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Carbon Emissions and Corporate Profitability in Canada

Climate finance is an evolving area of research, which evaluates the impact of climate change on financial markets. This paper contributes to climate finance research by assessing the relation between carbon emissions and corporate profitability for a large cross section of Canadian firms. I use annual data spanning the sample period of 2007 to 2019 for 213 TSX-listed firms providing a total of 7576 firm-year observations. The analysis is based on both reported carbon emissions and estimated carbon emissions (used where reported carbon emissions are not available). Using cross-sectional and panel regressions, and controlling for firm size and value, I find that overall there is a negative relation between carbon emissions and profitability: low-carbon emission firms are associated with high profitability and vice versa. In conclusion, this research strengthens the idea that portfolio decarbonization in Canada makes economic sense.

Date: Friday August 13th, 2021

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