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MITIGATING CLIMATE CHANGE AND ITS IMPACT ON LOCAL FIRMS: EVIDENCE FROM A RECENT CBM SURVEY

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MOTIVATION

"Physical risks, stranded assets and greater firm default risk expose the financial system to losses, which may impair the transmission of monetary policy. And the Eurosystem's balance sheet itself is exposed to climate risk from the assets we hold, notably through our asset purchase programmes."
Christine Lagarde, 2021

Actions designed to transition to a carbon-neutral economy, are often associated with a risk of upward inflationary pressures. Moreover, global adaptation and mitigation efforts require scaling up of investments.

FIRM CHARACTERISTICS

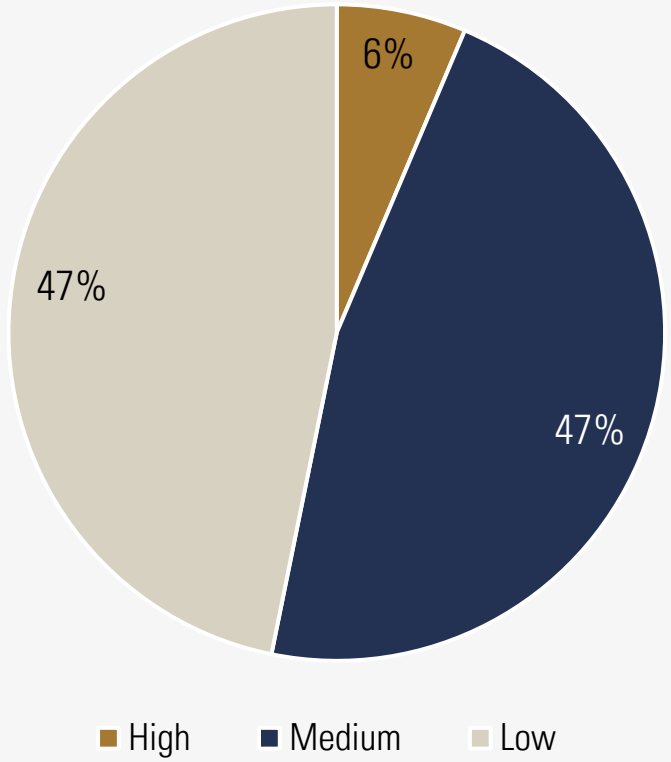
SURVEY ON MITIGATING CLIMATE CHANGE AND ITS IMPACT ON LOCAL FIRMS

- Focus on the highest greenhouse gas (GHG) intensive emitting sectors (GHG/GVA).
- Sample excludes, micro firms and firms operating in low GHG intensive emitting sectors.
- Non-probabilistic sampling but the net sample tries to mirror the sectoral structure of the population when sorted by GHG intensity.
- 53% of respondents operate in High-GHG intensive emitting sectors.
- 47% operate in Mid-GHG intensive emitting sectors.

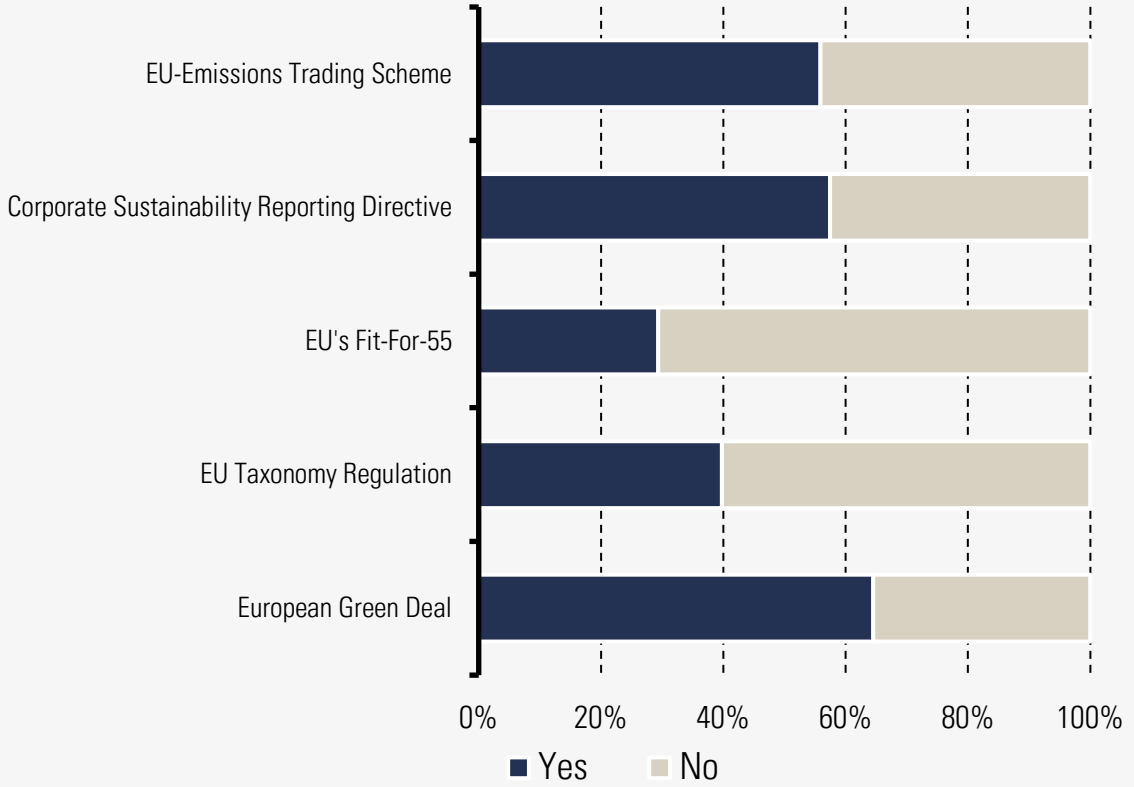
Years in operation	
Less than 1 year	1%
1-5 years	5%
6-10 years	9%
11-20 years	14%
21-30 years	18%
Over 30 years	53%
Annual Revenue	
Less than or equal to €2 million	17%
€2-€10 million	29%
€10-€50 million	41%
Over €50 million	13%
Number of employees	
1-49 employees	33%
50-249 employees	40%
Over 250 employees	27%
Sector	
Manufacturing	24%
Services	33%
Wholesale and Retail	34%
Construction and Real Estate	9%

AWARENESS

ENVIRONMENTAL AWARENESS IN MALTA
(percentage of firms)



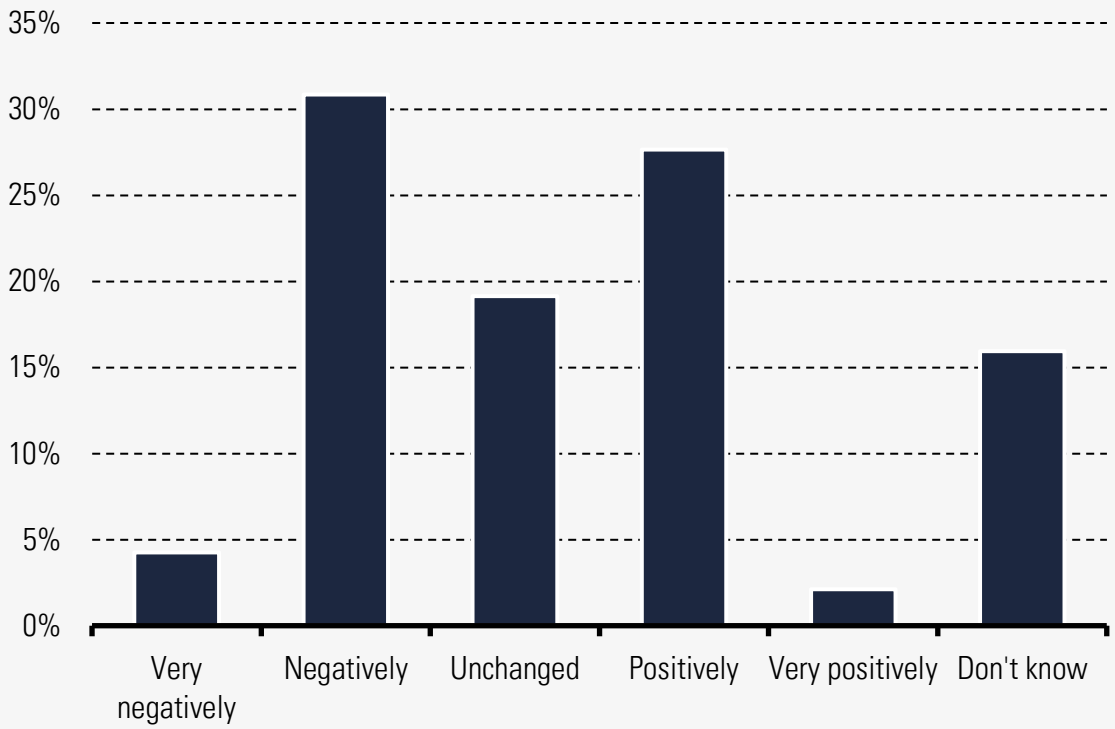
COMPANY AWARENESS OF EU INITIATIVES
(percentage of firms)



TRANSITION RISKS

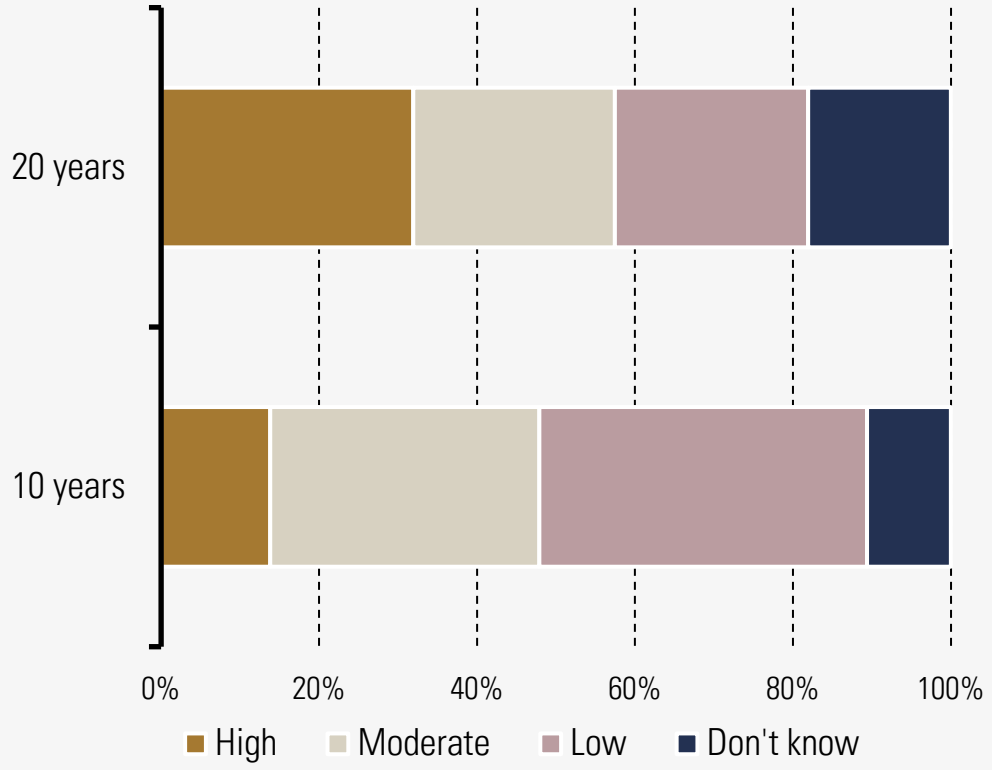
- Overall, firms seem more aware of the repercussions of the transition to a carbon neutral economy.
- 31% expect a negative impact while 4% expect a very negative impact.
- On the contrary, 28% expect a positive impact while 2% expect a very positive impact.
- Thus, the proportion of firms that see the transition to be a risk is slightly higher than those that see this as an opportunity, mirroring EIB investment survey results.

IMPACT OF THE TRANSITION TO A CARBON NEUTRAL ECONOMY
(percentage of firms)

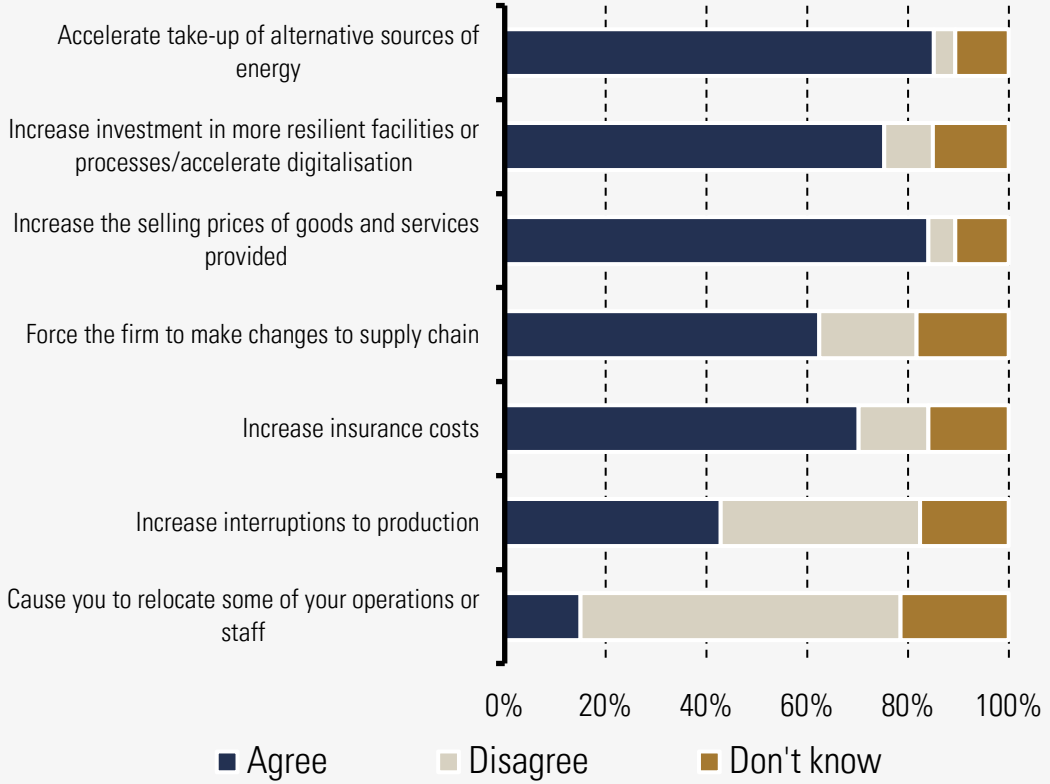


PHYSICAL RISKS

PROBABILITY OF BEING IMPACTED BY PHYSICAL RISKS
(percentage of firms)



CLIMATE CHANGE AND/OR ADAPTATION TO IT WILL:
(percentage of firms)

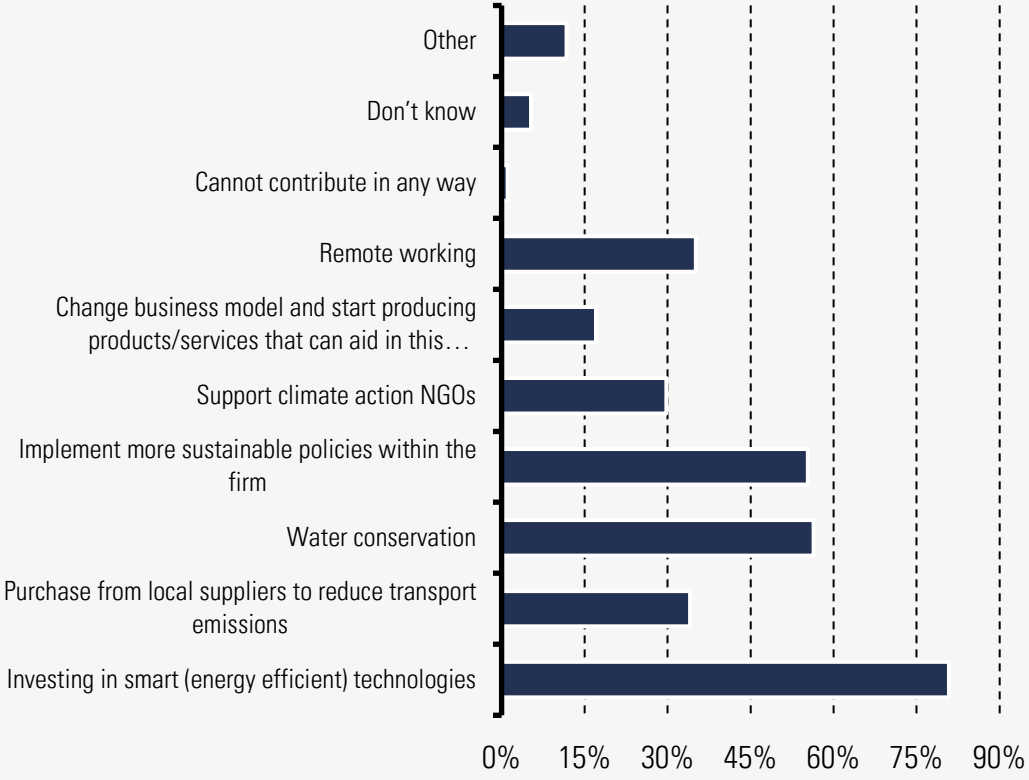


INVESTMENT AND FINANCING

- Over 80% of firms agree that mitigating climate change will:
  - require the development of new technologies
  - require investment in existing technologies to make sustainable products that meet customer needs and,
  - increase the overall level of investment.

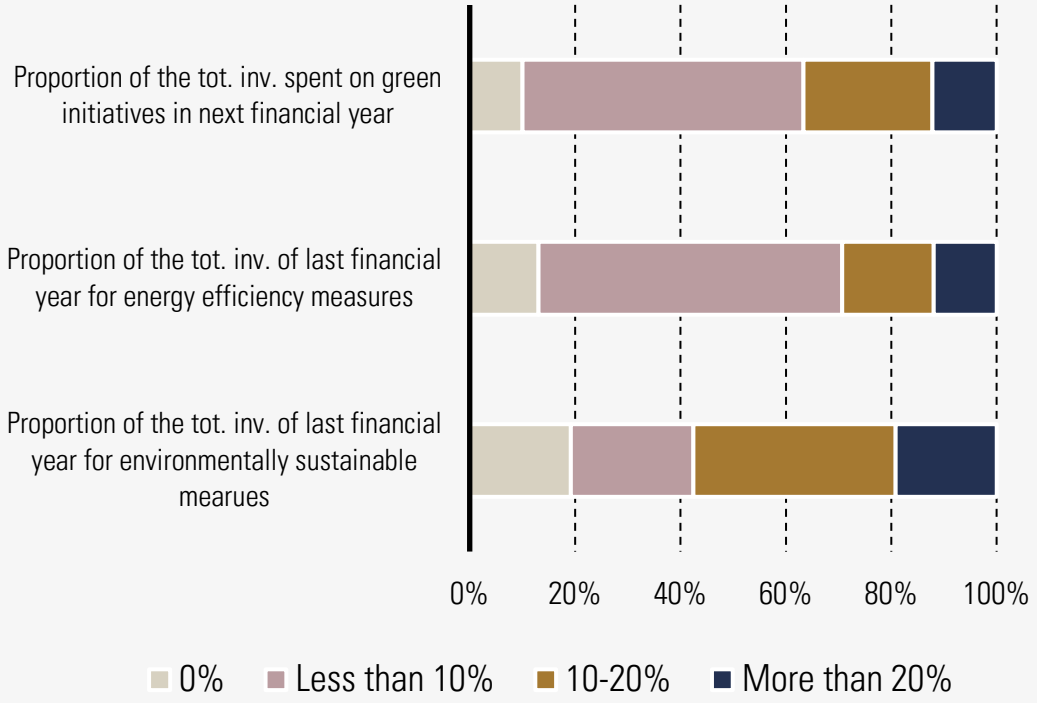
- As such, firms' main contribution in the transition to a carbon neutral economy is investing in smart and energy efficient technologies (81%).
- 56% of firms argue that water conservation is also a priority.
- 55% think that implementing more sustainable policies within the firm will also contribute to carbon neutrality.
- 67% of firms reported that they have already started to implement such changes.

CONTRIBUTION TO A CARBON NEUTRAL ECONOMY
(percentage of firms)

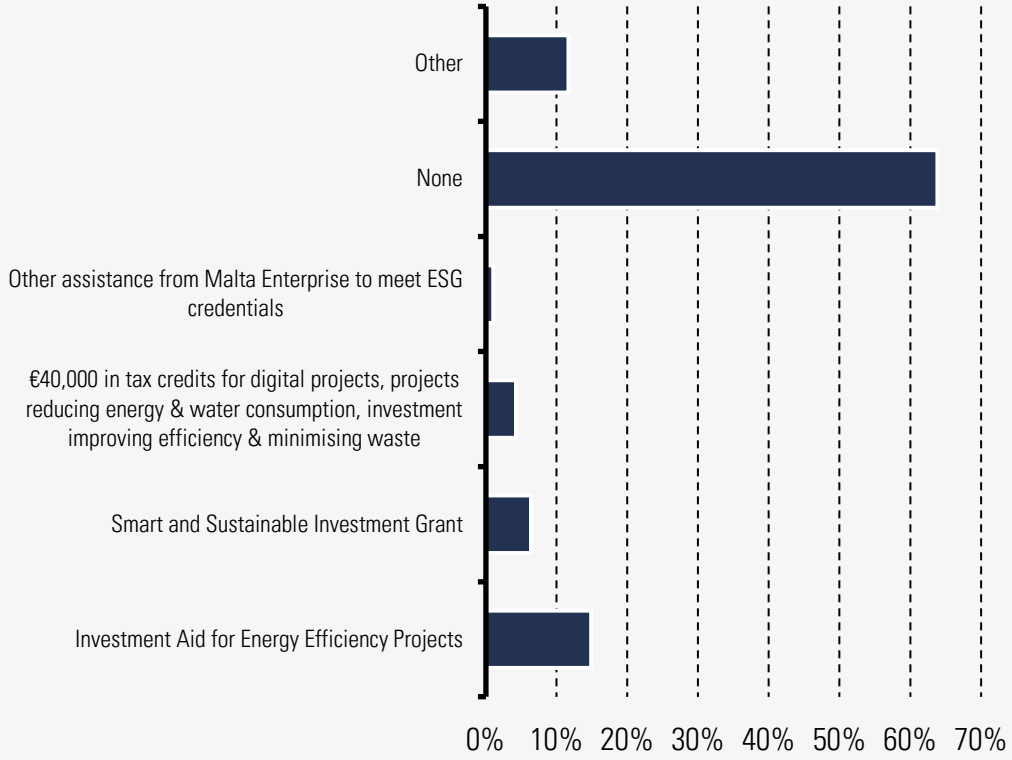


INVESTMENT AND FINANCING

PROPORTION OF TOTAL INVESTMENT FOR GREEN INITIATIVES
(percentage of firms)



USE OF GOVERNMENT SCHEMES
(percentage of firms)



CONCLUSION

- Most claim that general environmental awareness in Malta is low yet, firms reveal some awareness of related legislations and directives apart from the Fit-for-55.
- A more negative impact is expected from physical risks over longer horizons.
- Most believe that climate change will accelerate the take-up of alternative energy sources and that changes to the supply chain are essential.
- Input costs will become more expensive and thus selling prices will rise.
- Overall level of investment will increase, mostly in smart (energy efficient) technologies.
- Firm' budgets for green investments were and will still be low in the next financial year, and the use of government schemes remains low.

THANK YOU

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RESERVE SLIDES

Population vs Sample Structure

Sector	High GHG intensive sectors		Mid GHG intensive sectors	
	Population	Sample	Population	Sample
Agriculture, forestry, and fishing	0.7%	0.0%		
Mining and quarrying	0.3%	0.0%		
Manufacturing	7.5%	13.8%	7.2%	9.6%
Electricity, gas, steam and air conditioning supply	0.2%	1.1%		
Water supply; sewerage waste management and remediation activities	0.7%	3.2%	0.0%	1.1%
Construction			9.6%	9.6%
Wholesale and retail trade; repair of motor vehicles and motorcycles	13.9%	16.0%	18.1%	20.2%
Transportation and storage	7.1%	8.5%	0.6%	3.2%
Accommodation and food service activities	18.7%	8.5%		
Information and communication			0.7%	0.0%
Administrative and support services activities	1.2%	0.0%		
Public administration and defence; compulsory social security			4.0%	0.0%
Human health and social work activities			7.0%	3.2%
Other services activities	0.1%	0.0%	2.3%	2.1%

Source: CBM survey on "Mitigating Climate Change and its Impact on Malta's Highest GHG Intensive Sectors", NSO Business Register and Authors' calculations

Notes: Figures exclude dormant, micro and Low-GHG intensive emitting firms. The figures in the population column represent the corresponding sectors' number of companies, as a share of the total population. Thus, the sum of the population columns is 100%. The same reasoning applies for the sample columns.