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Businesses might not like Kyoto Treaty, but they'll like uncertainty even less

Economic uncertainties have given President Bush reason for skepticism of American involvement in the Kyoto Treaty. But, to disengage completely from negotiations in the interest of American business was precisely the wrong thing to do.

While many within the business community may not agree with all the provisions of Kyoto, President Bush created what

INSIDER VIEW

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businesses dislike even more—uncertainty. Sooner or later, it is highly likely that U.S. businesses will face some kind of climate controls. Unfortunately, when they do, American corporations will encounter a framework of rules dictated by others—namely, the 178 countries who signed it and, more specifically, Japan and the European Union.

To say that Bush is “pro-business” by taking this stand is not accurate. He is favoring some businesses and business groups (like the Global Climate Coalition and the Western Fuels Association) supporting their claims that the costs of climate-change control in the Kyoto Treaty are too high.

One of Bush's main concerns with the treaty is that it does not include the participation of developing countries. On this environmental issue, he has some footing. World energy consumption is forecast to grow between 36 percent and 42 percent by the end of the 2012 Kyoto compliance period. Most of this will come from China, Brazil and India. If they are not included in the solution, any efforts by the developed world could be eclipsed and become futile.

Bush's second main concern is that compliance is too expensive and would damage the American economy. On this economic issue he is much less solidly grounded.

Economic models vary widely, predicting a range of either boosting or dragging the gross domestic product by nearly 2 percent, roughly equal to the \$150 billion per year that America already spends on all environmental regulatory programs. The difference between such positive and negative outcomes depends principally on how markets respond. Here, again, is where Bush has weak footing. Companies need a clear picture of future markets to make capital investment decisions, and the Bush Administration has obstructed this.

Does the administration believe that if they withdraw from the political debate the issue will go away? Scientific evidence continues to mount against this notion. In a June 2001 report commissioned by the White House, the National Academy of Sciences reaffirmed that the earth's atmosphere was growing warmer primarily because of human-created greenhouse gases.

Although the Kyoto Treaty is not viewed as the optimal instrument for addressing this issue, a treaty designed without America's business interests at the table is even more unfavorable because of its uncertainty. The objective should be to change it, improve it and stall it if we must. But, do not withdraw.

Critical issues of economic importance to U.S. business need to be resolved. How will emission-trading rules be established? How will carbon sinks, like forests and oceans, be treated? Will there be enough flexibility in the treaty to allow businesses to shift to cleaner technologies at a pace that is economically and technologically appropriate?

The Kyoto Treaty must have a long-term focus that deals with the behavior of both national and international marketplaces. It must realize the opportunities in both

Please see **KYOTO**, Page 41

Kyoto: Good business sense

Continued from Page 38

developing new technologies and extracting the most value out of existing technologies and resources. Corporations invest over \$700 billion per year in new plants and equipment. The profitability of those investments based on a projected lifespan where premature retirement of that capital stock is a recipe for economic disaster. Forcing technologies to become obsolete before their time threatens corporate viability in terms of both manufacturing and technology development.

But, companies cannot make adequate assessments of future technology opportunities without any clear sense of the certainty in that market. The Bush administration's decision to stand on the sidelines has only further clouded this picture for American businesses.

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