Shareholders' coalition for climate solutions: Is there a case for competition policy?

Common Ownership and Green Investment

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Outline

- The climate issue and instruments
- The case of decarbonization collusion in the US and its consequences: antitrust threat to firms' climate collaboration
- The EU approach
- Can firm cooperation and common ownership facilitate green investment? Learning from Industrial Organization
- Policy implications

The climate issue and instruments (I)

- The required investment for the energy transition is very large and requires firms' cooperation.
- The market may provide too little investment (market failure) because of two externalities:
  - the environmental or climate externality and
  - the technological spillover externality in abatement efforts in adopting green technology.
- There are two basic instruments to deal with the two externalities:
  - carbon pricing (such as the EU's ETS carbon credits market) and
  - green subsidies.

The climate issue and instruments (II)

- In an ideal world, taxes on pollution and subsidies on R&D would be set to align private and social incentives, considering the environmental damages and the spillover. This would achieve optimal welfare in a competitive market (and the policy is time consistent).

Question: When the government's capacity to employ carbon taxes or subsidize green innovation is constrained or incomplete, can large firms and/or *cooperation* and *common ownership* play a role in accelerating the green transition?

- Potential obstacles:
  - Problems in committing to green investment to reduce carbon emissions.
    - The effect on overall emissions of companies (including those that do not commit) has been small (Bolton and Kacperczyk, 2024).
  - Antitrust threat to firms' climate collaborations.

Questions

Legal

- To what extent can firms cooperate to attain climate objectives without violating antitrust laws?

Economics

- What levels of firm cooperation should be allowed? What role can common ownership play?

ESG (Republican) backlash in the US

- Committee on the Judiciary of the US House of Representatives (June 2024): Interim Staff Report on Decabornization Collusion.
- Attorney Generals of Republican states (Texas, Alabama, Arkansas, Indiana, Iowa, Kansas, Missouri, Montana, Nebraska, West Virginia and Wyoming) file a lawsuit against BlackRock, State Street and Vanguard (November 27, 2024).
  - The “Big Three” owned (2021) 22% and had 25% of vote share of S&P 500.
  - They accuse them of using their holdings in the coal producers to constrict supplies and drive up prices in pursuit of net zero carbon emissions goals.

Consequences of the backlash

Shift in behaviour of asset managers

- In 2020 Larry Fink promised putting “sustainability at the centre of our investment approach”.
- BlackRock backed 7% of ESG proposals in companies’ annual meetings in 2023, down from 47% in 2021.
- Vanguard went from supporting 46% of environmental and social proposals in 2021 to 2% in 2023, 0% by Sept 1st, 2024.
- Big three offer investors a choice of how the funds vote (by end 2023).
- Big five (3 + JP Morgan and Fidelity) get out of Climate Action 100+ by early 2024.
- JPMorgan, Citigroup, Goldman Sachs, and 4 of Canada’s biggest lenders quit Net Zero Banking Alliance.

Scant antitrust cases

- Possible collusion of 4 automakers working with the California Air Resources Board to reduce emissions (DOJ, 2019, dropped)
- EC investigates in 2022 possible fashion sector cartel (from open letter circulated in 2020 by some fashion designers advocating for changes relating to environmental and social sustainability). Terminated on April 2024.

Antitrust guidance in the EU and UK

- Competition Commissioner Vestager (2022): “rules shouldn’t discourage companies from working together to make their products more sustainable”
- EC (June 2023): Horizontal Guidelines relax antitrust stance for companies to team up to solve climate problems
  - even if cooperation raises (moderately) prices, and
  - sustainability considerations may account as efficiencies
- CMA (UK, October 2023): Green Agreements Guidance allows most environmental sustainability agreements

Where may ESG antitrust concerns emerge?

(Wrobel and Akkus-Clemens, 2024)

- When refusing membership to another competitor.
- When sharing sensitive information.
- When the market is highly concentrated and participants have significant market power.
- If the ESG standard agreed upon acts as a barrier for lower-cost competitors.

Can cooperation/common ownership help green investment by internalizing externalities and influencing commitments to net zero?

A framework of analysis from Industrial Economics

Big Three successfully engage with firms in its portfolio to reduce emissions (Azar et al., 2021)

Suppose the climate externality is priced, and there are no R&D green subsidies

Question: Can cooperation in R&D for green innovation substitute for subsidies when carbon pricing is in place?

- R&D cooperation raises output, R&D, and social welfare when firms do not behave strategically and spillovers are positive.
- With strategic behavior, cooperation raises welfare only when spillovers are high (and industry profits are also higher).

Question: What if cooperation in R&D spills over to some cooperation in output (price)?

- With high spillovers, some product market collusion will tend to increase cooperative (strategic) R&D investments, but full product-market collusion is not socially optimal.

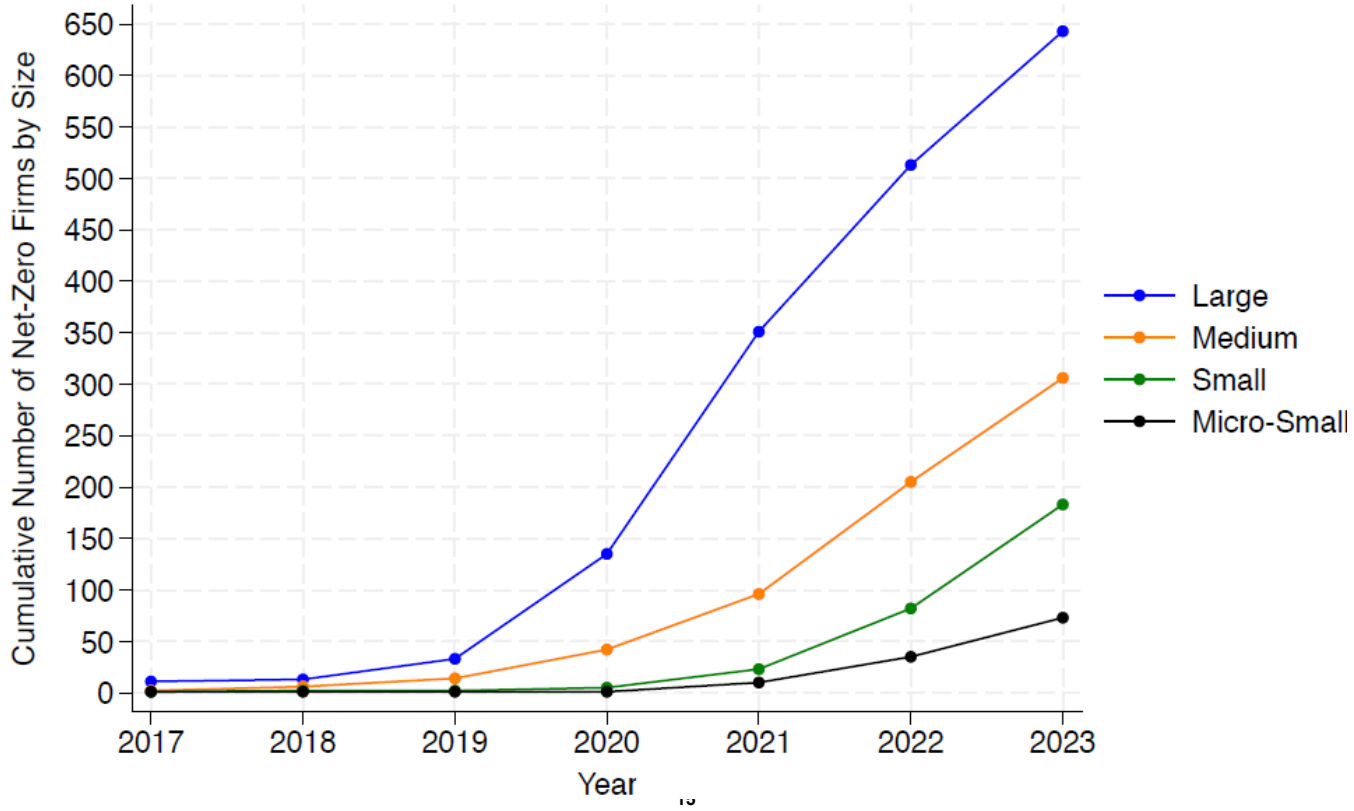
What is the impact of common ownership, which coordinates cooperation in R&D and output? (López and Vives, 2019)

- For a high level of spillovers, common ownership raises output and R&D/abatement effort, benefiting consumers.
- The welfare-optimal level of common ownership is positive for large enough spillovers (and is increasing with its level, number of firms, elasticity of demand, and of the innovation function).
- Commitment to R&D investment (with high spillovers) leads to underinvestment incentives in green innovation, a second mover advantage, and welfare-optimal levels of common ownership are higher.
- Common ownership may internalize the spillover and restore the commitment incentive.

Common ownership (or large firms) increase Net Zero commitments

(Acharya et al., 2025)

- US firms that are owned by large institutional investors belonging to a major climate alliance make early NZ commitments
- Size Effect on NZ commitments:



Commitments in oligopoly with fringe firms
(Acharya et al., 2025)

- A large firm (or coalition) behaves strategically and anticipates the reaction of small fringe firms when choosing innovation effort
- Large firm/coalition commitments improve welfare and are profitable.
- Incentives to commit: fringe non-committing firms obtain higher profits than the committed firms, but there are incentives to commit (due to the investment response of the fringe).
- Commitments are good substitutes for innovation subsidies (but cannot improve welfare when there is an optimal innovation subsidy), and they cannot substitute for carbon taxes.

Conclusions

- The EU and the UK have taken a benign antitrust view in relation to climate agreements.
- With carbon pricing and low R&D subsidies:
  - R&D cooperation raises welfare with high spillovers.
  - Common ownership raises output, abatement effort, and welfare for high spillovers.
    - The welfare-optimal level of common ownership is increasing with the level of spillovers and the degree of competition .
  - Large/coalition of firms have incentives to commit to green innovation investment, and the commitments are good substitutes for innovation subsidies, but they cannot substitute for carbon taxes.
- Carbon taxes are needed in any optimal regulatory scheme.

Open questions

- When there are limits to carbon pricing and green subsidies, what is the optimal policy for regulating them together with the extent of common ownership?
- In the framework, we have assumed that firms only care about maximizing profits (value).
- It would be worthwhile to explore the impact of green preferences and how the optimal policy changes, particularly when environmental damages are not properly priced and/or green subsidies are limited.

THANK YOU!