has steadily grown from 10 investors managing approximately \$600 billion in assets to more than 70 investors managing close to \$7 trillion in assets. Members include asset managers, state and city treasurers and comptrollers, public and labour pension funds, foundations and other institutional investors. INCR, in its own words (CERES 2008, #)

¹³ The INCR website states: Investors Network on Climate Risks: A Project by CERES, cf. <http://incr.com/Page.aspx?pid=261>.

“leverages the collective power of these investors to promote improved disclosure and corporate governance practices on the business risks and opportunities posed by climate change”.

INCR has mainly worked on two fronts, targeting public actors such as the US Securities and Exchange Commission (SEC), and targeting corporations directly. INCR’s main tool for achieving these goals is the so-called INCR action plan, originally forwarded in 2003, and renewed in 2005 and 2008. The plan calls on institutional investors, fund managers, financial advisors and companies to take a range of measures to address the financial risks of climate change. In addition, the plan also establishes a commitment of the INCR members themselves. In their own words (INCR 2008c, 28),

“As fiduciaries and long-term investors, we see significant short and long-term risks from climate change to the value and security of our investments and capital markets more broadly. And we recognize that the impacts of climate change will continue to be multi-dimensional – affecting corporations’ abilities to secure the full range of necessary resources such as energy and water. At the same time, we also see opportunities presented by the transition to a low-carbon future. Prudence, common sense, and fiduciary duty compel us to renew our efforts to examine and address the financial ramifications of climate change and to respond to climate challenges and opportunities. Accordingly, we hereby state our intentions to manage our investments; to engage companies, investors, and others; and to support policy action to the best of our abilities.”

INCR also measures progress against the action plan as a tool for changing investor behaviour. In a 2008 report, INCR reviews the progress made towards the 2005 action

plan and concludes that “even with this impressive progress by INCR and its members, there is still much to be done” (INCR 2008d, 2). Inter alia, the report criticises that too few investors are realising the substantial gains to be made in the clean technology sector, urges that major mutual funds should pay more attention to climate change and calls for companies to further improve their disclosure of climate related risks.

In sum, this short discussion illustrates how non-state actors, ranging from non-governmental environmental organisations to institutional investors, have acquired agency in global climate governance. Climate change is not by nature a risk for business actors but has been deliberately manufactured into a key concern for financial entrepreneurs through the agency of a host of non-state actors. The next section discusses a specific instrument for governing climate-related risks: carbon disclosure as a specific form of transparency.

4.2 Publish what you pollute: The Global Reporting Initiative and the Carbon Disclosure Project

Congratulations on the success of the Carbon Disclosure Project. It has some important messages for all of us. Crucially, it illustrates how the answer to reducing greenhouse gas emissions lies as much with companies and investors as it does with governments, international agencies and the public.

Tony Blair, 2003

The Carbon Disclosure Project has played a critical role over the last 6 years of ensuring that the risks and opportunities of climate change are considered by companies, and that they are reported in a consistent and comparable way.

We believe that taking a global approach to tackling climate change is imperative.

Making information available is a critical step to understanding what can be achieved.

The Carbon Disclosure Project is leading the way in facilitating this progress.

Peter Sands, 2008

The idea of corporate carbon disclosure is embedded within a wider discourse and practice around the concept of environmental and sustainability reporting. Going back to the time of shareholder campaigns against corporate engagement in the South African Apartheid regime, social activism in cooperation (rather than in confrontation) with companies quickly became a prime choice for many activists during the late 1980s (cf. Bendell 2000). In 1989, the Coalition for Environmentally Responsible Economies (see detailed discussion in section 3.1) was the first organisation to issue a corporate code of conduct that included a commitment to ongoing disclosure and reporting on environmentally sensitive issues (Author 2007, 151-190). This idea of non-financial disclosure and reporting was later mainstreamed into ‘sustainability reporting’ and successfully institutionalised in the Global Reporting Initiative.

The Global Reporting Initiative

The Global Reporting Initiative (GRI) has been set up as a multi-stakeholder initiative in 1997 to provide a framework for corporations – to report on their sustainability performance. The organization was initially set-up as a joint activity of CERES and

the Tellus Institute, a leading North American think tank in the field of sustainability politics, supported by the United Nations Environment Program. CERES now includes several hundred members from various regions and sectors of society. In contrast to other private transnational governance arrangements, where a private governance scheme emerged as a result of the *absence* of international standards, the GRI was initiated in response to the *proliferation* of different reporting standards that inhibited a comparison between sustainability reports of individual companies. First led by a steering committee of early leaders in the field of sustainability reporting, the GRI became an independent organization in 2002.

Since its inception, the ambition of the GRI has been to make “reporting on economic, social and environmental performance as routine and comparable as financial reporting” (GRI 2003, 4). As its main instrument to achieve this goal, the GRI is developing and advertising its *Sustainability Reporting Guidelines*. A first version of these guidelines was developed in 2000 and refined thereafter (the current third generation of guidelines is labelled G3). The aim of the guidelines is to enable report users – rating agencies, investors, and shareholders, but also employees, consumers or local communities – to evaluate a company’s performance and to compare it to that of its competitors. This specific approach, governance by disclosure and comparison, has been highly influential in the establishment and institutionalization of the Carbon Disclosure Project.

The Carbon Disclosure Project

The Carbon Disclosure Project (CDP) is an independent non-profit organisation representing, as of 2008, 385 institutional investors with an investment base of approximately \$57 trillion (CDP 2008a). In 2003 it issued its first CDP questionnaire

that asks companies to disclose their past and future carbon emissions (CDP 2002). CDP to date has issued six questionnaires to companies requiring disclosure of their carbon emissions.¹⁴ The required disclosure stimulates information sharing about climate change and the related business risks between companies and stakeholders. The project goals are based on the assumption that information disclosure will motivate and facilitate meaningful dialogue among business actors, investors and the wider public and ultimately trigger substantial corporate responses to climate change. In the words of Kolk et al. (2008, 724-725):

“The CDP represents a voluntary effort to develop standardized reporting procedures for firms concerning their climate-related activities, in a form intended to complement annual financial accounts and provide information relevant to investors...”

CDP receives funding from a number of private organisations and corporations as well as from ministries and governmental agencies, among others: DEFRA (UK), Environmental Protection Agency (US), NUTEK (Sweden) and VROM (Netherlands).

CDP’s decision and rule making process is based on the authority of investors. Although the individual investor did not authorise the process, institutional investors arguably represent them. The governance arrangement is directed at companies across industries and regions. As a governance mechanism, disclosure is intended to induce behavioural change among companies such as innovation and use of clean technologies as well as to provide a global mechanism to monitor corporate carbon emissions independently of states. The annual disclosure request¹⁵ (forwarded to over

¹⁴ The CDP questionnaire is issued annually.

¹⁵ The disclosure request is available in English, French, Japanese and Chinese.

3000 companies in 2008, CDP6)¹⁶, covers four major areas: first, the senior management's views on the risks and opportunities that climate change presents to their business; second, greenhouse gas emissions accounting; third, the management's strategy to reduce emissions and minimise risk and capitalise on opportunity; and finally four, corporate governance with regard to climate change (including long-term strategies and board representation).

The response rate to CDP6 is close to 52% (1550 companies).¹⁷ CDP also offers an evaluation of the quality of carbon disclosure. The Carbon Disclosure Leadership Index (CDLI) provides information on the quality of carbon disclosure for carbon-intensive and non-carbon-intensive sectors (CDP 2008b) and makes disclosure statements comparable across industries. In addition to the annual disclosure request, CDP has diversified its operations. For example, the creation of the Corporate Supply Chain Programme widens CDP's focus to encompass the emissions resulting from a company's supply chain and the risks and opportunities in relation to climate change. Furthermore, CDP also offers disclosure tools to cities. Recently, more than 30 municipalities in the US, including New York, Las Vegas, Denver, West Palm Beach, St. Paul and New Orleans, have agreed to work together with CDP to disclose their carbon emissions.

Overall, the business community has responded very positively to the CDP. Among the FT Global 50 alone, 34 responded to the CDP5, cutting across regions and sectors. However, the voluntary nature of the arrangement has given many of the transnational companies the flexibility to choose which region they include in their emission disclosure. For example, some transnational corporation have chosen to disclose

¹⁶ Companies that are targeted are the world's largest by market capitalization.

¹⁷ Response rates differ greatly across industries, but are considerably higher for listed companies, e.g. in the S&P 500 (64%) or the DAX (92%).

information on their carbon emissions deriving from their activities in developed countries exclusively. Most companies place a disclaimer in their answer that the information they are disclosing does not include their activities in some developing countries. In addition, the output of the arrangement (i.e. the questionnaire) is intended for global use, but a majority of the institutional investors are based either in Europe or in the North America. Institutional investors from other world regions are not explicitly excluded from participation, their non-participation, however, suggests that they lack the capacity to do so.

In addition, recent research (Kolk et al. 2008, 719) on corporate responses to CDP's call for carbon disclosure indicates that

“neither the level of carbon disclosure that CDP promotes nor the more detailed carbon accounting provide information that is particularly valuable for investors, NGOs or policy makers at this stage”.

This observation raises a number of questions. If the information provided through carbon disclosure is not useful for investors or other stakeholders, why do companies still feel pressured to comply with CDP's request for disclosure (which is costly and time consuming)? Further, if it is not the investment community that benefits from carbon disclosure, who is supplying the necessary authority behind CDP to make companies comply with the disclosure demand in the first place?

5 Conclusions

Global climate risk has become a business risk. This transformation has been achieved through the agency of non-state actors, among them NGOs, investors and other financial entrepreneurs and is made possible through specific techniques of governance, in our example, through the technique of carbon disclosure that helps to

indirectly commensurate carbon emissions and thus makes the associated risk manageable. Following Demortain (2008), conceptualizing something as a global risk implies that a certain degree of control already exists. Speaking of climate as a business risk requires calculating the associated risk of standard operating procedures through distinct mechanisms. Disclosure is one such instrument. The discussion has highlighted three important observations:

First, climate change has been manufactured into a specific type of risk for a specific audience by non-state actors that possess agency beyond the state in the issue of climate change. As our discussion has highlighted, CERES has been an influential driver in the process of manufacturing the perception of climate change as a global risk and at the same time underscoring the comparative advantages for those companies who embrace climate change as a business challenge. Through the institutionalisation of the INCR, CERES has mobilized a number of actors (e.g. pension funds) that have so far not been involved at the forefront of global climate governance. In sum, the construction of climate change as a business risk together with the involvement of financial actors has led to an increased demand for carbon disclosure.

Consequently, second, non-state actors have utilized the technique of disclosure to govern climate change by introducing transparency necessary to calculate risks. The recent broadening of CDP's scope and the record response rates to its 2008 questionnaire seem to further prove the relevance of disclosure-based mechanisms for contemporary climate politics.

However, third, carbon disclosure as a novel technique of governance has been relatively ineffective when measured against carbon emissions as a benchmark. In addition, research suggests that the information disclosed through CDP is not effectively used by investors in their investment decisions. Nevertheless, carbon disclosure has

empowered distinct actors (civil society), while at the same time it consolidated the commensuration of climate change.

I see at least three avenues for future research. First, scholars could further investigate response rates and participation in disclosure-based governance to understand the variations between sectors (and explain them based on country-of-origin or management culture hypotheses, to name a few). Second, we need a more systematic understanding of the interests and the rationale of institutional investors for initiating and participating in disclosure-based climate governance. At the same time, a better understanding of the linkages between the transnational climate governance realm and the international climate negotiations is crucial.

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