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In Green Company

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If Kyoto is so dangerous, why is corporate America already playing by its rules?

To hear President George W. Bush tell it, the United States backed out of the Kyoto Protocol because the pact would do irreparable harm to U.S. businesses. At $400 billion, the costs were too high, he said. By excluding the developing world, the agreement would put U.S. companies at a disadvantage. If the agreement were enacted, Bush warned, nearly 5 million workers would watch their jobs slip away. But, if all of this is true, why are many in corporate America already starting to comply with Kyoto, which now binds 141 nations in reducing their greenhouse gas emissions?

Many U.S. multinationals are already complying with Kyoto's emission targets because they are subject to the agreement in key markets where they operate. Although their affiliates in developing countries, such as China and India, are not bound by emission caps, American firms operating in the European Union (eu), Canada, Japan, and other Kyoto-compliant countries are. Europe's emissions caps apply to more than 12,000 industrial facilities, many of them owned by American companies. Even if U.S. companies do comply with such foreign regulations, many still face the unpalatable choice of either pursuing different policies in different places, which is inefficient and expensive, or swallowing the costs of improvements in the United States. Meanwhile, the incentives for being Kyoto-friendly are already enormous. To put it in perspective, consider that, despite the strategic importance of China, American companies invested twice as much capital in 2003 in tiny Ireland as in all of China. U.S. corporations have nearly $1 trillion in direct investments in the eu. And Canada, which will soon mandate improvements in carbon efficiency for all large emitters of greenhouse gases, is still the largest single U.S. trading partner. At $200 billion, the American industrial presence in Canada dwarfs U.S. investments in any non-Kyoto country.

Corporate America's incentives are changing closer to home, too. The world's major automakers—including the United States' "Big Three" (General Motors, Ford Motor Company, and DaimlerChrysler ag)—agreed to reduce the greenhouse gas emissions of their fleet in Canada by 5.3 million metric tons by the end of 2010. If automakers plan to produce cars for the Canadian market that meet these ambitious goals, it does not make much economic sense to produce cars with different emissions standards for the U.S. market. Even Chinese fuel efficiency standards were recently tightened and are now actually more stringent than those of the United States. And as the Bush administration ignores concerns over climate change, about 30 U.S. states have already adopted some form of restrictive climate policy.

California now has legislation to limit greenhouse gas emissions and other states are following its lead. Eight states' attorneys general, including New York's Eliot Spitzer, are suing five large utilities for their greenhouse gas emissions. A number of northeastern and mid-Atlantic states have formed a Regional Greenhouse Gas Initiative that will impose emission caps on major utilities. And in June, the United States Senate adopted a resolution calling for "mandatory, market-based limits" on greenhouse gas emissions, modifying the 1997 Byrd-Hagel Resolution opposing a climate change agreement that excludes the developing world.

Global business leaders are not waiting for environmental mandates to be handed down from Washington. Jeffrey Immelt, the chairman of ge, recently committed his company to reducing its greenhouse emissions by 1 percent by 2012. To do that, ge will need to reduce its emissions per average unit of product by nearly a third—a major accomplishment. The company will also invest as much as $1.5 billion annually in the research and development of green technologies and, as a result, expects to double its annual revenues from clean technology products and services to about $20 billion. U.S. companies such as DuPont and Alcoa have already put in place their own Kyoto-like emission reduction programs, with internal emissions trading and incentives for managers who meet the desired targets. Several years ago, bp pioneered the idea and has pocketed remarkable savings.

Awareness of the effects of climate change is rippling through other industries as well. Swiss Re, the world's second-largest reinsurer, estimates that the annual economic impact of natural disasters may double in the next 10 years because of climate change, costing insurers $30 to $40 billion a year. Allianz Global Investors, one of the world's largest financial services companies, recently announced it would take climate change risks into account in making insurance and underwriting decisions. Institutional investors are also assessing the risks associated with greenhouse gases. The Carbon Disclosure Project, a coalition of 143 institutional investors with $20 trillion in assets, is collecting information on emissions and climate-related policies from the world's top 500 companies. Eventually, Wall Street will factor the costs of complying with emissions targets into the price of corporate debt and equities. The United States also stands to lose leadership in the creation of profitable emissions trading markets as they gravitate to foreign financial centers.

American businesses that refuse to accept that we live in a carbon-constrained world are living on borrowed time. Soon it will no longer be economical for the holdouts to view the United States as a regulatory safe haven. Compliance with the Kyoto Protocol will likely spur countries such as Japan and Britain to subsidize renewable energy and other emission technologies, forcing U.S. companies that might have been market leaders to become consumers of new technology developed by others. There is little chance the Bush administration will suddenly reverse course and endorse Kyoto. Fortunately, a growing number of U.S. businesses are not waiting to take their cues from Washington.

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