Chapter 4: Investment trends and challenges in tackling climate change

EU investment in climate change mitigation is behind that of China, and ahead of the United States, but levels need to be taken in context

- China invested 2.7% of gross domestic product (GDP) in climate-change mitigation, ahead of 1.3% in the European Union and 0.8% on the United States.
- The European Union (€660bn) surpasses the United States (€380bn) in energy efficiency investments and compares with that of China (€650bn).
- The momentum of renewable energy appears to be slowing, as commitments from the European Union (10%) and China (8%) declined in 2019, but not in the United States (+27%).

The EU energy transition is challenging for some sectors and EU members

- To achieve the 55% cut in greenhouse gas emissions by 2030, energy-related investments (incl. transport) would need to increase to 3.7% of GDP over 2021-2030.
- Final consumers need to cover 65% of these investments, mainly energy-efficiency improvements.
- By contrast, in 2031-2050 the majority of investment should come from the energy suppliers and concern infrastructure projects.
- Financing the transition will be more challenging in Central European countries: close to 4% of GDP per year, and 4% of this will cover energy-efficiency measures.
- The pandemic crisis is more likely to hurt investment in energy efficiency (International Energy Agency: -17%) and small-scale renewable projects (the 1st semester of 2020 contracts reached 22% of those in 2019) than any other type of climate-change mitigation.

Municipalities' role in implementing national energy and climate plans (NECPs)

- Two in three NECPs recognize an explicit role for municipalities in the energy transition, as the current energy taxation system is unfit to support climate investment.
- The NECPs highlight municipalities’ role in transport and energy efficiency, and the role of the Covenant of Mayors (CoM), the largest EU network of municipalities.

Municipalities are more sensitive to climate-related themes when they coordinate with a network with similar policy priorities.

- Municipalities measuring their carbon footprints or using green budgeting are increasing their investment in climate mitigation more frequently.