The Extractive Industries and Society xxx (xxxx) xxx–xxx

Contents lists available at ScienceDirect

The Extractive Industries and Society

journal homepage: www.elsevier.com/locate/exis

Original article

Business responsibility regarding climate change in Latin America: An empirical analysis from Clean Development Mechanism (CDM) project developers

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ARTICLE INFO

Keywords:
Climate change
Business response
Corporate Social Responsibility (CSR)
Latin America
Clean Development Mechanism (CDM)
Paris Agreement
Likert scale

ABSTRACT

From a business perspective, climate change mitigation offers certain opportunities that drive the market for new business, and presents an opportunity to engage in Corporate Social Responsibility (CSR). In this study, we examine the motivation for companies in Latin America to implement Clean Development Mechanism (CDM) projects, whether CDM encourages the adoption of CSR practices, and the benefits companies gain from adopting such practices. The data are taken from a survey of project developer companies in Brazil, Mexico and Peru. The results show that government influence and/or incentives have been very low. The benefits of participating in such projects include being viewed as industry leaders in the country and improving corporate reputation.

1. Introduction

Since climate change was first identified as an international political issue at the United Nations Conference on Environment and Development, 1992, policies have evolved to address global environmental problems (Lazaro and Gremaud, 2017; Munasinghe and Swart, 2005). The Kyoto Protocol, which was adopted in 1997 during the Third Conference of the Parties (COP 3) in Kyoto, Japan, came into force in February 2005; its first commitment period was 2008 to 2012. At the end of 2012, during COP 18 in Doha, Qatar, the "Doha Amendment to the Kyoto Protocol" was adopted, memorializing agreement on a second commitment period, from January 2013 to December 2020 (UNFCCC, 2017a). A new post-2020 agreement, the so-called "Paris Agreement," was reached in 2015, during the COP 21 in Paris, France. It entered into force on November 4, 2016.

The need to mitigate climate change by simultaneously achieving emissions reductions and economic growth poses challenges to businesses and governments (Okereke et al., 2012). This fueled the establishment of the market-based mechanism as a possible solution, which has often been portrayed, politically, as a success story (Calel, 2013). In particular, the Kyoto Protocol's Clean Development Mechanism (CDM) was established with dual objectives: to help industrialized countries meet their greenhouse gas (GHG) reduction commitments and to promote sustainable development by implementing emissions reduction projects in developing countries.

Growing public awareness of climate change is founded on the belief that actions and policies should focus on achieving sustainable development (Benites-Lazaro et al., 2017; Benites-Lazaro and Mello-Théry, 2017). As a result, climate change has been embraced as a matter of Corporate Social Responsibility (CSR) (Newell and Paterson, 2010) and as a central business response to the need to promote sustainable development (Benites and Polo, 2013; Hahn, 2011) through CSR activities (Benites-Lazaro et al., 2017; Benites-Lazaro and Mello-Théry, 2017).

Many researchers have identified companies in the resource extraction sector as being at the forefront of CSR (Hilson, 2012; Ranängen and Zobel, 2014; Slack, 2012). Many of these studies advocate that investment in this sector can play a key role in reducing poverty and that the economic benefits of doing so typically outweigh any negative social or environmental aspects (Sagebien et al., 2008). However, in practice, CSR initiatives in this sector are often criticized as being philanthropic gestures, rather than carefully thought-out sustainable projects; many view them as more of a "burden than a blessing" (Emeseh, 2009; Ranängen and Zobel, 2014).

In Latin America, CSR is often seen as a "magical realism" because companies' commitments in this area can be very difficult to believe,

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https://doi.org/10.1016/j.exis.2018.02.011
Received 28 December 2017; Received in revised form 27 February 2018; Accepted 27 February 2018

and therefore fall between reality and fantasy (Benites-Lazaro et al., 2017; Benites-Lazaro and Mello-Théry, 2017; Klein, 2013). Throughout the region, there have been numerous corporate scandals linked to human rights violations, environmental contamination, corruption, and violation of government regulation. Furthermore, studies indicate that, with the exception of a small number of companies in Latin America, CSR is presented at a discursive level, without massive implementation or transformation of business management (Lázaro and Gremaud, 2016; Peinado-Vara, 2006).

Latin America provides an ideal setting to explore how business is responding to climate change; the economic activity of the region relies heavily on resource extraction and consumes high levels of energy. This dependence has led to greater specialization in the export of primary commodities, which has resulted in increased carbon emissions, deforestation, biodiversity loss, land use changes, and the degradation of ecosystem services (De la Torre et al., 2016; Fehlenberg et al., 2017; Gruss, 2014).

Under the Kyoto Protocol, Latin American countries did not have binding targets to reduce GHG emissions. However, this situation changed following implementation of the Paris Agreement, which was ratified by almost all represented countries, forcing them to present their national targets through their Nationally Determined Contributions (NDCs), which demonstrate their intent to contribute to reducing GHG emissions.

In particular, Article 6 of the Paris Agreement establishes mechanisms that contribute to the mitigation of GHG emissions and support sustainable development (UNFCCC, 2015). Thus, lessons learned from the CDM and business responses are important for future climate commitment. The business sector has been recognized as a major player in addressing climate change; its actions have been essential in shaping effective policy responses and appropriate mitigation measures to avoid GHG emissions (Halkos and Skouloudis, 2016; Jones and Levy, 2007).

This study examines the motivation for companies in Latin America to implement CDM projects, whether CDM projects encourage the adoption of CSR practices and highlights the benefits gained by companies which have adopted such activities. For this purpose, a questionnaire survey was administered at companies that develop CDM projects in Brazil, Mexico, and Peru. Brazil leads the carbon market in the region, followed by Mexico. Peru was chosen because it is one of the countries that has established institutions with relatively simple procedures in place for implementing CDM projects.

The remainder of this paper proceeds as follows. Section 2 presents a review of the literature on business responses to climate change as part of CSR and on CSR in Latin America. Section 3 describes the data and methods used in this study. In Section 4 we present the results. Section 5 discusses the results, and Section 5 presents concluding remarks.

2. Literature review

2.1. CSR and climate change

In the early 1990s, a proactive business response to climate change was quite unusual (Pinkse and Kolk, 2009). However, since the adoption of the Kyoto Protocol (Kolk and Pinkse, 2004), there has been a change from skepticism and a lack of attention to a significant number of initiatives in favor of the environment and climate change specifically. In addition, there have been stronger institutional pressures and increasing regulation, mainly from developed countries, a case in point being work carried out through the European Climate Change Program (Cadez and Czerny, 2016; Ihlen, 2009; Pinkse and Kolk, 2009).

One dimension of CSR is the issue of climate change and the responsibility of companies to address it by reducing GHG emissions (Moon and Vogel, 2008). In business discourse, climate change is presented as an opportunity for profit, rather than as a threat (Benites-Lazaro et al., 2017). This opportunity emerged primarily as a result of the Kyoto Protocol (Kolk and Pinkse, 2004), which introduced three market-based mechanisms (CDM, joint implementation, and emissions trading), thereby creating the so-called “carbon market”. In particular, CDM projects were considered more as an incentive structure and less as a coercive set of rules to encourage a different group of actors to make an effort toward addressing the dual stipulated objectives of promoting sustainable development and reducing GHG emissions (Martinez and Bowen, 2013).

There are several examples of initiatives and programs being adopted by companies in response to climate change that show how important the issue is for such companies and what their essential role is in formulating strategies capable of accommodating the business risks and opportunities posed by climate change (Amran et al., 2016; Pulver and Benney, 2013). Such risks can be physical, regulatory, market-related or reputation-related (Hoffman, 2005; KPMG, 2008). Business opportunities include revenue generation and the creation of new markets to profit from carbon offset trading and investing in clean technology; anticipating and influencing climate change regulations; improving the company’s reputation; and serving as a tool for CSR (Bulkeley and Newell, 2015; Newell and Paterson, 2010; Pulver and Benney, 2013; Vogel, 2008).

Several studies have sough to explain the motivations for companies to implement climate change mitigation activities. From an economic point of view, economists have attempted to place the analysis of climate change mitigation in the context of cost-benefit analyses (Nordhaus, 2007; Stern, 2007). Here, external costs are internalized in an effort to create a competitive advantage through various policy instruments, resulting in a price that also reflects environmental impacts (Cerin and Karlson, 2002). This is a win–win situation; it not only protects the environment, but it also increases the profits and competitiveness of companies through improved products or production processes (Porter and van der Linda, 1995; Savitz and Weber, 2006; Stefan and Paul, 2008).

From a political economy perspective, climate change is presented both as a global crisis that threatens to disrupt economic progress and as an opportunity to stimulate the dominant mode of capitalist development (Bumpus and Liverman, 2008; Clapp and Dauvergne, 2005; Levy and Egan, 2003; Newell and Paterson, 2010). In the latter case, capital is transformed from specific instances of environmental degradation into opportunities for profit. These opportunities are based on financial compensation for investments aimed at reducing GHG emissions, positioning companies at the forefront of solving global environmental problems, contributing to the mitigation of climate change, improving sustainable development within society, and saving companies money (Bulkeley and Newell, 2015; Levy and Spicer, 2013).

From the perspective of critical social theory, companies’ climate change mitigation activities comprise a means of avoiding social pressures, marginalizing radical activists, reducing the threat of regulation, and positioning the companies as moral agent (Jones and Levy, 2007; Levy and Kaplan, 2008; Levy and Kolk, 2002). As such, CSR is seen as a discursive answer that seeks a “social license to operate” or “social legitimacy” by taking into account the demands and expectations of businesses that emerge from their stakeholders (Panwar et al., 2014; Scherer et al., 2013; Suchman, 1995).

Over the past decade, governments and companies have implemented policies and measures in a bid to reduce GHG emissions. In particular, some businesses have voluntarily engaged in initiatives such as emissions trading, setting GHG emission-reduction targets, adopting self-regulatory practices, and developing new technology and product innovations (Amran et al., 2016; Jones and Phillips, 2016). However, studies show that business responses to climate change are still in the early stages, and relatively few companies have been able to integrate the issue of climate change fully into their business strategies (Amran et al., 2016; Jones and Levy, 2007; KPMG, 2008; McKinsey, 2008).