

THE IMPACT OF CLIMATE POLICIES ON FINANCIAL MARKETS: EVIDENCE FROM THE EU CARBON BORDER ADJUSTMENT MECHANISM

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SUMMARY

Introduction of EU CBAM has triggered statistically significant negative stock market responses

Event study around key legislative event date Dec 13, 2022

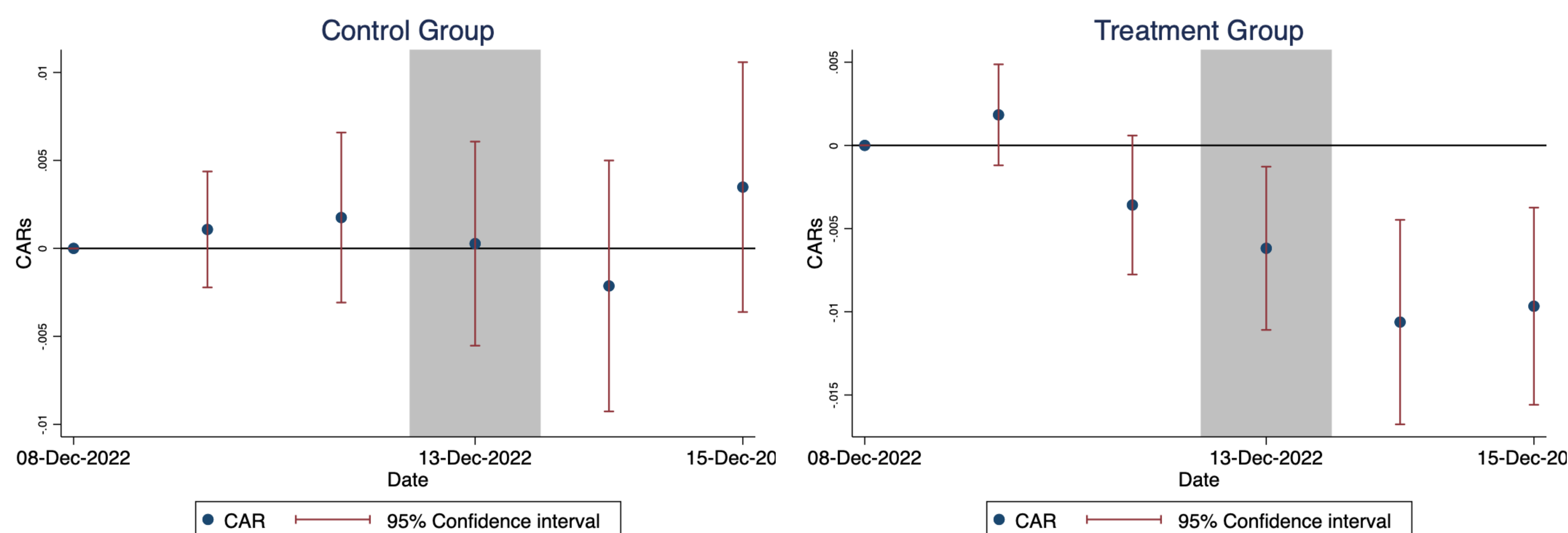
- **-1.3 percentage points** lower cumulative abnormal return for CBAM-treated customer firms within EU
- Substantial anticipatory market responses → updated beliefs about broader climate policy developments

Contributions

- First empirical evidence of carbon border tax impacts on firm valuations through **international supply chains**
- Complements developing literature about effect of carbon pricing on firm's financial performance

TOTAL TREATMENT EFFECT

	Control group	Treatment group	Difference
Mean CAR	0.0035	-0.0097***	-0.0131***
SE	(0.0036)	(0.0030)	
p-value			(0.0036)
# Obs	117	209	



MERGED DATASETS

- FactSet Revere Supply Chains
- Compustat+Worldscope+Datastream
- Official Journal of the EU (L 130)
- Goods-industries link table (P. Schott)

EVENT STUDY DESIGN

- Treatment group: EU customers with more non-EU suppliers in CBAM industries
- Control group: EU customers with EU suppliers and in non-CBAM industries
- CARs w.r.t. CAPM, FF 3 and FF 5 factors
- Variations of treatment/control groups
- Broad definition of supplier relations

FREE ALLOWANCES BELIEFS UPDATING EFFECT

	Control group	Only Industry Treatment group	Difference
Mean CAR	0.0035	-0.0069***	-0.0104*
SE	(0.0036)	(0.0025)	
p-value			(0.0088)
# Obs	117	217	

CBAM EXTENSION BELIEFS UPDATING EFFECT

	Control group	Only Location Treatment group	Difference
Mean CAR	0.0035	-0.0072	-0.0106*
SE	(0.0036)	(0.0045)	
p-value			(0.0982)
# Obs	117	362	

BACKGROUND INFORMATION ON EU CBAM

- **World's first carbon border tax**
- Addresses carbon leakage in EU Emissions Trading System (EU ETS) → level playing field
- Importers of specified goods need to pay import tax based on carbon footprint of the goods
- Effective as of 2026 (reporting requirements already as of 2023)
- Closely aligned with EU ETS (e.g. phasing out of free allowances under EU ETS)
- Part of the EU's "Fit for 55" package → Challenge to disentangle effects of different policies
- EU legislative process started in 2021, breakthrough in negotiations on Dec 13, 2022

FURTHER DETAILS

