Brown Capital (Re)Allocation*

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Abstract

We study capital allocation in the coal power sector – the largest single source of carbon emissions. Using a novel dataset, we find public equity ownership of European coal plants has declined significantly, while state ownership has risen steadily and soared after recent episodes of nationalization. We calibrate a model of brown capital (re)allocation with externalities to understand how "green finance" and competing government objectives shape the energy transition. Tighter financial frictions incentivize coal plant closures but state investors who value social factors (jobs, "energy security") endogenously respond to mitigate pressure from green finance, especially during energy shortages.

Keywords: Energy transition, capital reallocation, state ownership, climate finance, energy security, private equity
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1 Introduction

A "green transition" towards a low-carbon economy is reshaping capital allocation across the world. A large-scale transformation of many sectors of the economy is required to achieve significant reductions in greenhouse gas emissions. In particular, a "green transition" not only entails scaling up "green," low-carbon capital but also scaling down "brown," carbon-intensive capital as well [Hartzmark and Shue, 2023, Green and Vallee, 2022]. A key sector is the power production sector, in which renewable energy sources are progressively challenging traditional fossil fuels such as coal. Burning coal is the most carbon-intensive way to produce energy and represents the single largest source of carbon emissions globally.[1] Policymakers and other stakeholders have emphasized the phasing-out of coal power plants in the Western world as a crucial step in the reduction of brown capital and carbon emissions. The United Nations Secretary General has dubbed a coal phase-out the "single most important step" in addressing climate change.[2] In many Western economies, government have increasingly announced commitments to end coal. Coal has also become a red flag in the rising "green finance" movement, as investors increasingly consider the carbon content of their portfolios.

Despite these calls to phase-out coal plants, there are still plenty of active coal plants in Western economies. This paper asks: Who owns this highly carbon-intensive brown capital and why? The owners of this brown capital (i.e. equity investors) are important since they influence the operation of these plants.[3] A well-known idea is that different investors might trade off competing objectives ("doing well" vs. "doing good") to different degree.[4] These competing objectives fuel concerns that climate-conscious investors might sell brown capital instead of scaling it down. This is a concern because selling brown capital may merely lead to reallocation (or "leakage") of this capital across investors, resulting in limited reductions

[1]Source: "It's critical to tackle coal emissions," *International Energy Agency* , October 8, 2021, Link.

[2]Source: "Statement by the Secretary-General on the announcements by the United States and China on climate action," *United Nations*, September 21, 2021, Link

[3]They are also the most exposed to long-run risk in asset valuation (i.e. "stranded assets").

[4]The objective of "doing well" generally refers to pecuniary performance while the objective of "doing good" refers to having non-pecuniary impact e.g. social or environmental.

in aggregate carbon emissions. A novel aspect of this paper is to highlight the competing objectives of states, which are often significant shareholders in the energy sector, in the context of the green transition. States typically care directly about non-pecuniary factors — climate externalities are one of these factors, but we argue often not the only one.

In the first part of the paper, we unpack the dynamics of brown capital ownership. For the universe of coal power plants in the European Union from 2015 to 2022, we merge asset-level data on firms' coal plant ownership and each plant's emissions (real capital) with firms' shareholder data (financial capital). We create a bottom-up measure of coal emissions ownership and document changes in ownership shares across three investor groups: public equity investors, private investors, and state investors. We observe a large decline in the public equity ownership share and introduce a formal decomposition to show that this decline was not due to *capital reallocation* ("leakage") but to *capital utilization*: these investors scaled down plants, not sold them. On the other hand, we find a steady increase in the ownership share of state investors, which were the slowest at scaling down their plants.

In the second part of the paper, we study the economics of brown capital (re)allocation by calibrating a model that incorporates production externalities. Investors (private, public, states) differ in how they value externalities, and trade of brown capital is subject to financial frictions. We show how "green finance" and competing government objectives shape the energy transition. By making brown assets harder to purchase, tightening financial frictions lower the market price and incentivize plant closures, leading to a reduction in aggregate emissions. However, state investors who value social factors (such as jobs, "energy security") endogenously respond to that environmental pressure. State investors keep their plants open longer and also engage in nationalization of brown assets, in line with recent episodes in Germany and Poland. Competing government objectives can also explain reversals in climate policy during energy shortages.

We focus on coal power plants in the EU for two reasons. First, the EU has historically been a large coal power producer, but has been at the forefront of the green transition, at least

since the Paris Agreement in 2015. The EU has witnessed the most ambitious commitments to emission reduction targets across both governments and the private sector, with many explicit references to a coal phase-out. This region experienced the largest decline in coal power capacity since 2015, of about 30%. Second, there is a wide range of firm ownership patterns in the EU and all main types of investors play an important role, including publicly-listed firms, private firms, and states and local governments. The reallocation dynamics at play in Europe are thus particularly informative.[5]

We build a new bottom-up measure of ownership of coal emissions by combining two levels of micro-data. On the real side, we collect asset-level data on which firms own coal plants from Beyond Fossil Fuels. For the period 2015-2022 and for all EU coal power plants, we observe its location, generation capacity, and importantly the name and ownership shares of each firm(s) with a ownership stake. We also observe a measure of each plant's scale via plant-level, verified CO2 emissions that comes from the European carbon market (the ETS). To link to the financial side, we merge this plant-level data with firm-level shareholder data. For publicly-listed firms, we use S&P Capital IQ for shareholder information, while for other firms we manually collect shareholder information from annual reports and other sources. The baseline analysis classifies investors into three groups: (i) public equity investors (investing in publicly-listed firms), (ii) private investors (unlisted firms), and (iii) state investors (investing in both publicly-listed and unlisted firms). We create a panel of each investor groups' ownership share of coal emissions in the following way: for each year and investor group, we multiply each plant's emissions with the investor group's equity share in the firm owning that plant, sum this value across all plants, and divide by total emissions across all plants.

We first document aggregate ownership dynamics using our ownership data. We find that the ownership share of public equity investors has dropped by 9 percentage points, a 20% decline. Conversely, state investors who are national governments have increased their

[5]In a global context, North America is the only other region with declining coal capacity. The ownership patterns in Europe also contrast with China and other emerging economies, as well as with the U.S., which are dominated by state-owned enterprises and publicly listed firms, respectively.

ownership share by 9 percentage points, a 50% increase. The ownership share of private investors has also risen sharply by 12 percentage points, matching the decline of foreign and local state investors' ownership. However, these aggregate trends mask the origin of these dynamics.

To explore the drivers of these aggregate trends, we introduce a formal decomposition of ownership changes that distinguishes between *capital reallocation* and *capital utilization*. An investor can reduce its coal emissions ownership by selling assets (reallocation), or by scaling down its plants (utilization), or both. This empirical decomposition aims to isolate "leakage" (asset sales).[6] This is one of the advantages of our asset-level data: isolating asset sales is generally difficult with firm-level asset holdings data only.

This decomposition reveals that aggregate trends mask striking patterns. Perhaps surprisingly, the decline in the public equity ownership share was entirely driven by a quick decline in utilization, not reallocation. In other words, public equity investors have been closing or scaling down plants faster than other investors, and not selling to them. Thus, there is little evidence of asset sales ("leakage") by public equity investors in coal power plants. Instead, the decomposition shows that state investors played a crucial role. State investors who were national governments were the slowest in scaling down their plants. Foreign and local state investors were the ones that sold to private firms. From this perspective, it looks like states (as investors) may have slowed down the transition. For robustness, we confirm that these findings are not purely driven by composition effects across investors, due to, for instance, differences in technological obsolescence (age) or location (country) of their initial capital. Looking at levels of emissions rather than shares also does not change the picture. While all investors have reduced capital utilization, public equity investors have reduced it relatively more,[7] and we see a large reallocation of emissions from state investors to private investors.

To understand the economics of brown capital reallocation, we present a model that differs

[6]The decomposition is exact once we account for a covariance term, which is typically small.

[7]More precisely, in aggregate, emissions have been declining since 2015 in spite of a recent rebound in 2021. Public equity investors reduced capital utilization relatively more between 2015 and 2020. They also increased utilization relatively less after 2021. We discuss these dynamics in more detail in the main text.

from traditional models of capital reallocation in one key aspect: the presence of externalities in production, which will generate new insights. We take the model to the data to study how "green finance" and competing government objectives shape the energy transition.

In the model, capital owners (private, public, state investors) differ in how they value externalities, which implies dispersion in asset valuation and incentives to trade. We introduce two important ingredients related to finance and governance. First, there are financial frictions in the acquisition of new capital. Second, we take the structure of socially responsible "investment mandates" seriously [Oehmke and Opp, 2024]. Beyond simply caring about climate externalities, *how* investors care is ultimately crucial. Investors with "narrow" mandates only internalize externalities of the capital they currently hold (a micro perspective). On the other hand, investors with broader mandates internalize the effects of their capital allocation on aggregate emissions (a macro perspective). Narrow mandates provide strong incentives to sell plants instead of scaling them down.

We calibrate the model using our micro-data and moments from our formal decomposition. We find reasonable values for model parameters that can rationalize the key facts in ownership dynamics documented above. There has been a large aggregate decline in profitability of coal since 2015. The valuation of climate externalities is large relative to profitability, and financial constraints are binding. Public equity investors have relatively broad mandates, explaining why they preferred to scale down rather than sell to private firms. States seem to have a much higher valuation of brown capital, consistent with the existence of social factors, such as jobs or stable electricity supply ("energy security") that other investors might not value as highly. Our data suggests that these social factors are potentially large relative to climate externalities.[8] This can explain why state investors scaled down by less than public equity investors. Local and especially foreign state investors have narrower mandates. This can explain why foreign and local states sold more to private firms and scaled down less than other investors.

[8]Note however that we do not want to imply that states always behave as benevolent social planners.

We use the calibrated model to derive implications for the energy transition and government policy. First, through the lens of the model, "green finance" can decrease aggregate emissions. The first effect of a more climate-conscious financial sector is to tighten financial constraints for potential buyers of brown assets. This depresses their market price and incentivizes plant closures over asset sales. Interestingly, unlike in traditional models driven by productivity dispersion, trade is not necessarily (socially) efficient if driven by externalities. In that sense, impediments to trade, such as financial frictions, might improve capital allocation, instead of reducing it. This has the flavor of theories of the second-best. Moreover, a second effect is a larger share of investors with broad mandates. Both effects reduce aggregate emissions and are quantitatively important. In the counterfactual in which there are no financial frictions and public equity investors have mandates as narrow as foreign states, the decline in aggregate emissions is 7 percentage points lower in magnitude, with both forces contributing roughly equally.

Second, we study how the market equilibrium changes when some owners can operate plants more efficiently than others. We extend the model so that private investors have access to better technology and can invest to upgrade plants acquired from other investors. This generates more sales, which is in line with the well-known logic of classical capital reallocation models in which capital flows towards more productive owners. However, the presence of non-pecuniary climate externalities implies two important new insights. First, an investment that is efficient from a social but not pecuniary perspective (i.e. it reduces emissions significantly but does not "pay for itself") is not necessarily implemented: it requires both buyer commitment and strong enough green finance. Moreover, access to better technology has an ambiguous effect on aggregate emissions. While some plants are upgraded and operate more efficiently, fewer plants are closed and reallocated instead. In fact, this reallocation channel creates a downside to the investment "paying for itself:" emissions can increase when pecuniary benefits are high enough.

Third, we argue that green finance not only affects firms' decisions, but also the state's

incentives to intervene. While green finance can help correct climate externalities and substitute for government intervention to retire plants, we point out that it might also increase incentives to intervene because of social factors. When the state values social factors such as jobs and "energy security" relatively more than other investors, this introduces the possibility of nationalization: the state might want to purchase a unit that another owner plans to retire. Through the lens of our model, the incentives to nationalize are the largest when: (i) the value of social factors are large relative to pecuniary profits; as well as (ii) financial frictions are tight; and (iii) firms' mandate are broad, such that firms' incentives to scale down are large. In our calibration, we find that these effects are substantial. Almost 50% of units retired by public equity investors are potential targets for nationalization (representing 27% of initial emissions). However, incentives to intervene are significantly smaller in the counterfactual with no financial frictions and narrow mandates.

We argue that governments face competing objectives, and this can help explain resistance to environmental pressure, along with gradualism and reversals in climate policy, even in places like Europe. First, the state has incentives to undo some of the effects of climate-conscious investors if it believes these investors do not sufficiently value social factors. This is consistent with recent episodes of nationalization in Germany and Poland, two countries heavily reliant on coal in their energy mix. In 2022 and 2023, these governments have respectively spent $8 billion and $4 billion of taxpayer money on brown assets by purchasing coal plants from publicly-listed firms.[9] To study interactions with climate policy more generally, we extend the government problem to also include investment in alternatives such as renewable energy, subject to a constraint of stable energy supply or employment. Government that undervalue global long-term climate externalities relative to local factors foster much less investment in alternatives, even if their costs have declined dramatically. Moreover, an energy shortage (end of Russian gas, exit from nuclear, etc.) might lead even a benevolent government to keep coal

[9]Sources: "German Government Nationalizes Uniper in Move to Secure Energy Supply", New York Times, September 22, 2022; Link; "Poland's PGE, Enea, Tauron, Energa get state offers for coal assets", Reuters, July 15, 2023; Link.

plants open as their benefits endogenously increase. The reversal of the decline in coal can be substantial unless the cost of investment in alternatives is low enough, consistent with the recent experience of many European countries. We conclude by discussing the main policy tools in our setting, including regulation, asset ownership, and Pigouvian taxation.

Related Literature: This paper contributes to several strands of an emerging literature studying how the green transition affects the real economy and capital markets. Our focus is on the economics of one of the most important steps in the energy transition: the phase-out of coal in Western economies.[10]

Our first main contribution is to bridge empirics and theory on this question. On the data front, we create a new bottom-up measure of ownership leveraging asset-level data. Distinguishing between reallocation ("leakage") and utilization is difficult with firm-level data alone.[11] In this way, we complement recent work by Duchin et al. [2022] and Andonov and Rauh [2022] that also uses asset-level data. Asset-level data allows us to address the widespread concern that publicly listed firms might respond to environmental pressure by selling assets. In contrast to Duchin et al. [2022] that studies the asset market for pollutive plants, we find that this is generally not the case for coal plants, in line with Andonov and Rauh [2022]'s study of fossil-fuel power plants in the U.S. This is possibly due to coal investment being explicitly "enemy number 1" for many stakeholders and as such particularly scrutinized.

On the theory side, our model integrates new insights on responsible investing into a capital reallocation model with financial frictions and externalities. We take the structure of socially responsible investment seriously: Oehmke and Opp [2024], Green and Roth [2021], and Landier and Lovo [2020] show that socially responsible investors who only consider ex-

[10]While the goal of this paper is not to explicitly explain the origins of environmental pressure, we relate more generally to works studying how the rise of "green finance" has affected different investors and stakeholders. Within the coal sector, Green and Vallee [2022] and Sastry et al. [2023] study for example the role of bank lenders. Briere et al. [2023] and Brière et al. [2018] study how large institutional investors vote on shareholder resolutions aimed at mitigating climate externalities. There is also many works investigating how ESG concerns have affected public equity markets [Koijen et al., 2020, Baker et al., 2022, Giglio et al., 2023, Van der Beck, 2021] and bank lending [Kacperczyk and Peydró, 2022, Ivanov et al., 2023, Giannetti et al., 2023].

[11]Berg et al. [2023] is an important exception, although their data is restricted to publicly-listed firms and presents challenges in identifying who stands on the receiving end of asset sales.

ternalities in their own portfolio allocate their capital inefficiently from the perspective of generating impact.[12] We also contribute to the literature on capital reallocation by incorporating production externalities, giving a new perspective on how financial frictions affect the market equilibrium and state intervention [Eisfeldt and Shi, 2018, Lanteri and Rampini, 2023]. We show how our decomposition can be used to recover the key parameters of the model from the data.

Second, we emphasize the importance of states' competing objectives for the energy transition. Our data uncovers a key role for states in the market for brown assets. This contrasts with a common focus in prior work on private vs. public firms, often using U.S. data [Shive and Forster, 2020, Chen and Wittry, 2024, Bellon, 2021]. To solve a potential "paradox" of state ownership in Europe, we argue that it is crucial to understand the role of (short-run, local) social considerations, such as jobs and energy security, that states often balance with (long-run, global) climate externalities. This complements work on strategic behavior in international climate negotiations [Tirole, 2012]. Baranek et al. [2021] present particularly striking evidence that state-owned energy firms in Italy do not internalize carbon pricing in their production decisions. Although growth in renewable energy infrastructure can generate substantial welfare gains [Arkolakis and Walsh, 2023, Adrian et al., 2022], it is capital intensive and takes significant time to build. Blonz et al. [2023], Du and Karolyi [2023], and Brey and Rueda [2024] document how the energy transition away from fossil fuels caused broad-based negative impacts on communities historically built around these industries. There is a potential link with arguments that the "E" is being over-weighted relative to the "S" within the ESG framework [Saul, 2022]. If the state feels that investors and stakeholders do not sufficiently value social benefits of keeping brown capital operating, it will endogenously respond to that environmental pressure and mitigate it. This logic also helps us to understand gradualism

[12]Broccardo et al. [2022] argue that "exit" (divestment and boycott) can often lead to worse outcomes than "voice" (action, engagement) investment strategies in a world where companies generate externalities. See also Berk and Van Binsbergen [2021]. Hartzmark and Shue [2023] provide evidence that directing capital away from brown firms and toward green firms may be counterproductive, while Kahn et al. [2023] find that engagement by shareholders can be more effective to reduce carbon emissions by firms than divestment.

(and even reversals) in climate policy more generally, especially during energy shortages. In a global context, countries like China and emerging markets that are expanding coal capacity tend to have many state-owned enterprises. This suggests that insights gleaned from our European evidence might be relevant more generally.

2 Background and Data

2.1 Coal and the Green Transition

Coal combustion is the most carbon-intensive way to produce power, even relative to other fossil fuels. In the European Union, the top ten largest emitters in 2022 were all coal power plants.[13] For this reason, coal has been at the center of the "green transition," i.e. efforts to reduce carbon emissions by transforming key sectors of the economy. Despite this trend away from coal, there are nevertheless still many active coal plants in Western economies. This paper investigates the ultimate owners of these brown assets – that is, the equity investors – since they have the most say in how plants are run.

We focus mainly on coal power plants in the EU for three reasons.[14] First, the EU has historically been a large producer of coal-based power. Second, the EU is also at the forefront of the green transition, at least since the Paris Agreement in 2015. The EU has witnessed the most ambitious commitments to emission reduction targets. As a group, the EU announced the "Green Deal" in 2019, followed by the "Fit for 55" initiative which aims to significantly reduce emissions by 2030. All EU governments have an explicit timeline for a coal phase-out. While in 2016, the EU was the fourth largest region in terms of coal capacity, it was the region that experienced the largest decline in coal capacity since then, of about -30%. North America

[13]Source: "Repeat offenders: coal power plants top the EU emitters list," *Ember Climate*, May 23, 2023, Link.

[14]Section IA.1 provides some results for the United States.

was the only other region that experienced a decline.[15] Third, there is a wide range of firm ownership patterns in the EU, with different types of investors each playing an important role. For comparison, the US is dominated by publicly-listed companies with virtually no state ownership, while China is dominated by state-owned enterprises. In contrast, large coal power producers in the EU include a mix of publicly-listed firms with low and high state ownership shares, as well as multiple private firms backed by private equity investors and wealthy individuals.[16]

2.2 Data

2.2.1 Coal Power Plants

The primary dataset on coal power plants used in this paper is the coal plant database from Beyond Fossil Fuels ("BFF data"), which tracks coal power plants in the EU (including the UK) from 2015-2022. While the Global Energy Monitor also tracks coal plants in the EU, the BFF data provides greater quality detail on plant ownership and data on actual CO2 emissions for plants in the EU. The BFF data contain information such as the location, generation capacity, operational status, announced retirement year, owner names, and realized CO2 emissions for each coal plant. Coal plants may contain one or more coal units that contribute to the generation capacity of the plant. In total, the database tracks 356 plants and contains 2,837 plant-year observations. A total of 136 firms who have ownership stakes in coal plants are represented in the data. The NGO Beyond Fossil Fuels researches each individual data point, collecting information from a wide variety of sources, including but not limited to government publications and news articles. In the BFF data, the plant generation capacity represents

[15]The top 4 coal power producers in 2016 were: China 50%, US and Canada: 15%, India: 10%, EU and UK: 8.2%. Figure IA.1 in the Internet Appendix shows the decline across regions since 2016. Source: Global Energy Monitor.

[16]Table IA.1 in the Internet Appendix shows the average share of state investors' ownership for the ten largest coal power producers in four regions: the United States, the EU, China, and India. While the US has a low average state investor share (10%), it is much higher in China (80%). Interestingly, the EU sits in the middle with about 30%. Table IA.2 in the Internet Appendix also shows that Europe has a much more varied ownership structure relative to the United States or China. India has a comparable mix of ownership structure to the EU. Source: Global Energy Monitor.

the amount of electricity the plant can produce at maximum power, while the CO2 emissions produced by the plant provides a measure of the actual utilization of the plant. The CO2 emissions reported in the BFF data are annual realized CO2 emissions for each coal plant, which are sourced from the European Union Emissions Trading System (EU ETS).[17] CO2 emissions data from the EU ETS are subject to monitoring and verification.[18]

2.2.2 Firm-Level Shareholder Data

For firms that are publicly-listed, we collect detailed data from S&P Capital IQ on their equity investors, from 2015-2022.[19] The investor data from Capital IQ include the shareholder's name, percentage of total shares outstanding owned, and shareholder type. The shareholder type distinguishes whether the shareholder is a state investor or (non-state) institutional investor.[20] State investors may be state or local governments, or entities owned by state or local governments. For firms that are not publicly-listed, we manually collect information on the percentage of shares that are privately-held or state-owned using sources such as annual reports or press releases. This process allows us to determine the share of investors for each firm at calendar year-end from 2015-2022 that belong to three investor groups: (i) public equity investors, (ii) private investors, and (iii) state investors. Public equity investors include retail

[17] In the BFF data, values for CO2 emissions for the most recent year of 2022 are incomplete. We use EU power plant emissions data from EMBER to supplement the CO2 emissions data in 2022. EMBER data is also derived from the EU ETS.

[18] Source: "Monitoring, reporting and verification of EU ETS emissions," *European Union Directorate-General for Climate Action*; Link

[19] We will make two comments here. First, some publicly-listed firms may have other firms as a large shareholder. For example, E.ON owned 46.65 % of Uniper in 2017. When this occurs, we treat the shareholders of the investing firm as shareholders of the focal firm. The shareholder percentage is determined by multiplying the proportion of shares held by the investing firm in the focal firm with the proportion of shares held by the shareholder in the investing firm. Second, if a firm is acquired, the BFF data continues to associate the target firm with its pre-acquisition plants. For example, the Polish state-controlled power company PGNiG was acquired by another Polish power company Orlen before the end of 2022; the two coal plants originally owned by PGNiG continue to be recorded as owned by PGNiG at the end of 2022. Post-acquisition, we assign the shareholder structure of the acquiring company (Orlen in this example) to the target company (PGNiG). Thus, we treat acquisitions are events of financial reallocation (trading shares), rather than real reallocation (trading plants across firms).

[20] There is a small percentage of investors who are classified as "individual/insiders" or whose type is unclassified by Capital IQ. For large unclassified investors, we manually assign them to be a state or institutional investor. The remaining unclassified shareholders and individual/insiders, who together own $< 0.1\%$ of annual aggregate CO2 emissions, are collectively categorized into the institutional investors category.

or institutional investors in publicly-listed firms (e.g. BlackRock is a public equity investor in the publicly-listed firm RWE). Private investors include non-state investors in unlisted firms (e.g. the individual Daniel Krentinsky is the majority owner of the unlisted firm EPH).[21] State investors include state-owned shares in both publicly-listed firms and unlisted firms (e.g. the Ministry of State Treasury for Poland is a state investor in the publicly-listed firm PGE).

The coal power plant data gives us each firm's percentage ownership in each plant (real-side), and the firm-level shareholder data gives us the percentage ownership of each investor category in each firm (financial-side). Combining the two datasets provides us with a bottom-up measure of percentage ownership of each investor category in coal plants. It allows us to determine the percentage of CO2 emissions and coal capacity associated to and owned by each investor category, based on their ownership in these coal plants.[22]

2.3 Coal in the EU

To motivate the main analysis, we present a few stylized facts about coal in the EU through the lens of our micro-data. Figure 1 illustrates the decline in aggregate coal power capacity driven by many power plant closures during our sample period.[23] Emissions have also fallen over time, with two notable differences. First, the decline since 2015 is proportionally larger for emissions relative to capacity (50% vs. 25%). This reveals a mix of permanent closures (a decline in generation capacity) and temporary scaling down (a decline in the emission rate per unit of open capacity).[24] Second, we saw a small rebound in aggregate emissions in 2021-2022 after years of continuous decline. We discuss these effects in more detail below.

Figure IA.3 and IA.4 in the Internet Appendix break down emissions in 2021 across coun-

[21] This means private investors include equity ownership in unlisted firms made by private equity buyout funds (such as KKR) and infrastructure funds (such as Macquarie).

[22] Select consolidated versions of the data used in this study are made available online [Link].

[23] Figure IA.2 in the Internet Appendix shows that the ownership of coal capacity changed very little in European countries outside of the EU. Power producers are all either private or state-owned, with virtually no change in coal ownership share between these groups.

[24] Note that unlike in the United States, conversion of coal plants to natural gas was extremely rare in Europe during our sample period. Some major conversions have recently been announced, but yet to be realized, for example in Poland (Link).

tries and firms, respectively. Plants in Germany and Poland represent almost 75% of all EU coal emissions, followed by the Czech Republic. As motivation for looking at ownership dynamics across investor groups, it is interesting to look at the three largest firms: PGE (Polish), RWE (German), and EPH (Czech). Figure 2 shows that they have very different ownership structures. PGE is a publicly-listed company but is 61% owned by the Polish state. In contrast, RWE is publicly-listedbut is only 10% owned by state investors. EPH differs from both, being 100% private.[25] Figure IA.5 in the Internet Appendix also shows that these three firms experienced very different trajectories in their carbon emissions over our sample period: RWE has reduced its emissions significantly more than PGE, while EPH's emissions have increased in contrast.

3 Ownership Dynamics

3.1 Aggregate Dynamics: 2015-2022

We start by documenting aggregate dynamics across three main investor categories. We classify each investor as belonging to one of three investor groups: (i) public equity investors (investing in listed firms), (ii) private investors (unlisted firms), and (iii) state investors (investing in both listed and unlisted firms). Subsequent analysis will also use more granular investor categories. For investor group g, we calculate their ownership share of the total emissions from coal power plants. Formally, we define their ownership share across all plants i:

$$\text{Ownership share}_t^g = \frac{\text{aggregate group-owned emissions}_t}{\text{aggregate emissions}_t} = \sum_i \omega_{i,t}^g \frac{e_{i,t}}{E_t} \tag{1}$$

In this formula, $e_{i,t}$ is the emissions of plant i at date t, with aggregate emissions being $E_t = \sum_i e_{i,t}$. $\omega_{i,t}^g$ is investor g's ownership share of plant i at date t, which is the product of the firm share of the plant times the investor share of the firm.

Figure 3 illustrates aggregate emissions ownership dynamics. First, there has been a large

[25] EPH is almost entirely owned by Czech billionaire Daniel Kretiznky.

decline in the share of public equity investors of 9 percentage points since 2015, or around a 20% decline. Second, there was a large rise in private ownership of 12 percentage points, more than doubling its share during our sample period from 9% to 21%. Third, state ownership is large, hovering between 45% and 35% throughout our sample. The ownership share of state investors as a whole is relatively stable across the sample period, but there are striking differences for its subgroups. To see this, Figure 4 decomposes the overall state share into national (e.g. the Federal Republic of Germany), local (e.g. the city of Mannheim), and foreign state investors.[26] In contrast to public equity investors, we see that national states have massively increased their ownership share by 9 percentage points over the same period. This corresponds to an almost 50% increase, from 19% to 29%. Foreign and local states have instead sharply decreased their ownership share by 12 percentage points (with most of this decline coming from foreign states).

However, the aggregate trends mask the origin of these dynamics. For instance, did public equity investors sell to private firms or did they scale down their plants faster than other investors? To answer this question, we next introduce a decomposition that will be at the heart of our empirical analysis.

3.2 Decomposition: Capital Reallocation vs. Capital Utilization

We introduce a formal decomposition of ownership changes that distinguishes between *capital reallocation* and *capital utilization*. An investor can reduce its coal plant ownership by selling assets, or by scaling down its plants, or both. There is an analogy between the first *capital reallocation* term of this empirical decomposition and the conceptual notion of "leakage," in which investors choose to sell brown assets to another party. This is often contrasted with investors choosing to engage and take actions to change firm behavior, i.e. scaling down

[26]We define a state investor as foreign if it is affiliated with a local or state government in a different country as the plant it owns. For example, if Swedish state-owned utility Vattenfall owns a plant in Germany, its ownership would count toward the foreign state investor share, but if it owns a plant in Sweden, it would count toward the domestic state investor share. Figure IA.6 in the Internet Appendix lists the largest foreign state investments in firms in our sample.

existing plants. The second *capital utilization* term captures the ultimate change in firm behavior, but not the means by which it was achieved. In principle, a reduction in emissions within a given plant can come from three margins: changes in capacity (driven by permanent closures), changes in the ratio of output to capacity (driven by changes in current production), and changes in the ratio of emissions to output (driven by efficiency improvements). The baseline decomposition combines these three margins together in the capital utilization term, but further analyses study them in more detail.

Formally, the emissions ownership share of investor group g can change between t_0 and t because ω_i^g (plant ownership) changes and/or e_i (plant emissions) changes:

$$\begin{aligned}\Delta_{t_0 \to t}\text{Ownership share} &= \sum_i \omega_{i,t}^g \frac{e_{i,t}}{E_t} - \omega_{i,t_0}^g \frac{e_{i,t_0}}{E_{t_0}} \\ &= \sum_i (\omega_{i,t}^g - \omega_{i,t_0}^g)\frac{e_{i,t_0}}{E_{t_0}} + \sum_i \omega_{i,t_0}^g (\frac{e_{i,t}}{E_t} - \frac{e_{i,t_0}}{E_{t_0}}) + \sum_i (\omega_{i,t}^g - \omega_{i,t_0}^g)(\frac{e_{i,t}}{E_t} - \frac{e_{i,t_0}}{E_{t_0}})\end{aligned} \tag{2}$$

This is an exact decomposition of change in ownership share that includes three terms:[27]

1. **Capital reallocation $\sum_i (\omega_{i,t}^g - \omega_{i,t_0}^g)\frac{e_{i,t_0}}{E_{t_0}}$:** Keeping plant emissions constant, how much did changes in plant ownership contribute to the change in ownership share?

2. **Capital utilization $\sum_i \omega_{i,t_0}^g (\frac{e_{i,t}}{E_t} - \frac{e_{i,t_0}}{E_{t_0}})$:** Keeping plant ownership constant, how much did changes in plant emissions contribute to change in ownership share?

3. **Covariance term $\sum_i (\omega_{i,t}^g - \omega_{i,t_0}^g)(\frac{e_{i,t}}{E_t} - \frac{e_{i,t_0}}{E_{t_0}})$:** The effect of changing ownership exactly at plants that changed emissions. This is often the smallest term empirically.

This decomposition reveals that aggregate trends mask striking patterns, as illustrated in Figure 5. Perhaps surprisingly, the left panel shows that the decline in public equity investors' ownership was entirely driven by a quick decline in utilization, not reallocation, i.e. the capital

[27] The decomposition requires a balanced panel of units. For units that closed before the end of our sample, we set their owners at the time of closure to be their owners in subsequent periods and set their emissions to zero. For units that were created after the beginning of our sample, we set their owners at the time of creation to be their owners in prior periods and set their emissions to zero.

reallocation term is not negative. In other words, these investors have been closing or scaling down plants faster than other investors, and not selling to them. Thus, there is little evidence of "leakage" (asset sales) of public equity investors in coal power plants. (We discuss in detail the 2022 drop in public ownership share in a later section – we will see it differs from traditional "leakage").

This evidence sheds light on the widespread concern that firms, especially listed corporations, might respond to environmental pressure by only selling assets. We find that, in the case of coal, this is generally not the case: public equity investors are the group of coal plant owners that most aggressively scaled down since the Paris Agreement. This contrasts with the evidence on pollutive manufacturing plants in Duchin et al. [2022]. This is possibly due to the nature of coal being explicitly "enemy number 1" for many stakeholders and as such particularly scrutinized. In fact, many NGOs publish lists of institutions active in coal, such as the "Global Coal Exit List" regularly updated by Urgewald and its forty partner organizations. Our evidence is consistent with the case of fossil fuel plants in the United States [Andonov and Rauh, 2022], who find limited evidence of leakage.

Instead, the decomposition makes it clear that state investors played a crucial role. The right panel first considers states as a whole, pooling national, local, and foreign state investors. The decomposition shows a very large positive capital utilization term, which means that state investors have been the slowest group at reducing their plants' emissions. The right panel also shows a large negative reallocation term, indicating that some state investors sold coal assets during this time. This mirrors the very large positive reallocation term for private firms in the center panel. This implies that state investors were the ones that sold to private firms, this is where the "leakage" occurred. These two forces push in opposite directions and explain the why the aggregate ownership share of state investors has been relatively stable over the sample period. However, we can apply our decomposition within the state sector to show again diverging paths. Figure 6 shows that foreign and local state investors decreased their ownership purely via reallocation: they sold assets to private firms. National state investors

in contrast were the slowest to reduce their existing plants' emissions, implying a large rise in their ownership share. Overall, these facts suggest that states (as investors) have contributed to slowing down the transition away from brown capital.

Using the decomposition, we can estimate how ownership dynamics would have evolved in the absence of asset sales to other investors, i.e. without brown capital reallocation. This corresponds to the red lines of capital utilization. The private share would have increased by only 1 percentage point instead of doubling. The share of public equity investors would have still fallen by 7 percentage points but at the expense of an almost equal *rise* in state investor share, entirely driven by a failure of national states to scale down plants as fast as public equity investors. Note also that looking at emissions levels instead of shares does not change the picture.[28][29]

Technological differences: One potential concern is that differences between investors only reflects differences in technological obsolescence or efficiency of their initial capital.[30] We address this concern in two ways. First, we repeat the decomposition separately for subsamples of units of similar age in Figures IA.10, IA.11, and IA.12 in the Internet Appendix. The efficiency of coal power plants decreases with age.[31] We confirm that our key facts are not purely driven by composition effects across investors. There is nevertheless some intuitive heterogeneity across plants of different age: there is less reallocation among old units (which are more likely to be retired), and less difference in utilization across young units (which are

[28]In aggregate, emissions have been declining since 2015 in spite of a recent rebound in 2021, as shown Figure IA.7 in the Internet Appendix. Figure IA.8 shows that applying the decomposition to the level of emissions of each investor groups leads to similar results. We see a large transfer of emissions from state investors to private investors. Moreover, while all investors have reduced capital utilization between 2015 and 2020, public equity investors have reduced it relatively more. Public equity investors also increased utilization relatively less after 2021. We discuss the energy crisis that started in 2021 in more detail below.

[29]These effects are economically sizeable. One way to size economic magnitudes is to multiply emissions by an estimate of the social cost of carbon (SCC). For illustration, we provide a back-of-the-envelope number by following Adrian et al. [2022] that uses an average SCC of $80 per ton of CO2, the lower end of the range in Pindyck [2019]. The additional emissions owned by private investors due to reallocation (45MT) are worth $3.6 billion. Moreover, if state investors had reduced utilization as fast as public equity, the avoided emissions (22.5MT) would amount to $1.8 billion.

[30]Figure IA.9 in the Internet Appendix shows unit age across investor groups.

[31]Source: "Increasing the Efficiency of Existing Coal Fired Power Plants", Congressional Research Service, December 20, 2013.

less likely to be retired).

Second, we investigate the possibility that perhaps some investors have upgraded the efficiency of their plants instead of earmarking them for retirement. For instance, perhaps it is the case that the public equity emissions share declined in the short-run following investment in plant efficiency, but at the risk of these plants being kept open longer. State investors might be doing the reverse. To investigate this possibility, we collect generator-level electricity output from ENTSO-e and construct a plant-level measure of emissions intensity by dividing yearly emissions by yearly output. We find that technology upgrades are rare in the coal sector: increases of 10% or higher efficiency occur with a frequency of about 5% a year, as shown in Figure IA.13 in the Internet Appendix.

Moreover, the decline in public equity share cannot be explained by an increase in their plants' efficiency. Figure IA.14 in the Internet Appendix shows that states are doing most of the upgrading, with an uptick in recent years. The reverse is true for public equity investors. Changes in efficiency are also too small and infrequent to drive the results from the decomposition. The fact that states are upgrading more often than other investors is telling, as it is very plausible that an owner who plans to shut down a plant would refrain from upgrading the technology.[32] Overall, these additional findings support our main interpretation of states slowing down the transition. Section 5.2 discusses investment in efficiency within the context of our model.

Additional results and robustness: For reference, Section IA.1 in the Internet Appendix contains additional sets of results: (1) quantify the relative contribution of real reallocation versus financial reallocation to capital reallocation (i.e. how much of investors' sale of assets comes from trading plants vs. trading shares); (2) quantify permanent vs. temporary closures; (3) heterogeneity within public equity investors (i.e. Blackrock and Vanguard vs. others); (4) differences between reallocation in debt vs. equity; (5) apply the decomposition

[32]For instance, the Polish Opole plant was upgraded in 2019. Opole is owned by the state-controlled firm PGE. According to the Global Energy Monitor, "There are reports that the company is being politically pressured to proceed with the expansion despite rejecting it in April 2013 as unprofitable." (Link).

to the U.S.

An important robustness question is the role played by Germany and Poland, the two largest coal power-producing countries, in the results above containing all countries in the EU. To address this question, we look at the results of our decomposition excluding Germany and Poland, and we compare it to our pooled baseline decomposition that includes all countries (Figure IA.15 in the Internet Appendix vs. Figure 5). Comparing these two figures, we see that the four main facts all hold when we exclude Germany and Poland: (i) public equity ownership has declined substantially, (ii) driven by capital utilization (quick closures), not reallocation, (iii) national state ownership has been increasing, (iv) driven by utilization (slow closures). The fact that these aggregate facts are not driven solely by the two largest coal power-producing countries suggests that they are not driven by idiosyncratic factors in these two countries.

However, it is important to note that a fifth (and less central) fact is driven entirely by Germany. When considering the entire EU, foreign state investors have sold to private firms, but in the rest of the EU (excluding Germany) they have been closing plants fast. The German Energiewende policy likely played a role. The state made the conscious choice to phase out nuclear power and keep coal power plants open longer, creating barriers to freely closing plants during this time which might not have existed in other EU countries. For this reason, the rest of the paper takes country heterogeneity into account. Section 4.5 estimates an extension of the model in which the key parameter s, which captures valuation of social factors, varies over time and countries. Section 5.5. explicitly models the effect of an energy shortage (such as the exit from nuclear) on the state preference for keeping more coal plants open.

3.3 State Ownership of Brown Capital

States are strikingly large investors in coal power plants and played a crucial role in recent market dynamics. What are the underlying economic forces behind these dynamics? To start answering this question, we first delve into some of the (large) transactions that states have

been involved with since 2016. We formalize the takeaways in a model in the next section.

The E.ON-Uniper Asset Split: In 2016, Germany energy giant E.ON finalized an asset split between its renewable and distribution services on the one hand and fossil fuel power generation (including coal plants) on the other, creating a large new publicly-listed entity called Uniper to control its fossil fuel assets. The CEO of E.ON said: "This liberates us from continually having to make compromises."[33] Who purchased Uniper once it became independent? The answer is the state-controlled Finnish utility Fortum. Figure IA.16 in the Internet Appendix shows how sharply the ownership dynamics of E.ON and Uniper diverged.[34] By 2022, Uniper is fully state-owned, after a separate episode we describe next.

Recent Wave of Nationalization: 2022 and 2023 witnessed some dramatic episodes of nationalization, driven by concerns over "energy security" and a shortage of alternatives to coal. Energy prices started to rise in the EU in 2021, and the sector entered fully-fledged crisis in 2022 with the conflict in Ukraine and the significant decline of Russian gas imports. This resulted in a large switch to coal power production that led to an *absolute increase* in coal emissions after years of steady decline with an increase in aggregate capital utilization during this period.[35]

When Uniper, which was spun off from E.ON, went bankrupt in 2022 after it could no longer afford to pay for Russian gas imports, it was rescued by the German government in order to keep operating. This eventually became the largest corporate bailout in German history. The nationalization costed 8B€ to the German taxpayer. "Energy security" was cited as the primary motive for nationalization.[36] Germany also reverted some of its previous

[33]Source: "E.ON completes split of fossil fuel and renewable operations", The Guardian, January 4th, 2016; Link.

[34]Fortum eventually acquired a full controlling stake after a takeover bid was accepted in 2018. It initially purchased 50% of Uniper's stock, a share that increased to 75% in 2020. Source: "Finland's Fortum to gain control of Uniper in $2.5 billion deal", Reuters, October 8th, 2019; Link.

[35]The Internet Appendix describes the 2021-2022 rebound in more detail. Figure IA.7 shows the time series of aggregate coal emissions. Figure 1 shows that aggregate capacity has been declining throughout, so the rebound is driven by an increase in emission rates rather than new capacity additions.

[36]Source: "German Government Nationalizes Uniper in Move to Secure Energy Supply", New York Times, September 22, 2022; Link.

policies which were in favor of a coal phase-out.[37] Moreover, the Polish government announced in 2023 that it will purchase all coal power plants held by publicly- listed companies in Poland, spending close to $4 billion of taxpayer money in order to release the market pressure to close them.[38] The role of financial pressure was clear, with the government stating that "financial institutions have been limiting their involvement in financing entities with coal assets" and the CEO of PGE, the largest owner of coal plants in Europe, saying that the nationalization would help his firm with "obtaining financing for investments." The Polish government argued that the nationalization "will guarantee energy security."[39] Interestingly, these episodes did not seem to be driven purely by idiosyncratic political preference of parties opposed to climate change.[40]

Takeaways: We tend to view the role of states in the green transition (at least in the EU) through the lens of emissions targets or the introduction of renewable energy subsidies and carbon markets, i.e. a role that tends to reduce brown capital. Is there thus a "paradox" of rising (national) state ownership?

These episodes provide evidence that governments face competing objectives, even in places like Europe that have historically implemented more pro-climate policies. Governments often trade-off (short-run, local) social factors with (long-run, global) climate externalities. These social factors potentially include a desire to keep energy prices stable ("energy secu-

[37]Strikingly, it mandated the re-opening of plants it had previously subsidized to retire early. Source: "Germany Reopens Coal Plants Because Of Reduced Russian Energy", Forbes, July 8, 2022; Link. For example, Uniper was asked to extend the operations of its Heyden 4 plant with capacity of 875 MW in order to secure enough energy supply. The Heyden 4 plant had ceased operations after receiving a subsidy in a government tender in 2020. Source: "Uniper extends market operation of Heyden 4 and Staudinger 5 hard coal-fired power plants", Uniper, December 22, 2022; Link.

[38]Source: "Poland's PGE, Enea, Tauron, Energa get state offers for coal assets", Reuters, July 15, 2023; Link.

[39]Source: "Polish government outlines offer to buy coal assets from state energy firms", Notes from Poland, July 17, 2023; Link.

[40]In the case of Germany, the Finance minister that oversaw the nationalization was from the Green Party. In Poland, the new pro-EU government did not revert the energy policies of its Euro-skeptic predecessor. Germany: "The state will do everything necessary, that is evident, to stabilize companies and keep them operating on the market," Mr. Habeck said." Link . Poland: "Before taking office, the coalition signed an agreement that included commitments to "accelerate the green energy transition", including by "increasing the share of renewable energy sources in electricity production". However, progress on those fronts has been limited. After more than a year in office, the government has failed to enact a single law that would significantly move forward any of these energy commitments." Link.

rity"). For instance, using high-frequency bidding data Baranek et al. [2021] find evidence that state-controlled Italian utilities' production aims to reduce price volatility (while failing to internalize carbon pricing). Social factors may also include local jobs and income. There is evidence that a transition away from fossil fuels can cause broad-based negative impacts on local communities historically built around these industries [Blonz et al., 2023, Du and Karolyi, 2023, Brey and Rueda, 2024]. Social factors will be an important ingredient in our model below. We do not necessarily want to imply that states always behave as benevolent social planners, something we formalize in Section 5.5 below. Moreover, states are also less affected by financial pressure relative to corporations, as they have deeper pockets with the ability to tax and borrow in their name. They might also be less concerned about the risk of tighter future regulation or taxes since they can make or influence the legislation.

Micro-data on employment and the energy mix can help to make more concrete these potential social factors. With regards to employment, we can (coarsely) estimate the number of jobs directly associated with each power plant using data from the European Commission. Figure IA.17 in the Internet Appendix shows that state ownership accounts for approximately 50% of jobs throughout our sample, and a decline of 7 percentage points in the public equity share is matched with a rise in the private share. Figure IA.18 re-estimates our main decomposition using plant employment instead of emissions, and find similar results. This is hardly surprising given that employment is naturally correlated with generating capacity.[41] We also see large variation in coal employment across countries. Figure IA.19 in the Internet Appendix shows that Poland is the clear leader in coal employment, especially when including coal mining jobs as well, with Germany being second, albeit with a significant margin. There is also striking variation across countries in the role of coal in the energy mix. While the EU average was just over 20% in 2015, Poland generated 80% of its electricity from coal, and Germany over 40%.[42] This suggests that in the cross-section of state investors, Poland should

[41]Because the data is survey-based and not administrative we unfortunately cannot accurately measure layoffs beyond a decline in generating capacity.

[42]See this 2018 EU Commission report: EU coal regions: opportunities and challenges ahead.

place significantly more weight on social factors relative to the rest of the EU, with Germany potentially in the middle. We will test this prediction when calibrating the model below. It is also worth noting that, in a global context, countries that are expanding coal capacity, such as China and other emerging economies, tend to have significantly more state-owned enterprises than the EU and North America. At a global level, it is thus clear that the state ownership of coal assets is on the rise. Insights gleaned from our European evidence might thus be relevant more generally.

Foreign and local state investors: Note that foreign and local state investors behave differently from national (i.e. central) governments. Our decomposition shows that these other two groups did not scale down more slowly, and in fact reduced their ownership share through sales to private firms. It is plausible that foreign state investors do not internalize local social factors to the same degree when they occur outside of their jurisdiction. Local state governments might also face a different trade-off than national governments: they might highly value local factors, but perhaps put a smaller weight on climate externalities since they are typically absent from international climate negotiations. Selling to private firms might be a way to prolong the life of coal plants. A recent example concerns STEAG, which is a consortium of German municipal utilities operating six coal plants generating almost 5% of emissions in Germany. STEAG agreed in August 2023 to sell its business to the private investor Asterion. Only three months earlier, STEAG had made a public commitment to phase out the plants by mid-2026, so the sale may have been a way to renege on that promise.[43]

[43] *"While STEAG's current municipal utility owners want to wash their hands of its polluting assets, they should be aware that the current sale could leave the company's sustainability commitments in shreds."* Source: "Germany's 2.6 € billion sale of STEAG may delay company's coal phase-out", Institute for Energy Economics and Financial Analysis, October 26, 2023; Link.

4 The Economics of Brown Capital (Re)Allocation

4.1 Overview

To understand the economics of brown capital reallocation, we develop a parsimonious model with one key difference with traditional models: externalities in production. The presence of externalities will generate a number of new insights. We then calibrate the model to the data and conduct some counterfactual analyses to draw implications for the rise of "green finance" and how it interacts with government intervention, in particular nationalization.

Our model has three main ingredients, informed by the evidence above. First, owners differ in how they value externalities associated with brown capital. This differs from typical models which instead focus on differences in productivity, where some owners are better at operating a unit of capital. To focus on the role of externalities, the baseline model assumes away such productivity differences (an assumption we relax in Section 5.2). Dispersion in asset valuation will generate incentives to trade, regardless of whether they originate in productivity differences as in typical models, or in externalities as in our model.

Second, there are financial frictions in the acquisition of new capital. While this is a common impediment to trade in traditional models, their effects are particularly interesting in the presence of externalities. Indeed, trade is not necessarily (socially) efficient if driven by externalities. Retiring units instead of selling them is necessary to decrease emissions from brown capital. In that sense, impediments to trade, such as financial frictions, might improve capital allocation, instead of reducing it. This has the flavor of theories of the second-best.

Third, we take the structure of socially responsible investing seriously [Oehmke and Opp, 2024, Landier and Lovo, 2020, Green and Roth, 2021]. These theories have stressed the importance of the exact "mandate" of investors that value externalities. Investors might only care about externalities of the capital they currently hold, i.e a micro perspective (also referred to as a "narrow" or "value-alignment" mandate). On the other hand, investors might care about the effects of their capital allocation on aggregate externalities, i.e a macro perspective

("impact"). We will model the breadth of an owner's mandate directly through a specific parameter.

4.2 Setup

For tractability, we divide initial coal emissions into individual units (say 1MT of CO2) and model the decision of their owner to keep, sell or retire each of them individually over our sample period. For simplicity, we do not distinguish between hard retirements (closure) and soft retirement (leaving unit idle) in the baseline.[44] Units might differ in their profitability, with each unit i generating profits $\pi^i \sim F$. To focus on the role of externalities, the baseline model assumes that all owners have the same profitability π^i for unit i. Section 5.2 presents an extension in which investors can operate different technologies.

Consider the problem of an owner (investor) endowed with a particular unit of brown capital. They can (i) keep operating it, (ii) sell it, or (iii) retire it. The owner's valuation of the asset is the sum of pecuniary profits and non-pecuniary externalities.

Pecuniary profits: The pecuniary profits from operating one unit are given by π^i. This incorporates both the productivity and costs of operating brown capital. Importantly, this includes any cost of carbon that is internalized, such as carbon pricing, competition from renewables, etc. Selling a unit of brown capital generates a price P^i, which the owner takes as given. We will see below that sales will typically be made to a private buyer (whose demand is derived below). Retiring a unit yields zero profits.

Externalities: We augment the model to incorporate externalities. We first focus on (negative) climate externalities of operating brown capital. We assume that a private buyer values these externalities the least relative to other investors and normalize their non-pecuniary costs of operating a unit to zero. Other owners incur a cost of $-\epsilon$ when operating a unit. Retiring the unit removes this cost. We interpret this potential valuation "wedge" for brown capital as resulting from stakeholder pressure (active shareholders, creditors, consumers, etc.)

[44] See Internet Appendix IA.2 for a model extension with temporary closures. In the data, the decline in utilization comes from a mix of both.

faced by public firms relative to private firms.[45] On the other hand, the impact of selling crucially depends on the owner's mandate. Selling generates a negative payoff of $-\theta\epsilon$, with $\theta \in [0, 1]$. The parameter θ governs how *broad* the owner's mandate is [Oehmke and Opp, 2024]. If $\theta = 0$, they do not value externalities associated with assets they sell ("narrow mandate"). If $\theta > 0$, they have an "impact mandate:" they value (negatively) externalities from assets they sold and did not retire.

State investors differ from other investors in three important ways, but we defer the details of the state problem to a later section below.

Financial frictions: We assume firms face financial frictions in acquiring brown capital. In the baseline model, public equity investors have no incentives to trade among themselves. There are however potential incentives to trade some units with private buyers. (We defer the case of selling to the state to Section 5). A competitive private owner purchasing unit i of brown capital at price P^i receives a payoff:

$$\pi^i - P^i$$

Absent financial constraints, the market clearing price is given by $P^{i*} = \pi^i$, a value that ignores externalities. However, we assume that the buyer has no cash on hand and must raise fund on capital markets. They can only pledge a fraction $\xi \leq 1$ of future profits to financiers, who provide capital elastically and ask for an expected return of $r \geq 1$. The unit can thus only be purchased if:

$$\xi\pi^i \geq rP^i \iff P^i \leq \frac{\xi}{r}\pi^i$$

The ratio ξ/r measures how loose financial frictions are. A lower ratio implies tighter constraints and an equilibrium price below π^i. As $\xi/r \to 1$, the price converges to its unconstrained value. Note also that this ratio measures the financial pressure faced by potential *buyers* of new capital; any pressure faced by existing owners is captured instead by the pa-

[45] One example of stakeholders include creditors. Green and Vallee [2022] argue that banks' environmental commitments can cause closures of coal power plants.

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4.3 Equilibrium: Baseline

In this section we described the equilibrium allocation of brown capital in the presence of different investors. For ease of exposition, we first focus on public equity investors and financially constrained private firms. We incorporate state investors in the next section.

4.3.1 Public equity investors

Consider a public firm owning some units with different profitability $\{\pi^i\}_i$. The decision to keep, sell or retire a unit will depend on two crucial parameters: (i) the market price P^i (ii) the breadth of its mandate θ. The payoff for each unit is given by:

- *Keep:* $\pi^i - \epsilon$
- *Retire:* 0
- *Sell:* $P^i - \theta\epsilon$

We first illustrate the key role played by investment mandates. Figure 7a shows the choice made by an owner with a mandate $0 < \theta < 1$. That means they (partially) internalize the externalities of units that they sell. In that case, they only keep units that are sufficiently profitable (π^i is high) when their price P^i is low enough. If the price is high enough, they prefer selling, and if the unit is not very profitable, they prefer to retire it.

Contrast this with the choices made by an owner with a narrow mandate $\theta = 0$. To be clear, this investor can strongly dislike emissions, but only for units that it keeps. Figure 7b shows that such an owner *never retires* units. When the market price is high relative to profitability, it sells these units to private firms. Intuitively, retiring gives a payoff of zero, while selling yields a non-negative price. When the price is low, that dissuades them from selling, but does not incentivize them to retire any units: they now prefer to keep some of the

high-profitability units because the price is lower, but they still prefer selling low-profitability units. Even in the limit, they would rather sell these units for a penny rather than retire them. Narrow mandates thus only lead to pure reallocation and aggregate emissions do not fall. This is a key point: it is not enough that investors care about climate externalities, it crucially matters *how* they care.

4.3.2 Market equilibrium and the effects of financial frictions

We illustrate the market equilibrium for trading brown capital graphically in Figure 8. The demand curve from private firms is driven by financial frictions, while the supply curve is driven by investment mandates, as described previously.

This highlights the key role played by financial frictions. To this end, consider first the case in which they are absent. The top panel of Figure 8 shows the case of no financial frictions ($\xi/r = 1$). In that case, the market price is at its highest possible value for each unit $P^i = \pi^i$, and the private firms' demand is the 45 degree line. As a result, owners do not keep any units in equilibrium. Units are sold to a private buyer, with the exception of units with very low profitability which are retired. Most of the units are sold because the private buyer does not value externalities and has the highest valuation for the asset; there are thus large incentives to trade. The only limit to trade is the breadth of the owner's mandate. If $\theta > 0$, there is penalty incurred for selling brown capital instead of retiring it. This penalty is large enough only for units with low profitability.

The presence of financial frictions reduces selling and increase retirements. The bottom panel of Figure 8 shows that when the price is lower than its unconstrained value of π^i, the owner now keeps some units with high profitability since selling is less attractive. But importantly, aggregate emissions also fall: the owner also retires more low-profitability units, as the price is no longer high enough to justify incurring a selling penalty. If financial constraints are strong enough, the price falls so much that the owner stops selling altogether and even more units are retired. Interestingly, note also that with narrow mandates ($\theta = 0$), tighter financial

constraints have no effect on aggregate emissions, as they only redistribute ownership.

4.4 State ownership

States are large owners of coal power plants. We introduce states into our equilibrium model in such a way to rationalize two key facts: (i) national states scaled down less than public equity investors, (ii) foreign and local states sold more to private firms and scaled down less than other investors.

We assume states deviate from other owners in three important ways. First, they positively value local social factors that are not valued as highly by other owners. Keeping a domestic unit open generates an additional payoff of $s > 0$ to the state. We interpret this potential valuation "wedge" for brown capital as driven by jobs and local activity associated with plants, but also stable energy prices for the rest of the economy ("energy security"). These could potentially be positive externalities under-valued by non-state actors, but note that we do not want to imply that states necessarily act as a benevolent social planner. The framework allows for such social factors to be potentially mis-valued due perhaps to regulatory capture or other political considerations from the government,[46] and we will recover the overall magnitude of s from state investors' behavior in that data.

Second, different types of state investors might internalize climate externalities to varying degrees. The empirical evidence suggests that foreign and local states have a lower θ than national states. Third, we assume that financial constraints are not binding should it want to buy a plant from another owner.

These assumptions make it easy to rationalize the two facts above. The first assumption can explain why national states scaled down less than public equity investors. Valuing social factors reduces the payoff of retiring a plant. Figure 9 shows capital choice changes in the case of $s > 0$. The larger s is, the more units are kept. Moreover, the second assumption can explain why foreign and local states sold more to private firms and scaled down less than

[46]For the example, in the context of Germany's energy policy, Jarvis et al. [2022] estimate that the decision to phase-out nuclear power had a large social cost.

other investors. As discussed above, an owner with a low θ has a high propensity to sell rather than retire units.

4.5 Model calibration

We calibrate the model using our microdata. Our decomposition of ownership dynamics can be used to identify the key parameters. To take the model to the data, we make the following additional assumptions. Profitability is normally distributed with $\pi^i \sim N(\bar{\pi}, 1)$. Since payoffs are unit-less, there is one degree of freedom and we normalize the standard deviation of profitability to unity.[47] We allow for different breadth θ of mandates across public equity investors, national state investors, local state investors, and foreign state investors. To reduce the effects of different technologies across plants, we only include data for plants between the 10th and 90th percentile of plant age.[48] To restrict the impact of nationalization only to the counterfactual analysis, we modify the ownership shares in 2022 for Uniper by reversing the nationalization in that year.

Table 1 summarizes the calibration of the baseline model. There are nine parameters to estimate, which are jointly identified by nine moments from our decomposition. Section IA.3 in the Internet Appendix describes the underlying estimating equations and mapping to the model in more detail, including proofs that the model parameters are identified. To build intuition, we provide some heuristic (and partial) arguments behind identification here.

We take a "revealed preference" approach. For different investor groups, we use our decomposition to observe different margins of behavior: how much of an investor's initial capital is kept, sold, and retired by the end of the sample. Since there is heterogeneity among investors, some investors care about factors that others do not, and their *differential behavior across margins* are used to recover the model parameters. Exploiting differential (i.e. relative) effects is

[47] The model can be easily extended such that the mean profitability depends on the age of the plant.

[48] Table IA.3 in the Internet Appendix shows robustness to using a more homogeneous sample of plants with age between the 33th and 66th percentiles. Estimated parameters are very similar to our baseline sample. Recall also that Figure IA.11 in the Internet Appendix shows that applying our decomposition in that sample yield very similar results than on the entire sample.

at the core of modern reduced-form identification techniques, such as difference-in-differences.

For instance, average profitability $\bar{\pi}$ is recovered from the behavior of private investors, since in the model this is the only factor entering their payoff. Formally, the empirical share of units initially owned by private firms that end up being retired, denoted by $R^{private}$, identifies $\bar{\pi}$ by inverting their model-implied decision rule. In the model, $R^{private} = \mathbf{P}(\pi^i < 0) = \Phi(-\bar{\pi})$, which implies that $\bar{\pi} = -\Phi^{-1}(R^{private}) = 0.63$, where Φ is the normal cdf. The parameters governing climate externalities ϵ and financial frictions ξ/r are recovered from the behavior of public equity and foreign state investors. This is because these investors care about these factors, but not social factors s. Intuitively, these investors' propensity to close *relative* to private investors is informative about climate externalities ϵ. In turn, their propensity to sell is informative about financial frictions ξ/r. Finally, we can recover the respective value of their mandate parameters $(\theta^{public}, \theta^{FS})$ by comparing these two investor groups to each other. Namely, their differential propensity to sell and to close are two moments that help pin down these parameters. Finally, we identify the value of social factors from the behavior of national and local states relative to the two investor groups above that do not value s. For both types of state investors, we can recover their own value of s and their mandate θ from their propensity to retire and sell units that are not explained by profitability, climate externalities or financial frictions.

We find reasonable values for model parameters, reported in the last column. There has been a large aggregate decline in profitability of coal since 2015, implying that about 25% of initial capital is no longer profitable.[49] The valuation ϵ of climate externalities is large (25% larger than average plant profitability). Local and especially national states however strongly value social factors, with s being in fact almost as high as climate externalities ϵ for national states. Financial constraints are binding, with the ratio ξ/r being below unity. The magnitudes of investor mandates θ are also intuitive. Foreign state investors have narrower mandates relative to national and local states and public equity investors.

[49] If we use data only up to 2020, as much as 43% of initial capital would no longer profitable. This highlights how much the recent energy crisis has increased the profitability of coal.

Extension: We complement the baseline calibration with an extension that investigates some of the (admittedly limited) cross-country and time variation in the data. Specifically, we extend the calibration along two dimensions. First, we allow for regional heterogeneity among domestic state investors and re-calibrate θ and s separately for Poland, Germany, and the rest of the EU (pooling national and local states). Second, we explicitly study the reversal due to the the energy crisis by comparing the estimates when the sample ends in 2022 versus 2020.

Table IA.4 in the Internet Appendix summarizes the results. First, we find important cross-sectional differences across state investors. In the pre-energy crisis sample, s is strikingly large in Poland, being twice as large as climate externalities (0.95 vs. 0.47), signficantly larger than in other regions. This is consistent with these countries actively implementing energy policies that favors alternatives to coal (Russian gas, nuclear, renewables). Germany in particular is estimated to have an s essentially equal to zero, in line with the environmental policy to phase-out coal by a reliance on gas. However, we observe a drastic increase in s for all states once we include data up to 2022. The case of Germany is particularly striking, with s increasing from zero to 0.38, now level to other EU countries outside of a Poland. Germany's plan to rely on Russian gas to replace nuclear and coal power generation was severely disrupted with the start of the Ukrainian-Russian conflict in 2022. We also find that the profitability of coal is dramatically higher in this sample. Overall, these parameter values are consistent with a reduction in the supply of alternatives to coal and salient "energy security" concerns in recent years. We view this extension as additional evidence supporting the underlying economics of the model.

5 Implications

In this section, we use the baseline calibration of the model to illustrate some of the key economic implications of brown capital reallocation. In particular, we focus on the effects of

the rise of "green finance," understood broadly as the increased attention paid by financial institutions to the carbon content of their capital allocation. We argue that, while "green finance" can decrease aggregate emissions, the existence of states as investors is an important limit.

5.1 The rise of "green finance"

Through the lens of the model, a more climate-conscious financial sector has two effects. First, it tightens financial constraints for potential buyers. As more financial institutions become conscious of the emissions content of their portfolio, it becomes increasingly difficult to finance brown assets. This would lower the ratio ξ/r, either by increasing the financiers' expected rate of return and/or reducing the pledgeability of brown assets (i.e. worse collateral). Second, it can also increase the share of investors with an "impact" mandates, increasing the parameter θ. There have been many campaigns to convince investors not to sell assets to reduce their carbon footprint but instead actually to use their influence to scale down brown assets (exercise "voice" over "exit").[50]

In equilibrium, we have seen how tighter financial constraints reduce aggregate emissions because they depress the market price of brown capital, making selling less attractive relative to scaling down a plant. Broad mandates have similar effects of making selling less appealing. In that sense, the rise of "green finance" can reduce aggregate emissions.

Quantitatively, both forces appear to be important. In our calibration, removing financial frictions ($\xi/r = 1$) increases aggregate emission by 4 percentage points. Implementing narrow mandates for public equity investors produces similarly large effects. In the counterfactual in which public equity investors have mandates as narrow as foreign states ($\theta = 0.57$), aggregate emissions are 4 percentage points higher. Including both effects leads to an increase in emissions of 7 percentage points, slightly crowding each other out.

[50]For instance, the NGO Beyond Fossil Fuels calls for pushing "fossil fuel companies [...] towards a rapid and just energy transition that includes **commitments to close (not sell)** coal plants by 2030." Source: https://beyondfossilfuels.org/finance-and-corporates/. Emphasis added.

5.2 Investment in plant efficiency

An important margin that is omitted from the baseline model is the possibility to invest in technologies that increase plant efficiency. Differential access to these technologies means that some owners can operate plants more efficiently than others. This idea is often associated with the pros and cons of private ownership. For instance, Andonov and Rauh [2022] document that private owners of fossil fuel tend to operate more efficiently in the U.S.[51] While in our data other types of investors also invest in efficiency to some degree, we focus in this section on investment by private investors because the underlying economics are richer.[52]

We extend our model to study investment in efficiency by private owners. We ask two questions: How does it change the incentives of incumbent owners to sell, close or keep their plants? How does it affect aggregate emissions? We extend the model in the following way. Assume that private owners have access to better technology to run plants more efficiently. Adopting this technology costs $c > 0$ per unit. It has two potential benefits. First, it generates a pecuniary increase in profits of αc, with $\alpha > 0$. Second, it generates non-pecuniary benefits by reducing emissions by a factor $\beta \in (0, 1)$. For instance, reducing the amount of fuel required to produce one unit of output would increase both α and β. Carbon capture would only directly increase β.[53] The possibility of upgrading means that sales are no longer zero-sum for pecuniary profits or emissions in the model.

It will be important to distinguish between the two sources of "efficiency". If $\alpha \geq 1$, the investment is efficient purely in terms of pecuniary profits: it "pays for itself". On the other hand, a technology with $\alpha < 1$ but with β high enough can be efficient once non-pecuniary benefits are taken into account. The implications for trading, closure, and emissions depend on which case prevails.

[51] See also Im [2024], Bai and Wu [2024], Demirer and Karaduman [2024]. Bellon [2021] finds more subtle effects of private buyouts on pollution depending on environmental liability risks.

[52] If public equity investors can also invest in efficiency, the effects are simple: any "efficient" investment is implemented and that increases incentives to keep units over turning them off or selling them. In the notation of this section, investment is efficient if either $\alpha \geq 1$ and $\beta \geq 0$, or if $\alpha < 1$ and $\beta\epsilon \geq (1 - \alpha)c$.

[53] In the presence of carbon pricing, reducing emissions would also increases pecuniary benefits.

Consider first the case in which $\alpha \geq 1$. Investment is always "efficient", whether or not externalities are taken into account. Since investment is valuable purely from a pecuniary perspective, any units sold to private buyers will be upgraded. That in turn increases the market price of brown assets from $P^i = \pi^i \xi / r$ to $P^i = (\pi^i + c(\alpha - 1))\xi / r$. Incentives to sell thus unambiguously increase. This is because there is no trade-off: investing raises both the buyer's value and the selling price. This is the traditional force in classical capital reallocation models, with capital flowing towards most efficient users.

The economics are more subtle if $\alpha < 1$. Upgrading a unit requires both commitment from the private buyer and strong enough green finance. A private buyer with no non-pecuniary valuation of climate externalities has no incentives to invest ex-post given that it bears a pecuniary cost c that is not compensated by a commensurate pecuniary increase in profits. Thus, sale must be accompanied by a promise to invest, which raises practical issues on challenges on the enforcement of such a promise. This alone reduces the likelihood that investment in efficiency will be implemented.

Credible promises are, however, not sufficient to trigger sales and investment. Even with buyer commitment, there is a trade-off for the seller: (i) the price received is lower, but (ii) the emissions of the unit are lower. The payoff of selling with investment is higher than that of selling without investment if $\xi/r(\pi^i - (1-\alpha)c) - \theta(1-\beta)\epsilon \geq \xi/r\pi^i - \theta\epsilon \iff \frac{\beta\epsilon}{(1-\alpha)c} \geq \frac{\xi/r}{\theta}$. This condition is only true if "green finance" is strong enough, i.e. if ξ/r is low and θ is high. This condition is intuitive. When financial frictions are high (ξ/r is low), the price discount is relatively smaller, increasing incentives to sell. When mandates are broad (θ is high), the buyers value the reduction in emissions of the sold asset. In fact, when $\theta \to 0$, even very valuable technologies (in the sense that $\frac{\beta\epsilon}{(1-\alpha)c}$ is high) are not implemented because the buyer does not internalize the reduction of externalities.

The two cases have different empirical predictions. The case of $\alpha \geq 1$ implies frequent sales to private firms that improve efficiency. The case of $\alpha < 1$ implies fewer sales and promises of upgrades that are not always followed. The latter is perhaps more consistent with the rare

occurrence of upgrades in our data, as well as the anecdotal evidence of some investors (i.e., STEAG) selling to private buyers which are often followed by reneging on promises to improve efficiency.

The impact on aggregate emissions depends on how upgrades change the margins of turning off vs. selling vs. keeping a unit. In general, incentives to sell instead of turning off plants increase.[54] This perverse effect implies that any decline in emissions coming from investment in efficiency might in fact not be as beneficial as they seem: it might have come at the expense of turning off the plant. As long as $\beta < 1$ and the investment does not entirely remove all emissions (e.g. no perfect carbon capture), this effect will be at play.

The overall effect on emissions is nevertheless ambiguous. This is because there are also "good sales" from the point of view of emissions: more units are sold (and upgraded) instead of being kept. On the one hand, more plants are open (extensive margin) but a fraction of them operate more efficiently (intensive margin).[55] Interestingly, this implies that making upgrades "more efficient" in terms of an increase in pecuniary profits might actually backfire for mitigating emissions. Figure 10 shows a numerical illustration in our calibrated model. The x-axis reports the pecuniary profits α of the investment (fixing c and β), while the y-axis reports the change in emissions associated with the introduction of the technology. When pecuniary profits α are low, emissions decline: there is little increase in open plants, and instead all previously sold plants now emit less. However, when pecuniary profits α are high, the reverse occurs. Emissions actually increase, as many more plants are no longer turned off but sold instead. Even if they each emit less than without the technology at the intensive margin, the extensive margin dominates. This reallocation channel creates a downside to the investment "paying for itself" in this setting.

[54] If $\alpha \geq 1$, this is always true. If $\alpha < 1$, it requires the same condition as above: $\frac{\beta\epsilon}{(1-\alpha)c} \geq \frac{\xi/r}{\theta}$.

[55] Formally, coal emissions increases by:

$$\underbrace{(1-\beta)\epsilon\left(F\left(\frac{\theta\epsilon}{\xi/r}\right) - F\left(-(\alpha-1)c + \frac{\theta(1-\beta)\epsilon}{\xi/r}\right)\right)}_{\text{more plants sold}} - \underbrace{\beta\epsilon\left(F\left(\frac{\epsilon(1-\theta(1-\beta)) + (\alpha-1)c\xi/r}{1-\xi/r}\right) - F\left(\frac{\theta\epsilon}{\xi/r}\right)\right)}_{\text{sold plants upgraded}}$$

where F is the cross-sectional distribution of pecuniary profits π^i.

5.3 Government intervention and nationalization

Importantly, we argue that "green finance" affects not only the decisions of firms, but also the incentives of the state to intervene. In our model, there are two reasons why the state might potentially want to step in: climate externalities and social factors, both of which are potentially undervalued by firms and investors. We consider each in turn.

Climate externalities: The state might prefer to have some units retired rather than being sold to private buyers, for example by subsidizing plant closure. The economics of the model shows that incentives to intervene are largest when three conditions are met. First, climate externalities are large relative to social factors ($s << \epsilon$), such that there are many units that the state would prefer to retire. Second, financial frictions are low (ξ/r is close to one). Third, owners do not internalize climate externalities when they sell (θ is low). In these cases, the incentives for firms to "exit" are the largest. Intuitively, the rise of "green finance" can thus help correct climate externalities and substitute for government intervention to retire plants.

In our calibration, we actually find no units that the state would like to close due to climate externalities. This is due to two factors. First, states highly value social factors, by almost the same magnitude as climate externalities. Second, financial frictions are high and public equity investors have a broad enough mandate, such that they often prefer to retire units rather than selling them to private firms.

Social factors: Interestingly, the picture looks very different when considering potential social factors. When the state values aspects such as "energy security" relatively more than other investors, that introduces the possibility of nationalization: the state might want to purchases a unit that another owner plans to retire. Interestingly, in our model nationalization

tend to be cheaper than subsidies to keep units open.[56]

Through the lens of our model, the incentives to nationalize are the largest when: (i) social factors are highly valued relative to pecuniary profits; as well as (ii) financial frictions are tight; and (iii) firms' mandate are broad, such that firms' incentives to retire are large. In that sense, the rise of "green finance" can actually increase the incentives to intervene because of social factors.[57]

In our calibration, we find that these effects are substantial. 48% of units retired by public equity investors are potential targets for nationalization (representing 27% of initial emissions). However, incentives to intervene are smaller in the counterfactual with no financial frictions and narrow mandates. In that case, the number of targets is reduced by a third.[58]

The existence of state investors is thus an important limit to the ability of "green finance" to reduce aggregate emissions. Indeed, the state has incentives to undo some of the effects of climate-conscious investors if it believes they do not sufficiently value social factors. This is consistent with the narrative of the recent nationalization in Poland.[59]

Permanent vs. temporary closure: What if firms have the possibility to only temporary scale down their units, preserving the option value of turning them back on later? Section IA.2 in the Internet Appendix shows that this reduces, but crucially does not eliminate, in-

[56]Subsidies tend to be more expensive than nationalization as long as owners do not fully internalize climate externalities ($\theta^O < 1$). Intuitively, in that case an owner requires less compensation to sell a unit rather than keep operating it. To see this, a subsidy $\Delta > 0$ convinces an owner to keep a unit open if $\pi^i - \epsilon^O + \Delta > 0$ (taking the subsidy must also be more attractive than selling, but this constraint is slack for the type of units that would be retired absent subsidies). The lowest subsidies that can be offered is thus $\Delta = \epsilon^O - \pi^i$, which is positive since the owner would retire it without subsidies. The cost to the state is thus $\Delta = \epsilon^O - \pi^i$, which is greater than the net cost of buying a unit (at price $\hat{P} = \theta^O \epsilon^O$) of $\theta^O \epsilon^O - \pi^i$. This can potentially explain why the recent wave of nationalization was not implemented as new subsidies. In our calibration, subsidies would in fact be 90% more expensive than nationalization for the median target, given the moderate level of public equity investors' mandate θ.

[57]There is a potential link with arguments that "E" is being over-weighted relative to "S" within the ESG framework [Saul, 2022].

[58]Note also that the state must pay a premium over the market price P^i. Indeed, a price higher than the market is necessary to convince an owner wanting to retire to change its mind. Assuming that the state can make a take-it-or-leave-it offer to its owner, the minimum price that must be offered is $\hat{P}^i = \theta\epsilon$. In our calibration, the premium of the medium target is 82% of its market price. The premium is high because public equity investors both highly dislike climate externalities and have a broad mandate, making them reluctant to sell. However, when financial frictions are tight, the market price is low to begin with.

[59]Note again that we do not want to imply that the Polish government is a benevolent social planner, but rather that it values factors that climate-conscious private investors might value less.

centives for the state to nationalize plants. This is because the private sector has still some incentives to permanently retire units. Intuitively, for the least profitable plants, the option value is not large enough to outweigh the costs of temporarily turning off a plant, whether they are pecuniary cost (i.e. fixed operating cost) and non-pecuniary (i.e. the possibility of future emissions). A larger cost of climate externalities ϵ exacerbates these incentives to permanently retire units.

5.4 The profitability of brown capital

Pigouvian principles suggest that the most natural way to phase-out carbon-intensive capital is to reduce its profitability, via a variety of economic mechanisms (i.e. a carbon or fossil fuel tax). We argue that these policies might have smaller short-term effects than typically thought because because they do not only influence private sector investors but also *state investors'* incentives to intervene. Concretely, some states have incentives to "get in the way" with the looming threat of nationalization.

Through the lens of our model, we can study a sudden decline in profitability π without a significant change in s. For example, a sharp rise in carbon pricing is likely to reduce the profitability of coal without alternatives growing equally fast, as clean power investment takes time to build. While it increases incentives for firms to quickly retire units, it would also preserve incentives for the state to intervene to prevent retirements. In our calibration, decreasing average profitability by 50% without changing s leads a 12 percentage point reduction in emissions, but very little reduction in the incentives to nationalize units. This is perhaps part of the rationale for "gradualism" in clean energy policies.

For illustration, in a counterfactual in which average profitability and the value of social factors for brown capital s *both* decline by 50% , aggregate emissions falls by an additional 15 percentage points (relative to 50% in the data). In addition, the effects on reducing incentives to nationalize are equally large: the share of potential targets would be two-third smaller and fall by 29 percentage points. This scenario is consistent with a more mature renewable power

generation and storage network that competes with existing coal plants.[60] The next section explicitly incorporates investment in alternatives to understand the joint policy decision to support renewables versus fossil fuel.

5.5 Climate policy and investment in alternatives to coal

The dynamics of coal are part of a broader energy transition in which governments can also foster investment in alternatives, such as renewable energy sources. In this section, we introduce a more general government problem that formalizes some of the key trade-offs in order to understand what factors drive the optimal energy mix and the pace of the transition.

The extension has three key ingredients. First, it introduces a constraint: coal plants that are closed must be replaced by alternatives. The most straightforward way to think about it is in terms of stable energy supply: any generation capacity lost from coal must be compensated by alternative energy sources, such as renewables. We will adopt this formulation below. Alternatively, one can think of an stable employment constraint: any jobs lost in coal must be compensated by re-training workers or creating alternative jobs. Second, providing these alternatives is costly. Renewable power infrastructure is capital intensive and takes significant time to build, while the negative effects of job losses in fossil fuel communities are typically persistent [Blonz et al., 2023, Du and Karolyi, 2023, Brey and Rueda, 2024]. Third, keeping coal plants operating generates negative climate externalities, but the government might potentially under-value them due to free-riding, regulatory capture, political preferences, etc. We first focus on the planner's problem. We discuss potential policy tools to decentralize the optimal allocation afterwards.

The government faces the following constrained optimization problem. Existing units of

[60] This is the mirror image of an "energy crisis." A sudden reduction in alternatives to coal (i.e. ending gas imports) would likely have two effects. First, an increase in electricity prices would increase the profitability of coal π, reducing incentives for firms to retire units. Second, an increase in s would also increase incentives for the state to both stop paying to retire units and for nationalizing more units. This is consistent with the experience of Germany in 2022 described above. In our calibration, increasing average profitability and s by 30% would increase aggregate emissions by 8pp, and the share of potential targets for nationalization would increase by 17pp (or about 5% of 2015 emissions).

brown capital are indexed by their pecuniary profits $\pi^i \sim F$. The government puts a weight $\delta \in [0,1]$ on climate externalities ϵ, which allows for potential mis-valuation. The first decision margin for the government is whether to keep each plant open (indicator variable $o(\pi^i) = 1$) or to turn it off (indicator variable $o(\pi^i) = 0$). The second margin is how much to invest in alternative clean power I_A. The constraint is that total energy supply must stay constant. The policy trade-off is that open power plants generate negative climate externalities but investment in alternatives is costly, with cost $c(I_A)$ convex and indexed by a parameter η. For ease of exposition, we make some simplifying assumptions to ensure a unique solution: coal plants all generate the same output q, and investment costs in alternatives are given by $c(I_A) = \frac{(1+I_A)^{1+\eta}}{1+\eta}$, with cost parameter $\eta > 1$.[61] Formally:[62]

$$\max_{o(\pi^i), I_A} \underbrace{\int_{\pi^i} o(\pi^i)(\pi^i - \delta\epsilon) dF(\pi^i)}_{\text{open coal plants}} \underbrace{-c(I_A)}_{\text{cost of alternatives}} \quad \text{subject to} \quad \underbrace{I_A + \int_{\pi^i} (1 - o(\pi^i)) q dF(\pi^i) \geq 0}_{\text{Constraint on energy supply (or employment)}}$$

This model suggests a natural micro-foundation for the value of social factors $s > 0$: it is related to the Lagrange multiplier on the energy supply (or employment) constraint. The model also shows how the trade-off between closing plants and investing in alternatives is shaped by two key forces: the valuation of climate externalities δ and the investment cost η.

We illustrate these forces in two important settings. The first is the main trend behind the recent energy transition: the significant decrease in the cost of building solar and wind plants in the last decade. However, the pass-through of declining costs to investment depends on the

[61] We also assume that there is at least one coal plant with negative profits $\pi^i < 0$. It is straightforward to relax all these assumptions. Under these assumptions, the optimal coal plant closure policy follows a cutoff rule: a plant stays open if its profits are high enough, i.e. $o(\pi^i) = 1 \iff \pi^i \geq \hat{\pi}$. Moreover, the solution is interior and the constraint is binding. Denoting the Lagrange multiplier by λ, the optimal policy mix is determined by the following sets of first-order conditions:

$$\begin{aligned} \hat{\pi} + \lambda q &= \delta\epsilon \\ c'(I_A) &= \lambda \\ I_A &= qF(\hat{\pi}) \end{aligned}$$

[62] To re-cast this problem in terms of preserving employment, we can re-label q as l, the average employment per unit of capital, and $c(I_A)$ as $c(L_A)$, the cost of re-training and/or creating new jobs for L_A workers.

government valuation of externalities. For example, Figure 11 shows that the pass-through can be close to zero when δ is significantly below 1. Technological improvements in renewables are thus not a necessary condition for a fast energy transition if governments fail to internalize the true social cost of carbon. This is because the pecuniary costs of keeping plants open for a few more years is often relatively low.

The second setting is the response to an energy shortage. Such shortages can create important obstacles to the energy transition. For example, the drop in Russian gas imports in 2022 forced many European countries to look for alternative sources of energy. Phasing-out nuclear power, like Germany did, is another example. This can be modeled as a tightening of the constraint: $I_A + \int_{\pi^i}(1 - o(\pi^i))qdF(\pi^i) \geq \Delta Q$, where ΔQ is the lost energy supply (i.e. lost Russian gas or nuclear capacity). We find that a drop in energy supply changes the government trade-offs and optimal energy mix. The "social benefits" of keeping coal plants open endogenously increase as the Lagrange multiplier on the constraint rises.

That leads to an increase in coal generation, potentially reverting a previous decline due to technological improvement in renewables. Figure 12 shows that even a benevolent government (with $\delta = 1$) aggressively ramps up coal generation after a shortage. Interestingly, it might even respond more aggressively than in a case with $\delta < 1$. This is because, absent any energy shortage, a benevolent government would invest heavily in alternatives, so that investing further is particularly expensive due to convex costs, especially in the short-run. A government that under-values climate externalities might actually decrease its coal share when the shortage is high enough since it starts from a lower level of alternatives - so that investing further is relatively less expensive. In this sense, energy security concerns may impede the energy transition, consistent with the recent experience of European countries. Competing government objectives can explain reversals in climate policies after energy shortages. For instance, in 2022 Germany mandated the re-opening of coal plants it had previously subsidized

to retire early.[63]

Implementation is nevertheless an important open question: what specific form should government intervention take? In practice, different policy tools have been implemented by governments to varying degrees, and how to best combine them is a topic of active research [Blanchard et al., 2023]. We thus conclude with a discussion of three common tools in our context: regulation, asset ownership, and Pigouvian taxation.

Whether regulation or state ownership is more appropriate is a classical question in economics. Drawing on the theory of incomplete contracting, Hart [2003] emphasizes a "very close parallel between the theory of the firm and [nationalization]." When contingencies can be specified in advance, regulation is close to complete contracting and there is little benefit in assigning residual control rights through ownership. However, "if contracts are incomplete, as they are in practice, there is a case for the government to own an electricity company [...] since ownership gives the government special powers in the form of residual control rights" [Hart, 2003]. A rise in uncertainty in a strategic sector can thus accelerate state ownership. This perspective can potentially help explain why Germany nationalized Uniper instead of introducing new regulations given the need to quickly stabilize energy supply in a uncertain environment.[64]

Moreover, state ownership of brown assets can interact with more traditional Pigouvian taxation. In an important recent study, Baranek et al. [2021] show that state-owned energy firms in Italy do not internalize carbon pricing in their production decision. Instead, these firms seem to produce in order to reduce fluctuations in energy supply. Given the rise in state ownership documented above, this result has important implications for the pass-through of traditional carbon policies. More generally, concerns about energy supply can influence the optimal level of carbon pricing. An important missing piece is how large social benefits

[63]Source: "Germany Reopens Coal Plants Because Of Reduced Russian Energy", Forbes, July 8, 2022; Link. For example, Uniper was asked to extend the operations of its Heyden 4 plant with capacity of 875 MW in order to secure enough energy supply. The Heyden 4 plant had ceased operations after receiving a subsidy in a government tender in 2020. Source: "Uniper extends market operation of Heyden 4 and Staudinger 5 hard coal-fired power plants", Uniper, December 22, 2022; Link.

[64]France also decided in 2023 to take the electricity giant EDF off the stock market and fully nationalize it.

of keeping brown capital operating are *quantitatively*. While there is a large literature on quantifying the the social cost of carbon (see for instance Adrian et al. [2022]), what is for instance the social value of "energy security" or maintaining brown jobs? This is a key question given that many policy-makers seem to assume that value is very large. Credible estimates would help determine the optimal pace of the energy transition across time and space.

6 Conclusion

This paper bridges theory and empirics to deepen our understanding of the economics behind the coal phase-out in Western economies. We build a new bottom-up measure of coal ownership leveraging asset-level data and introduce a decomposition to distinguish between capital reallocation ("leakage") and capital utilization. We document a significant decline in public equity ownership and a steady rise in ownership by national states. We calibrate a model of capital reallocation that takes into consideration responsible investing, financial frictions, and production externalities.

The interaction between "green finance" and competing government objectives shape the energy transition. Tighter financial frictions depress the market price of brown assets and incentivize investors to close coal plants. However, state investors who value social factors (jobs, "energy security") endogenously respond to mitigate pressure from green finance by keeping their plants open longer or even nationalizing brown assets, in line with recent episodes in Germany and Poland. Energy shortages amplify this response and can help explain gradualism or reversal of climate policies more generally, even in places like Europe. A more thorough understanding of the drivers of capital reallocation across brown and green sectors and the role of the state is an important avenue for future research.

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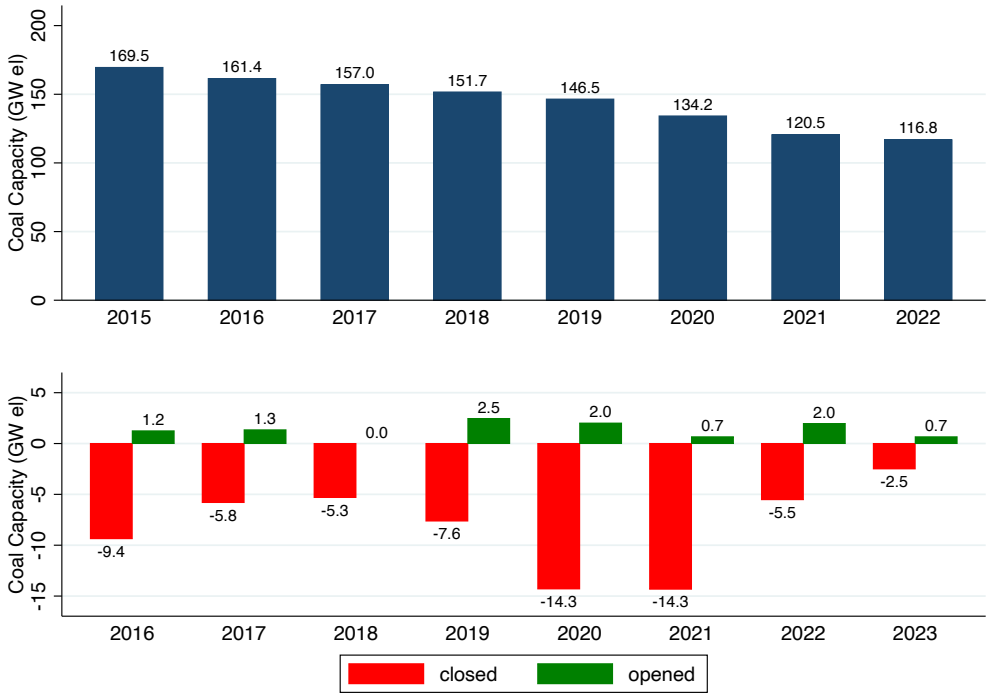
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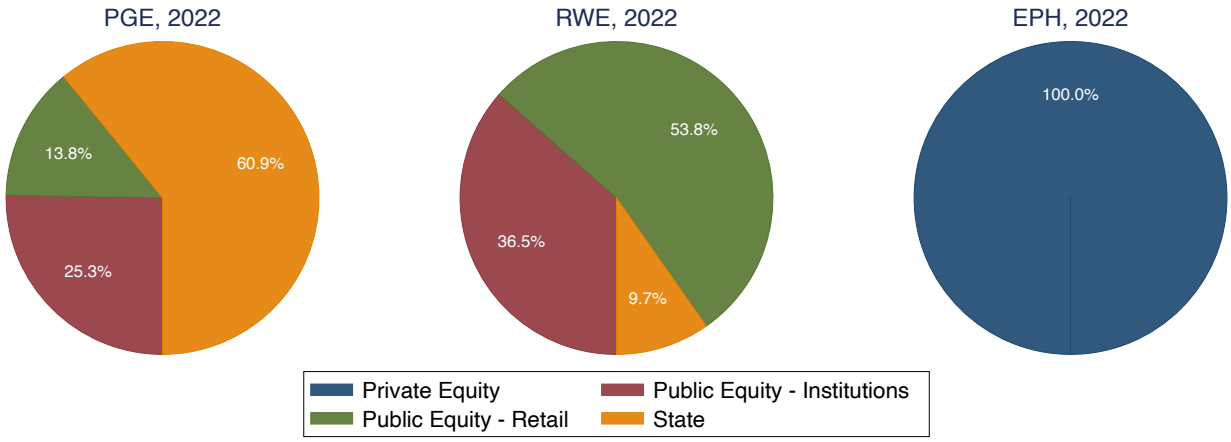
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Figure 1: Coal Capacity of Open Plants in the EU, 2015-2022



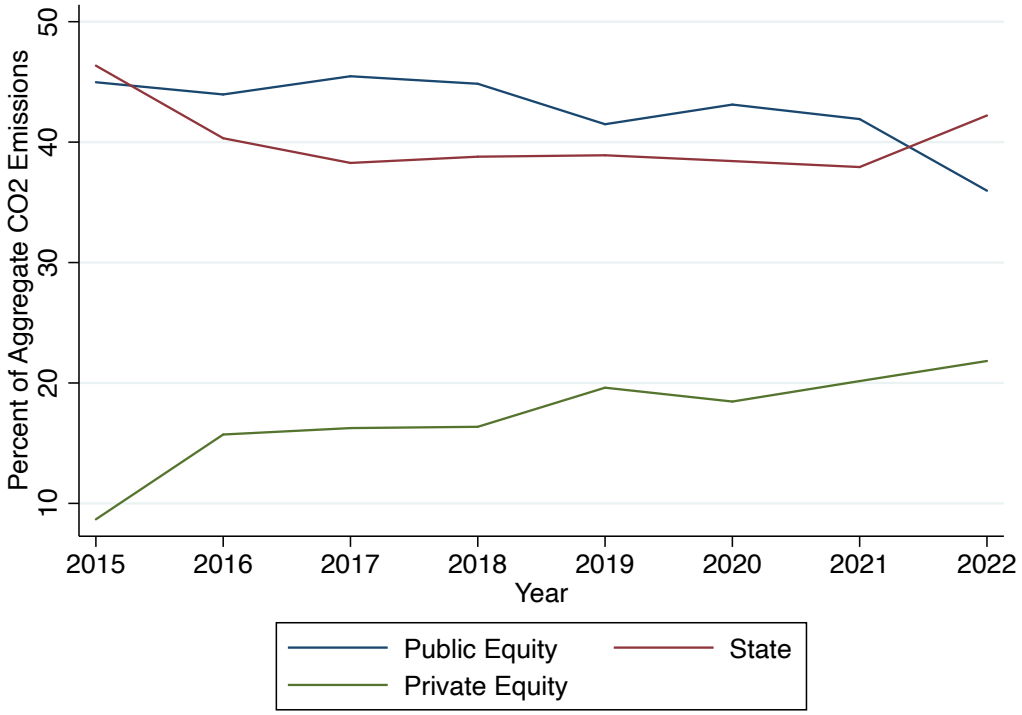
The top panel shows the aggregate coal capacity across all open coal plants in the EU and UK, as recorded at the end of each year from 2015 to 2022 in the BFF data. The bottom panel shows increases or decreases in aggregate coal capacity in each year, which may result from the opening or closure of entire coal plants or operational units within coal plants. The aggregate coal capacity for year t is equivalent to the aggregate coal capacity for year $t-1$, adding any coal capacity opened in year t and subtracting any coal capacity closed in year t.

Figure 2: Investor Composition for PGE, RWE, and EPH, 2022



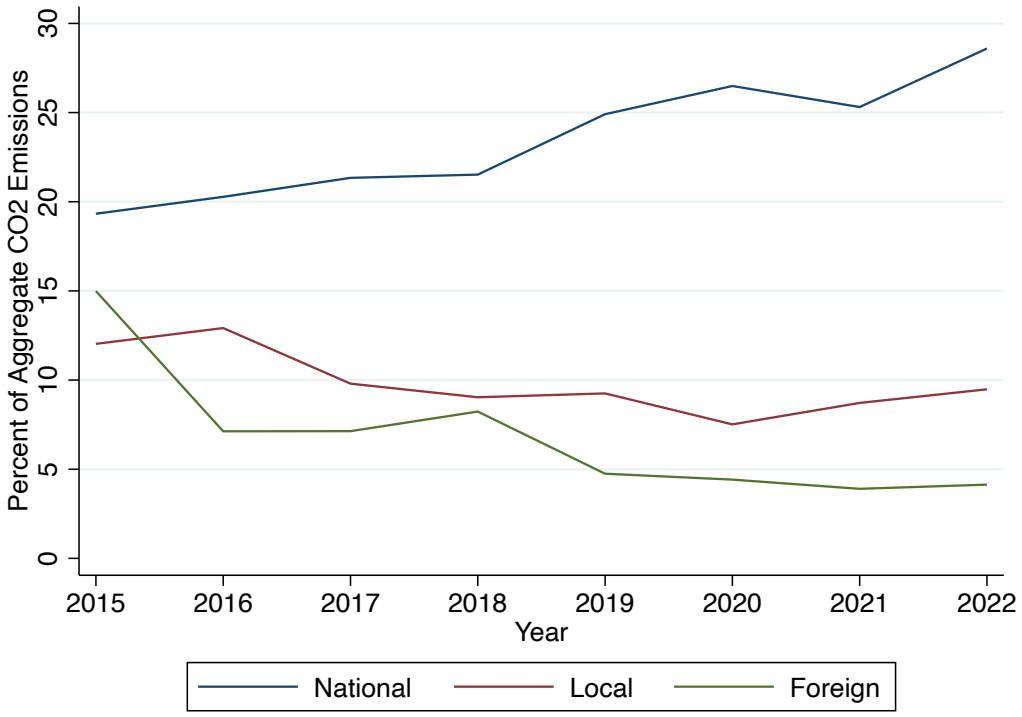
Shares of the four investor categories are based on the investor composition of each firm as of December 31, 2022. PGE and RWE are publicly-listed firms, whose shareholder information are from Capital IQ. EPH is entirely privately-owned.

Figure 3: Ownership of CO2 Emissions in the EU, 2015-2022



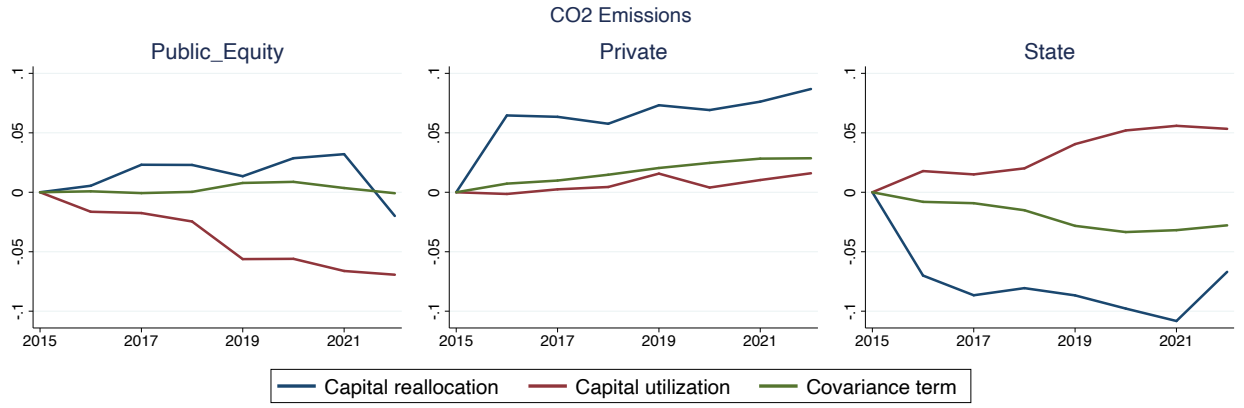
This figure shows the share of annual aggregate CO2 emissions in the EU owned by each of three main investor categories. Coal plant data are from Beyond Fossil Fuels. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research.

Figure 4: Ownership of CO2 Emissions Across State Investors in the EU, 2015-2022



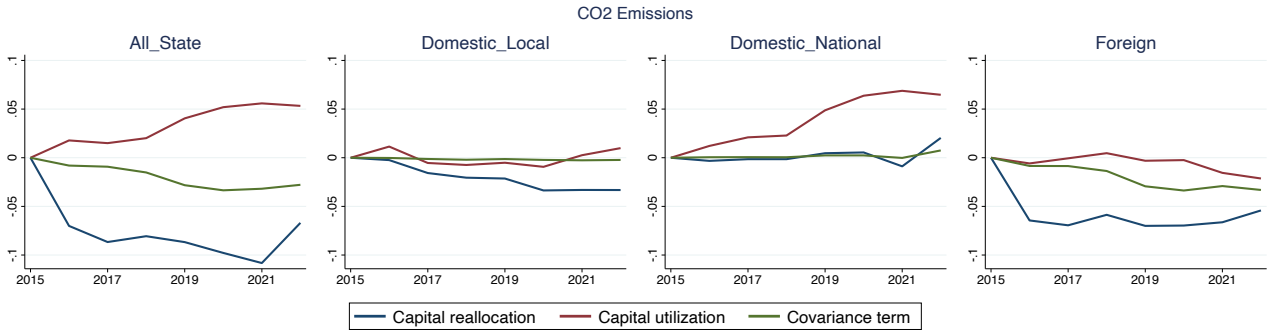
This figure shows the annual percentage of aggregate CO2 emissions that is owned by domestic national, local and foreign investors. A state investor in a plant is considered domestic if it is affiliated with a local or state government that is located in the same country as the plant it owns. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure 5: Capital Reallocation versus Capital Utilization

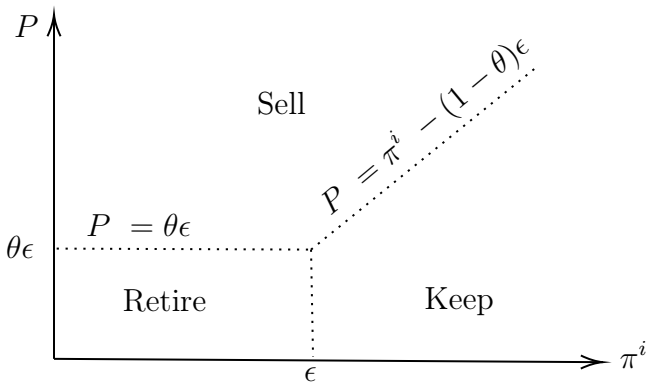


Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

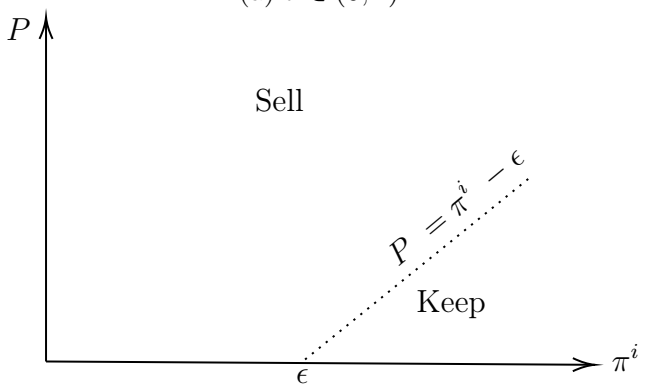
Figure 6: Capital Reallocation versus Capital Utilization: State Investors



Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU over the period 2015-2022. The *All State* category reflects all state investors. The *Domestic* category reflects only domestic state investors. A state investor in a plant is considered domestic if it is affiliated with a local or state government that is located in the same country as the plant it owns. The *Foreign* category reflects only foreign state investors. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

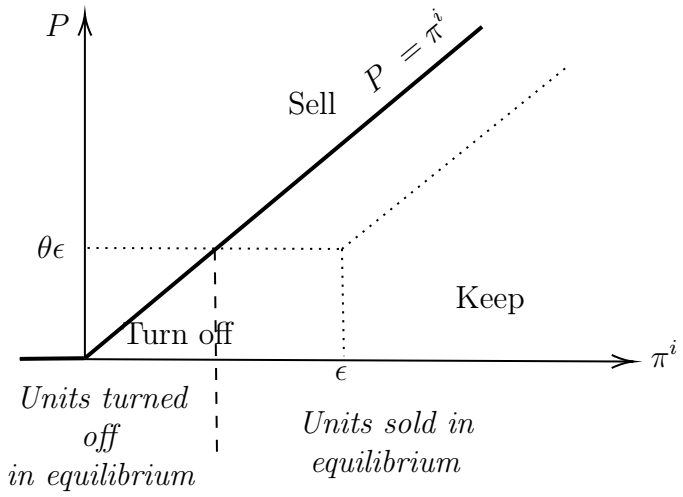


(a) $\theta \in (0, 1)$

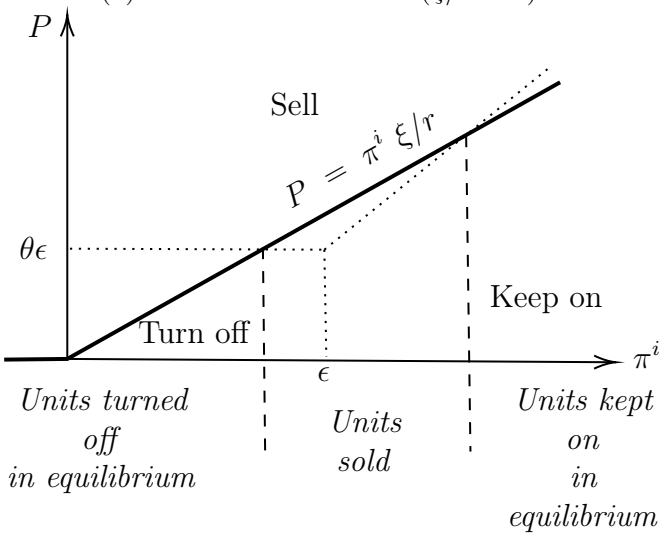


(b) Narrow mandate: $\theta = 0$

Figure 7: Capital choice



(a) No financial frictions ($\xi/r = 1$)



(b) High financial frictions ($\xi/r < 1$)

Figure 8: Equilibrium for different levels of financial frictions ξ/r

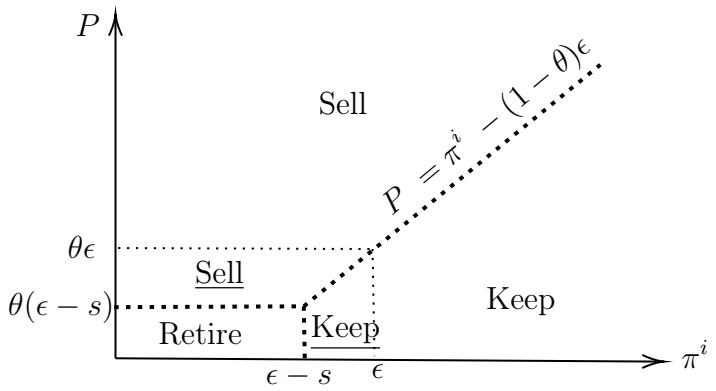
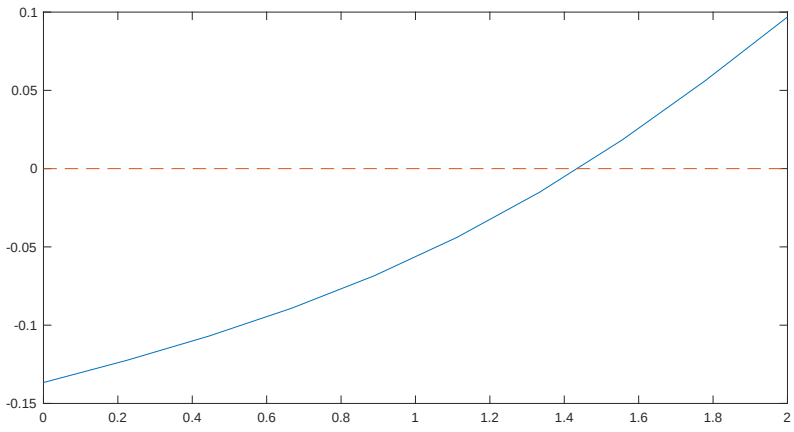


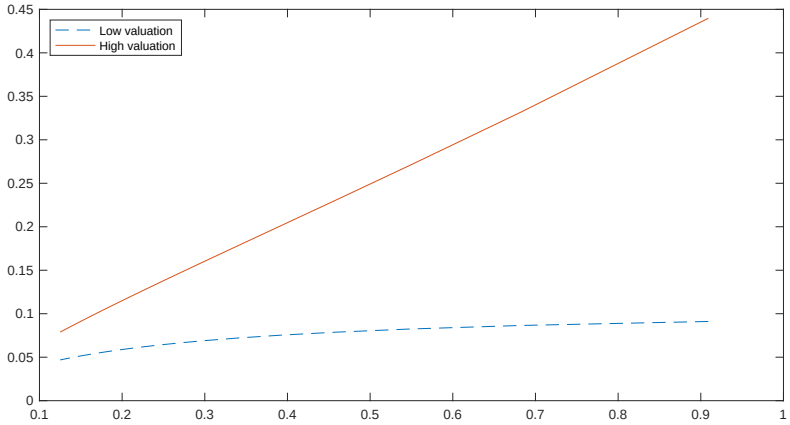
Figure 9: Capital choice for state investor with $s > 0$

Figure 10: Investment Efficiency and Aggregate Emissions



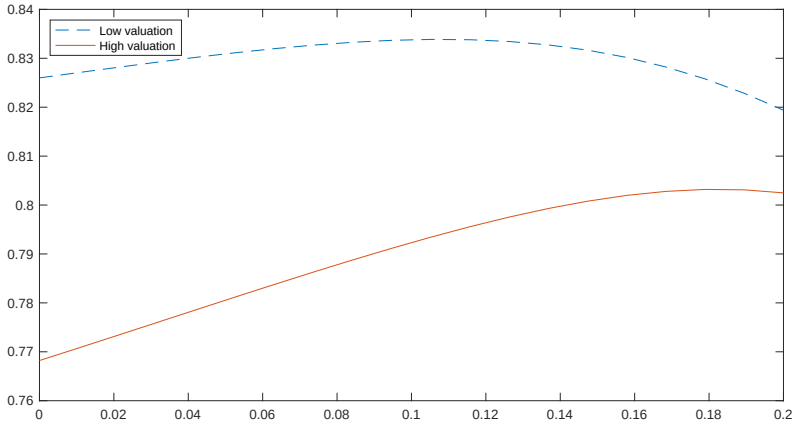
This graph shows how investment efficiency affects aggregate emissions in a numerical illustration based on our calibrated model. The x-axis reports the pecuniary profits α of the investment (fixing $c = 0.3$ and $\beta = 0.42$), while the y-axis reports the change in emissions associated with the introduction of the technology $(1/\eta)$.

Figure 11: (Mis)Valuation of Externalities: Investment in Alternatives as Cost Decline



This graph shows how investment in alternatives increases when costs decline in a numerical illustration based on our calibrated model. The x-axis reports investment I_A, while the y-axis reports the decline in cost $1/\eta$. The dashed line represents a government with a low valuation of climate externalities ($\delta = 0.5$), while the solid line represents a government with a high valuation of climate externalities ($\delta = 1$). In both cases, we set $q = 1$.

Figure 12: Coal Share during Energy Shortage



This graph shows how the coal share changes during an energy shortage in a numerical illustration based on our calibrated model. The x-axis reports energy shortage ΔQ, while the y-axis reports the ratio of coal generation to total generation ($q(1 - F(\bar{\pi}))/(q + \Delta Q)$). The dashed line represents a government with a low valuation of climate externalities ($\delta = 0.5$), while the solid line represents a government with a high valuation of climate externalities ($\delta = 1$). In both cases, we set $q = 1$ and $\eta = 5$.

	Parameter	Estimate
1	Average profitability of units $\bar{\pi}$	0.63
2	Cost of climate externalities ϵ	0.79
3	Benefit of social factors s	0.71
4	Mandate of public equity investors θ^P	0.79
5	Mandate of national state investors θ^{NS}	0.68
6	Mandate of foreign state investors θ^{FS}	0.57
7	Mandate of local state investors θ^{LS}	0.63
8	Benefit of social factors s_{ls} (local states)	0.36
9	Financial frictions ξ/r	0.79

Table 1: Model calibration

Internet Appendix for Brown Capital (Re)Allocation

IA.1 Additional Empirical Results

Real vs. Financial Capital Reallocation: We can also use our data to quantify the relative contribution to capital reallocation of real reallocation versus financial reallocation, i.e. how much of investors' sale of assets comes from trading plants vs. trading shares. Formally, investor group g ownership of plant i is the product of ownership of firm f and firm f's ownership of plant i: $\omega^g_{i,t} = \sum_f \omega^g_{f,t}\omega^f_{i,t}$.

We can thus further decompose the capital reallocation term between financial reallocation (across investors) and real reallocation (across firms), plus a covariance term:

$$\begin{aligned}\sum_i(\omega^g_{i,t} - \omega^g_{i,t_0})\frac{e_{i,t_0}}{E_{t_0}} = & \underbrace{\sum_i\sum_f(\omega^g_{f,t} - \omega^g_{f,t_0})\omega^f_{i,t_0}\frac{e_{i,t_0}}{E_{t_0}}}_{\text{financial reallocation (trade shares across investors)}} \\ & + \underbrace{\sum_i\sum_f \omega^g_{f,t_0}(\omega^f_{i,t} - \omega^f_{i,t_0})\frac{e_{i,t_0}}{E_{t_0}}}_{\text{real reallocation (trade plants across firms)}} \\ & + \underbrace{\sum_i\sum_f(\omega^g_{f,t} - \omega^g_{f,t_0})(\omega^f_{i,t} - \omega^f_{i,t_0})\frac{e_{i,t_0}}{E_{t_0}}}_{\text{covariance term}}\end{aligned} \tag{3}$$

Figure IA.20 reveals that there were diverging patterns of real versus financial reallocation across investors. Private firms bought plants from states, while until 2022 public equity investors bought shares from states. We discuss the 2022 reversal in more detail below in the context of (re)nationalizing brown assets.

Permanent versus temporary closure: Emissions of a plant can decrease either because of (i) permanent closure (a decline in generation capacity) and/or (ii) temporary scaling down (a decline in the emission rate per unit of open capacity). In the aggregate, it is clear that both channels matter, since emissions declines by about 50% but capacity only decreased by about 25%. Figure IA.21 in the Internet Appendix shows that is generally true for investors

groups that decreased their emissions.[65] There is a rebound in emissions post-2020 that we discuss in more detail below.

Across Countries: To investigate geographical differences, we separately look at ownership dynamics in three regions: Germany, Poland (the two largest emitters of CO2), and the rest of the EU. Figures IA.22, IA.23 and IA.15 in the Internet Appendix illustrate the results. We find that virtually all reallocation in the EU, whether of plants or shares, occurred for German plants. Moreover, unlike in Poland, public equity investors in German plants did not scale down faster than other investors. The largest decline in public equity ownership is observed in the rest of the EU, with a decline of almost 20 percentage points, almost entirely driven by a decline in utilization.

Heterogeneity Within Public Equity Investors: We can also look at ownership dynamics within public equity investors, since they have experienced a striking decline in their ownership share. In particular, large passive investors like Blackrock and Vanguard have faced significant and repeated pressure in the past decade to account for carbon emissions in their portfolios. One might expect that such "universal" investors might have played a large role, in part because they often claim to use their voice to influence corporate management due to a lesser ability to re-allocate their equity portfolio (making "exit" difficult).

To investigate this question, we separate the public equity investor group between passive institutional investors and the rest, using investor classifications from Capital IQ. Applying our decomposition to these subgroups, we see that the decline in utilization is not in fact more pronounced for passive institutional investors. Figure IA.24 illustrates this heterogeneity:

[65] For this, we decompose the capital utilization term in three further terms, with the modification that we measure plant scale by the level of its emission ($e_{i,t}$) rather than its share relative to the total ($e_{i,t}/E_{i,t}$). Formally, the emissions of plant i are the product of its capacity k (driven by closure/opening of units) and emission rate r (how much CO2 per unit of capacity): $e_{i,t} = k_{i,t}r_{i,t}$. The capital utilization term can thus itself be divided into an exact sum of three terms:

$$\sum_i \omega^s_{i,t_0}(e_{i,t} - e_{i,t_0}) = \underbrace{\sum_i \omega^s_{i,t_0}(k_{i,t} - k_{i,t_0})r_{i,t_0}}_{\text{capacity changes}} + \underbrace{\sum_i \omega^s_{i,t_0}k_{i,t_0}(r_{i,t} - r_{i,t_0})}_{\text{emission rate changes}} + \underbrace{\sum_i \omega^s_{i,t_0}(k_{i,t} - k_{i,t_0})(r_{i,t} - r_{i,t_0})}_{\text{covariance term}} \tag{4}$$

passive investors do not drive the negative capital utilization term over our sample period. In terms of aggregate ownership, Figure IA.25 in the Internet Appendix confirms that the share of passive investors has been extremely stable at 5% over the entire period. The aggregate decline in public equity ownership of 9 percentage points is *entirely* driven by other equity investors, whose share has fallen by from 40% to 31%. While large passive investors generally tend to vote in favor of managing climate externalities in firms they invest in [Briere et al., 2023], our evidence revealed that this had no noticeable effect on the coal power production industry, the most carbon-intensive sector in the world. The rise of large "universal investors" over the past decades might thus not have accelerated the phase-out of brown capital.[66]

Debt vs. Equity: This paper focuses on equity ownership, but we provide a brief analysis of capital structure by including micro-data on firms' debt. We collect data on debt structure from Capital IQ for firms in our sample and divide financial liabilities into four groups: (i) equity (ii) bank debt (iii) bonds (iv) other debt.[67] We apply our decomposition to these four groups as shown in Figure IA.26 in the Internet Appendix. We see that over time there have been a de-leveraging of coal assets, with a rise in equity relative to debt. The decline is debt is entirely due to a fall in bond financing from capital markets. In fact, bank debt has been rising moderately during this time. This shift in debt structure is consistent with some of the findings of Walz [2022] and Luneva and Sarkisyan [2022].

Comparison with the U.S.: While the focus of this paper is on Europe, we provide

[66] In recent years, BlackRock and especially Vanguard seem to have stepped back their environmental commitment. Vanguard for instance left the Net Zero Asset Managers initiative in December 2022. Both firms also reported a substantial increase in rejections of ESG shareholders proposals. Source: "BlackRock and Vanguard were once ESG's biggest proponents–now they seem to be reversing course", Fortune, September 13th, 2023; Link.

[67] The value of bank debt includes the value of revolving credit, term loans, lease liabilities, trust preferred securities, general and other borrowings. The value of bond debt includes the value of commercial paper, senior bonds and notes, and subordinated bonds and notes. The value of other debt includes the value of debt whose category is unknown, firms for which we do not have data on their debt structure, and adjustments to debt. The ownership percentage of each group is determined based on the group's value, with the value of equity determined by market prices for publicly listed firms and book equity for other firms.

a brief comparison with the U.S.[68] Overall, we find dynamics that are in line with the EU, but with significantly smaller magnitudes, as shown in Figure IA.28 and IA.29 in the Internet Appendix. Public equity ownership has declined by about 5pp, while ownership by private firms, governments, and cooperatives increased slightly. Our decomposition shows that there was no "exit" by public equity investors: capital utilization explains the decline. On the other hand, governments and cooperatives were also slower at scaling down their plants. The key difference with Europe is the absence of significant capital reallocation and private ownership has barely increased, in line with the evidence of Andonov and Rauh [2022]. Note that there is no obvious U.S. analog to prone-to-exit foreign state investors.

IA.2 Model extension: Permanent vs. Temporary Closure

We extend the model and assume that firms have four options for each of their units. In addition to keeping them on and selling them, they can now choose to either temporarily turn them off or permanently retire them. Temporarily turning off an unit, without retiring it, preserves the option value of turning it on later. If a firms does so, it must still pay an operating fixed cost $f > 0$.

- Keep on: $\pi^i - \epsilon - f$
- Sell: $P - \theta\epsilon$
- Temporarily off: $q(v(\pi^i) - \epsilon) - f$
- Retire: 0

[68] We collect data on the universe of coal power plants, as well as their CO2 emissions and owners from the EIA's Form EIA-860 and the EPA's Greenhouse Gas Reporting Program (GHGRP). We use the same procedure as in Europe to match firms to their investors using Capital IQ. For reference, Figure IA.27 in the Internet Appendix show that between 2014 and 2022 aggregate U.S. coal capacity and emissions have declined by 36% and 47%, respectively.

The payoff to temporarily turning off a unit can be interpreted in the following way. The benefit relative to permanently retiring the unit is the option value of turning it on later when its more profitable. We assume that the unit will be turned on again in the future with probability q (also capturing potential time discounting), in a state of the world in which its profitability is $v(\pi^i)$. We assume that this option value is always positive and increasing in the current profitability π^i.[69] On the other hand, there are two potential costs relative to retiring the unit: (i) an operating fixed cost $f > 0$, and (ii) the probability of future climate externalities $q\epsilon$. From the state perspective, we make the assumption that s is only foregone if the unit is retired, but not if it is temporarily turned off.

Figure IA.30 illustrates the capital choices in equilibrium with this additional option. Like in the data, we see that units are both temporarily turned off and retired in equilibrium. Intuitively, for the least profitable plants, the option value is not large enough to outweighs the pecuniary and non-pecuniary costs of temporarily turning a plant off. This implies that the state still has incentives to nationalize some units that the private sector would prefer to retire. A larger cost of climate externalities ϵ exacerbates these incentives.

IA.3 Model calibration and identification

There are nine parameters to estimate:

1. The average profitability of units $\bar{\pi}$.
2. The cost of climate externalities ϵ.
3. The benefit of social factors s.
4. The mandate of public equity investors θ^P.
5. The mandate of national state investors θ^{NS}.

[69] Formally, assume that $v' > 0$, $\lim_{\pi^i \to -\infty} v(\pi^i) = 0$ and $\lim_{\pi^i \to +\infty} v(\pi^i)/\pi^i = 1^-$.

6. The mandate of foreign state investors θ^{FS}.

7. The mandate of local state investors θ^{LS}.

8. The benefit of social factors s_{ls} (local states)

9. The strength of financial frictions ξ/r (only the ratio is identified).

We use nine moments to identify these parameters:

1. The share of emissions retired by private firms.

2. The share of emissions kept by public equity investors.

3. The share of emissions retired by public equity investors.

4. The share of emissions kept by foreign state investors.

5. The share of emissions retired by foreign state investors.

6. The share of emissions kept by national state investors.

7. The share of emissions retired by national state investors.

8. The share of emissions kept by local state investors.

9. The share of emissions retired by local state investors.

For each investor group $g = \{\text{private, public equity, national state, foreign state, local state}\}$, we denote the empirical moments as $\{R^g, K^g, S^g\}$. R^g is the share of initial emissions of group g that were retired over 2015-2022. K^g is the share of initial emissions of group g that were kept over 2015-2020. S^g is the share of initial emissions of group g that were sold over 2015-2020. The three shares add up to 100% for each group ($R^g + K^g + S^g = 1, \forall g$). We use nine of these for identifying the nine model parameters.

Moment 1: The share of emissions retired by private firms. The private firms' valuation of climate externalities is normalized to zero. In the model, the share of emissions retired is given by:

$$R^{private} = \mathbf{P}(\pi^i < 0) = \Phi(-\bar{\pi})$$

This moment identifies average profitability $-\bar{\pi}$.

Closed-form equation:

$$\bar{\pi} = -\Phi^{-1}(R^{private})$$

Moment 2: The share of emissions kept by public equity investors. In the model, the share of emissions kept is given by:

$$K^{public} = \mathbf{P}(\pi^i > \frac{1-\theta^{public}}{1-\xi/r}\epsilon) = \Phi(\bar{\pi} - \frac{1-\theta^{public}}{1-\xi/r}\epsilon)$$

Moment 3: The share of emissions retired by public equity investors. In the model, the share of emissions retired is given by:

$$R^{public} = \mathbf{P}(\pi^i < \frac{\theta^{public}}{\xi/r}\epsilon) = \Phi(\frac{\theta^{public}}{\xi/r}\epsilon - \bar{\pi})$$

Moment 4: The share of emissions kept by foreign state investors. In the model, the share of emissions kept is given by:

$$K^{FS} = \mathbf{P}(\pi^i > \frac{1-\theta^{FS}}{1-\xi/r}\epsilon) = \Phi(\bar{\pi} - \frac{1-\theta^{FS}}{1-\xi/r}\epsilon)$$

Moment 5: The share of emissions retired by foreign state investors. In the model, the share of emissions retired is given by:

$$R^{FS} = \mathbf{P}(\pi^i < \frac{\theta^{FS}}{\xi/r}\epsilon) = \Phi(\frac{\theta^{FS}}{\xi/r}\epsilon - \bar{\pi})$$

Given that $\bar{\pi}$ is already identified, these last four moments jointly identify the climate externalities ϵ, the mandates θ^{Public}, θ^{FS}, and the strength of financial frictions ξ/r.

Closed-form equations:

$$\theta^{FS} = \frac{1 - \frac{\bar{\pi} - \Phi^{-1}(K^{Public})}{\bar{\pi} - \Phi^{-1}(K^{FS})}}{\frac{\bar{\pi} + \Phi^{-1}(R^{Public})}{\bar{\pi} + \Phi^{-1}(R^{FS})} - \frac{\bar{\pi} - \Phi^{-1}(K^{Public})}{\bar{\pi} - \Phi^{-1}(K^{FS})}}$$

$$\theta^{Public} = \theta^{FS} \frac{\bar{\pi} + \Phi^{-1}(R^{Public})}{\bar{\pi} + \Phi^{-1}(R^{FS})}$$

$$\epsilon = 1/(\frac{1 - \theta^{Public}}{\bar{\pi} - \Phi^{-1}(K^{Public})} + \frac{\theta^{Public}}{\bar{\pi} + \Phi^{-1}(R^{Public})})$$

$$\xi/r = \frac{\epsilon \theta^{Public}}{\bar{\pi} + \Phi^{-1}(R^{Public})}$$

Moment 6: The share of emissions kept by national state investors. In the model, the share of emissions kept is given by:

$$K^{NS} = \mathbf{P}(\pi^i > \frac{1 - \theta^{NS}}{1 - \xi/r}(\epsilon - s)) = \Phi(\bar{\pi} - \frac{1 - \theta^{NS}}{1 - \xi/r}(\epsilon - s))$$

Moment 7: The share of emissions retired by national state investors. In the model, the share of emissions retired is given by:

$$R^{NS} = \mathbf{P}(\pi^i < \frac{\theta^{NS}}{\xi/r}(\epsilon - s)) = \Phi(\frac{\theta^{NS}}{\xi/r}(\epsilon - s) - \bar{\pi})$$

Given that $\bar{\pi}$, ϵ and ξ/r are already identified, these two moments jointly identifies the mandate of national state θ^{NS} and the benefit of social factors s.

Closed-form equation:

$$\theta^{NS} = 1/(1 + \frac{\bar{\pi} - \Phi^{-1}(K^{NS})}{\bar{\pi} + \Phi^{-1}(R^{NS})} \frac{1 - \xi/r}{\xi/r})$$

$$s = \epsilon - (\bar{\pi} + \Phi^{-1}(R^{NS})) \frac{\xi/r}{\theta^{NS}}$$

In the case in which national state investors do not sell any units, these equations are still valid but only provide a lower bound for θ^{NS}, equal to ξ/r.

Moment 8: The share of emissions kept by local state investors. In the model, the share of emissions kept is given by:

$$K^{LS} = \mathbf{P}(\pi^i > \frac{1 - \theta^{LS}}{1 - \xi/r}(\epsilon - s_{ls})) = \Phi(\bar{\pi} - \frac{1 - \theta^{LS}}{1 - \xi/r}(\epsilon - s_{ls}))$$

Moment 9: The share of emissions retired by local state investors. In the model, the share of emissions retired is given by:

$$R^{LS} = \mathbf{P}(\pi^i < \frac{\theta^{LS}}{\xi/r}(\epsilon - s_{ls})) = \Phi(\frac{\theta^{LS}}{\xi/r}(\epsilon - s_{ls}) - \bar{\pi})$$

Given that $\bar{\pi}$, ϵ and ξ/r are already identified, these two moments jointly identifies the mandate of local state θ^{LS} and the benefit of social factors s_{ls}.

Closed-form equation:

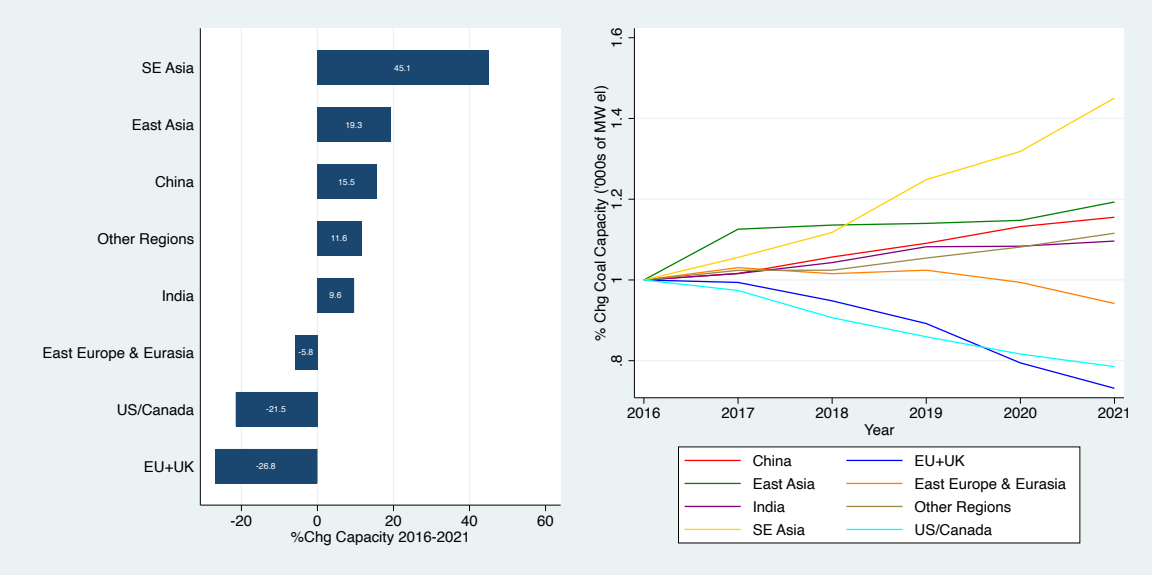
$$\theta^{LS} = 1/(1 + \frac{\bar{\pi} - \Phi^{-1}(K^{LS})}{\bar{\pi} + \Phi^{-1}(R^{LS})} \frac{1 - \xi/r}{\xi/r})$$

$$s_{ls} = \epsilon - (\bar{\pi} + \Phi^{-1}(R^{LS})) \frac{\xi/r}{\theta^{LS}}$$

In the case in which local state investors do not sell any units, these equations are still valid but only provide a lower bound for θ^{LS}, equal to ξ/r.

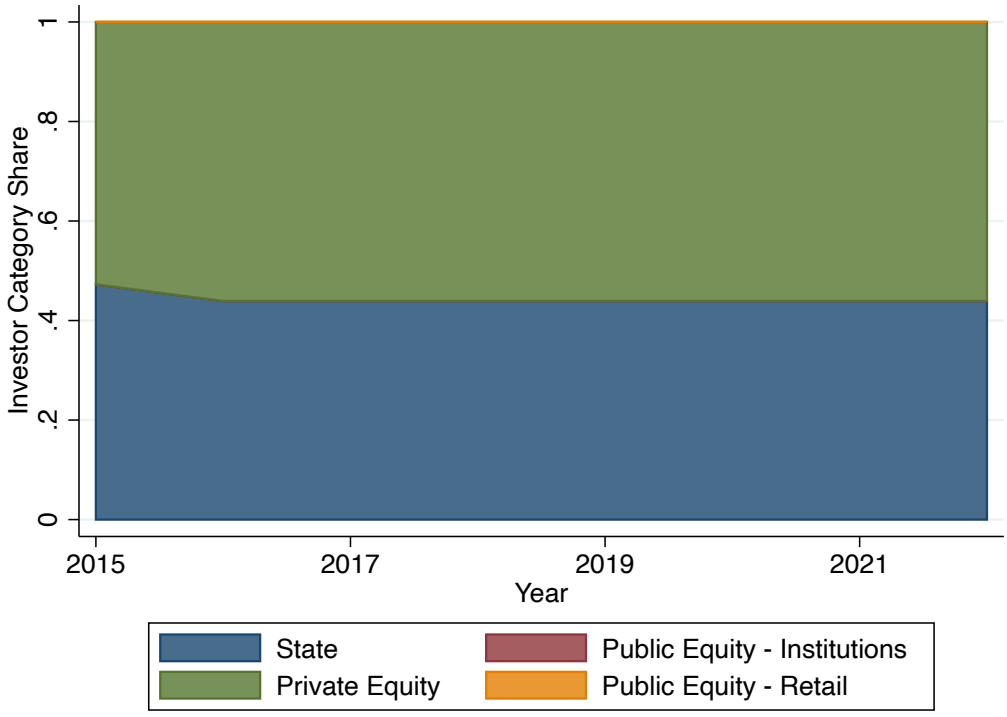
IA.4 Additional Figures and Tables

Figure IA.1: Change in Coal Capacity across Regions: 2016-2021



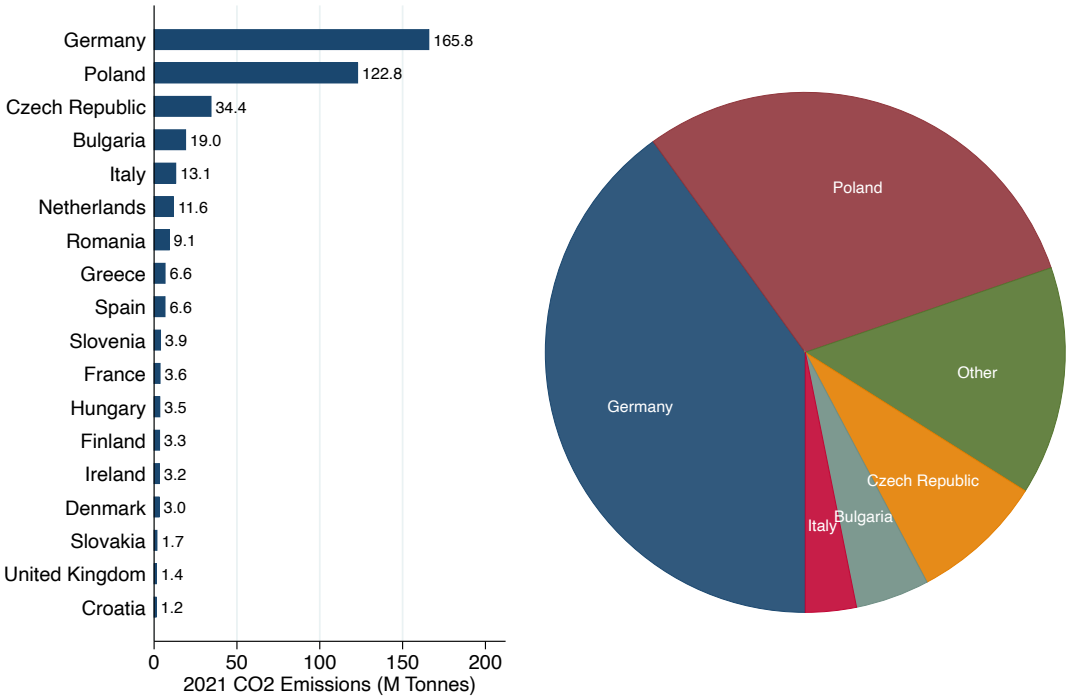
This figure shows the change in coal capacity in different regions of the world. The data comes the Global Energy Monitor coal power plant tracker.

Figure IA.2: Ownership of Coal Capacity Outside of the EU, 2015-2022



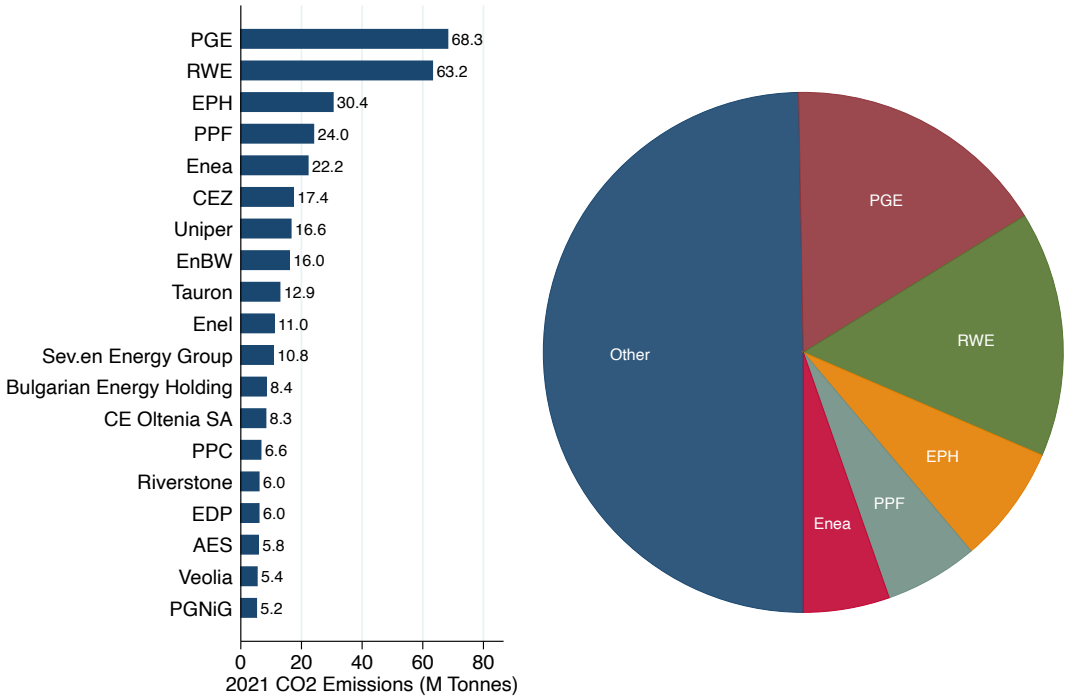
This figure shows the share of coal capacity from plants outside the EU present in the BFF data owned by the different investor categories. These plants are mainly located in Turkey, with plants also in Bosnia & Herzegovina, Kosovo, Montenegro, North Macedonia, Serbia.

Figure IA.3: Country-Level CO2 Emissions from Coal Plants, 2021



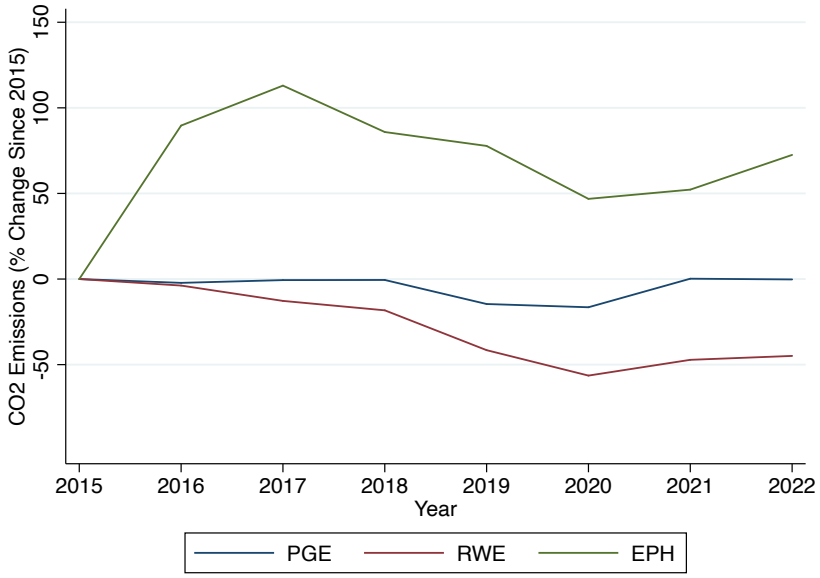
The bar chart on the left shows CO2 emissions in 2021 at the country level from the BFF data, for countries in the EU and UK for which open coal plants emitted more than 1 Million Tonnes of CO2. The pie chart on the right shows the share of CO2 emissions from coal plants for the top 5 highest-emitting countries. An "Other" category is also included that represents the remaining share of CO2 emissions not covered by the top 5. Note the "Other" category may include countries that are not present in the bar chart on the left.

Figure IA.4: Firm-Level CO2 Emissions from Coal Plants, 2021



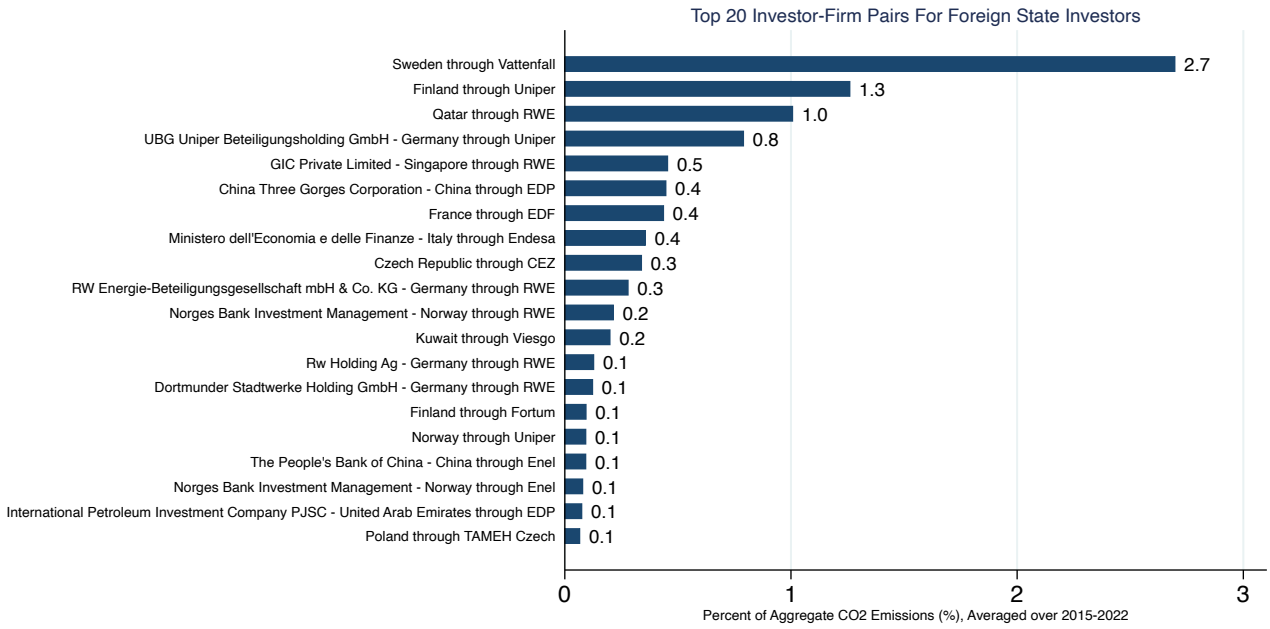
The bar chart on the left shows CO2 emissions in 2021 at the firm level from the BFF data, for the top 19 highest-emitting firms who owned open coal plants in the EU. The pie chart on the right shows the shares of CO2 emissions attributable to the top 5 highest-emitting firms. An "Other" category is also included that represents the remaining share of CO2 emissions not covered by the top 5. Note the "Other" category may include firms that are not present in the bar chart on the left.

Figure IA.5: Dynamics of CO2 Emissions by PGE, RWE, and EPH, 2015-2022



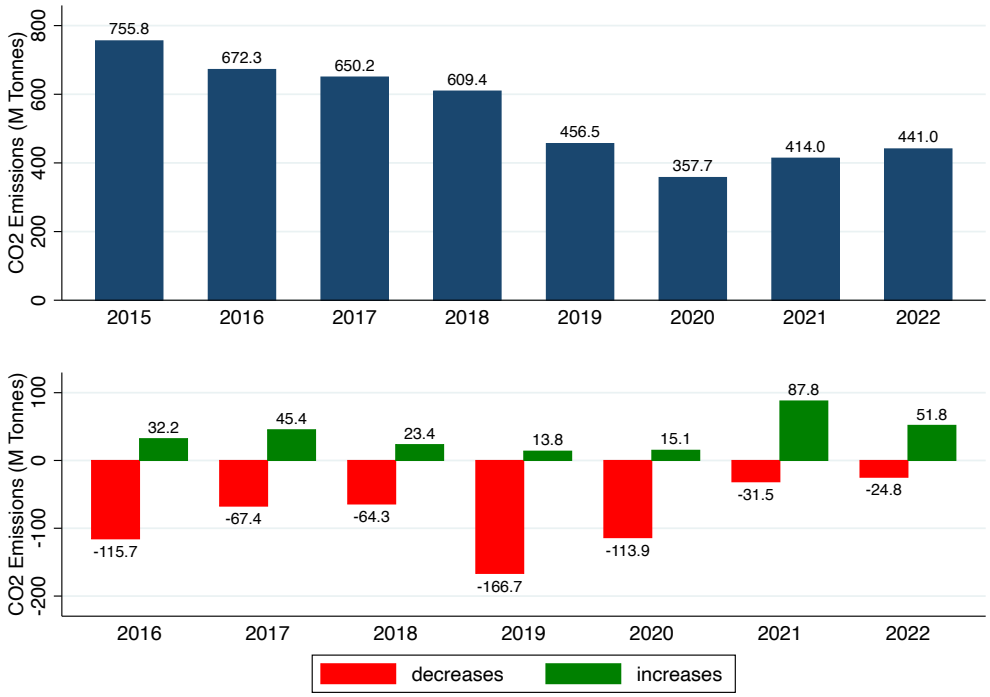
This figure shows the annual percentage change in CO2 emissions relative to 2015 produced by plants owned by PGE, RWE, and EPH. Coal plant data are from Beyond Fossil Fuels.

Figure IA.6: Top Foreign State Investors



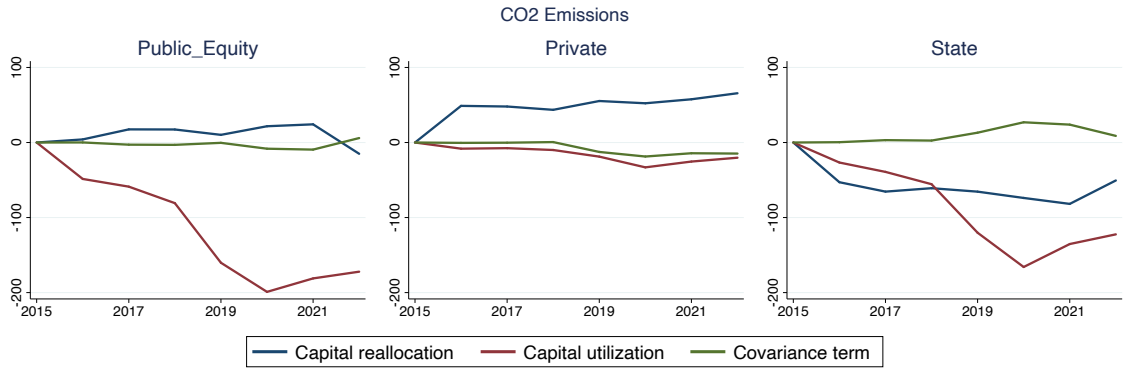
This figure shows the top 20 investor-firm pairs where the investor is a state entity who owned coal plants in a foreign country through the given firm. For example, the top entry reflects the fact that Sweden owns 100% of Vattenfall, who owned coal plants in Germany and Netherlands. The x-axis shows the percent of aggregate CO2 emissions owned in foreign countries by the investor through the particular firm, averaged over the 2015-2022 period. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.7: Aggregate Coal Emissions in the EU



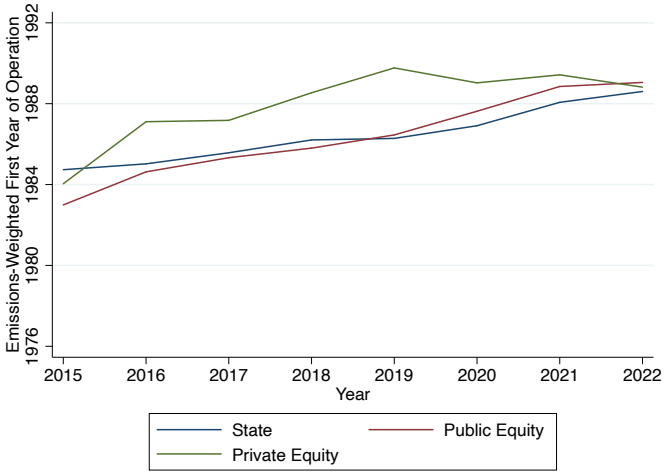
The top panel shows aggregate CO2 emissions across all open coal plants in the EU and UK, from 2015 to 2022. The bottom panel shows changes in CO2 emissions across coal units that exhibited increases in emissions and units that exhibited decreases in emissions. Aggregate CO2 emissions for year t is equivalent to aggregate CO2 emissions for year $t-1$, adding any emission increases by units in year t and subtracting any emission decreases by units in year t. Coal plant data are from Beyond Fossil Fuels.

Figure IA.8: Capital Reallocation versus Capital Utilization: Levels of Emissions



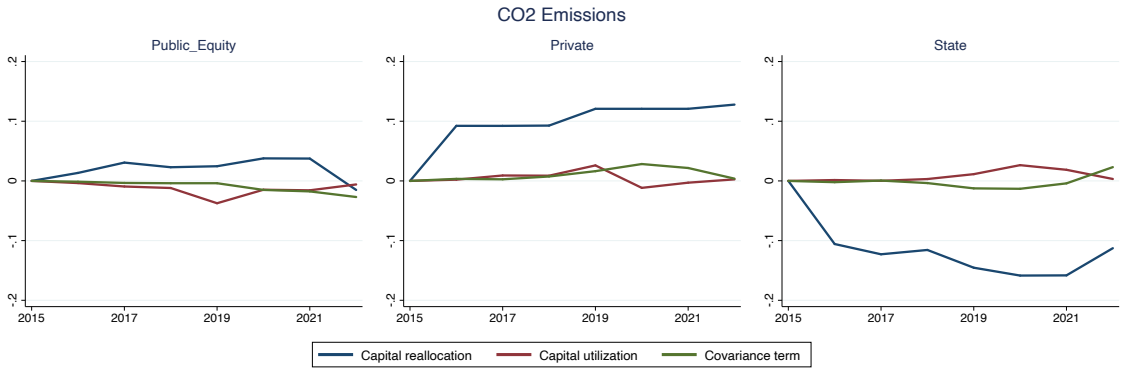
Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU, using levels of emissions to measure plant scale instead of emissions as a proportion of aggregate emissions, over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.9: Emissions-Weighted First Year of Operation by Investor Group



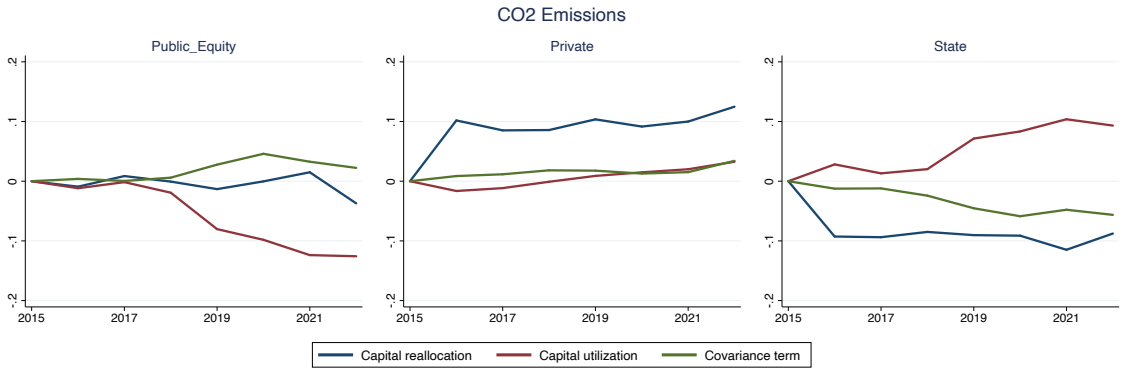
The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. For a investor group j, we define Emissions-Weighted First Year of Operation$_{j,t}$ $= \sum_i \frac{CO2_{ij,t}}{\sum_{i'} CO2_{i'j,t}}$First Year of Operation$_{i,t}$, where the i subscript indexes electricity generation units. $CO2_{ij,t}$ is the level of $CO2$ emissions attributable to investor group j for unit i.

Figure IA.10: Decomposition: Young Units



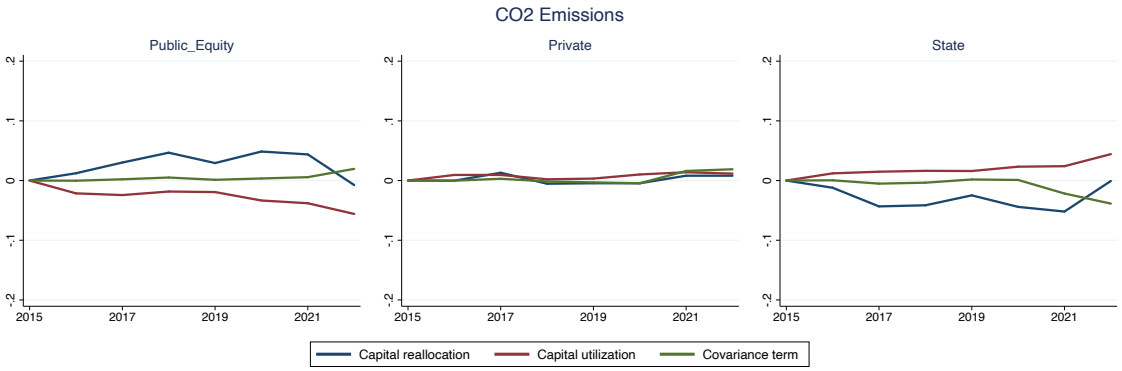
Operational coal units are divided into three age groups (*Young, Middle-Aged, and Old)* based on emissions-weighted terciles, so that each group captures approximately one-third of aggregate CO2 emissions. Operational coal units are classified into an age category based on their age and CO2 emissions as of 2015. CO2 emissions are available at the plant level, but allocated to units based on the coal capacity of each unit. Each panel in the figure shows the three terms in the decomposition in equation (2) for a given investor group, using the coal unit as the level of observation across units in the lowest age tercile over the period 2015-2022. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.11: Decomposition: Middle-Aged Units



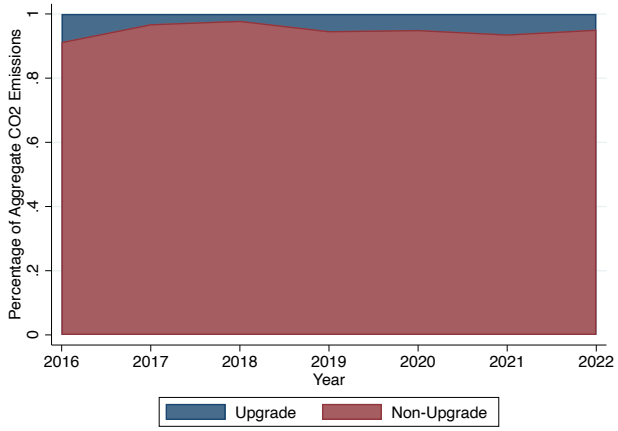
Operational coal units are divided into three age groups (*Young, Middle-Aged, and Old)* based on emissions-weighted terciles, so that each group captures approximately one-third of aggregate CO2 emissions. Operational coal units are classified into an age category based on their age and CO2 emissions as of 2015. CO2 emissions are available at the plant level, but allocated to units based on the coal capacity of each unit. Each panel in the figure shows the three terms in the decomposition in equation (2) for a given investor group, using the coal unit as the level of observation across units in the middle age tercile over the period 2015-2022. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.12: Decomposition: Old Units



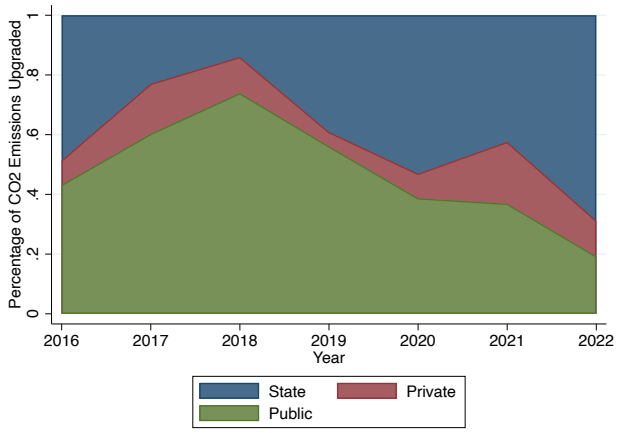
Operational coal units are divided into three age groups (*Young, Middle-Aged, and Old)* based on emissions-weighted terciles, so that each group captures approximately one-third of aggregate CO2 emissions. Operational coal units are classified into an age category based on their age and CO2 emissions as of 2015. CO2 emissions are available at the plant level, but allocated to units based on the coal capacity of each unit. Each panel in the figure shows the three terms in the decomposition in equation (2) for a given investor group, using the coal unit as the level of observation across units in the highest age tercile over the period 2015-2022. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.13: Share of technological upgrades in plant efficiency



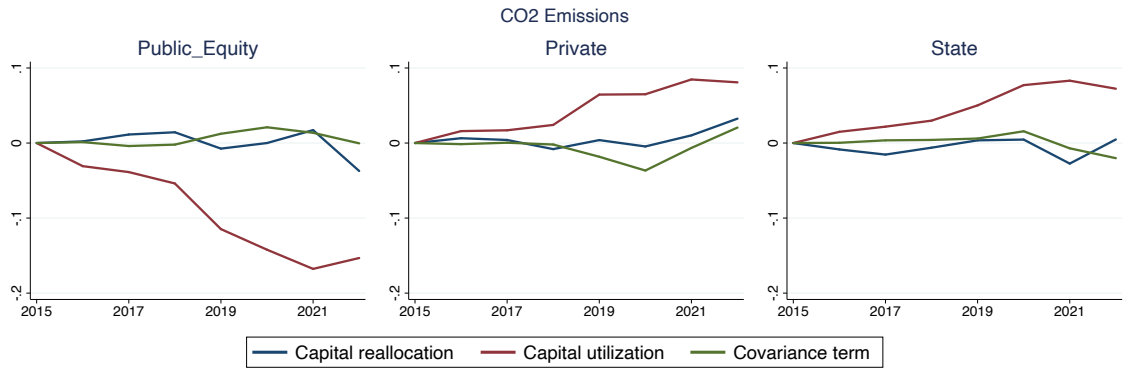
This figure shows the annual percentage of CO2 emissions, categorizing plants by whether they experienced technological upgrades, or not. *Upgrade* refers to plants whose emission intensity had decreased by more than 10% since the previous year. *Non-Upgrade* refers to plants that are not considered to be upgraded. Emissions intensity (Tonnes/MWh) for a plant is calculated as annual CO2 emissions divided by the annual electricity output. Electricity output data is sourced from the European Network of Transmission System Operators for Electricity (ENTSO-e) Transparency Platform. Data is submitted to the ENTSO-e by data providers such as TSOs, who are legally obligated to provide such data in the EU."Aggregate CO2 Emissions" refers to the total CO2 emissions of plants with electricity data available in the ENTSO-e platform. Approximately 80% of CO2 emissions is covered. Only generators above a certain size threshold are included in the ENTSO-e data.

Figure IA.14: Technological upgrades in plant efficiency by investor groups



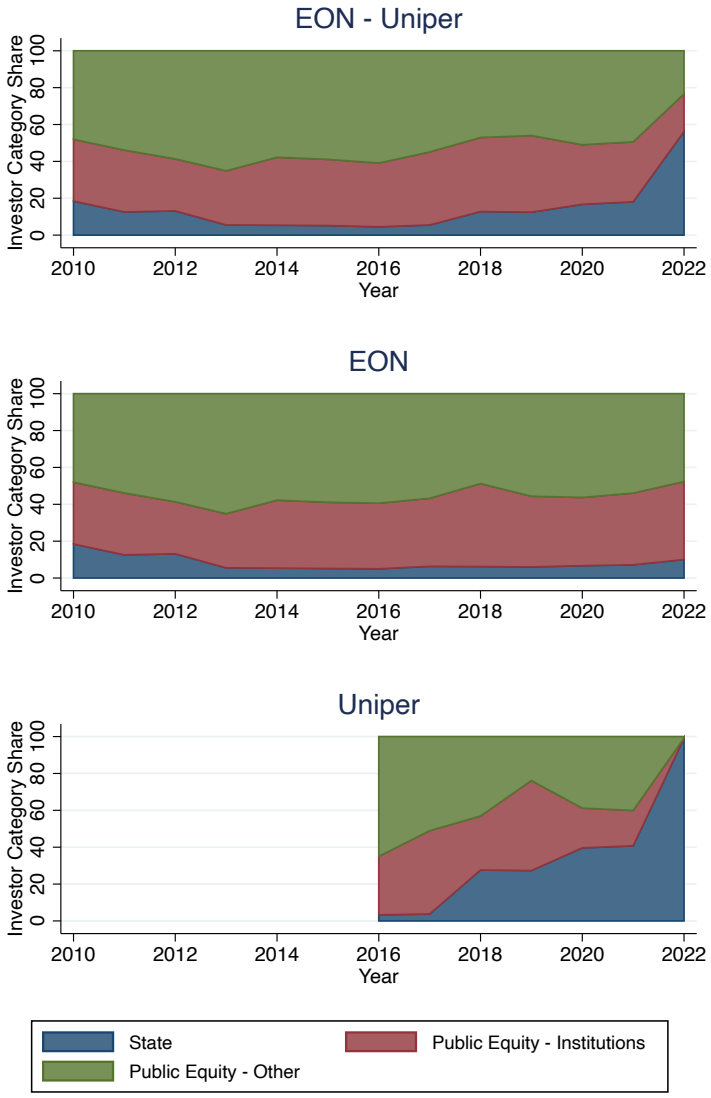
This figure shows the percentage of CO2 emissions from upgraded plants attributable to each investor group. Upgraded plants experience a decrease of more than 10% in CO2 emissions intensity from the previous year. Electricity output data is sourced from the European Network of Transmission System Operators for Electricity (ENTSO-e) Transparency Platform. Data is submitted to the ENTSO-e by data providers such as TSOs, who are legally obligated to provide such data in the EU.

Figure IA.15: Capital Reallocation versus Capital Utilization: EU excluding Germany and Poland



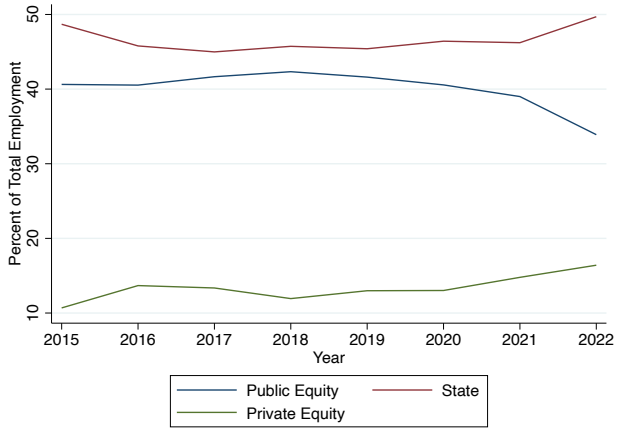
Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU, excluding Germany and Poland over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.16: Ownership dynamics: the E.ON -Uniper Asset Split



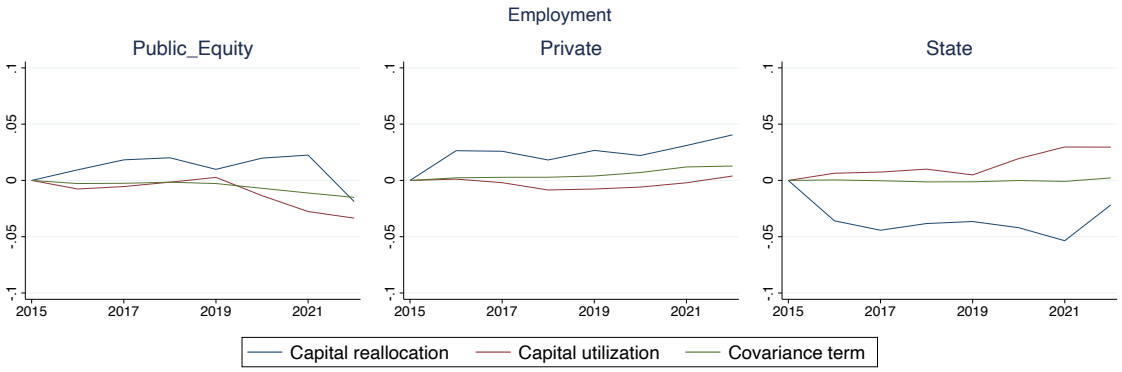
The top panel *EON-Uniper* plots the shares by investor group for E.ON through 2015. After and including 2016, the top panel represents the weighted-average of shares held by investor groups for Uniper and E.ON, with each company's share weighted by its respective market capitalization. The middle panel *EON* plots the shares by investor group for E.ON, and the bottom panel *Uniper* plots the shares by investor group for Uniper. Uniper was spun off from E.ON in 2016. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research.

Figure IA.17: Ownership of Coal Plant Employment in the EU, 2015-2022



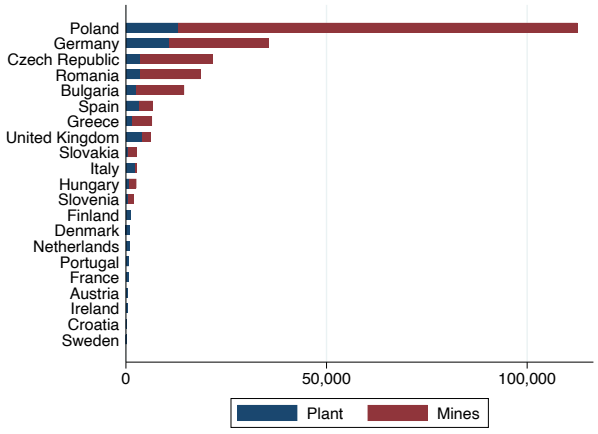
This figure shows the share of employment from coal plants in the EU attributable to public equity investors, private investors, and state investors. The number of jobs for each coal generation unit is computed by multiplying the open coal capacity of the unit times a country-specific coefficient that estimates Jobs per MW. Country-specific coefficients of Jobs per MW are sourced from Alves Dias et al. [2018], Annex 6. Belgium is not represented in Alves Dias et al. [2018]; Belgium's country-specific coefficient is imputed with 0.49, which is the simple average of the coefficients for other countries. Coal plant data are from Beyond Fossil Fuels. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research..

Figure IA.18: Capital Reallocation versus Capital Utilization: Employment



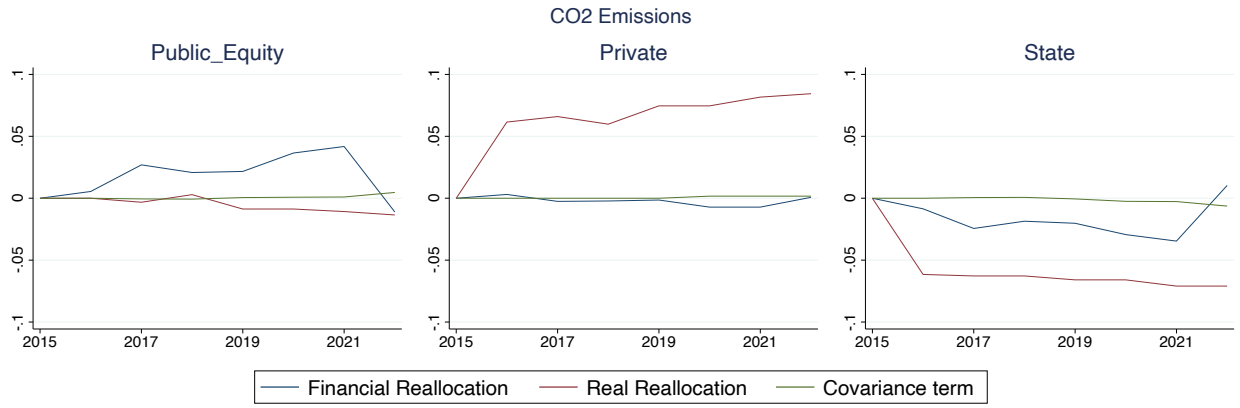
Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. The number of jobs for each coal generation unit is computed by multiplying the open coal capacity of the unit times a country-specific coefficient that estimates Jobs per MW. Country-specific coefficients of Jobs per MW are sourced from Alves Dias et al. [2018], Annex 6. Belgium is not represented in Alves Dias et al. [2018]; Belgium's country-specific coefficient is imputed with 0.49, which is the simple average of the coefficients for other countries. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.19: Coal Employment by Country (2016)



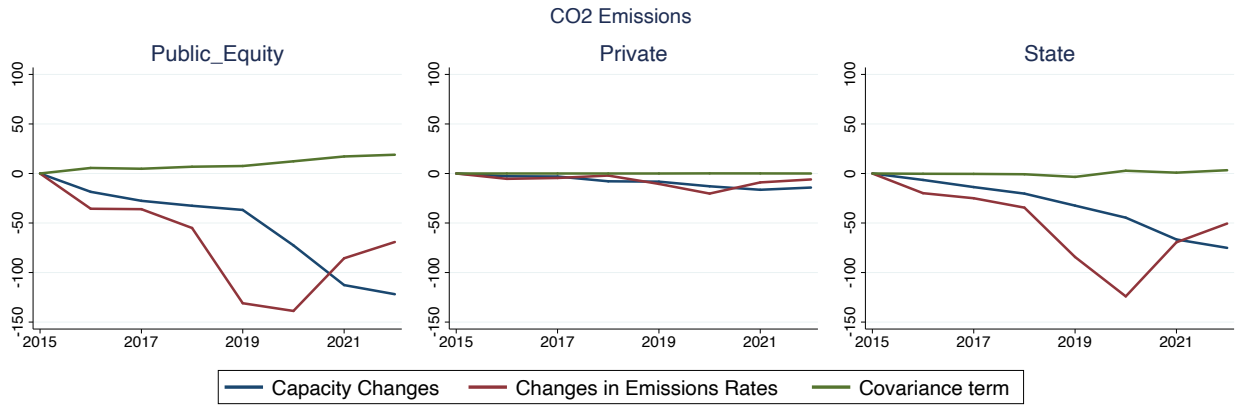
This figure shows employment attributable to coal plants and coal mines for each country in the EU. From Alves Dias et al. [2018], Table 3.

Figure IA.20: Financial Reallocation versus Real Reallocation



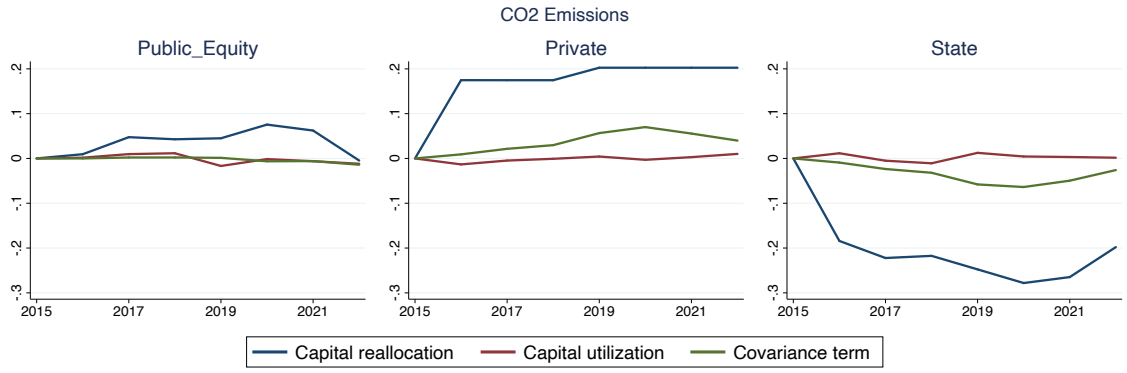
Each panel shows the three terms in the decomposition in equation (3) for a given investor group, across all plants in the EU over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.21: Decomposing Capital Utilization



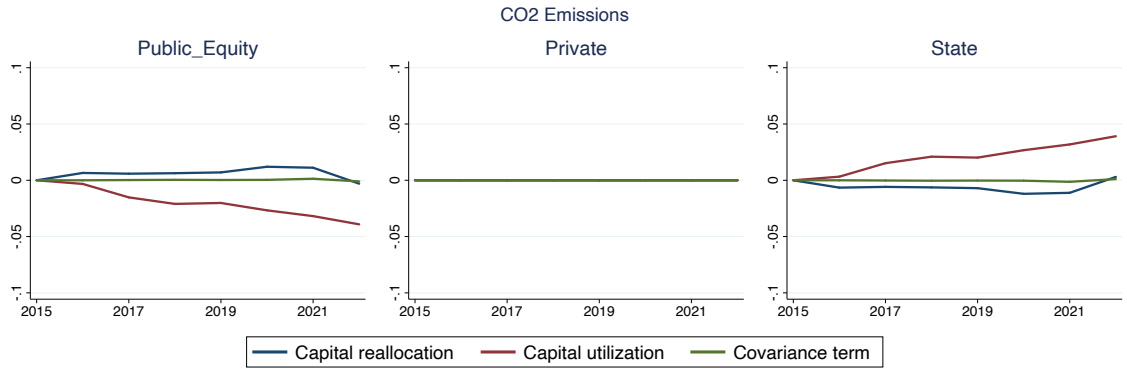
Each panel shows the three terms in the decomposition in equation (4) for a given investor group, across all plants in the EU over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.22: Capital Reallocation versus Capital Utilization: Germany



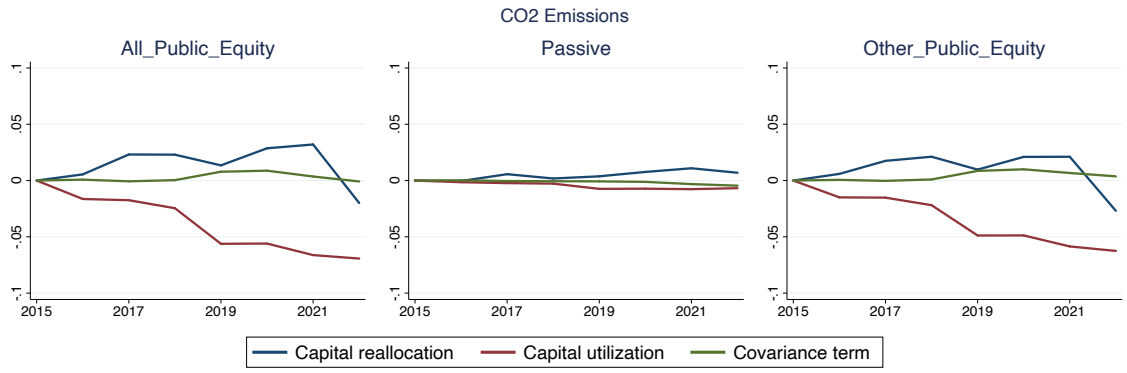
Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in Germany over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.23: Capital Reallocation versus Capital Utilization: Poland



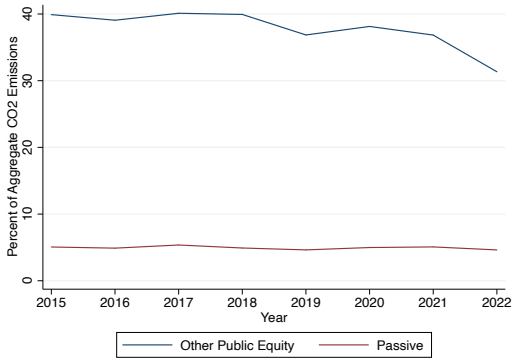
Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in Poland over the period 2015-2022. The *Public Equity* category reflects retail or (non-state) institutional investors in publicly-listed companies. The *Private* category reflects non-state owners of private companies. The *State* category reflects state-owned shares in both public and private companies. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.24: Capital Reallocation versus Capital Utilization: Public Equity Investors



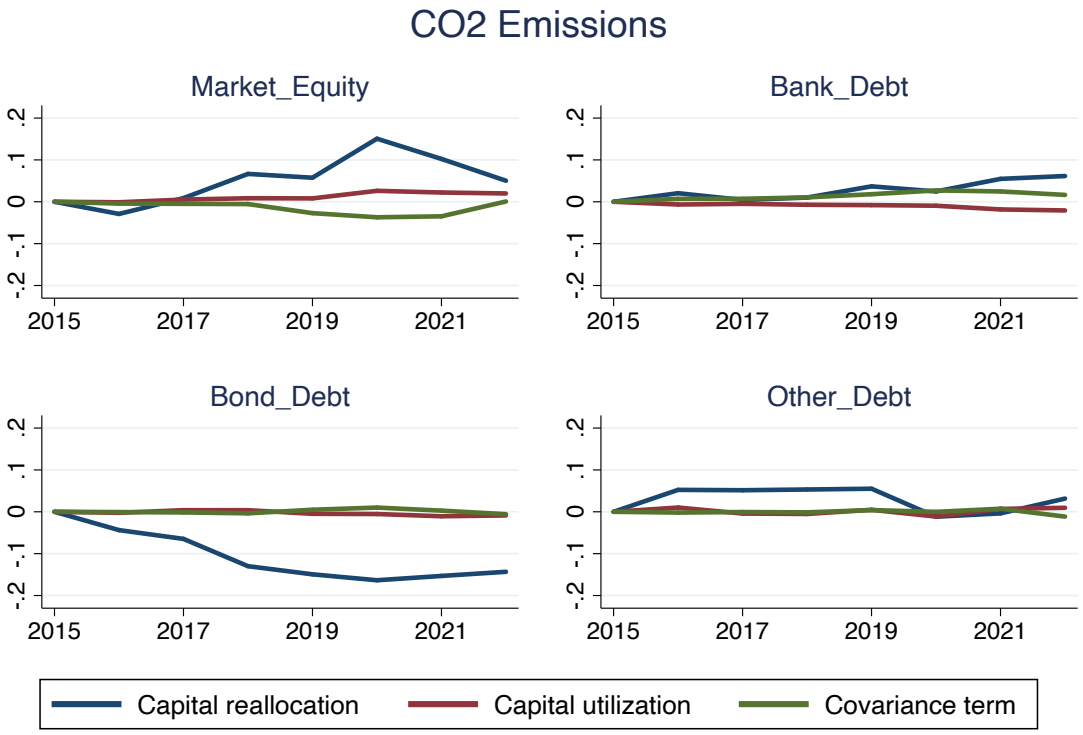
Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU over the period 2015-2022. The *Passive* category reflects investors whose investment style is labeled by Capital IQ as passive. The *Other Public Equity* category reflects public equity investors that are not labeled by Capital IQ as passive. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.25: CO2 Emissions (EU + UK) by Institutional Investor Categories



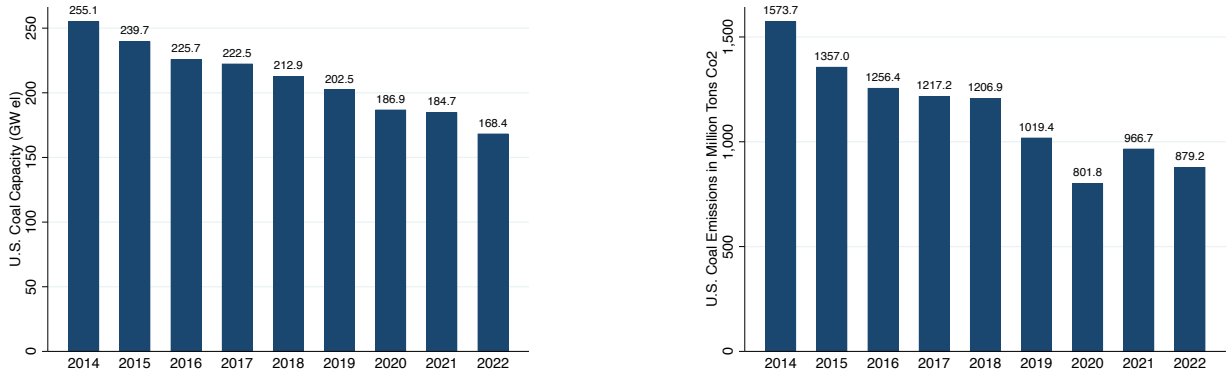
This figure shows the share of annual aggregate CO2 emissions in the EU owned by passive investors and other public equity investors. The *Passive* category reflects investors whose investment style is labeled by Capital IQ as passive. The *Other Public Equity* category reflects public equity investors that are not labeled by Capital IQ as passive. Coal plant data are from Beyond Fossil Fuels. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research.

Figure IA.26: Decomposition: Bank and Bond Debt



Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the EU over the period 2015-2022. The *Market Equity* category reflects equity investors. The *Bank Debt* category reflects debt holders that are banks. The *Bond Debt* category reflects bond investors. The *Other Debt* category reflects the portion of firm debt that is unknown, firms' whose debt structure is not observed in the data, and adjustments to debt. Firm shareholder information and classifications are determined using a combination of data from Capital IQ and manual research. Coal plant data are from Beyond Fossil Fuels.

Figure IA.27: Aggregate Coal Power Generation in the U.S.

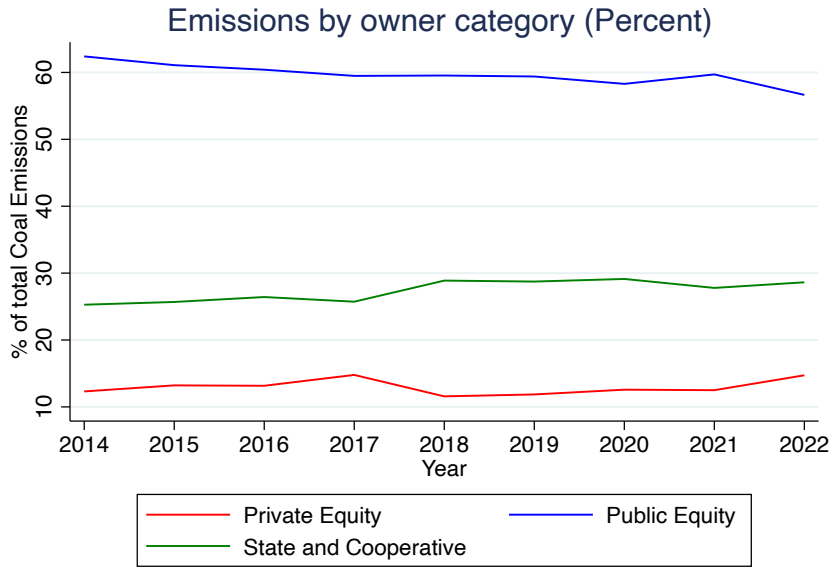


(a) Generating capacity

(b) CO2 emissions

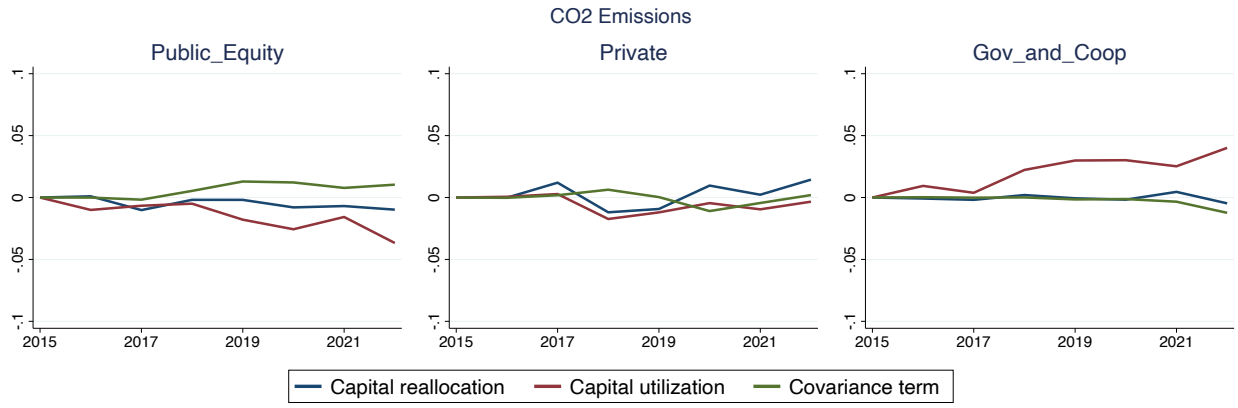
Coal plant data are from the EIA. Data on plant-level CO2 emissions are from the EPA.

Figure IA.28: Ownership of CO2 Emissions in the US, 2014-2022

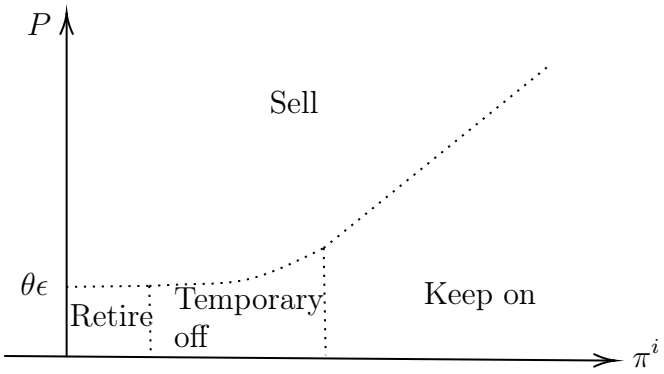


This figure shows the share of annual aggregate CO2 emissions from coal plants in the US owned by each of three investor categories. Coal plant data are from the EIA. Data on plant-level CO2 emissions are from the EPA.

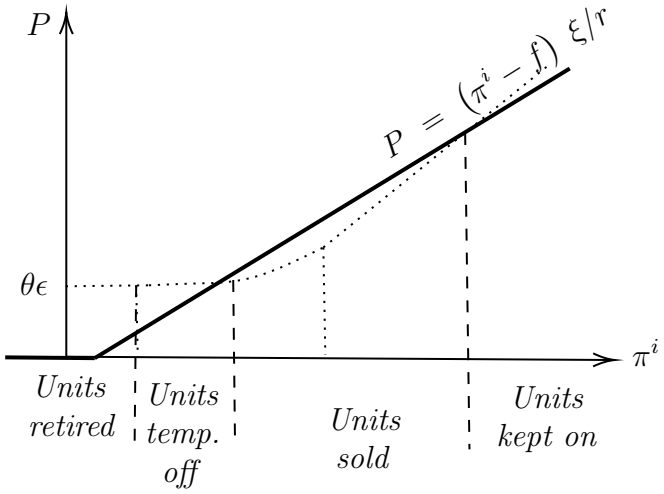
Figure IA.29: Capital Reallocation versus Capital Utilization: U.S.



Each panel shows the three terms in the decomposition in equation (2) for a given investor group, across all plants in the United States over the period 2015-2022. Coal plant data are from the EIA. Data on plant-level CO2 emissions are from the EPA.



(a) Firm capital choice



(b) Equilibrium with financial frictions

Figure IA.30: Extension: Full retirement vs. Turning off

Table IA.1: Top 10 Largest Coal Power Producers in Selected Regions, 2021

	USA	EU/UK	China	India
Av. State Investor Share (%)	10.6	30.8	84.6	45.2
State-owned enterprises (%)	10	0	80	40
Capacity (MW'000)	108.4	84.9	309.8	122.1

Average State Investor Share refers to the average percentage of equity held in the top 10 firms of each region by state institutions. For USA, China and India this percentage only refers to the percentage held by domestic institutions, for reasons of data limitations. For the EU/UK, any shareholder government is considered. A company is classified as a *state-owned enterprise* if 100% of the equity is held by a government institution. The data comes the Global Energy Monitor coal power plant tracker.

Table IA.2: Ownership and Capacity for Largest Coal Power-Producing Energy Firms for Selected Regions, 2021

Name	Type	% State Investor	Capacity (MW'000)
China			
China Huaneng	State-owned	100	73.0
National Energy Investment Group	State-owned	100	55.6
China Huadian	State-owned	100	50.3
China Datang	State-owned	100	41.1
State Power Investment Corporation	State-owned	100	32.0
China Resources	State-owned	100	17.8
Shandong Weiqiao Group	Private	0	17.5
Henan Investment Group	State-owned	100	8.2
Beijing Energy Group	Publicly traded	45.59	7.2
Datong Coal Mining Group	State-owned	100	7.2
United States			
Duke Energy	Publicly traded	0	18.5
NRG Energy	Publicly traded	0	14.4
Southern Company	Publicly traded	0	13.6
American Electric Power	Publicly traded	0	13.6
Berkshire Hathaway	Publicly traded	0	11.0
Vistra	Publicly traded	6.23	8.4
Tennessee Valley Authority	State-owned	100	8.1
Xcel Energy	Publicly traded	0	7.9
Evergy	Publicly traded	0	6.5
DTE Energy	Publicly traded	0	6.4
India			
NTPC	Publicly traded	51.12	52.7
Adani Group	Private	0	11.8
MAHAGENCO	State-owned	100	9.8
Vedanta Resources	Private	0	8.3
Rajasthan RV Utpadan Nigam	State-owned	100	7.8
Damodar Valley Corporation	State-owned	100	7.1
Jindal Group	Publicly traded	0.80	6.4
Reliance Group	Publicly traded	0.60	6.3
Tata Group	Publicly traded	0	6.3
UPRVUNL	State-owned	100	5.5
EU/UK			
PGE	Publicly traded	57.52	14.0
RWE	Publicly traded	3.03	13.5
EPH	Private	0	11.4
PPF	Private	0	8.3
Uniper	Publicly traded	40.73	7.7
EnBW	Publicly traded	96.48	7.5
Enea	Publicly traded	51.50	5.8
Enel	Publicly traded	25.59	5.8
Tauron	Publicly traded	33.51	5.4
Steag	Private	0	5.4

The variable *% State Investor* refers to the share of equity held by a government institution. For the USA, China and India, this share only refers to domestic institutions, for reasons of data limitations. A company is classified as *state-owned* if 100% of the equity is held by a government institution. The data comes the Global Energy Monitor coal power plant tracker.

	Parameter	Estimate
1	Average profitability of units $\bar{\pi}$	0.82
2	Cost of climate externalities ϵ	1.13
3	Benefit of social factors s	0.91
4	Mandate of public equity investors θ^P	0.70
5	Mandate of national state investors θ^{DS}	0.63
6	Mandate of foreign state investors θ^{FS}	0.42
7	Mandate of local state investors θ^{LS}	0.66
8	Benefit of social factors s_{ls} (local states)	0.33
9	Financial frictions ξ/r	0.70

Table IA.3: Model calibration: Robustness

Parameter	Estimate - up to 2020	Estimate - up to 2022
Average profitability of units $\bar{\pi}$	0.18	0.62
Cost of climate externalities ϵ	0.47	0.78
Financial frictions ξ/r	0.81	0.79
Mandate of public equity investors θ^P	0.81	0.79
Mandate of foreign state investors θ^{FS}	0.42	0.56
Benefit of social factors s		
Poland	0.95	1.43
Germany	0.00	0.38
Other EU	0.21	0.37
Mandate of domestic state investors θ^{DS}		
Poland	0.82	0.79
Germany	0.67	0.59
Other EU	0.87	0.74

Table IA.4: Model calibration: Extension