



# Clara Calipel from I4CE: Insights on the 'European Climate Investment Deficit Report'

Clara Calipel, researcher at I4CE specialised in EU climate investments

## Resumen

Las inversiones climáticas en la economía de la UE crecieron un 9 % en 2022. El informe del Instituto de Economía del Clima señala que el Pacto Verde Europeo está ganando impulso económico, pero las inversiones en la modernización de la energía, el transporte y los edificios aún deben duplicarse para que la UE alcance sus objetivos climáticos para 2030.

## Abstract

Climate investments in the EU economy grew by 9% in 2022. Institute for Climate Economics report finds that the European Green Deal is gaining economic momentum but investments in modernising energy, transport, and buildings must still double for the EU to hit 2030 climate targets.



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**The Institute for Climate Economics - I4CE** - is a non-for-profit organisation that provides independent policy analysis on climate change mitigation and adaptation. The Institute promotes climate policies that are effective, efficient and socially-fair. Its work covers three key transitions – energy, agriculture, forest – and addresses six economic challenges: investment, public financing, development finance, financial regulation, carbon pricing and carbon certification.

Clara Calipel is a research fellow at I4CE, specialised in EU climate investments. Her research focuses, in particular, in assessing and analysing climate investments and climate investment needs at EU level.

- **What motivated you to carry out this study on the climate investment gap in Europe and what do you see as its main contribution to the current debate on the transition to a sustainable economy?**

The primary motivation for this study was the lack of a comprehensive analysis of the climate investment gap at the EU level. While there are some estimates from the European Commission regarding investment needs, they don't systematically track current climate investments year by year across all sectors. We aimed to fill this gap because we believe that understanding what is being invested and, crucially, what is missing is essential for informed decision-making in public policy.

Moreover, we have conducted similar analyses in France for over a decade, tracking climate investments and comparing them to the national objectives. This approach has been very useful for policymakers in France, and we felt that expanding the methodology to the EU level would offer valuable insights and contribute to the public debate on the transition to a sustainable economy.

- **Could you briefly detail the methodology used to calculate the climate investment gap and how the sectors with the greatest investment needs have been identified?**

Our approach was to adopt a bottom-up methodology, focusing on three major sectors: energy, transport, and buildings. These sectors were chosen due to their significant share in EU-wide CO2 emissions and the availability of reliable data. We broke down each sector into sub-sectors, such as solar and wind energy, electric vehicles, and the renovation of residential buildings, aiming to get the most detailed view possible of investment levels.

The investment figures were calculated based on the GDP definition, including capital formation and expenditures on durable goods. The idea was to estimate investments made by the final project owner, whether it was a household renovating a home or a company installing a wind turbine. By analyzing the investments in this granular way, we could better understand where the gaps were and identify which sectors faced the greatest challenges.

- **The report mentions that there are shortfalls in 20 of the 22 sectors analyzed. Could you highlight some of the most critical sectors and the reasons behind these shortfalls?**

Yes, that's correct. Out of the 22 sectors we analyzed, 20 exhibit significant investment deficits in 2022. Among the most critical sectors is wind power, where we see an investment shortfall of about 18% relative to the current levels. This is due to the high upfront costs and the long lead times associated with wind energy projects.

In contrast, some sectors are performing better. For example, solar energy investments have recently caught up with the targets, and we expect to see a surplus in 2024 if the current trend continues. The variation between sectors highlights the need for tailored approaches to address the unique challenges faced by each.

- **How do you see the role of public funding in bridging the climate investment gap?**

Public funding plays a crucial role in closing the climate investment gap, particularly in areas where private investment alone is not enough to meet the required scale. There are certain projects, especially in infrastructure, that are not

profitable for private investors without public support. For instance, cross-border infrastructure, like power grids or railways, often requires funding at a higher level because individual countries may not invest in projects that benefit other regions.

Public funds can be used to de-risk private investments, providing guarantees or initial capital to make projects more attractive for private investors. Furthermore, regulation, such as stricter carbon pricing or mandatory building renovations, could complement public funding by creating a market demand for low-carbon solutions. This combination is essential to mobilize the necessary resources for the transition.

- **What kind of specific policies do you consider necessary to close these investment gaps in the identified sectors?**

To close the investment gaps, a combination of direct public funding and regulatory measures will be essential. For some sectors, like cross-border infrastructure for power grids or railways, public investment at the EU level is crucial because individual member states often lack the incentive to fund projects that don't have a direct national benefit.

Moreover, policies such as stricter carbon pricing and mandatory building renovations could help stimulate private investment by making green projects more financially viable. Essentially, it's about finding the right balance between public money to de-risk investments and regulations to create a market demand for sustainable solutions.

- **What are the main recommendations you make in the report for policymakers and public financiers?**

Our main recommendation is for the EU to develop a comprehensive investment plan that clearly defines how the investment gap will be addressed, specifying the roles of public and private sectors. This should include an assessment of how much of the funding will come from EU resources, such as the multiannual financial framework or revenues from the Emissions Trading System, and how much will need to be mobilized by member states.

Additionally, we recommend improving the monitoring of climate investments across the EU, ideally by the European Commission, to ensure a more detailed and member state-specific understanding of where the gaps are and how they can be effectively closed.

- **What are the main challenges in improving this type of analysis in the future?**

The main challenges lie in data limitations and the complexity of expanding the analysis to include new sectors, such as industry. We aim to make the report an annual publication to track the evolution of investments year by year. In the future, we also hope to estimate the public and private shares of investment more accurately. However, this will depend on the availability of detailed financial data.

Another challenge is finding the right mix between regulation and public investment to trigger the necessary private sector contributions. We need to continue refining our methodology and expanding the scope to capture a more comprehensive picture of the climate investment landscape in Europe