2024 MOSKOWITZ PRIZE HONORABLE MENTION
RESEARCH BRIEF

ABOUT THE PRIZE

The Moskowitz Prize recognizes research that exhibits empirical excellence and the potential to inform responsible business and investing practices in the real world.

Corporate Climate Lobbying

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Anti-climate lobbying is thought to challenge ambitious climate policy, through influence on politicians and proposed regulation or deregulation.

This study quantifies, for the first time, corporate expenses related to anti- and pro-climate lobbying, to reveal findings related to average spending, concentration of lobbying within specific sectors, camouflage of lobbying attempts, and how financial markets price in risk related to anti-climate lobbying.

SUMMARY OF FINDINGS

A common concern is that anti-climate lobbying by businesses obstructs forward-looking climate policy, at least in part.

In this context, the authors quantify the corporate expenses associated with both anti- and pro-climate lobbying. They find that anti-climate lobbying is concentrated in the Oil and Utilities industries, and that large anti-climate lobbyists have more carbon-intensive business models and face more climate-related future incidents, while pro-climate lobbyists undertake more green innovation. Corporate climate lobbyists also try to camouflage lobbying attempts through abstract references in lobbying reports.

Importantly, the researchers demonstrate that anti-climate lobbying constitutes an investment risk such that investors demand a risk premium when investing in companies associated with such lobbying. The risk channel arises because anti-climate lobbying can damage trust or lead to "name and shame" actions (reputation risk), and because anti-climate lobbyists may not decarbonize business models fast enough, in the hope that the lobbying succeeds, resulting in transition risk related to potential future regulation.

The Dynamics and Impacts of Climate Lobbying

Most countries' climate-related efforts are insufficient, and a large concern is that anti-climate lobbying hampers ambitious climate policies worldwide, such as auto-industry lobbying compromising vehicle-related emissions rules in the U.S. and EU. Meanwhile, more investors and investor groups have begun publishing expectations on climate lobbying activities for their portfolio firms, in a bid for greater transparency.

To understand the dynamics and impacts of climate-related lobbying, the authors analyze federal-level climate lobbying activities of U.S.-listed firms over the past two decades, to quantify lobbying expenses, identify large corporate lobbyists and their motives, and assess how financial markets price in such lobbying and related risks.

Capturing Climate-Lobbying Patterns

The authors construct lobbying measures for public U.S.-listed firms from 2001 to 2022. Specifically, they study issues mentioned in over 1.2 million quarterly lobbying reports (filed by firms and lobbyists) to identify climate-related ones, which featured in about 10% of the reports. They then estimate total lobbying expenditures for climate-related lobbying, differentiating between anti- and pro-climate efforts based on classification that exploits information on the private contributions by corporate executives. The authors assume that corporate climate lobbying by companies whose executives primarily donate to Republicans (Democrats) is likely to be anti-climate (pro-climate).

The researchers capture patterns related to anti- and pro-climate lobbying across wide-ranging areas including concentration of lobbying types by industry, association with the carbon-intensity of business models and green innovation, and financial-market phenomena such as future stock returns.

Anatomy of Corporate Climate Lobbying
The research reveals multiple insights and findings:

- Lobbying expenses: Spending on anti-climate lobbying averages $277,155 per year per firm engaged in this activity, while pro-climate spending is $184,564, with large increases starting in 2006 and then less expenditure during the Trump Administration.
- Lobbying concentration and motives: Anti-climate lobbying is highly concentrated in the Oil and Utilities sectors, with more dispersion of pro-climate lobbying across sectors. Firms with more carbon-intensive business models spend more on anti-climate lobbying, while those with more green innovation activities participate more in pro-climate lobbying.
- Camouflage of lobbying: Firms engaged heavily in anti-climate lobbying tend to cover it by referring only to legislative-bill titles and abstract codes in the reports, rather than explicitly mentioning climate-related words.
- Lobbying and financial markets: Firms with more anti-climate lobbying earn higher future returns (true only for the 2010-2022 period). This finding is consistent with a risk channel, where investors demand a risk premium for investing in stocks of companies that undertake a lot of anti-climate lobbying. In line with this finding, the authors show that investors bid up (down) prices of anti-climate lobbying firms around events that decrease (increase) climate-related regulatory uncertainty—such as diminished support for the Waxman-Markey Cap-and-Trade Bill in 2010.

Overall, the results illuminate important dynamics related to climate lobbying, including expense and industry-concentration levels, how information is communicated in lobbyist reports, and how financial markets price related risk.

KEY DATA

- Lobbying expenses and issues from quarterly lobbying reports from 2001 to 2023 (OpenSecrets.com)
- Corporate executive and lobbyist campaign contributions (FEC website)
- Carbon emissions data (Trucost)
- Green innovation activity (USPTO)
- Climate incidents (RepRisk)
- Monthly stock returns on NYSE, AMEX, and NASDAQ (CRSP)

PRACTICAL IMPLICATIONS

- *Firms can evaluate the costs and benefits of climate-related lobbying and assess how this activity affects their key performance measures including stock returns.*
- *Investors can identify firms engaged in climate lobbying, assess their alignment with public commitment, and consider the associated risks and returns. Institutional investors could engage their portfolio companies on climate lobbying practices in the interest of shareholder value (to reduce risks) and climate goals.*
- *Regulators can better understand lobbying dynamics and the incentives and disincentives driving anti- and pro-climate lobbying. The observed camouflage trend may suggest a need for more transparent reporting standards.*

QUESTIONS FOR FUTURE RESEARCH

On lobby channels:
Future research could compare the effectiveness of direct and indirect (such as through trade associations) corporate lobbying and investigate whether companies lobby to enhance their own market power or expand overall industry gains.

On corporate governance:
Open questions include what internal governance structures - such as active shareholder advocacy or the presence of sustainability committees - influence corporate climate lobbying positions.