



DISCUSSION OF “CARBON PRICES AND
REFORESTATION IN TROPICAL FORESTS”
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Climate change is the challenge of our times

- Most of the literature in finance and economics discusses the mechanisms through which we can give **incentives to companies to reduce emissions**
 - **Financial Markets and Investor Preferences**
 - **Investor engagements**
 - **Carbon taxes**

Financial Markets and investor preferences

- By spurning polluting companies, climate - conscious investors can increase firms' cost of capital → Decrease in investment of brown companies → Greener economy
- But
 - **The impact of impact investing is widely debated (Berk and van Binsbergen, 2021):**
 - *How easy is for brown companies to substitute investors?*
 - *How many climate-conscious investors are out there?*
- Evidence that polluting companies have higher cost of capital is at best mixed (Bolton and Kacperczyk, 2021; Aswani, Raghunandan, Rajgopal, 2024)

Frictions in financial markets

- **How many investors are actually climate-conscious?**
 - Investors could consider sustainability and environmental ratings as a sign of future performance
 - Gantchev, Giannetti, and Li (2024) show that in a situation in which the trade off between sustainability and performance becomes evident, investors spurn funds with high environmental ratings
- **Greenwashing:** Investors have hard time in identifying brown companies
 - Banks that stress the sustainability of their lending policies in their annual reports make more brown loans (Giannetti, Jasova, Loumiot, and Mendicino, 2023)

Carbon taxes

- Martinsson, Sajtos, Stromberg, and Thormann (2024) estimate that a 1% increase in the marginal emissions cost share reduces carbon emissions per unit of sales by roughly 2% over a 3-year period.
- But there is **carbon leakage**: firms that are financially incapable of investing in reducing their direct emissions may choose to operate in regions where they face less regulatory pressure (Bartram, Hou, and Kim, 2022).

This paper

- How can we fund carbon capture?
 - Amazon Fund, financed primarily by the Norwegian and German governments
 - *Compensating population for the price of foregone agriculture*
- Transfers to Brazil of 25\$ per ton of CO2 emissions
- Is it really so cost efficient if we consider the price of foregone development?

Carbon offsetting and firm behavior

- Carbon offsetting has emerged as a tool that enables **firms** to **claim emission reductions achieved by other entities** as their own by purchasing and retiring carbon offset credits (Kim, Li, and Wu, 2024).
- Tool for often-scrutinized firms to achieve carbon-transition goals without incurring the large costs associated with reducing emissions directly
 - **Ecosystem of about 300,000 carbon offset projects**, such as those generating renewable energy, contributing to energy-efficient housing and appliances, and preserving forests and grassland.
 - Quality and ratings of offset projects are opaque...and greenwashing firms have incentives to choose cheap and low-quality offsetting projects
 - Concerns on the effectiveness of forestry offset projects (West et al, Science 2023)



Conclusions

- Carbon capture can complement emission reduction
- Well-designed carbon offset projects are important
 - Cost - benefit analysis
 - Transparency and governance of carbon offset projects