

Green Revenues, Profitability and Market Valuation: Evidence from a Global Firm Level Dataset

**Dr Misato Sato, Deputy Director of the ESRC Centre
for Climate Change Economics**

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3:00 pm to 4:30pm
ESI Conference Room
29 Heng Mui Keng Terrace
Block A, #10-01, Singapore 119620**

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Abstract

Substantial private investments in low carbon technologies and capital assets are necessary to meet climate change mitigation targets. This paper examines how diversifying production towards low carbon goods and services impacts firms' financial performance and market valuation. Using new, unique data on firms' revenues that are generated from the production of green goods and services, we are able to credibly measure shifts from non-green to green activities at the firm level. Our dataset is comprehensive, covering approximately 95% of global market capitalisation for the period 2008-2016. We find that firms with higher shares of revenue derived from green activities exhibit higher ability to earn income. This indicates that there are opportunities for firms in the green economy to charge higher markups through product differentiation. Yet, producing green goods and services seems to entail higher assets requirements, imposing a downward drag on firms' profitability. Nonetheless, we find evidence that investors value green diversification and reward companies on the stock market. These results suggest that public policies should address the high initial investment barrier, in order to mobilise large scale private investment in the green economy.

About the Speaker



Misato Sato is an environmental economist with particular interest in climate change and energy. She has published widely on these topics, and also works with governments, businesses and NGOs on topics of shared interest, such as carbon pricing, trade and green growth. Misato is based at the London School of Economics and Political Science (LSE) where she is Deputy Director of the ESRC Centre for Climate Change Economics and Policy, and Assistant Professorial Research Fellow in the Grantham Research Institute on Climate Change and the Environment, where she leads the Policy Design & Evaluation Programme. Her recent research explores the regulatory and institutional constraints to enabling low carbon transitions of energy intensive industries. She has extensively researched the European Union Emissions Trading System (EU ETS), evaluating its effectiveness and efficiency. She holds a PhD in Environmental Economics from the London LSE, an MSc in Environmental and Resource Economics from University College London, and an MA Joint Honours in Economics and Chinese from the University of Edinburgh.