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Study | 29.01.2024

Road to net zero

Bridging the green investment gap

In a press release from 29 November 2023, the World Meteorological Organisation confirmed that 2023 was set to be the warmest year on record, emphasising the need to act now to limit the risks of an increasingly inhospitable climate in this century.

Over the past three decades, the European Union has positioned itself as a guardian of a relatively steady improvement in environmental and public health preservation. This has been achieved by implementing common standards and integrating numerous instruments for the protection of nature and public health into national laws.

Even though these advances have sometimes been slow, and occasionally perceived as contradictory to certain other EU policies (such as free trade agreements or the Common Agricultural Policy), or caused tensions within the Parliament's changing political landscape, the environmental protection goal has more or less prevailed.

In the past 2 years, the European Union embarked on a legislative sprint to implement the Green Deal and align itself with the Paris Agreement. It adopted 32 policies – spanning from the phasing out of internal combustion engines by 2035 to the introduction of a carbon border adjustment mechanism – to reduce CO₂-eq emissions by 55% by 2030 compared to 1990 (the 'Fit for 55' package) and achieve carbon neutrality by 2050.

Yet, tangible emission reductions are still lagging behind and the progress of European environmental policies relies on a delicate political balance. Struggles over the nature restoration project, postponing chemical regulation reform indefinitely, re-authorising glyphosate for a decade, and rejecting pesticide use regulation, are only a few examples of this. Furthermore, in June 2023, certain European heads of state endorsed a declaration calling for a 'regulatory pause' on the Green Deal.

Meanwhile, in a recent assessment of the effort-sharing legislation (which covers the 62% of UE-27 total GHG emissions that are not included in the EU Emission Trading System, or ETS), the European Environment Agency assessed that no EU-27 country, except for Greece, was on track to meet its national 2030 emission reduction targets ². In a recently published report addressing the necessity of sustaining current habitability conditions on Earth, the Club of Rome deemed current transition policies ‘Too Little, Too Late.’ ³ Their analysis underlines that the excessively slow reduction of greenhouse gas emissions and the continued collapse of biodiversity are propelling humanity toward a precipice.

Given increasing resistance to climate policies within the EU, and the inability to meet medium-term emissions reduction targets, committing to net zero transition is ever more vital. These commitments should build on a sound and objective assessment of the current policy trends across the EU.

The discrepancy between the EU’s ambitious goals and its limited policies, both at the EU and member state levels, is mostly due to financial obstacles. In addition to inconsistent pro-fossil policies, the current economic climate, particularly European budgetary rules, has constrained states in their ability to deliver the investment required to implement transition policies. Therefore, public and private investments are both the primary hindrance to realising these policies and the most accurate lens to measure the commitment levels of European and national authorities.

Building on these considerations, Institut Rousseau has created this comprehensive report to quantify the existing gap with a disaggregated sectoral and country-level view. The collective extra-investment required to implement all decarbonisation measures needed to reach net zero by 2050 is estimated at €10 trillion, or an average of €360 billion per year. This investment represents around 2.3% of the current EU-27 GDP. These estimations cover the financial needs to fund the targeted sectoral emission reductions across all activities to reach 519 million tons of CO₂-eq per year by 2050 (-85% reduction, compensated by carbon sinks for net neutrality). This detailed assessment covers the required extra investment compared to a business-as-usual (BaU) scenario. It is both country- and sector-specific with estimates of the cumulative investment, as well as the annual average until 2050. Additionally, the report provides a clear roadmap to bridge the investment gap, highlighting actionable measures balanced between public and private funding, depending on the investment.

This report is the result of extensive work conducted by Institut Rousseau, a French think-tank specialising in public transition policies, in close dialogue with Member States’ administrations, companies and NGOs with expertise in the studied sectors and countries. By addressing this critical aspect, this study aims to contribute to ongoing debates within the EU regarding the efforts required to reach our common environmental targets, a few months before the European elections. It calls for urgent actions in support of drastic emission reductions, to achieve our shared environmental goals.

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Philippe Lamberts

Member

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