

WHAT DRIVES FIRMS' INVESTMENT IN CLIMATE ACTION?

Evidence from the 2021-2022
EIB Investment Survey



WHAT DRIVES FIRMS' INVESTMENT IN CLIMATE ACTION?

Evidence from the 2021-2022
EIB Investment Survey

What drives firms' investment in climate action? Evidence from the 2021-2022 EIB Investment Survey

© European Investment Bank, 2022.

All rights reserved.

About the EIB Investment Survey (EIBIS)

The EIB Group Survey on Investment and Investment Finance is a unique, annual survey of 13 500 firms. It comprises firms in all EU Member States and the United Kingdom, as well as a sample of US firms that serves as a benchmark. It collects data on firm characteristics and performance, past investment activities and future plans, sources of finance, financing issues and other challenges that businesses face. Using a stratified sampling methodology, EIBIS represents firms across all EU members and the United States, as well as across firm size classes (micro to large) and four main sectors. It is designed to build a panel of observations to support time series analysis, observations that can also be linked to firm balance sheet and profit and loss data. EIBIS has been developed and is managed by the Economics Department of the European Investment Bank (EIB), with support for development and implementation provided by Ipsos MORI.

For more information see: <http://www.eib.org/eibis>.

About this publication

This is a report of the EIB Economics Department. The data source for this report is the EIB Investment Survey (EIBIS) 2021. Results are weighted by industry group (sector), firm size-class and country. The methodology of the EIBIS survey is available at: <https://www.eib.org/en/about/economic-research/surveys-data/about-eibis>.

Contact: eibis@eib.org.

About the EIB Economics Department

The EIB Economics Department provides economic analyses and studies to support the European Investment Bank in its operations and in defining its positioning, strategy and policy. Director Debora Revoltella heads the department and its team of 45 economists.

economics@eib.org

www.eib.org/economics

Main contributors to this publication

Fotios Kalantzis (lead author) and Luca Restaldi.

Disclaimer

The views expressed in this publication are those of the authors and do not necessarily reflect the position of the European Investment Bank.

For further information on the EIB's activities, please consult our website, www.eib.org.

You can also contact our InfoDesk, info@eib.org.

European Investment Bank

98-100, boulevard Konrad Adenauer

L-2950 Luxembourg

+352 4379-1

info@eib.org

www.eib.org

twitter.com/eib

facebook.com/europeaninvestmentbank

youtube.com/eibtheeubank

Published by the European Investment Bank.

Printed on FSC® Paper.

Contents

Climate emergency: Building a better future	1
Growing concerns about climate change	2
The climate transition is becoming a binding reality	3
Climate investment stalls but the future looks brighter	6
The pandemic creates new challenges for energy efficiency investment	8
Firms warn of investment implications as energy costs soar and uncertainty persists	11
Paving the way to a net-zero carbon future	16

Climate emergency: Building a better future

The efforts put in place by the European Union to counter the economic fallout of the COVID-19 pandemic facilitated the recovery in 2021. At the EU level, the [Recovery and Resilience Facility](#) — a €723.8 billion fund set up to mitigate the economic and social consequences of the coronavirus pandemic and to make European economies and societies more sustainable — encourages public investment in climate action to help spur the transition to a green economy. For the private sector, the facility offers support for firms in the form of subsidies or guaranteed credits. That support has been fundamental in weakening the link between lost revenue at firms and reduced investment plans, enabling firms to restart activities as the pandemic receded.

Climate change remains at the top of the political agenda in the European Union and beyond. At the COP26 in Glasgow, countries responsible for 99% of carbon emissions agreed to take shared action to reduce emissions to net-zero. In 2022, the world might witness for the first time economic growth and an overall decrease in global carbon emissions. However, the war in Ukraine brings new challenges and increases economic stress.

In 2021, the global economic recovery was confronted with an energy crisis exacerbated by Russia's invasion of Ukraine. Prices for oil, electricity and particularly gas spiked to unprecedented levels following the re-opening of economies after pandemic lockdowns, various supply constraints and the war in Ukraine. These developments threaten to derail the post-pandemic economic recovery, strain household incomes, affect the financial viability and investment plans of firms and ultimately undermine the goals of the climate transition. The current energy crisis, which is aggravated by a mixture of temporary and structural problems, is expected to be prolonged and could worsen.

The energy crisis represents a lesson for the future. The turmoil in the energy market underscores the need for further investment in clean energy technologies. With the climate transition on the horizon, sustained investment in clean energy and infrastructure should play a dominant role in addressing the energy crisis. By meeting future renewable energy and energy efficiency needs, countries will be able to protect firms and businesses from energy market volatility, while attaining climate targets.

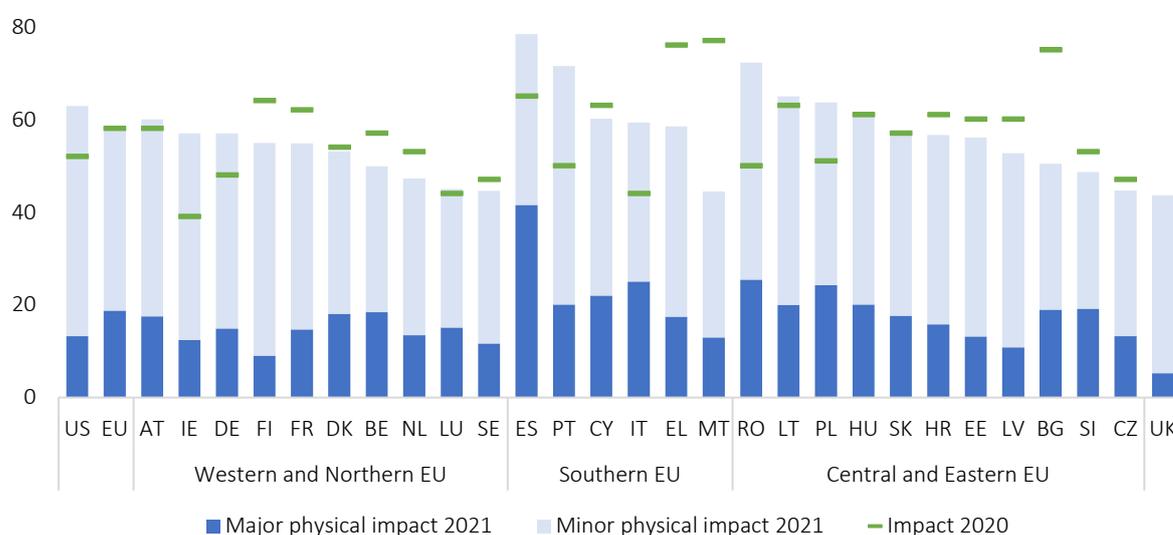
The European Commission recently published a strategy to cope with Europe's dependency on fossil fuels and, in particular, Russian gas. The [REPowerEU](#) Plan envisages a series of short and long-term measures, including subsidies for vulnerable customers, faster deployment of renewable energy, decoupling of electricity and gas prices and increased diversification of the energy supply to respond to rising energy prices in Europe and replenish gas stocks for next year. Generally, the plan highlights the importance of accelerating the climate transition, which requires massive investment in networks, renewables, energy efficiency and new technologies.

Based on the EIB Investment Survey (EIBIS) 2021, this report focuses on EU firms and provides a brief overview of firms' perceptions of climate risks and energy costs, their investments to address those risks and the main factors influencing their decisions. EIBIS is an EU-wide survey that includes interviews with over 13 500 firms of various sizes from different sectors. Conducted annually since 2016, EIBIS offers qualitative and quantitative information about firms' investment activities, their financing needs and the difficulties they face. These answers are compared across countries, sectors and firms to identify areas for improvement and target setting.

Growing concerns about climate change

Myriad extreme weather events across the globe in 2021 resulted in human and economic loss. From extreme heatwaves and wildfires in western North America to deadly flooding in Western Europe and Asia, the dramatic rise in serious weather events has repercussions that affect firms. The widespread flooding in Europe in early July alone killed more than 200 people and caused an estimated €2.5 billion in property damage¹. Climate change is expected to affect every country in the world, but its impact will not be felt equally across all regions, sectors and even firm sizes. Overall, climate change risks will result in increased maintenance and material costs, as well as higher prices that will influence firms' competitiveness and the economy as a whole.

Figure 1 Share of firms (in %) whose business activities are affected by physical climate risks, by country



Source: EIBIS 2020, EIBIS 2021

Base: All firms (data not shown for those who said do not know/refused to answer)

Question: Thinking about climate change and the related changes in weather patterns, would you say these weather events currently have a major impact, a minor impact or no impact at all on your business?

In 2021, more US firms started feeling the heat from climate change compared to EIBIS 2020, while the share of EU firms concerned about the physical risks of climate change remains high, but relatively stable (Figure 1). Some 58% of European firms say their business is affected by the physical risks of climate change. In the United States, the share of firms concerned about physical risks stands at 63%, a substantial increase of 11 percentage points from the previous year. Nevertheless, in the European Union one-fifth of firms think that extreme weather events had a major impact on their business compared with around one-tenth in the United States.

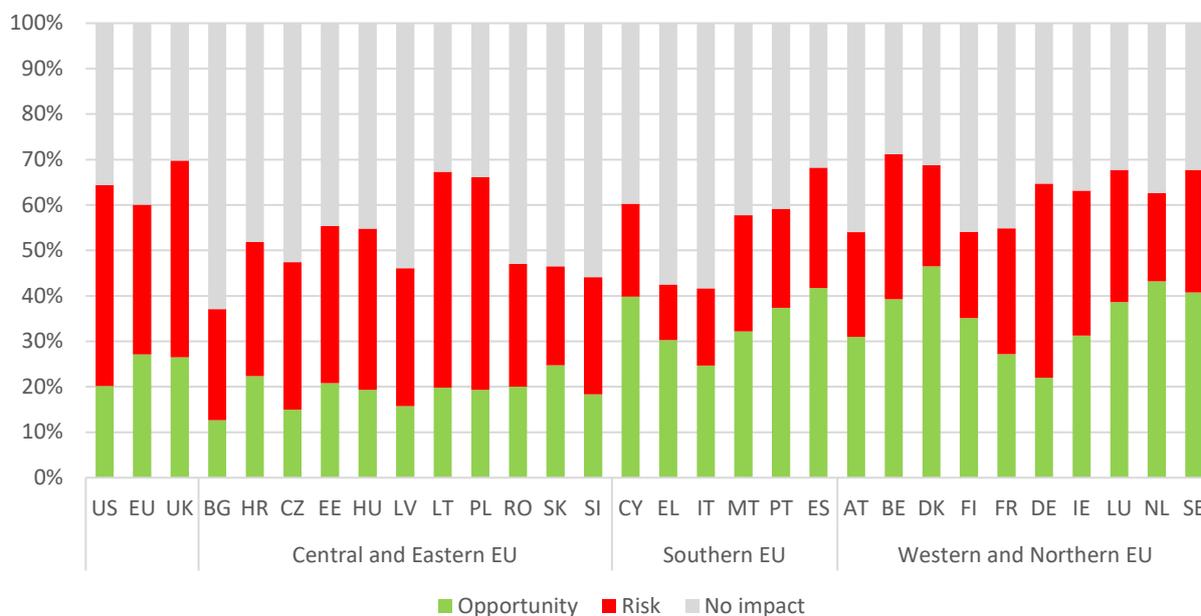
Within the European Union, firms in Southern Europe report being more vulnerable to physical risks than other regions. Around 78% of Spanish firms cite their vulnerability to physical risks. Firms in Portugal are also particularly worried, with 71% of firms expressing concern. These countries, along

with other Mediterranean nations, have lived through numerous heatwaves and wildfires during the last decade. Firms in Central and Eastern Europe are the second most likely to report concerns about the physical risks of climate change. At the country level, a high share of firms located in Romania, Lithuania and Poland (countries with a high risk of floods) say they are exposed to physical risks. While more than 40% of firms in Western and Central Europe perceive high physical risks, this share remains lower than the average across firms in the European Union and the United States.

The climate transition is becoming a binding reality

Limiting global warming to well below 2°C compared to pre-industrial levels, as outlined in the Paris Agreement, will require business models to be transformed. In addition to the physical risks of climate change, firms must also prepare for the transition risks caused by the shift to net-zero emissions. Transition risks arise from businesses' need to transform and adapt to new regulations, changing market preferences and new standards as countries embark on a path to decarbonisation.

Figure 2 Impact of the energy transition on firms in the European Union (% of firms)



Source: EIBIS 2021

Base: All firms (data not shown for those who said do not know/refused to answer)

Question: Thinking about your company, what impact do you expect this transition to stricter climate standards and regulations will have on your company over the next five years?

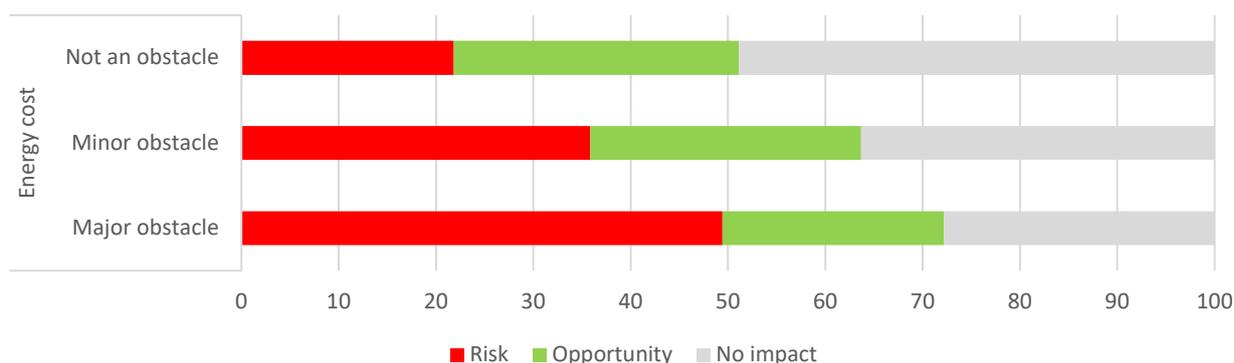
US firms perceive the transition to a low-carbon future mostly as a risk to their business, whereas EU firms have more neutral views on the transition. Nevertheless, in 2021 fewer EU firms (41%) felt that the transition would not affect their business (Figure 2), compared with the previous year (51%). For firms that acknowledge the transition will affect their business, views are balanced between whether the impact presents a risk or an opportunity. By contrast, US firms overwhelmingly feel that the transition represents a risk to their business, with only 20% saying that they are in a good position to gain from the transition.

Across Europe, a higher share of firms in Central and Eastern Europe feel that the transition to a low-carbon future represents risks. Around 47% of Latvian and Polish firms say the transition poses risks to their business. Western and Northern European firms hold relatively diverse views on the riskiness of transition, with 43% of firms in Germany and the Netherlands saying it will pose a risk, while only 19% of firms in Finland cite a risk. On average, firms in Southern Europe are less likely to consider the transition to pose risks. The share is highest in Malta and Spain, where 26% of firms perceive transition risks.

On the contrary, Southern European firms see the transition as an opportunity. In particular, around 41% of Spanish and Cypriot firms say the transition could be beneficial for their business. A high share of firms in Western and Northern Europe share that positive view. Almost 50% of firms in Denmark and the Netherlands see the transition as an opportunity. Overall, firms in Central and Eastern Europe are less likely to see the transition as an opportunity, compared to other European regions.

The share of firms saying the climate transition is a risk for their business increases with their exposure to energy costs. Around half of EU firms that consider energy costs to be a major obstacle for their business also perceive the climate transition as a risk (Figure 3). On the other hand, only 22% of the firms unaffected by energy costs (they do not consider energy costs to be an obstacle for their business) say the transition poses a risk.

Figure 3 Perception of climate transition, according to the perception of energy cost (% of firms)



Source: EIBIS 2021

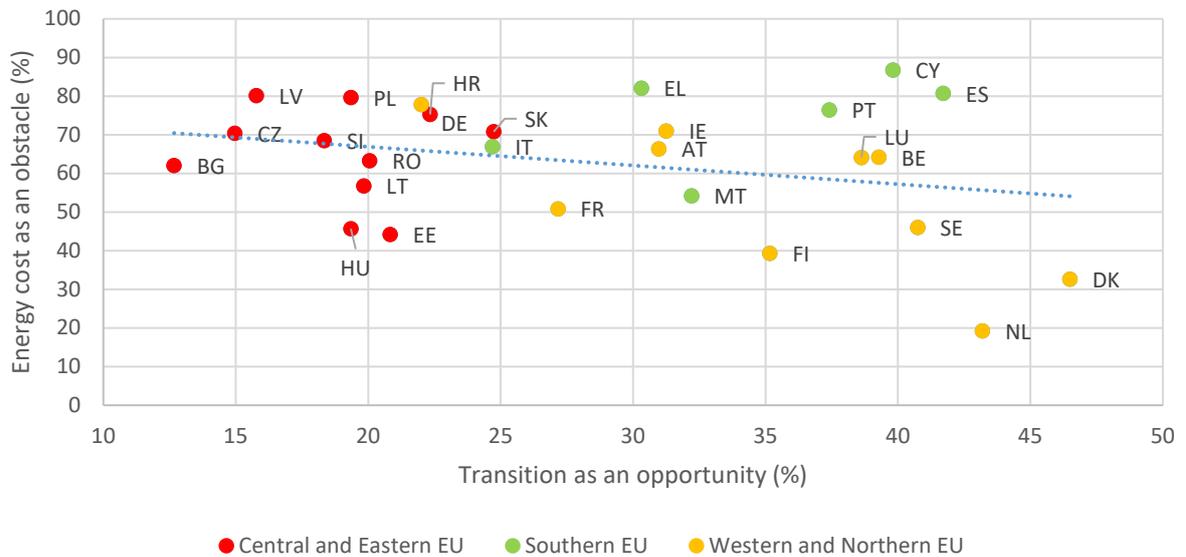
Base: All firms (data not shown for those who said do not know/refused to answer)

Question: Thinking about your company, what impact do you expect this transition to stricter climate standards and regulations will have on your company over the next five years?

To what extent is energy cost an obstacle to investing in activities to tackle weather events and reduce emissions? Is it a major obstacle, a minor obstacle or not an obstacle at all?

In contrast, firms concerned about energy costs are also less likely to view the transition as an opportunity. Countries with a higher share of firms considering energy costs to be an obstacle also tend to have a lower share of firms that expect to gain from the climate transition (Figure 4). In Latvia, only 15% of firms see the transition as an opportunity, while around 80% consider energy costs to be an obstacle. On the other hand, in Denmark more than 45% of firms regard the transition as an opportunity but only around 30% of firms say energy costs are an obstacle.

Figure 4 Firms (in %) seeing the climate transition as an opportunity vs. those that consider energy costs to be an obstacle



Source: EIBIS 2021

Base: All firms (data not shown for those who said do not know/refused to answer)

Question: Thinking about your company, what impact do you expect this transition to stricter climate standards and regulations will have on your company over the next five years?

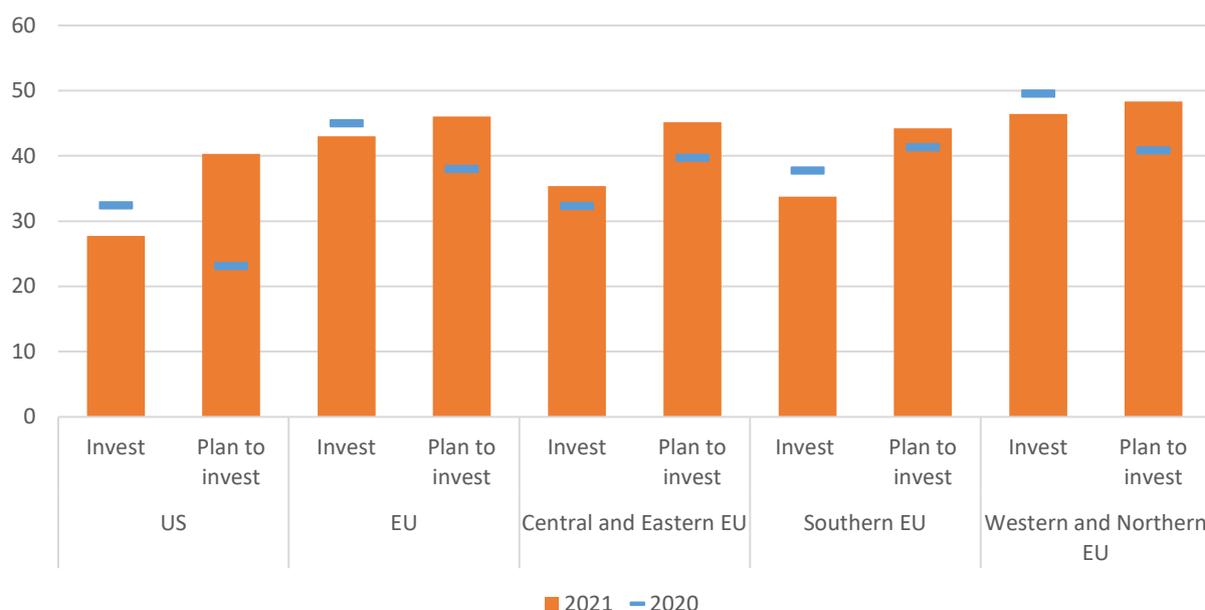
To what extent is energy cost an obstacle to investing in activities to tackle weather events and reduce emissions? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Climate investment stalls but the future looks brighter

Around 43% of European firms are investing in climate measures, with firms in Western and Northern Europe at the forefront. The share of firms investing in climate measures in 2021 was marginally below the 45% reported in 2020 (Figure 5), which could be the result of the repercussions the COVID-19 pandemic had on firms' investment plans. Contrary to the trend, more firms (35%) in Central and Eastern Europe invested in climate measures compared to 2020, overtaking Southern Europe, with 34%. Overall, the share of EU firms investing in climate remains significantly higher than in the United States, where the share dropped to 28% from 32% in 2020.

Looking ahead, about 46% of EU firms report that they have plans to invest, a significant increase from 2020. Firms in Western and Northern Europe lead the trend, with 48% of firms planning to invest. At 45%, firms from Central European countries are slightly less likely to invest, followed closely by Southern Europe. Comparing both sides of the Atlantic, more firms in Europe plan to invest in climate measures than in the United States, where 40% of firms have investment plans and only 28% have already invested (Figure 5).

Figure 5 Firms (in %) investing or planning to invest in climate-related measures



Source: EIBIS 2021, EIBIS 2020

Note: The base is all firms (data not shown for those who said do not know/refused to answer)

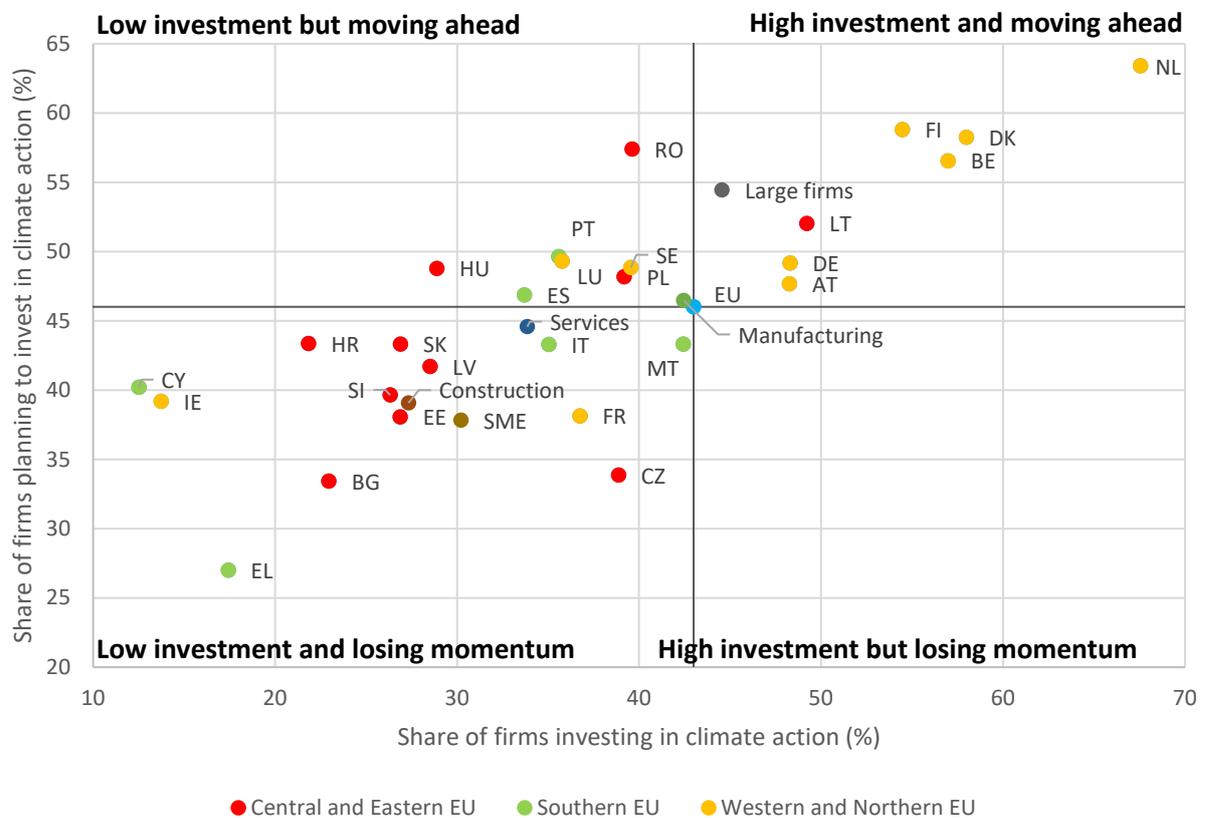
Question: Has your company already invested to tackle the impacts of weather events and reduce carbon emissions?

Firms in Western and Northern Europe are leading in investments and gaining momentum. In the Netherlands, 68% of firms have already invested in climate change measures, and 63% plan to invest for the first time (Figure 6). The share of firms with climate investments is also high in Finland and Denmark. At the other end of the spectrum is Greece, where only 27% are planning to invest and 17% have invested. Cyprus and Ireland show similarly low figures for the share of firms investing, but a higher share of firms report plans to invest in the future. Firms in Portugal, Hungary and Luxembourg fall below the EU average for climate investment, but a higher-than-average share of firms is planning

to invest. The numbers show what appears to be a constantly rising share of firms investing, at least in the short run. In Malta, climate investment is likely to lose momentum, with a high share of firms investing in climate, yet a below-average share of firms planning to invest in the future.

Larger firms and those in high carbon-intensive sectors are more likely to be making climate investments and to be planning investments in the future. Some 45% of large firms have invested in climate measures and more than 55% of them are planning to do so in the future, maintaining momentum in the combat against climate change. By contrast, only 30% of small and medium firms have invested and 38% of them have plans to invest in the future, putting them in the weakest quadrant for investment (Figure 6). Apparently, firms operating in more carbon-intensive sectors, such as manufacturing and infrastructure, are more active than those operating in the services and construction sectors.

Figure 6 Firms (in %) investing in climate action and firms planning to invest in the future



Source: EIBIS 2021

Note: The base is all firms (data not shown for those who said do not know/refused to answer)

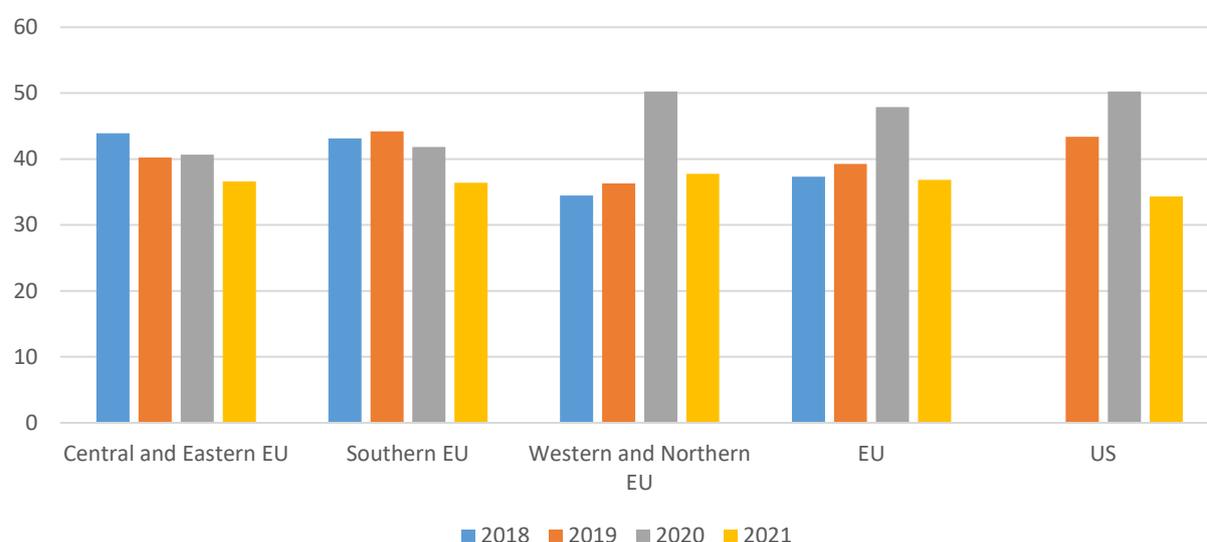
Question: Has your company already invested to tackle the impacts of weather events and reduce carbon emissions?

The pandemic creates new challenges for energy efficiency investment

Energy efficiency investments slowed in 2021 amid the pandemic, on both sides of the Atlantic.

However, the share of EU firms investing in energy efficiency decreased less than in the United States, and the share rose compared to EIBIS 2020 (Figure 7). This significant drop in the share of firms investing in energy efficiency in 2021 is likely the result of the impact COVID-19 had on firms' overall investment plans. Firms in Western and Northern Europe were more likely to invest, but they also recorded the sharpest drop in investment. Energy efficiency investments by firms from Central and Eastern Europe also continued to lag, with 36% of firms investing, but with the share shrinking since 2016. Investment by firms in Southern Europe follows a similar trend.

Figure 7 Firms (in %) investing in energy efficiency, by region



Source: EIBIS 2021

Note: The base is all firms (data not shown for those who said do not know/refused).

Question: What proportion of the total investment was primarily for measures to improve energy efficiency in your organisation?

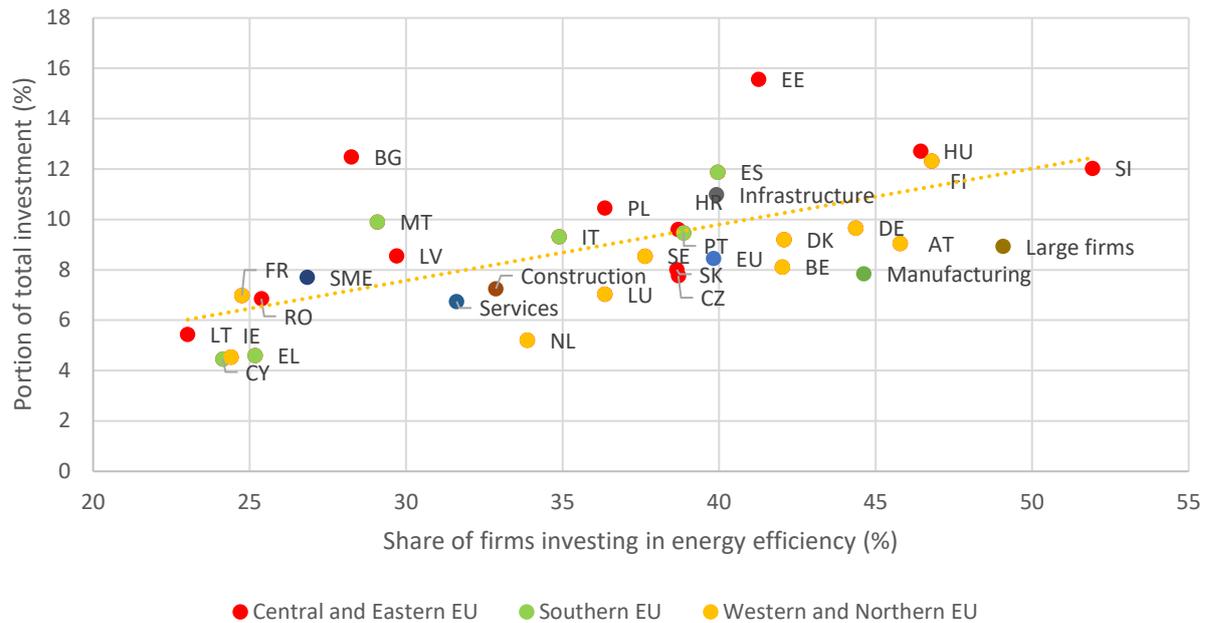
Data not available in 2018 for the United States.

The countries with a high share of firms investing in energy efficiency also record a higher percentage of firms' investment budgets dedicated to energy efficiency (Figure 8). Among EU members, Slovenia shows the highest percentage of firms that invest in energy efficiency. Finland and Hungary come second. Firms in these countries tend to dedicate the biggest portion of their overall investment to energy efficiency. Bulgaria and Estonia are outliers, with a high proportion of budgets being dedicated to energy efficiency, but a relatively low share of overall firms investing in energy efficiency measures. On the other hand, Ireland, Cyprus and Lithuania have the lowest share of firms investing in energy efficiency, together with low average investment in energy efficiency.

Large firms and manufacturing firms, which are considered more energy-intensive, are the most likely to invest in energy efficiency. Similar to climate investments, large firms invest substantially more in energy efficiency than small and mid-size firms (Figure 8). The manufacturing sector also has

the highest share of firms investing in energy efficiency, followed by the infrastructure sector. Yet, on average, the infrastructure sector directs 11% of total investment to energy efficiency while manufacturing only dedicates 7%. The services sector has the lowest share of firms investing in energy efficiency, and energy efficiency accounts for the lowest portion of total investment. The difference is likely because energy tends to be a significant expense for large firms and energy-intensive sectors. Investment in energy efficiency may significantly reduce their variable costs.

Figure 8 Firms (in %) investing in energy efficiency and the share of total investment directed to energy efficiency



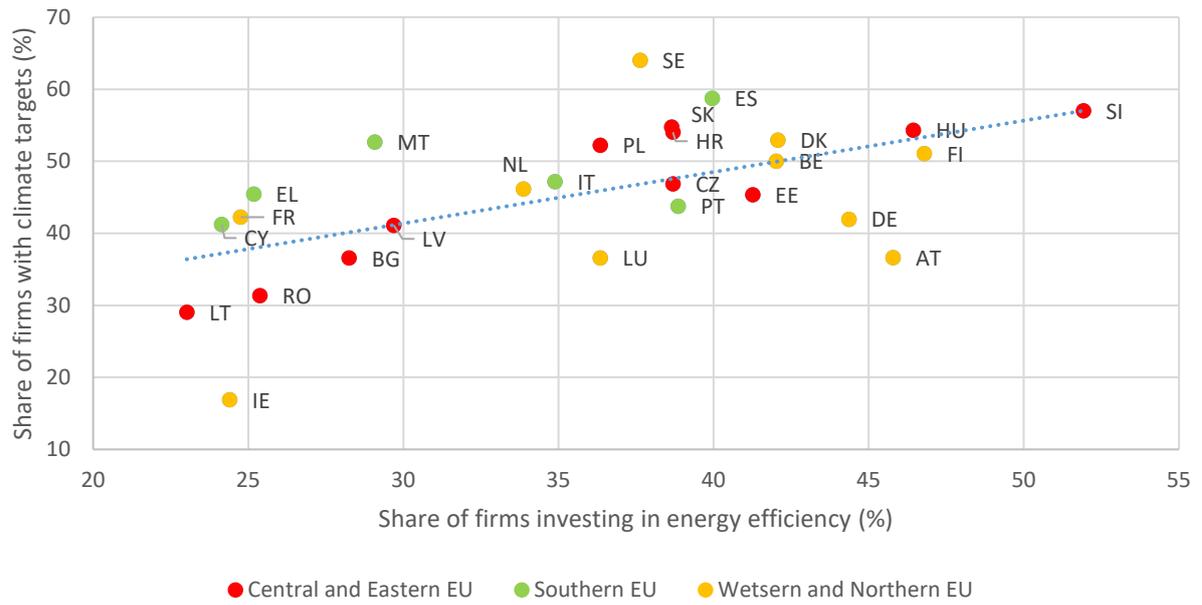
Source: EIBIS 2021

Note: The base is all firms (data not shown for those who said do not know/refused).

Question: What proportion of the total investment was primarily for measures to improve energy efficiency in your organisation?

Firms' commitment to climate targets appears to be connected to a higher share of energy efficiency investment. Slovenia (52%) and Finland (47%) had the highest share of firms investing in energy efficiency, along with a high share of firms (58% for Slovenia and 51% for Finland) setting climate targets (Figure 9). Despite having the highest share of firms focused on climate targets, Sweden is only around the EU average in the share of firms investing in energy efficiency investments. On the other hand, Lithuania and Ireland illustrate that commitment to climate targets and investment are linked. The two countries have the lowest share of firms that have defined climate targets (below 30%) and the lowest share of energy efficiency investment (below 25%). Each European region appears to have its own leaders and laggards concerning both climate targets and energy efficiency investment, implying no significant trends can be discerned across regions.

Figure 9 Firms (in %) investing in energy efficiency and firms setting climate targets



Source: EIBIS 2021

Note: The base is all firms (data not shown for those who said do not know/refused).

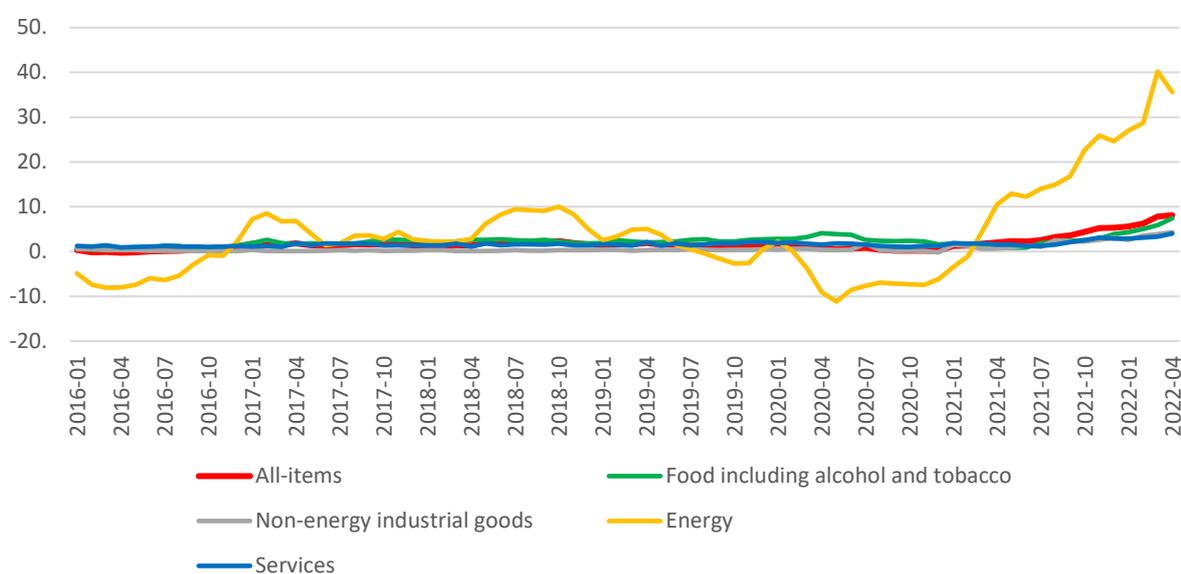
Question: What proportion of the total investment was primarily for measures to improve energy efficiency in your organisation?

In 2020, did your company set and monitor internal targets on carbon emissions and energy consumption?

Firms warn of investment implications as energy costs soar and uncertainty persists

Energy price inflation reached a historical high (40%) in the aftermath of the Russia-Ukraine war. Prior to the conflict, the overall consumer price index rose from 1.2% in January 2021 to 5.6% in January 2022 (Figure 10), because of consistent supply bottlenecks and shortages accompanied by rising uncertainty and political tension. The outbreak of the war put additional pressure on prices, which continued to move upwards (+8.1% in April 2022). In the first quarter of 2022, more than 50% of headline inflation can be attributed to energy prices. Namely, in March, wholesale electricity prices in the euro area peaked at around €200 per megawatt hour, more than four times the average price before the pandemic.

Figure 10 Euro area inflation (in %) and its main components

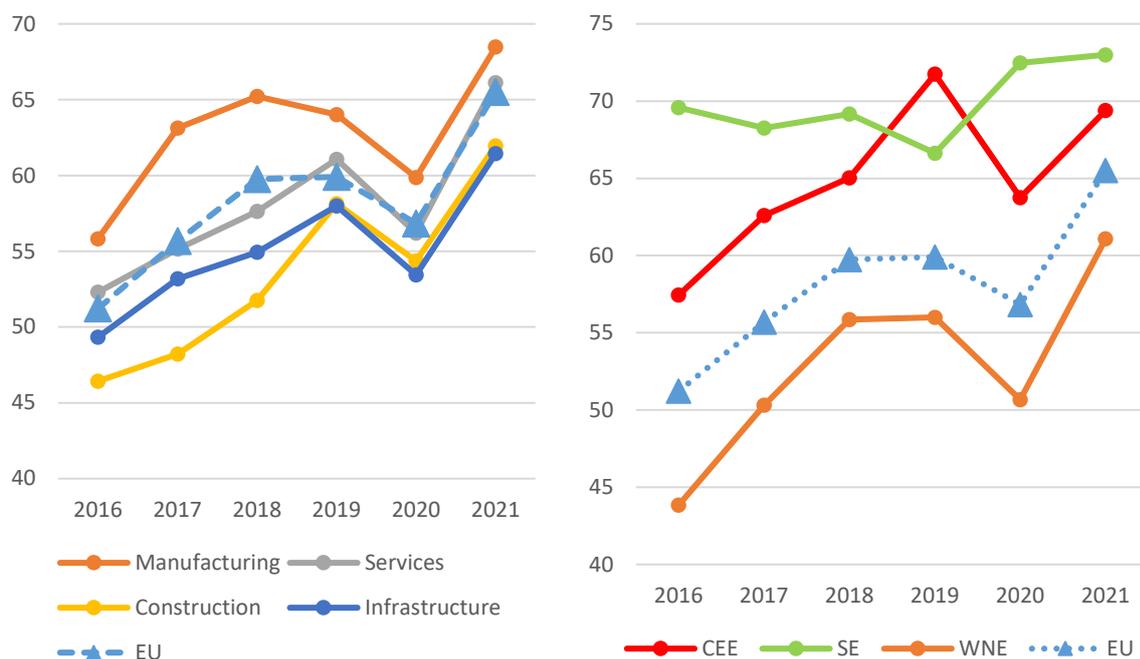


Source: Eurostat

Note: Year-on-year percentage change.

In addition, an increasing number of firms say rising energy costs risk putting the brake on their investment plans. The perception of energy costs as an investment obstacle has increased throughout the years, according to EIBIS data (Figure 11). The trend appears across all company sectors, with manufacturing firms showing the greatest concern about energy prices. In 2021, almost 70% of manufacturing firms perceived energy prices to be an obstacle, five percentage points higher than the EU average. The manufacturing sector is highly energy-intensive and therefore vulnerable to energy price increases. Within the services sector, the trend more closely follows the general outlook of EU firms. In construction, the share of firms considering energy costs to be an obstacle remains below the EU average, but the gap with other sectors closed from 2016 to 2019.

Figure 11 Share of firms (in %) considering energy cost as an obstacle to investment, by region and sector



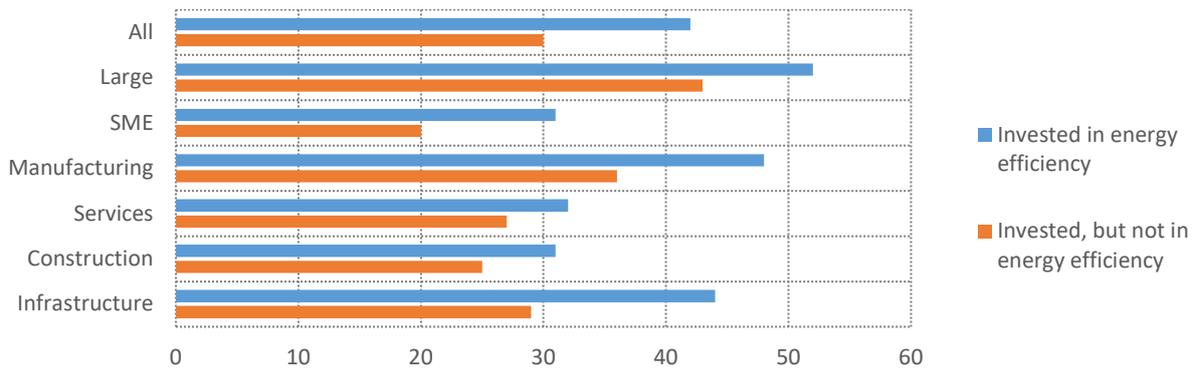
Source: EIBIS 2021, EIBIS 2020, EIBIS 2019, EIBIS 2018, EIBIS 2017, EIBIS 2016

Note: CEE refers to Central and Eastern Europe. SE refers to Southern Europe, and WNE is Western and Northern Europe.

Higher energy costs influence the decision of firms to invest and, more specifically, their investment focus. On the one hand, high energy prices increase the cost of production and thus decrease output, ultimately spurring downsizing, which negatively affects investment decisions. On the other hand, higher energy prices could also push firms to modernise their operations, by using capital to pay for newer machines, equipment and building renovation. The modernisation effect has an ambiguous impact on total investment, as investment in more energy-efficient technologies increases while investment in non-energy related areas declines.

When controlling for higher energy costs, a larger share of firms invest in energy efficiency than in other non-energy related areas. Firms can tackle energy costs, unlike many other obstacles to investment, by investing to lower their energy consumption per unit of output. EIBIS data reveal an unsurprising correlation between whether a firm sees energy costs as a constraint to investment in general, and whether it invests in energy efficiency specifically (Figure 12). Moreover, higher energy costs tend to accelerate the depreciation of older, less energy-efficient assets (because improving energy efficiency requires replacement, rather than refurbishment, as in the case of vehicles and much machinery and equipment). Higher energy costs could, therefore, lead to a higher rate of investment overall.

Figure 12 Firms (in %) perceiving energy costs as a constraint, by whether they have invested in energy efficiency



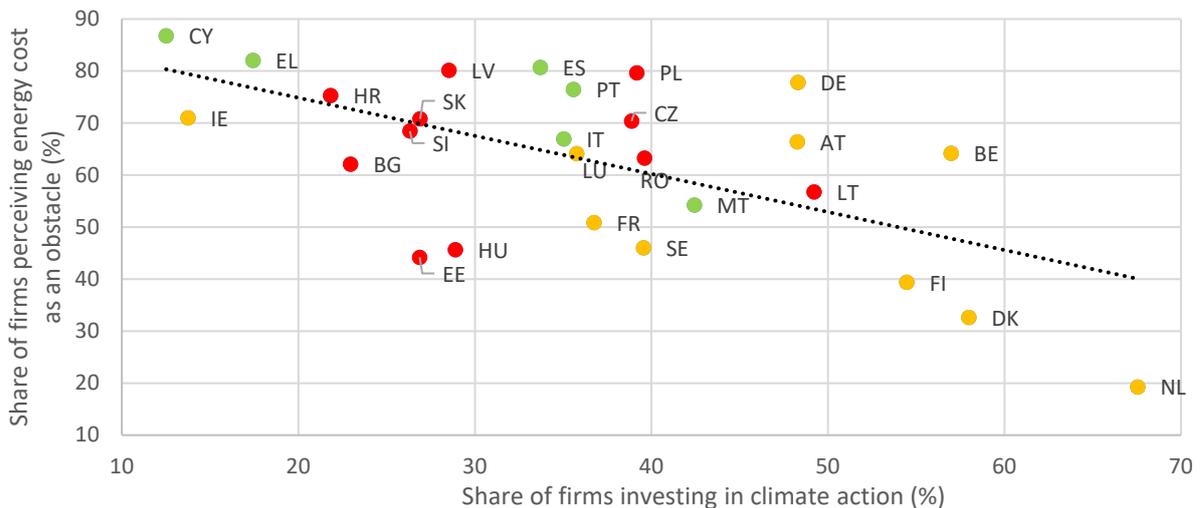
Source: EIBIS 2021

Note: The base is all firms (data not shown for those who said do not know/refused).

Question: What proportion of the total investment was primarily for measures to improve energy efficiency in your organisation?

In contrast, firms that invest in climate measures are less likely to complain about energy costs. When controlling for firms that have already invested in climate, a lower share of businesses say they are concerned about energy costs. In the Northern and Western European countries, for example, fewer firms say energy costs are an obstacle, but the region also has a higher share of companies investing in climate change measures (Figure 13). Whereas in Southern Europe, particularly in Greece and Cyprus, a larger share of firms say they are concerned by energy costs, but the share of firms investing in climate measures also tends to be lower.

Figure 13 Firms (in %) investing in climate action and perception of energy cost as an obstacle to business



Source: EIBIS 2021

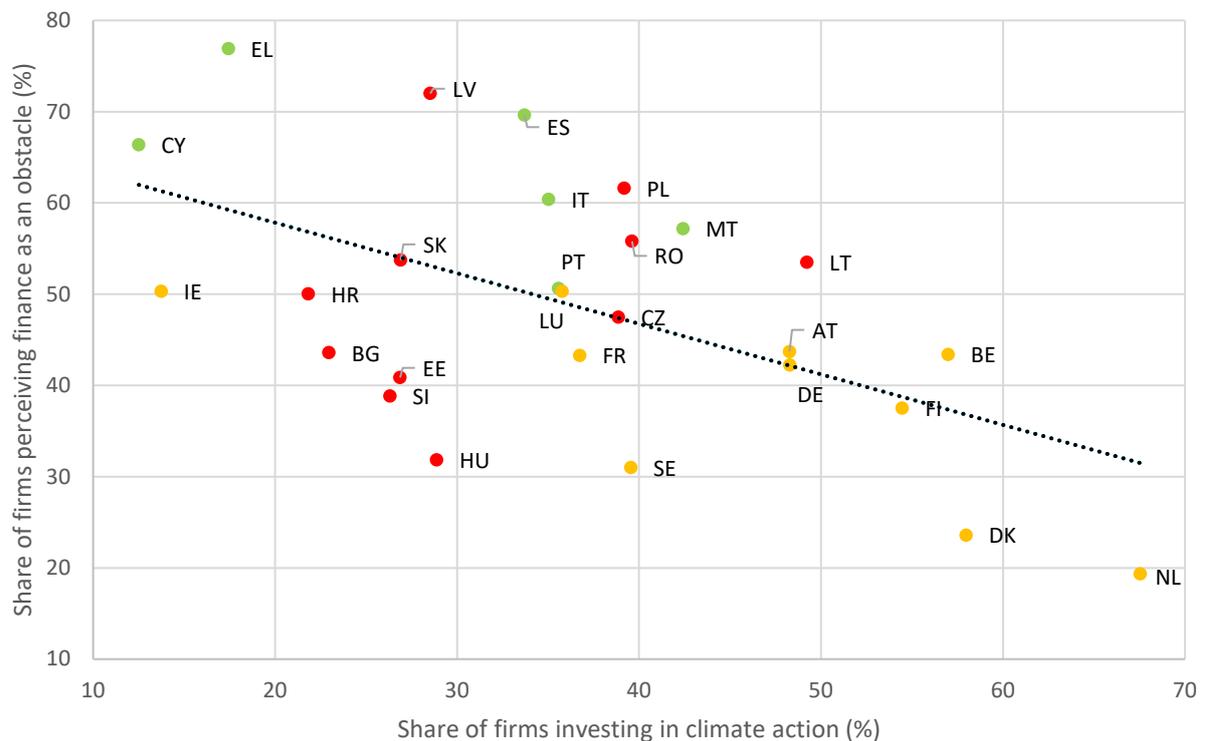
Note: The base is all firms (data not shown for those who said do not know/refused to answer)

Question: Has your company already invested to tackle the impacts of weather events and reduce carbon emissions?

To what extent is energy cost an obstacle to investing in activities to tackle weather events and reduce emissions? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Barriers to the availability of finance appear to lower climate investment. In countries such as Greece, Ireland and Cyprus, which were more affected by Europe’s sovereign debt crisis from 2008 on, a high share of firms say the availability of finance poses an obstacle to their business. These countries also tend to have a lower share of firms investing in climate measures (Figure 14). The inverse is true for countries that are leading in climate investment: the Netherlands, Belgium and Denmark. While around 70% of Dutch firms engage in climate investment, only 20% of firms say finance is an issue. Hungary is an outlier, with the share of firms investing in climate measures relatively low, despite perceiving few financial barriers.

Figure 14 Firms (in %) investing in climate action and the availability of finance as an obstacle



Source: EIBIS 2021

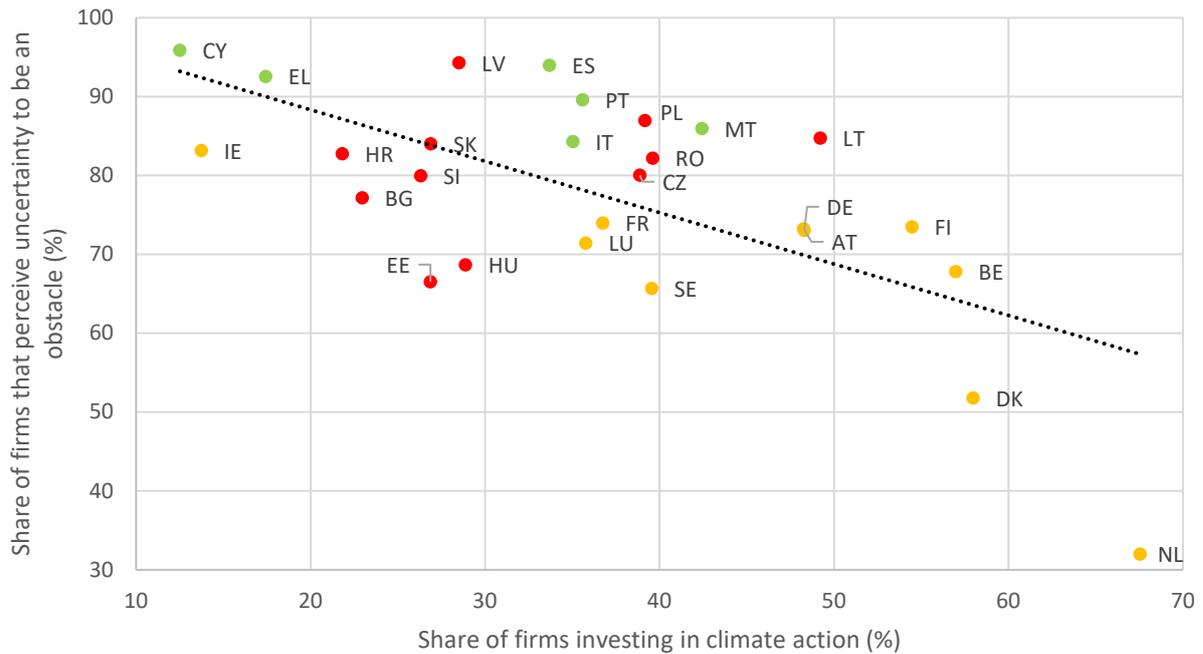
Note: The base is all firms (data not shown for those who said do not know/refused to answer)

Question: Has your company already invested to tackle the impacts of weather events and reduce carbon emissions?

To what extent is availability of finance an obstacle to investing in activities to tackle weather events and reduce emissions? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Uncertainty about the future is likely to drive the focus away from climate investment. Like the availability of finance, uncertainty about the future is also weighing on firms' climate investment. Western and Northern European countries, with the exception of Ireland, have a lower share of firms that cite uncertainty as an obstacle. In the region, less uncertainty is accompanied by a high share of firms investing in climate action. France and Luxembourg, however, somewhat lag behind the region (**Figure 15**).

Figure 15 Firms (in %) investing in climate action and uncertainty about the future as a business obstacle



Source: EIBIS 2021

Note: The base is all firms (data not shown for those who said do not know/refused to answer)

Question: Has your company already invested to tackle the impacts of weather events and reduce carbon emissions?

To what extent is uncertainty about the future an obstacle to investing in activities to tackle weather events and reduce emissions? Is it a major obstacle, a minor obstacle or not an obstacle at all?

Paving the way to a net-zero carbon future

Firms are waking up to the reality of climate change and the green transition. EIBIS 2021 suggests that a high share of European (58%) and US firms (63%) are exposed to physical climate risks. Across Europe, Southern European firms are exposed to higher physical risks, with wildfires and floods plaguing Mediterranean countries every year. At the same time, a shrinking number of firms believe that the transition to a low-carbon economy will not affect their business operations. Of companies that expect the transition to affect their business, European firms tend to hold a neutral view whereas US firms consider this transition to be a risk rather than an opportunity. Across Europe, firms in Western and Northern countries are more optimistic about the transition's impact on their activities.

In EIBIS 2021, rising energy prices emerged as a major factor influencing European firms' investment activities. More than 60% of firms say energy costs are impeding their investment plans. That share rises to 70% for firms located in Southern and Central and Eastern Europe. Energy prices are an issue for companies across sectors of the European economy, with manufacturing firms recording the highest concerns, followed closely by services and the remaining sectors. EIBIS 2021 shows that the majority of firms perceiving transition risks are also concerned about higher energy costs, which suggests that firms expect stricter climate policies to push up energy prices in the future.

To offset the increase in energy prices and retain their competitiveness, EU firms need to improve their energy efficiency, by using less energy per unit of production. Nevertheless, EIBIS 2021 data suggest that only 37% of EU firms are investing in energy-efficiency measures, a ten percentage point decline compared to the previous survey wave. In addition, EU firms spend a very small share of their total investment budget on energy-efficiency projects, despite growing concerns about energy costs. The significant drop in the share of firms investing in energy efficiency in 2021 is likely a result of the pandemic and the toll it took on firms' investment plans.

The good news for Europe is that the future looks brighter for climate investments. Around half of European firms report that they have plans to invest in climate measures, significantly more than the 28% of US firms. The rising trend is observed across all EU regions. Firms in Western and Northern Europe are leading in climate investment and gaining momentum. The majority of firms in Southern Europe are catching up. By contrast, firms in Central and Eastern Europe are lagging behind the rest of the European Union and appear to be losing momentum.

Availability of finance and uncertainty are hindering firms' climate investments. Both investment barriers, according to EIBIS 2021, appear to be highly relevant to countries vulnerable to the debt crisis, including Cyprus, Greece and Ireland and to firms operating in Central and Eastern Europe. In contrast, these investment barriers are reported to a much lesser extent by firms in Western and Northern Europe. To bridge the gap in climate investment, policymakers should support firms in regions that are lagging behind, encouraging them to play their part in energy conservation and enabling them to adapt to a changing economy. For example, efforts to provide clear climate policies should continue, along with a supportive regulatory framework and improved access to climate finance and information.

Policymakers could also provide more impetus for firms to consider transition and physical risks when making investment decisions. EIBIS 2021 suggests that neglecting to take into account physical and transition risks reduces a firm's willingness to invest in climate measures, which ultimately threatens firms' long-term viability and hinders progress on the European Union's climate objectives. Climate change will continue to have a significant impact on business activities, which will require firms in various industries and regions to adapt appropriately. Firms that do not adapt risk losing

ground to more forward-looking competitors. If perceptions of climate change are not aligned across sectors, countries and various participants, the effectiveness of EU climate policies is in danger and climate action could stall (Kalantzis et al., 2021). To avoid this, it is important to promote good practices, effective communication on climate and support programmes and to help firms set climate targets.

Europe's ambitious transition to a carbon-neutral economy leaves no room for complacency. The European Union's ample support for the economic recovery presents an opportunity to act and to contribute to regional and international climate objectives. Delayed actions will result in higher long-term costs and emissions and overall lower economic growth, or even contraction. Therefore, providing a clear path to decarbonisation would allow firms to roll out strategies and investment plans that are in line with Paris Agreement commitments. Regulations that push for higher energy performance standards and phase out subsidies for fossil fuels could indirectly influence investing and individual behaviour, as well as steer production and consumption towards a sustainable path. Finally, yet importantly, improved access to finance and favourable conditions for climate investments would help firms and especially small businesses to transition to a greener economy, without affecting their competitiveness.



**European
Investment
Bank**

The EU bank

European Investment Bank
98 -100, boulevard Konrad Adenauer
L-2950 Luxembourg
+352 4379-1
www.eib.org – info@eib.org

-  twitter.com/EIB
-  facebook.com/EuropeanInvestmentBank
-  youtube.com/EIBtheEUBank

pdf: ISBN 978-92-861-5337-2

06/2022 – EN

