Climate policies and firms' value

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Winners and losers from climate policies

What are the effects of climate policies on firms' values?

Carbon bubble: Climate policies lead to a collapse in (fossil-fuel based) firms valuation, possibly leading to a global recessions

Win-win hypothesis: Climate policies encourage technologies that enhance business performance

$\Rightarrow$ Reality falls in between these two extremes, some firms benefit, some lose
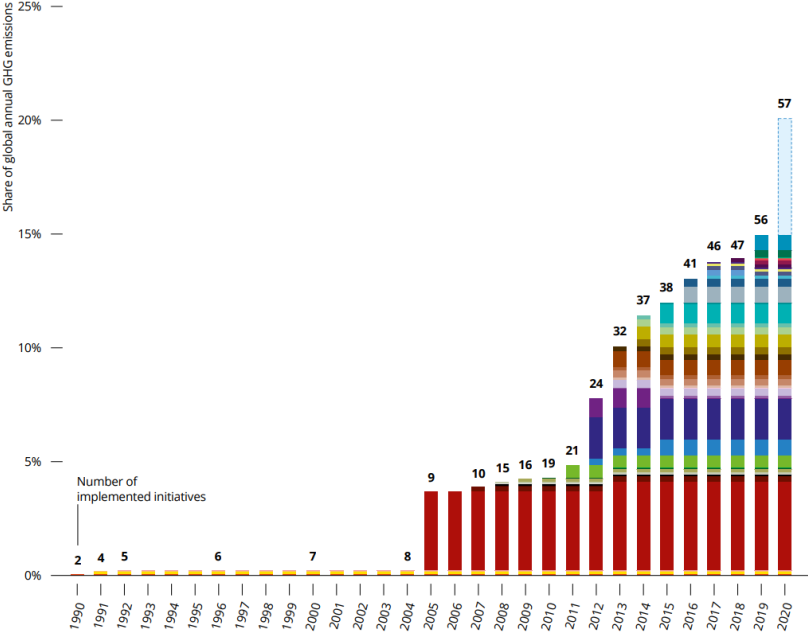
Winners and losers from climate policies

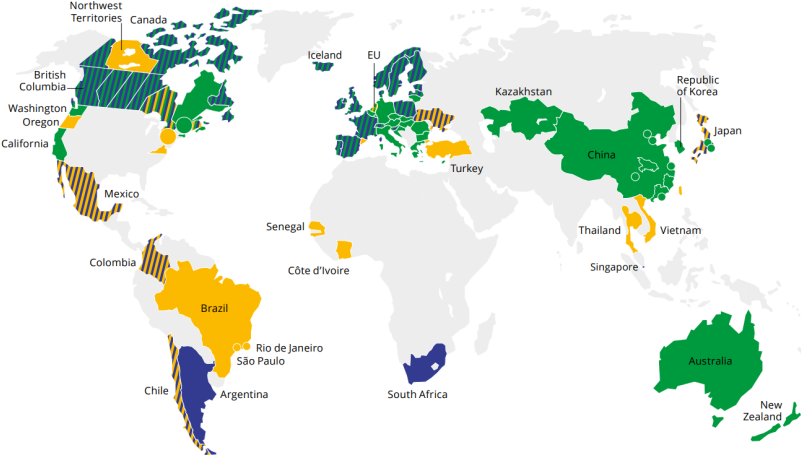**Illustration:** Effect of the Paris Agreement
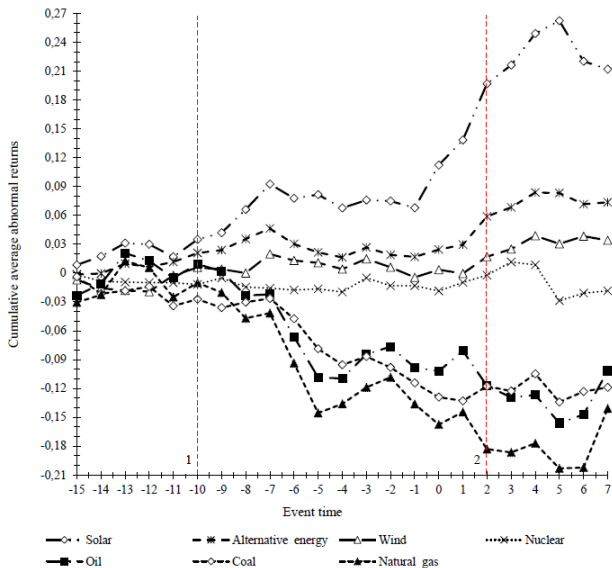
Source: Mukanjari (2019)
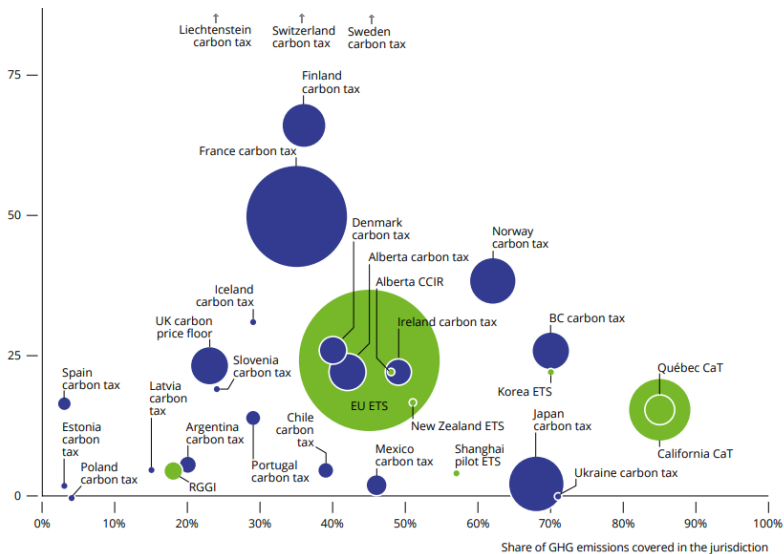
Global climate policy rollout
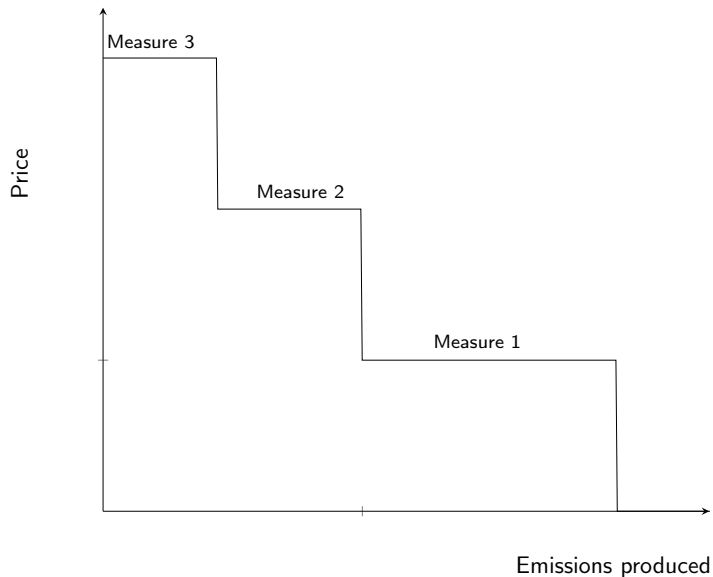
Global climate policy rollout

Source: World Bank (2019)

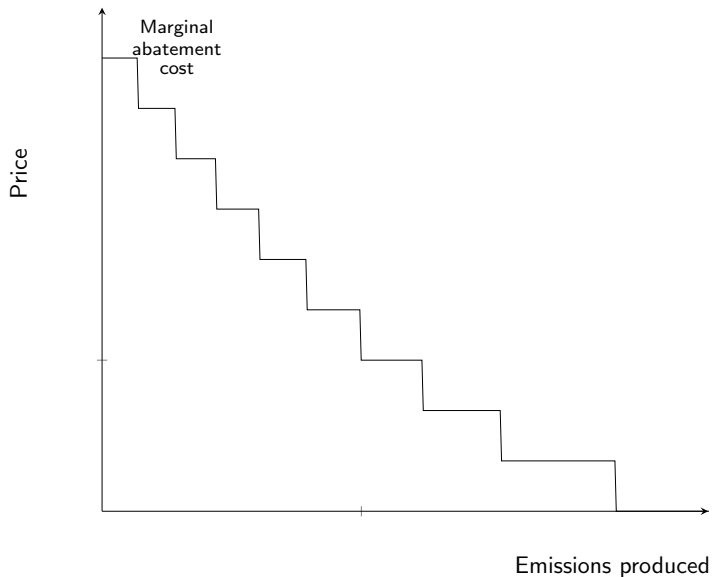# Global climate policy rollout

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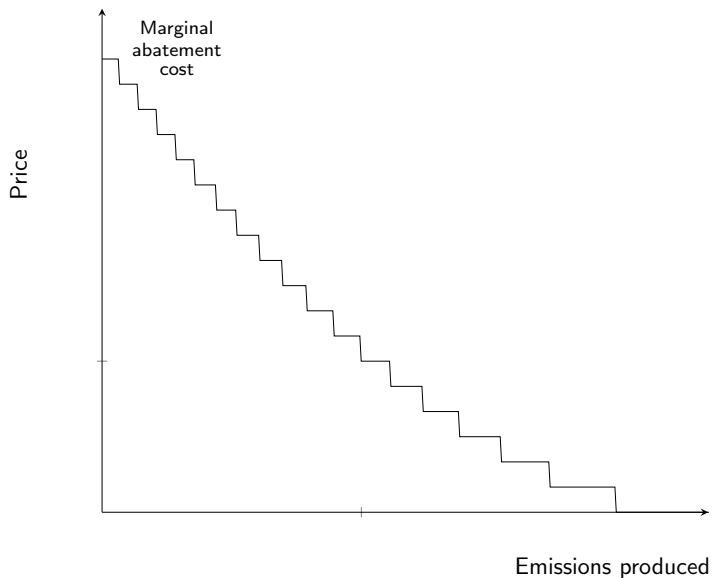
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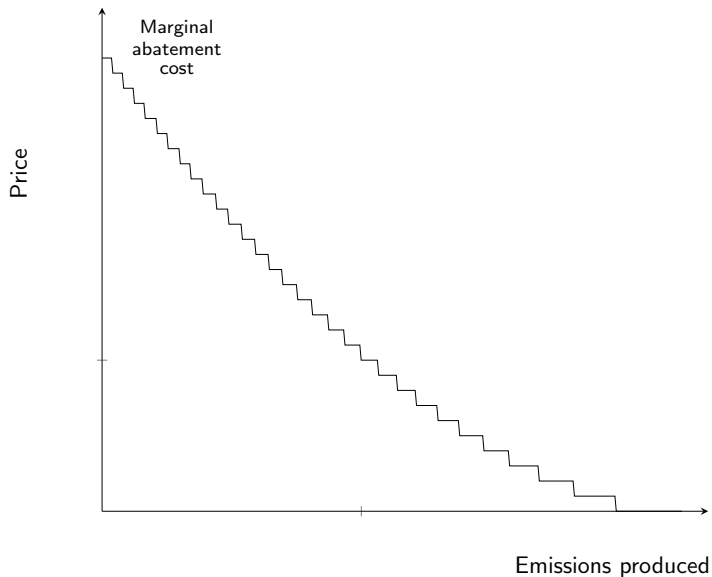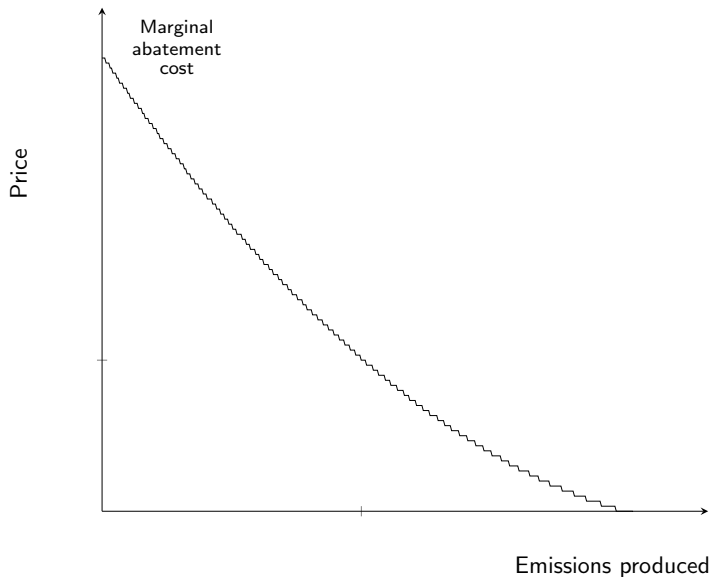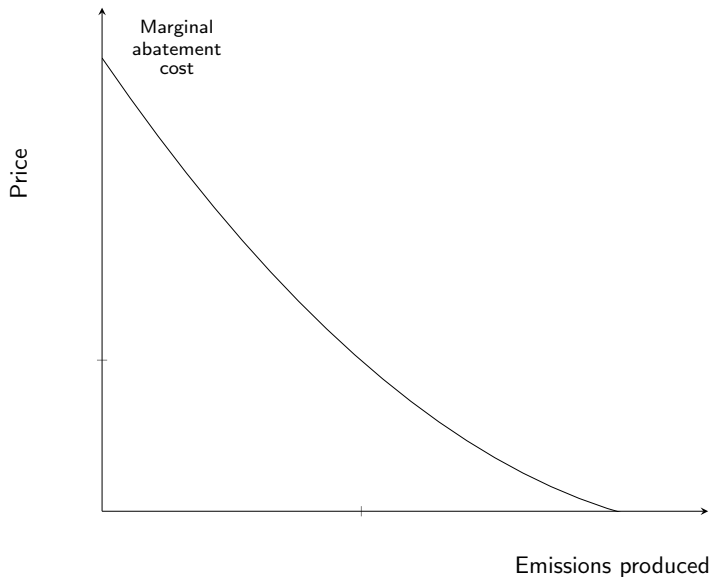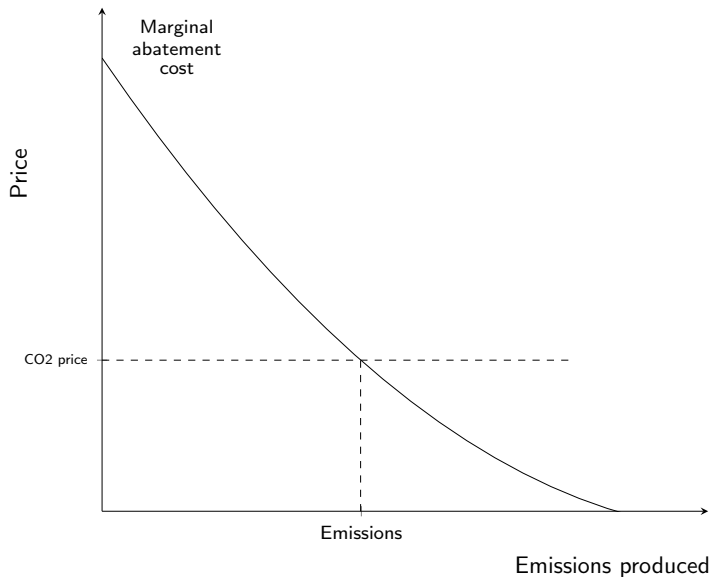
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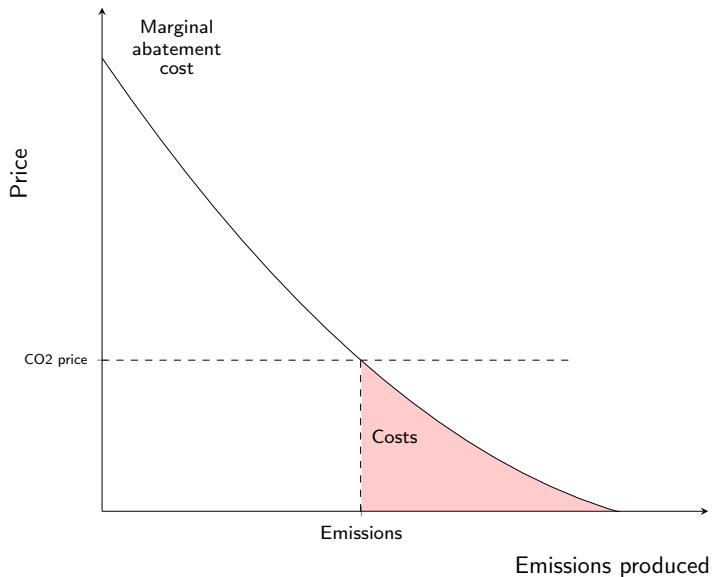
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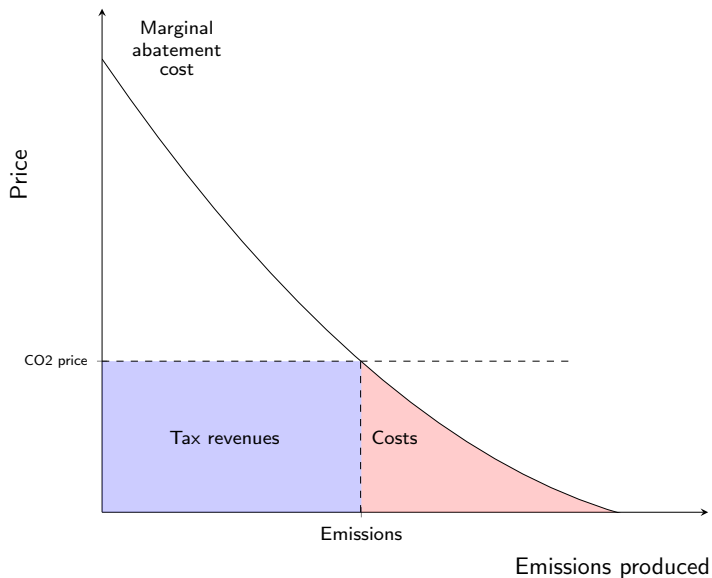
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What do we do with the tax revenues?

Tax revenues

Winners and losers from climate policies

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   ⇒ Reduce taxes elsewhere

Public

Tax revenues

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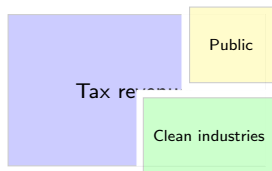
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What do we do with the tax revenues?

1. Keep the public funds
   - $\Rightarrow$ Reduce taxes elsewhere
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   - $\Rightarrow$ Benefits to innovating firms
3. Pay as rebates to people
   - $\Rightarrow$ Buy political acceptability

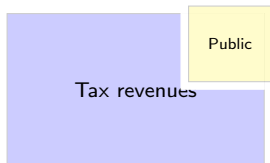# Winners and losers from climate policies
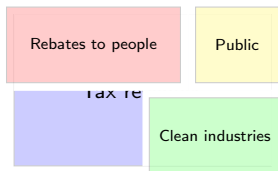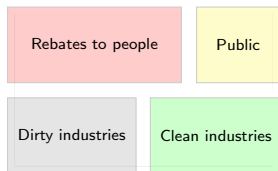
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4. Pay to polluting industries
   ⇒ Prevent industry relocation

Winners and losers from climate policies

Example 1: EU Emissions Trading Scheme

Source: Thomson Reuters
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| Dirty industries (43 %) | Public (7 %) |
| Clean industries (50 %) | |

1. 43 % free permit allocation for industries in trade-intensive and carbon-intensive sectors (cement, steel, pulp)

2. Of auction revenues,

   ...88 % in renewables, green R&D, etc.

   ... 8 % not used for climate actions

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Example 2: Canadian federal carbon pricing

| Rebates to people (46 %) | Public (4 %) |
| Dirty industries (49 %) | |
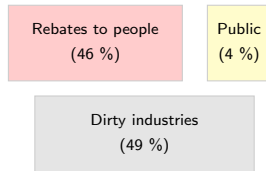
1. 49 % Output-based pricing system for large industries, pay if above a benchmark, receive money if below
2. 51 % Federal fuel charge of ($50 in 2022), of with
   ...90% paid back as rebates
   ...10% collected by the governments

Effects of carbon pricing per household (2.6 people)

	Ontario	Manitoba	New Brunswick	Saskatchewan
Average cost	$564	$470	$547	$956
Rebate	$697	$583	$797	$1419
Difference	$133	$113	$250	$473

Source: CBC News

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Climate policies create **real economic costs** that someone needs to pay – unlikely that win-win solutions are possible
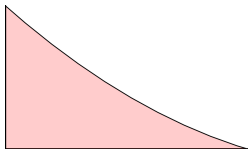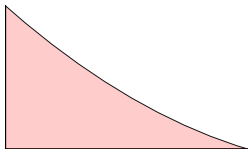
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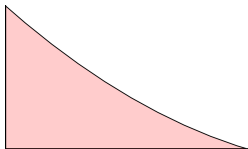

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