Redefining EU-China Cooperation:
The Shifting Global Political Context for EU-China Cooperation on Energy and Climate Change

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March 2014
Key Points

• Geopolitical context for EU-China relations has shifted radically since 2007. EU less important in Chinese strategy. EU more inward-looking. Multi-polar alliances dominate cooperation.

• No political dividend from large mutual gains from integrated markets in clean technology (e.g. solar) and practical cooperation.

• China wants cooperation and open markets in order to benefit from EU knowhow (e.g. urbanisation). EU requires major action from China on climate but distrusts intentions and reciprocity.

• Without a clear EU-China political framework they will fail to tackle key mutual interests on trade and investment, energy, climate and resources. Climate change negotiations for Paris 2015 are an opportunity to redefine EU-China strategic relationship.
Context for EU-China Cooperation 2007

- China’s core economic concerns are “going up the value chain” and increasing technology level of exports. Green markets seen as a major export opportunity for China.

- China focused on economic diplomacy, reaping the benefits of WTO accession and domestic investment pulse into infrastructure.

- EU seen as major market and alternative pole of power to US hegemony. Explicit rejection of “G2” approach.

- EU focused on enlargement, constitutional change to improve external agency and energy policy (Ukraine I).

**Europe key in China’s economic and political strategy. EU sees China as rising competitor to incorporate into global rules.**

1. Near-term opportunities
   - Building Low-Carbon Economic Zones (LCEZs) in China
   - Setting world-class standards for energy efficiency
   - Making coal more sustainable
   - EU-China Ultra-Efficiency Building Research Platform
   - Increase technology cooperation

2. Areas for Further Joint Exploration
   - A Low Carbon Trade Agreement
   - Pioneer model Sectoral Approaches to climate change
   - Tackling global supply constraints on renewable energy
   - Reducing dependency on imported oil
   - Develop a low-carbon investment regime
1. Near-term opportunities

- Building Low-Carbon Economic Zones (LCEZs) in China – LCZs established in 5 Regions and 7 Cities – second round in 30 towns?
- Setting world-class standards for energy efficiency – no substantive progress
- Making coal more sustainable – NZEC CCS project stalled
- EU-China Ultra-Efficiency Building Research Platform – Horizon 2020 platform and other cooperation agreed – unclear on practical progress
- Increase technology cooperation – Horizon 2020 could lead to an increase

2. Areas for Further Joint Exploration

- A Low Carbon Trade Agreement – trade tensions high but tariffs are low
- Pioneer model Sectoral Approaches to climate change – no agreement to date?
- Tackling global supply constraints on renewable energy – massive increase in Chinese RES exports to EU and RoW - lower costs and increase Chinese RES use
- Develop a low-carbon investment regime – EU-China BIT negotiations start in 2013
Context for EU-China Cooperation 2014

- China’s core economic concerns are improving investment efficiency and avoiding middle income trap. New urbanisation focus on **building the right type of China for the future**.

- China focused on regional political issues, market growth and selective outward investment into developed markets. EU prime destination for green and infrastructure investments.

- Shift to “New Type of Great Power Relations” in response to US Asia pivot. EU not seen as collective geo-political actor just MS.

- EU still seen as major market and source of technology. EU focused post-crisis recovery and internal issues

**Europe falls in China’s external political strategy. Economic power to be managed not cultivated. EU sees China as hostile superpower and economic competitor?**
Energy, Climate and Resources have caused more tensions than co-operation

- EU has not felt it has gained any political dividends from its €billions of investment in Chinese low carbon development.

- Copenhagen negotiations left very deep distrust of Chinese motives – especially with Merkel.

- Impact of EU-China trade has been transformational globally – especially on solar but trade main a source of political tensions:
  - Inclusion of aviation in the EU ETS and Airbus boycott
  - Domestic preferences in Chinese procurement rules
  - IPR and technology sharing issues
  - Export restrictions on rare earths

- US Shale Gas produces competitiveness concerns in EU and China, but raises prospects of domestic supplies replacing some imports.
But mutual interests in cooperation even stronger

- EU and China increasingly dependent on Middle Eastern oil – while decreasing US oil dependence reduces their willingness to provide security guarantees. Russian political volatility threatens Central Asian gas. EU-China energy security dialogue at very early stage.

- China requires more EU technology and know-how to deliver the resource efficient, green and low carbon growth it needs

- EU and China are still the major drivers of global demand for low carbon goods and services. Both have strong industrial policies in these area but EU remains dominant in technology leadership

- EU and China both understand they are highly exposed to climate risk – especially through food supply chains. US is also highly vulnerable to extreme weather events.
Multi-polar but not Multilateral

- Financial crisis accelerated the development of **multi-polarity**, but also the move away from multilateral fora to ad hoc alliances on rule setting
  - US-EU negotiations on TTIP aiming to set global rules on investment, regulation and resources
  - TPP negotiations setting trade norms in Asia
  - US-China working group on climate change setting shape of Paris 2015 agreement?

- Danger that bi-lateral alliances **replace rather than complement** multilateral processes undermining global rules-based system in the longer term
Climate Change: Crisis or Opportunity?

- Preparations for climate negotiations at Paris 2015 are speeding up. US, China and EU will all have first mitigation “offers” ready by October 2014.

- US very active diplomacy towards China; wants a “G2” deal to shape Paris. Mitigation ambition levels unclear.

- EU is expecting major mitigation reduction commitment from China as their per capita emissions have crossed. GHG peak in 2020-25 then decline.

- Lack of deep EU-China climate discussions threatens to repeat Copenhagen political tension and damage.

**Need to manage EU-China relations on climate**
Conclusions

- EU and China do not have a clear strategic view on the focus of their relationship.

- This is undermining their ability to work on areas of common interest, especially where there are difficult political issues.

- This is driving more “bilateral alliances” with the US, undermining multilateral rule-making.

- Paris climate talks are an opportunity to re-boot relationship around “effective multilateralism”
Additional Slides
China’s Reform “Trilemma”

- China is suffering a financial, environmental and economic efficiency hangover from decades of investment-driven growth and stimulus.

- Clear Leadership intent to drive future economic growth through market reform not state investment:
  - GDP Growth - 7.5% floor
  - Increase investment efficiency by more commercial pressures on SoEs, companies and banks
  - Move public and private investment to clean, efficient and smart infrastructure. Move from administrative rules to flexible incentives.

EU experience shows reform is very complex
Major Steps Underway

- **Air Pollution Plan:** now a top political issue. Coal use reduction goals in 3 regions. Peak national coal consumption in 2014?

- **ETS Pilots:** cover 20% Chinese emissions with national roll-out planned for 2015-16

- **Urbanisation/Finance:** bank lending to local projects capped. “Green Credit” guidelines ban/restrict lending to polluting and inefficient projects

- **Renewables:** solar target increased from 7 to 35GW by 2015. Market reforms to promote decentralisation, efficiency and renewables in 2014?
EU and China are the two main markets for low carbon economy

- Installed capacity of non-fossil fuel energy to grow to 474 GW, 33% of the total capacity (322GW RES in EU)

- Investment of 2-3 trillion yuan (€230-€340 billion) in renewables over the next 10 years (EU €360-€450 billion)

- China’s energy saving and environmental protection sector is expected to be worth 4.5 trillion Yuan (€520 billion) by 2015

- Investment in grids:
  - €57 billion in UHV Transmission (€23-26 bn in EU by 2015)
  - €460 billion on “smart” grids (€100 bn needed in EU by 2020)

- Chinese urbanisation investment $8 trillion to 2020 – focus on efficient, clean and low carbon
EU-China Summit 2012

- Establishment of the China-EU Partnership on Urbanisation
- Convening of a China-EU High Level Energy Meeting in June 2012 covering energy security and energy science and technology.
- Enhancement of cooperation in the automotive sector focused on reduction of energy consumption and emissions, notably via the development of electro-mobility.
- Further deepen cooperation in energy technology and continue to expand the support for energy-related R&D for SMEs
- Further enhance dialogue on climate change related domestic policies and share experiences on climate change legislation.
- Practical cooperation on issues with common concerns: carbon capture and storage and the Emission Trading System.
Opportunity for Deeper Co-operation?

- Chinese (central) leadership has internalised the need for “green growth” – large shift from 2007-8.

- Aim of market-based reforms and competition should increase attractiveness of more access for foreign investment and services – partial move away from “national champions”.

- Desire for open trade markets now matched with need for open markets for Chinese investment into OECD.

- Need for clean and smart domestic investment makes “green sectors” most attractive targets for liberalisation.

**China needs more green. Europe needs more growth. Is this the foundation for deeper co-operation?**