Corporate Responses to Carbon Pricing and Policy Rollbacks *

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Abstract

Climate policies, particularly market-based instruments like carbon pricing, are well-established as effective tools for reducing emissions. However, the growing prevalence of climate policy rollbacks presents a critical, yet underexplored, question: do climate policy rollbacks undo the effects they had on firm-level emissions and economic activities? Using the introduction and subsequent repeal of Australia's carbon pricing mechanism (2012–2014) as a quasi-experiment, this paper provides novel firm-level evidence of how firms respond to climate policy rollbacks. Using a difference-in-differences framework, the analysis shows that the policy's introduction significantly reduces regulated firms' direct (Scope 1) emissions by approximately 15%. Following the rollback, emissions only partially rebound and do not return to pre-policy levels, indicating asymmetric and potentially non-reversible effects. Reductions are achieved primarily through operational downsizing rather than improvements in emissions intensity or new low-carbon investments. Evidence from the firms' annual and sustainability reports suggests heterogeneous post-repeal trajectories are shaped by firms' prior beliefs about policy permanence and their consequent operational adjustments. The findings underscore that while policy-induced decarbonisation can exhibit path dependence, the credibility and durability of climate policy remain crucial for long-term emission reductions.

Keywords: Climate policy, carbon pricing, policy rollback, uncertainty, emissions.

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