

Discussion of

“The impact of climate transition policies on Belgian firms. What can we learn from a survey?”



Raïsa Basselier, Nabil Bouamara, Geert Langenus, Gert Peersman and Peter Reusens

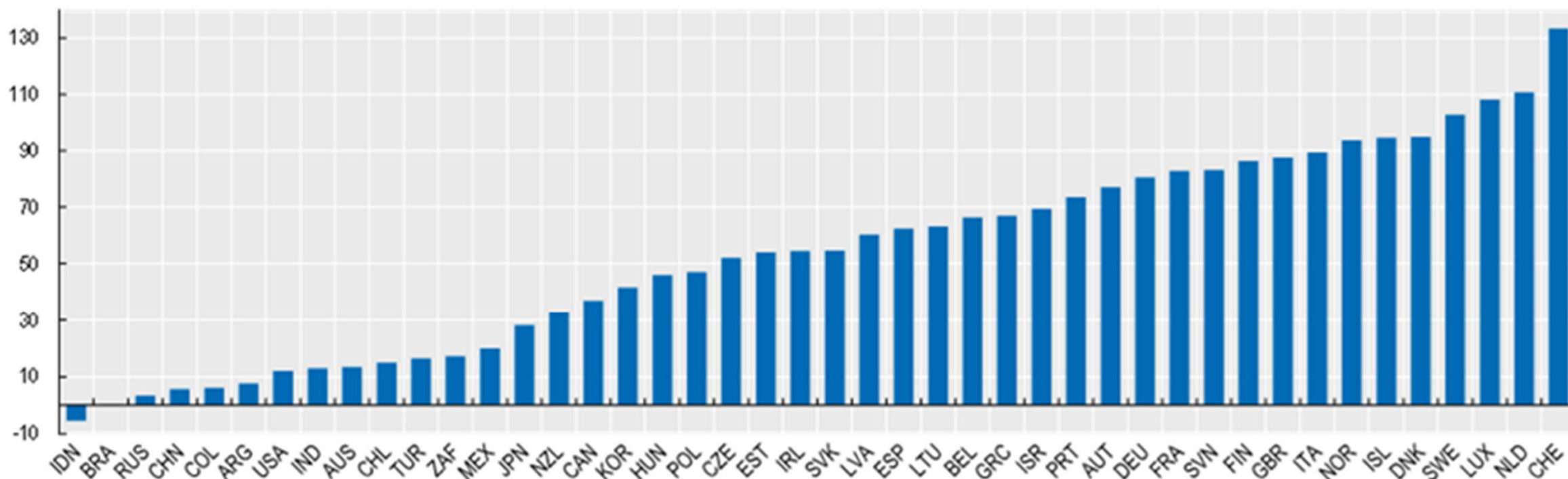
Antoine Dechezleprêtre, OECD

National Bank of Belgium, 4 June 2023



Background: Strongly diverging climate policies, eg carbon pricing

EUR/tonne CO2



Source: OECD Effective Carbon Rates (OECD, 2021).

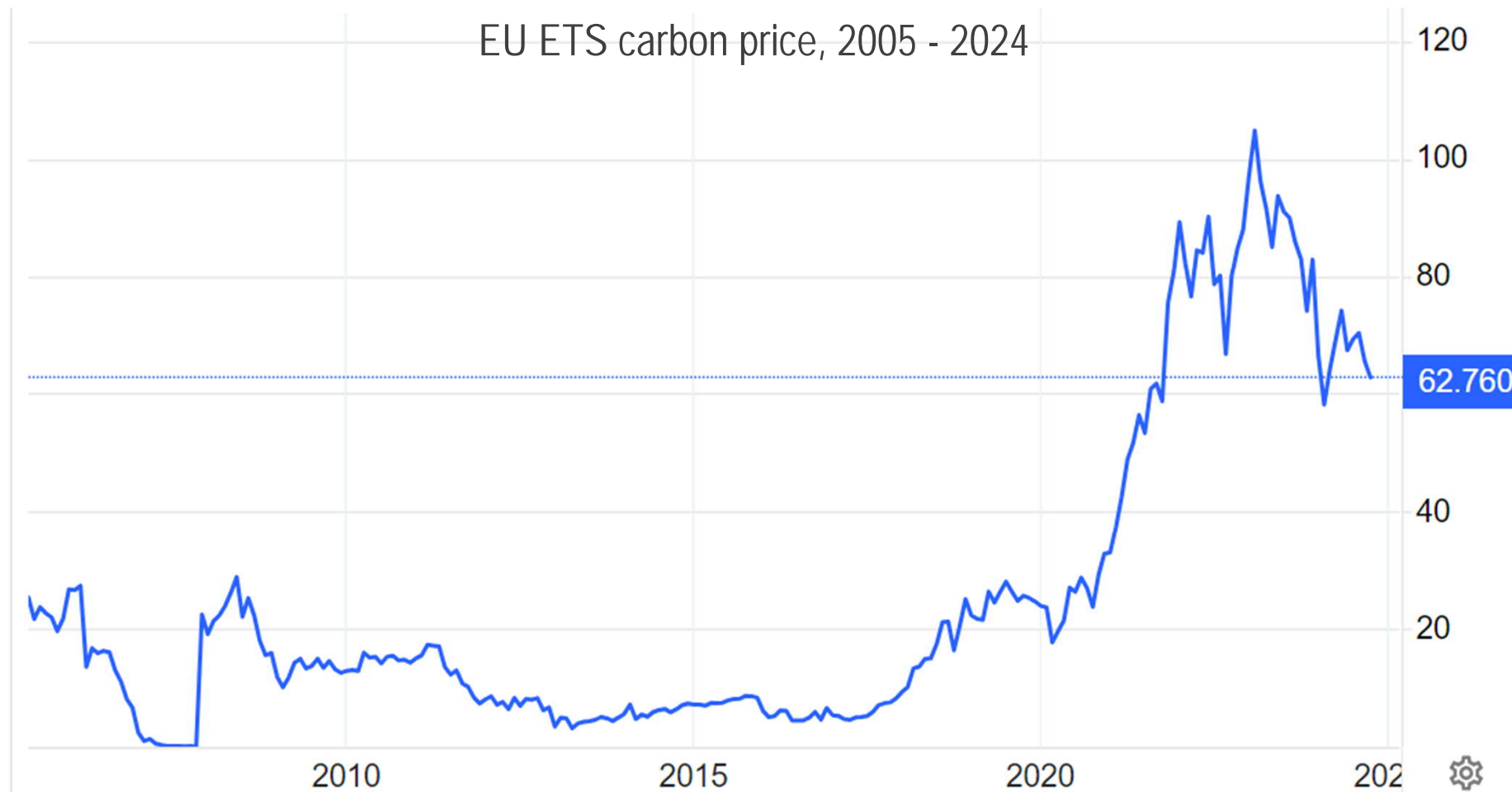


Looking for leaks and competitiveness impacts

- Recent surveys: Dechezleprêtre and Sato (2017), Ellis et al. (2019), Verde (2020), Fontagné and Schubert (2023)
- “Treatment”: differences in energy prices, carbon prices, policy stringency index (EPS)...
- Outcomes: imports, net imports, FDI, embodied emissions
- Small effects when statistically significant
 - Cost increase due to environmental policy negligible when compared with other determinants of trade and firms’ location choices (labor cost and quality of labor, transport costs, proximity to demand, agglomeration, etc)
- But evidence for some “investment leakage”
 - Koch Koch & Basse Mama, 2019 (Energy Economics): EU ETS increases non-EU affiliates of German multinational firms
 - Borghesi, Franco & Marin, 2020 (SJE): EU ETS weakly increased number of new subsidiaries abroad of Italian manufacturing firms, and increase production in foreign subsidiaries
 - Saussay & Sato (2023): a 10% increase in the energy price differential between two countries augments cross-border acquisitions by 3.2%.
- And weak climate policy to date: are studies using historical data meaningful?



Climate policy is becoming more stringent in EU



Source: <https://tradingeconomics.com/commodity/carbon>



- What impact do Belgian firms...
 - ...Perceive from recent climate policy?
 - ...Expect from future increased climate policy stringency?
- Data and method
 - Survey – 300 respondents, including 30 EU ETS firms
 - Questions on recent and expected future impacts of EU climate policy
 - Information provision experiment (projected future carbon prices from Bloomberg)
 - Scenario analysis – 250 EUR/ton price in 2030
- Added value
 - Elicit future expected carbon price – typically unobserved but key variable of interest
 - Assess how firms' perceptions and anticipated reactions (investment decisions) correlate with firms' characteristics – key for design of “flanking policies” and political economy
 - Complementary to ex-post analysis and CGE (too aggregated)



- A big self-selection problem, acknowledged by the authors
 - Large dropout rate, but much lower for ETS firms
- Sample composition
 - Check differences of final sample with dropouts' characteristics
 - Comparison with all firms contacted and with BEL firm population
 - Comparison of ETS firms with rest of ETS in BEL and EU
 - Eg 8 ETS firms (out of 30) in transport, construction and agriculture
 - Non-EU ETS firms: what climate regulations do they face?



- Self-reported data
- Some strange responses
 - $\frac{3}{4}$ of firms say climate policy has had an impact on input costs. But $\frac{2}{3}$ of firms (including 4 ETS firms) put ETS price outside the 25-125 EUR range. Who completed the survey?
 - 65% of services firms report increases in input costs from climate policy: in which sectors do they operate? Is this credible?
- Check internal consistency of responses
 - Does reported carbon price correlate with perceived input cost increase?



Cross-checking validity with external sources

- 30 firms in ETS: match with ETS registry – including data on free allowances and emissions. Does this correlate with perceived climate policy cost?
- Input cost rises, sales prices, investment drop: check with Balance sheet information? Production survey?
- Half of manufacturing firms self-report being energy intensive: Possible to match with energy consumption survey?
- Large literature on pass-through rates (and VAT data from Mirabelle's paper): is this correlated with your proxy?



Scenario design

- Nothing is assumed about non-EU climate policy
 - And about the rest of the climate policy package (incl CBAM)
 - But everything depends on relative carbon prices – what happens in RoW
- Include this in next survey

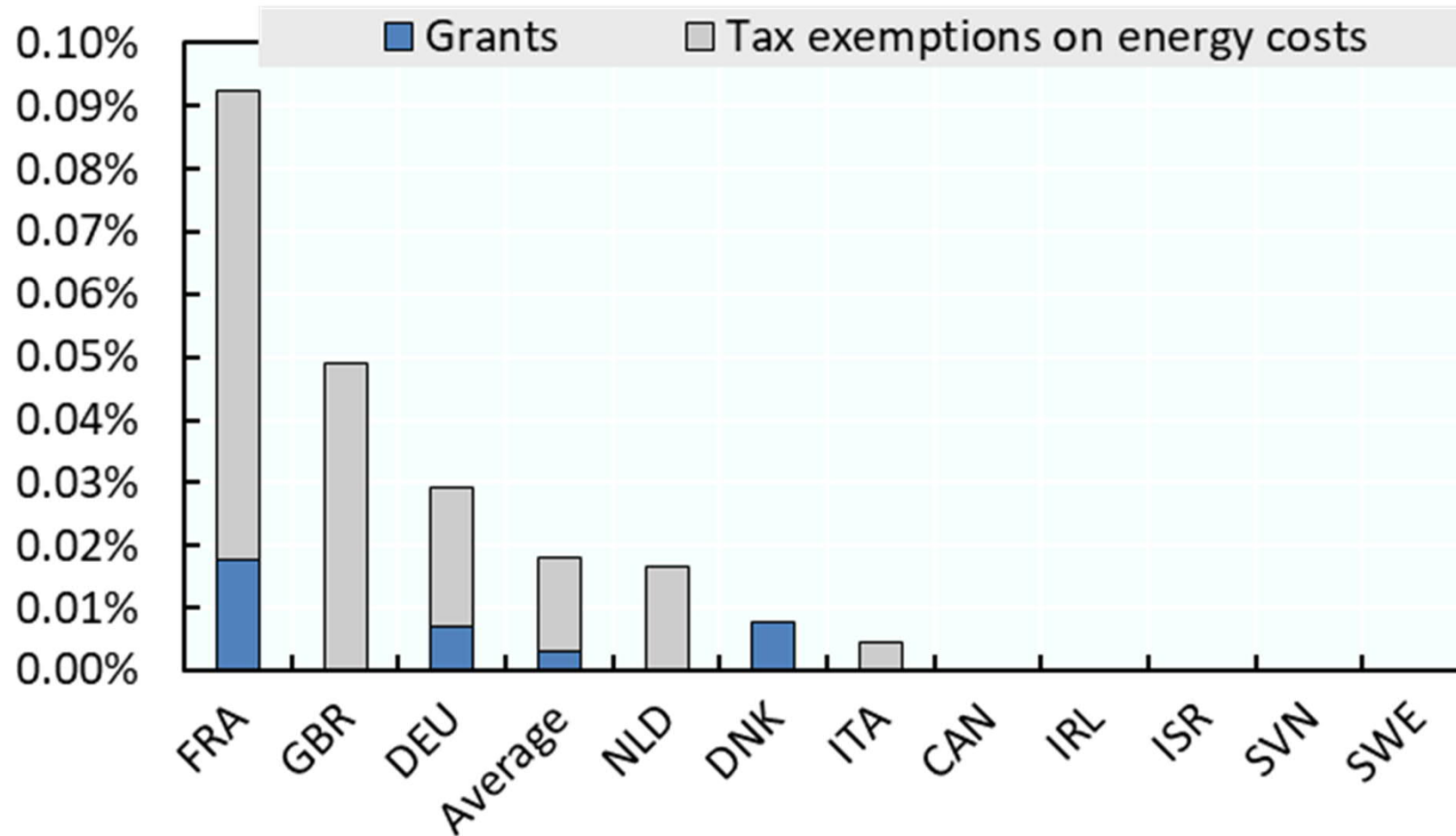


- Main finding is not surprising: firms complain about past and future climate policy costs (despite not knowing much about climate policy) and they are not stupid (predict a EUR 250/t carbon price would impact input costs and demand)
- Conclusion: “The challenge for policymakers is to strike the appropriate balance between the environmental objectives and the financial resilience of firms and the growth potential of the economy”
 - Sure, but speed of transition is not the only parameter
 - Visibility over future path is key for investment; adding to uncertainty not helpful
 - Key question for policy is how to help firms make the transition
- Questions on barriers are very interesting and could be exploited further
 - Policy uncertainty; Support to investment
 - How do these barriers vary according to firms’ characteristics?
 - Add questions on barriers & policies in the scenarios in next survey wave



Gov't support to energy intensive industries is mostly tax exemptions on energy costs

Direct business support targeted to energy-intensive industries, % of GDP, average 2019-2021

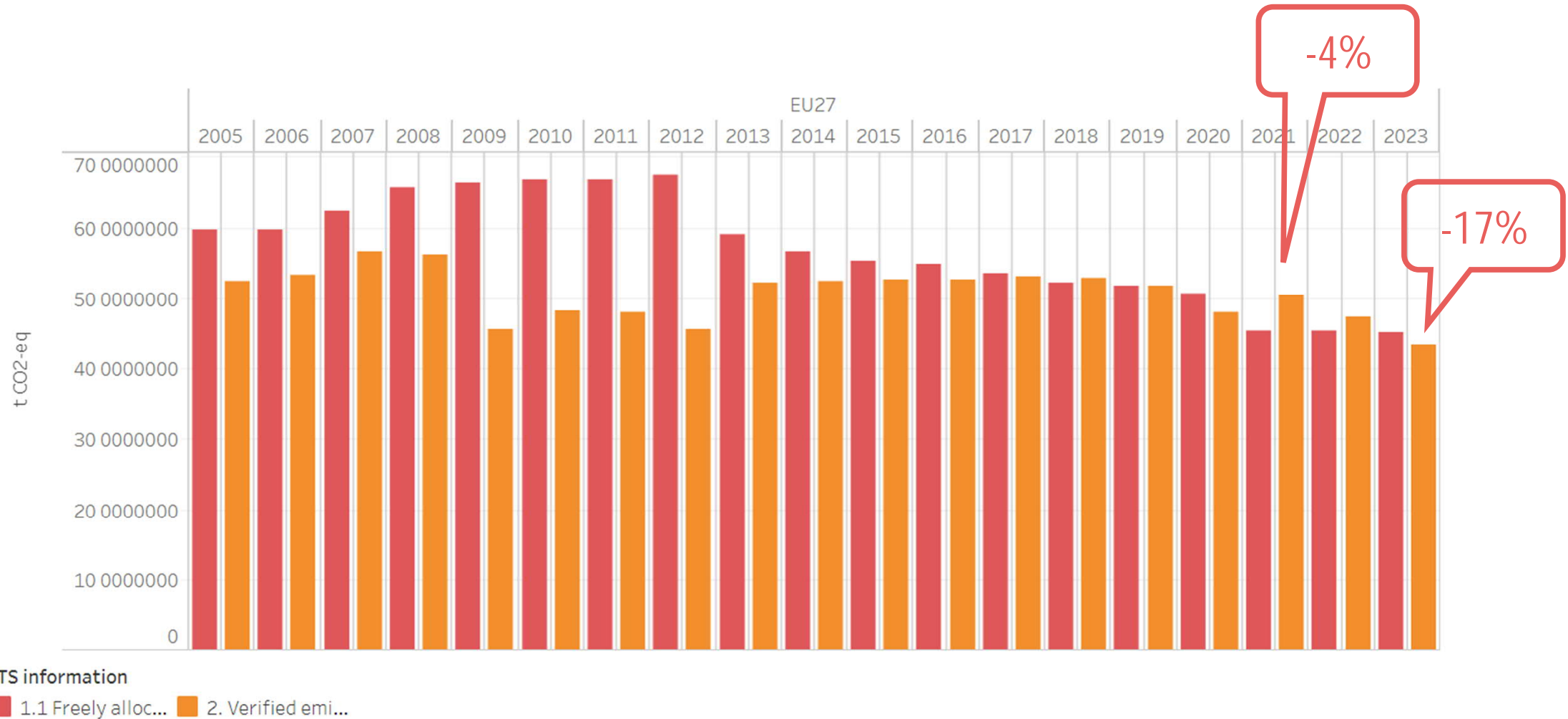


Source: OECD Quantifying Industrial Strategies (QuIS) database. oe.cd/quis



And manufacturing industry has received massive free allowances so far

EU ETS emissions and free allowances in industrial installations



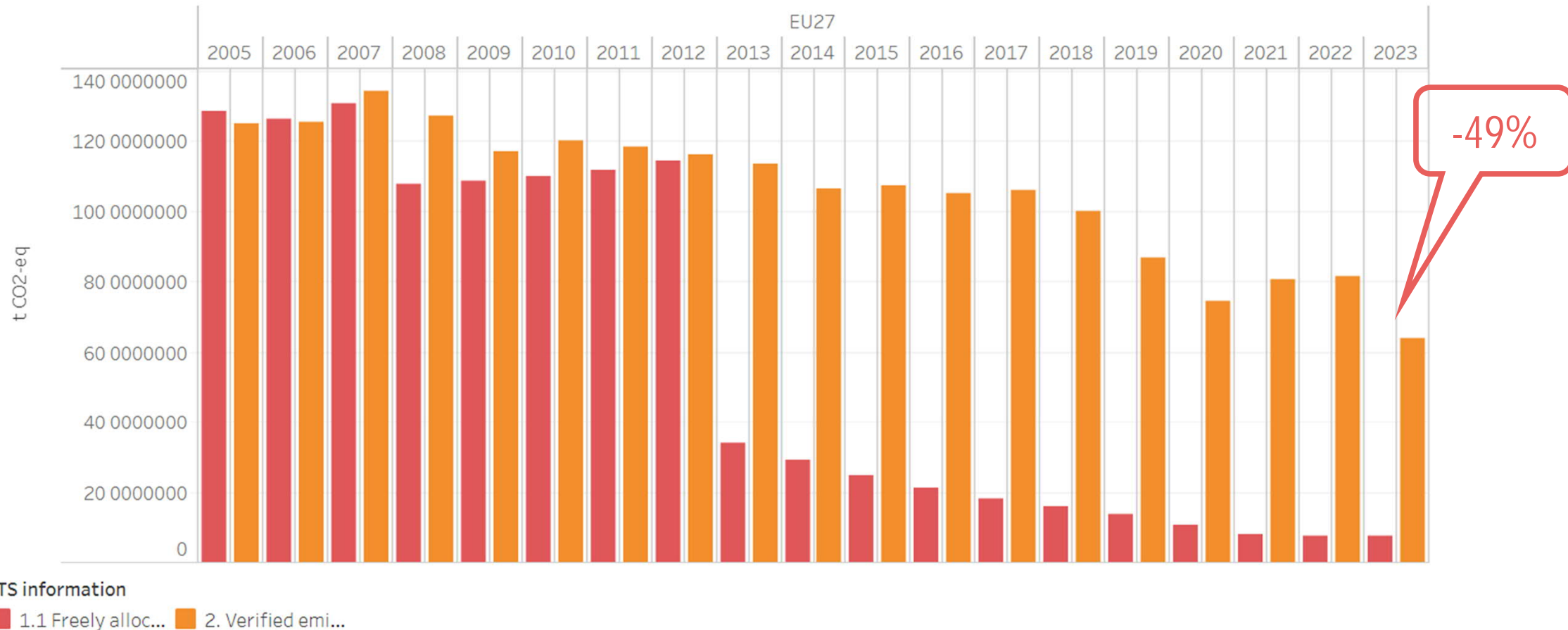
Source: European Environment Agency's EU ETS Data viewer

Restricted Use - À usage restreint



...compared with electricity production sector

EU ETS emissions and free allowances in "Combustion of fuels" (incl. electricity production)



Source: European Environment Agency's EU ETS Data viewer

Restricted Use - À usage restreint



Thank you

Antoine.Dechezlepretre@oecd.org