

The EU and China: Time for a strategic renewal?

Bernice Lee

Introduction

Five years ago, this author and others (Lee et al. 2007) made the case for closer cooperation on energy and climate security between Europe and China, exploring opportunities in trade, investment and technological cooperation, based on the following rationale:

- China and the European Union (EU) were already economically entwined (the EU is China's largest trading partner), and face common challenges in energy and climate security (both will be importing 80 per cent of their oil by 2030).
- The two sides had similar and ambitious policies to improve security of supply through energy efficiency and renewable energy. Both needed to manage the impact of climate change, and make urgent decisions to avoid locking in carbon-intensive investments in the face of looming power-sector investment needs.
- The combined economic might and complementary priorities of the EU and China could yield unprecedented opportunities for driving low carbon innovation. This would help lower the costs of climate-friendly goods and services globally, and allow the two countries to benefit economically from their low-carbon leadership.

Five years on, EU-China relations have gone through many ebbs and flows. Today, China and the European Union together account for around 35 per cent of global energy consumption and 28 per cent of energy-related CO₂ emissions. The EU-China economic relationship is the second-largest economic cooperation in the world (European Commission 2012). Bilateral trade in goods amounted to €428 billion in 2011, nearly €30 billion more than the year before. China is today the fastest growing market for European exports. In 2011 EU exports to China increased by 20.3 per cent to reach a record €136 billion. The EU is also China's biggest export destination with goods and services amounting to €293 billion. This produced

a trade deficit of €156 billion with China in 2011, down by 9 per cent compared to 2010 record of €170 billion.

In many respects, even though many of the arguments from the above mentioned report remain valid from the perspective of climate mitigation, the fundamental conditions for this collaboration have shifted. This paper assesses the extent to which the EU-China partnership has influenced the convergence of respective perceptions and positions on climate change. It will explore whether bilateral partnerships and, notably, the EU-China one, are a relevant level of engagement in dealing with climate change and sustainable development; the shortcomings that the climate change and sustainable development debate exposes in the practice and content of the EU strategic partnership with China and how to address them.

Partnership on Climate Change

Bilateral cooperation between China and the EU on the environment is not new. Discussions on clean energy cooperation, for example, began in 1994, which resulted in many large conferences. The relationship was elevated to a vice-minister level environmental dialogue, together with the launch of a co-financed Energy and Environment Programme in 2003. Science and technology cooperation has been a consistent focus in the bilateral relation, from cleaner coal to efficiency, alongside clean energy finance.

In 2005, a bilateral Partnership on Climate Change was launched at the EU-China Summit, emphasising cooperation on concrete action, such as the progress and deployment of clean energy technology.¹ The dialogue was again upgraded to minister-level talks in 2010. Many of these initiatives were backed by substantial financial contributions from the EU (See Table 1). A Climate Change Framework Loan (CCFL) of €500 million in 2007 between the Chinese government and the European Investment Bank, with a further extension CCFL of €500 million in December 2011 for mitigation projects, was also agreed.

China and the EU had very different starting points. As far as domestic efforts to combat climate change were concerned, it was not until President Hu Jintao and Premier Wen Jiabao came to power in 2003 that environmental and sustainability issues began to climb up China's political agenda, following energy security. Greenhouse gas emissions in China grew rapidly after 2002 when the expansion of high emitting sectors like heavy industries became the engine of China's growth.

¹ China-EU Partnership on Climate Change Rolling Workplan, (2006), accessed from Ministry of Foreign Affairs website <http://www.mfa.gov.cn/eng/wjfb/zjjg/tyfls/tfsxw/t283051.htm>

Table 1: Funding for major EU-China programmes since the Partnership on Climate Change

Source: Freeman and Hoslag (2009) and additional data from the European Commission

Major projects	Budget (million €)
Energy and Environment Program	45
EU-China CDM Facilitation Project: 2007-2010	3
EU-China Environmental Governance Programme: 2008-2010	15
EU-China Clean Energy Centre (EC2)	10
Euro-Chinese Institute for Clean and Renewable Energy (ICARE)	10
FP-6 and FP-7 relevant joint research projects	12
Construction of near zero emission coal fired power plant	50
Sustainable and Responsible Trade promotion through Forest and Trade Networks	2
Supporting policy, legal and institutional frameworks for the reform of forest tenure	2
Biodiversity Protection Programme	30
EU - China River Basin Management Programme	25
Natural Forest Management Project	15.5
Emission Trading System	5
Sustainable Urbanization	9.5
Water, waste and heavy pollution	9
Electric Motor Systems Energy-Saving Challenge – Improving the Operating Efficiency of Chinese Electric Motor Systems	1
Implementing industrial symbiosis and environmental management systems in Tianjin Binhai area	1.5
Improving Environmental and Safety Performance in Electrical and Electronics industry in China	2
Sustainable Public Procurement in Urban Administrations in China (SuPP-Urb China)	0.5
Sustainable revival of livelihoods in post-disaster Sichuan: Enhancing eco-friendly pro-poor bamboo production supply chains to support the reconstruction effort	2
Promotion Project	0.5

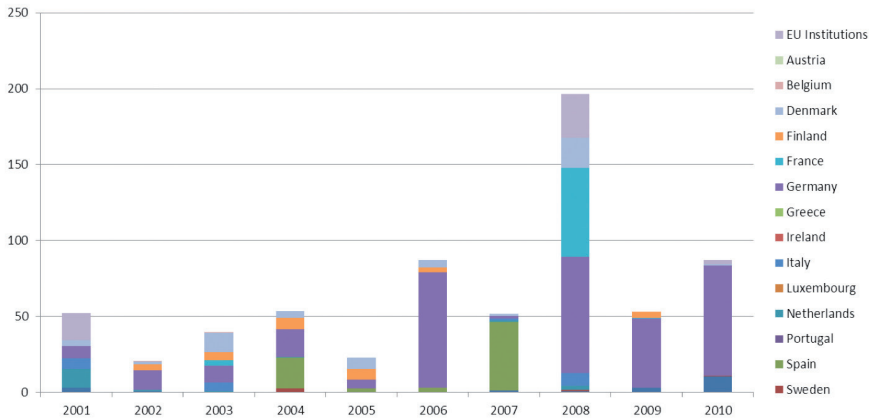
The EU, on the other hand, was the undisputed champion in global climate politics. It had pursued a strong environmental agenda for decades, driven by both domestic interests and external needs, culminating in the Energy and Climate Package in 2008. The EU's advocacy has been critical in pushing climate change up the global public policy agenda. Europeans

also saw leadership on climate change as a key plank of its external relations and, to some extent, a source of its normative or soft power (Freeman and Holslag 2009).

By the time the EU-China Partnership on Climate Change was established in 2005, the two sides had converged somewhat, to the extent that they were willing to recognise in a joint statement the threats posed by climate change, the urgent need to combat climate change through global action as well as the primacy of the UN Framework on Climate Change (UN-FCCC) as the forum to deliberate burden sharing among nations. Following China’s National Climate Change Assessment in 2006, for example, a National Climate Change Programme was established in 2007. The 11th Five Year Plan (2006-2010) also put sustainability at the heart of economic planning, at least at the rhetorical level. That year, Premier Wen Jiabao reportedly told the State Council Executive Meeting that all levels of government must realise fully the grimness and urgency of the energy-saving and emission reduction targets (Reuters 2007).

Figure 1: ODA from EU to China in the energy sector (2001-2010) (in million US\$)

Source: OECD-DAC database



By and large, EU-China practical cooperation has been hailed as constructive, contributing to keeping alive the agenda and debate on China’s low carbon transition and spurring many joint activities from low carbon planning, clean energy development (see Figure 1), collaboration on zero emissions platform to the latest theme sustainable urbanisation. Project grants covering a wide range of issues in the domain of energy and environment from EU Member

² Data from the European Commission, accessed and analysed by Chatham House in 2008. The data is almost certainly an underestimation since these are projects officially recorded as cooperation projects – and a significant number of projects are not listed in this way. The vast majority of the projects represented in the data occurred in the last five years.

States and the Commission amounted to some €292 million by 2008.² (See Figure 2) This type of activities – with the emphasis on technical and practical cooperation – has been described by Elizabeth Economy as ‘techno-diplomacy’, a track most favoured by scientific and environmental elites in China (Economy 1998).

Figure 2: Project Grants in China from the EU and EU Member States, as of 2008 (in million euros)

Source: Chatham House analysis of data from the European Commission (2008)



Divergence at the global level

The blossoming of technical cooperation did not, however, translate into joint leadership in the international sphere. As was evident from the Copenhagen fallout in 2009, China and the EU have remained far apart during many of the formal climate negotiation processes. Many reasons account for the divergence, one of which is the fundamentally different status of the two economies. Romano described it as asymmetrical bilateralism – the fact that China is a unitary state while the EU is a sort of confederation means that China could ‘divide and rule’ between the EU and Member States, or between different Member States (Romano 2010).

As far as China is concerned, notwithstanding growing awareness of the dire environmental conditions, completing the ‘development project’ remains uppermost in the political agenda. The difficulties faced by local and regional authorities in meeting the energy intensity targets from the 11th Five Year Plan (2006-2010) confirmed some of the latent fears of the low carbon

transition challenge. It is therefore not surprising to see a more reluctant China when it comes to making long-term carbon commitments – especially if the US, Japan, Australia and the like continue to reject ambitious, early climate action.

More fundamentally perhaps, the dispute over historical versus current and future responsibilities (which has bedevilled climate change negotiations from the onset) has placed China and the EU on opposite camps. China has continuously opposed any approach that does not distinguish between Annex I (developed) and non-Annex I (developing) countries or those that dispute the principle of differentiated responsibilities and obligations. That large swathes of China's population remain poor and underdeveloped in turn reinforced China's insistence that it should be treated as a developing rather than a developed economy. This runs counter to the EU position that both developed and emerging economies should be shouldering their share of the climate burden.

After the Copenhagen fallout, there were few, if any, direct or specific public statements from China during formal climate negotiations in the period up to Durban beyond the now familiar standoff with the US, especially on monitoring, reporting and verification (MRV). Partly driven by the domestic agenda (i.e. transitions between two five year plans), more efforts were invested in improving China's image through public diplomacy. This is not just window-dressing. China's new found confidence in showcasing domestic achievements stems from the realisation that in terms of scale at least if not ambition, China has – in comparison – made more concrete progress towards a lower carbon economy (The Globe and Mail 2011).

In the space of only a few years, China has overtaken the US to lead the world in renewable energy investment. \$52 billion was invested in 2011, accounting for approximately 20 per cent of total global investment (UNEP/Bloomberg 2012). As of 2011, China had a total installed capacity of 64GW wind power, 62GW small hydro, 4GW biomass and waste, and 3GW of solar PV, far outdistancing the US at 47GW, 25.3GW, 13GW and 4.6GW respectively, and boasting an overall five-year growth rate of 93 per cent (Pew/Bloomberg 2012; REN21 2012). According to forecasts from the International Energy Agency, China's wind power capacity is set to rise to 180GW, and its solar PV to 20GW by 2020 (IEA 2011).

There was some speculation following the Durban Conference in December 2011 that China had shifted its long-held stance by agreeing to the 'Durban Platform' – a new track to draft a new climate pact by 2015 binding all nations from 2020 (Seligsohn 2011). The Durban Platform did not repeat the language of 'common but differentiated responsibilities'. China also agreed to negotiations on new commitments 'with legal force' after the second commitment period of the Kyoto Protocol.

It was not until the Bonn inter-sessional meeting in May 2012 that China's UNFCCC-related intentions were clarified in a 'surprisingly vocal and assertive' manner – confirming again the divergence in its position from the EU at the international level. China (together with Saudi Arabia) came out forcefully regarding the Durban platform and advocated a clear demarcation or firewall between discussions on commitments before 2020 (i.e. to maintain the Kyoto-track discussion on obligations for developed countries) and post-2020 commitments.³ Su Wei, one of China's main climate negotiators, also complained about 'dirty communication politics', accusing developed countries of evading the legally binding commitments while pointing fingers at China.⁴

This uncompromising attitude is mirrored in the stance China has taken as part of the BRICS and BASIC groups of countries. A joint statement by BRICS ministers in March 2012 reiterated the principle of common but differentiated responsibilities and emphasized inclusive growth rather than capping development.⁵ A statement by BASIC ministers in July 2012 similarly underlined common but differentiated responsibilities and criticized as unambitious the Quantified Emission Limitation and Reduction Objectives set by Annex 1 countries.⁶ This highlights the question of how to ensure the effectiveness of the EU-China strategic partnership on climate change in the face of 'rival' strategic relationships.

Did the partnership influence China?

It is commonplace to suggest that the imperative for climate-related action in China stems solely from domestic considerations – especially energy security and access to resources – not international pressures. For many observers, the public display of hostility during the Copenhagen Climate Change Conference in 2009 testified to the failure of bilateral engagement in changing China's position. But it also raised the question of how best to assess any external influence on China's decision-making and policy action. China's dogged defence of the sovereignty doctrine would in any case prevent *any* public acknowledgment of external influence on its domestic agenda, which makes it extremely difficult to assess

³ The like-minded group that stood behind the Chinese and Saudi Arabia includes – Argentina, Egypt, Thailand, China, Bolivia, Malaysia, Ecuador, Philippines, Iraq, Jordan, Venezuela, Cuba, DRC, Nicaragua, India, Pakistan, Saudi, Sudan, Algeria, Sri Lanka, Iran, Kuwait, Ghana, Yemen, Lebanon, Paraguay, El Salvador and Mali.

⁴ Su Wei – chief negotiator for China, named the United States, Europe, Japan, Canada, Australia and New Zealand as among the countries abusing the Durban Platform 'to jump from the legally binding system' established under the UN Framework Convention on Climate Change (UNFCCC). See AFP (2012).

⁵ This meeting was held in New Delhi on 29 March 2012 (BRICS 2012).

⁶ The 11th Ministerial Meeting was held in Johannesburg on 12-13 July 2012 (BASIC 2012).

the extent of EU influence on China. But assumptions of a monolithic China that always acts rationally can be misleading, as China's consensual decision making system has to balance a wide range of domestic, sometimes conflicted, vested interests.

What is clear is that there is greater awareness today – at a high political level - of potential climate impacts on China since the national assessment in 2006, including reduced crop yields, water-stress and extreme weather. The National Coordination Committee on Climate Change established in the late 1990s was upgraded in 2007 into a 20-ministry National Leading Group to Address Climate Change. The Politburo also organised collective 'study sessions' on climate change, indicating the ascent of the issue on the agenda (Xinhua 2008).

There is also recognition of climate-related resource constraints on China's growth, and that international economic structures and trading conditions have been shifting in response to these constraints. These arguments have been used by many scientific and environmental elites in China in support of low carbon growth, not least because it can help lower Chinese import dependence on coal, oil and gas and avoid the inflationary impact of importing high international energy prices. Others suggest that low carbon economic development provides the rationale for upgrading China's industries, and enhancing China's prospects in becoming a market leader of higher value-added technology as well as information-based goods and services.

There have also been strong indications that the Chinese leadership sees the importance of sustainability and climate-friendly production as a critical component of future competitiveness – as the EU has been arguing for many years. China's 12th Five Year Plan (2011-2015) put heavy emphasis on investment in seven emerging pillar industries that could help catalyse low carbon industrialisation in China: energy conservation and environment protection; new energy technologies; new energy vehicles; biotechnology; information technology; advanced materials; and equipment manufacturing.

Evidence of policy learning transfers abound, from eco-labelling to support measures for renewable energy. The time lag between the EU enacting standards and China adopting them has gotten shorter in many policy areas, such as for vehicle emissions standards. Another example is the transfer of market mechanism learning from the EU to China. Purchasing carbon credits from China's Clean Development Mechanism (CDM) projects became an important way to help EU-15 member states to achieve Kyoto compliance and private companies to meet EU-Emissions Trading System (ETS) targets (Lee et al 2007). Joint EU-China CDM work helped confirm to Chinese businesses and stakeholders that climate-related investments could be commercially attractive. It also helped diffuse the concept of

carbon trading in China, contributing to the pilot projects currently undertaken in seven provinces and cities in China in 2012.⁷

It is difficult to dispute that the partnership did raise awareness in China of the importance of energy efficiency and helped to accelerate the implementation of related measures. The EU (together with Japan and the US) has served as a ‘template’ for China, and hand-held many agencies and companies in China through the process. That said, it is harder to prove that the partnership changed the level of ambition of China, even though it is difficult to conceive of more Chinese commitment to carbon emissions without international pressure from the EU and the like.

Making it work in a changing world

Even though national and regional initiatives are important and necessary, solutions to the climate problem ultimately require an effective multilateral approach. This is because emissions are so widespread geographically that any subset of countries becomes increasingly unable to solve the problem unless others are involved. A partial solution that encompassed the big emitters would not solve the perceived risks of competitiveness loss in energy-intensive sectors vis-à-vis non-participants, which could be as small as Singapore, for example.

Despite the dominance of US, EU and Chinese emissions today, it would not suffice if they delivered steep reductions whilst others did not by 2050. And none of these are significant contributors to land-use emissions (such as deforestation), which involve a wholly different group of countries.⁸ Additionally, any models or theories of change centred on innovative solutions by a ‘critical mass’ diffusing globally without government incentives can easily founder – carbon capture and storage being a case in point, as it incurs significant extra costs.⁹

In reality, any multilateral action plan is built upon smaller coalitions of powerful actors. And the emerging economies, many of which are also fast becoming high emitters, are critical to long term climate solutions. Governments of these countries, together with their businesses, face tremendous challenges in putting together viable economic models to deliver low carbon growth, energy security, climate resilient practice *and* poverty reduction. This is why it remains in the EU’s strategic interest to continue the partnership with China on climate change. But it is important to take into account the shifting global power balance. Instead of a student-pupil relationship, this partnership will only succeed if both sides are willing to engage each other as equals.

⁷ For a recent analysis on the status of emissions trading pilots in China, see Han, G., M. Olsson, K. Haldrup, D. Lunsford (2012).

⁸ See, for example, the discussion in Lee, B., M. Grubb, F. Preston and B. Zala, (2010).

Despite aggressive domestic target setting for efficiency and renewable energy, the proposition from China to date is that of a lower carbon than business-as-usual – rather than a low carbon – economy. It will reduce its carbon intensity – the CO₂ emitted per unit GDP – by 40 to 45 per cent from 2005 levels by 2020, leading to an increase in emissions of around 3 Gt of CO₂. Many policy initiatives have been launched in China, including the carbon trading pilots mentioned earlier. The next five years represent a critical testing time for the viability of lower carbon growth across China.

Despite the worsening bilateral relations, China and Europe could dramatically improve their chance of achieving climate security by finding concrete and practical ways to work together. Their cooperation must be concerted and transformational if it is to affect global economic and political conditions, going beyond the confused plethora of small, nationally driven projects that currently dominate EU-China energy cooperation.

China uses coal to generate around 80 per cent of its energy needs, and this share is likely to increase in China in the foreseeable future. The EU is also struggling to phase out coal in its power sector. Europe and China could upgrade their existing cooperative programme to reduce coal-related emissions through the development of carbon capture and storage technology, with a view to having a full-scale demonstration plant in operation by 2015.

In April this year, the EU launched a new initiative with China on sustainable urbanisation. This is a step in the right direction. The new housing that will be built in China between 2010 and 2020 is equal to all the existing housing stock in the EU-15; and the EU housing and building sectors together are the largest CO₂ emitter. Acting together now to improve efficiency standards would help avoid locking in inefficient housing with high CO₂ emissions for the next half-century. This also applies to the transport sector.

Since China manufactures a vast array of goods for Europe and much of the world, adopting world-class standards for energy-efficient goods would bring clear global benefits. Under the Eco-Design Directive, the EU has been setting increasingly tight energy efficiency standards, and China and the EU could drive progress in both their markets by working together in defining challenging standards for energy-efficient, low carbon goods. This could be coupled with the introduction of an EU–China ultra-efficiency building research platform to drive new technical and development opportunities in this fast-growing sector.

Fulfilling the vision of a transformational approach to reinvigorate EU–China collaboration implies moving away from endless jostling over trade issues. It also implies an end to the kind of political rhetoric in Europe that feeds into fears about competition from Chinese

businesses, and to concerns in China about the West and its low carbon intentions. None of this will be straightforward even under better economic circumstances.

Political and business leaders from China and the EU must therefore begin reshaping the debate on the future of this strategic partnership. If they fail, efforts to construct a low carbon and secure energy future will be frustrated by the narrow concerns of special interest groups. Europe was the first major emitter to commit to an early shift to decarbonisation. As environmental responsibility's most credible standard-bearer, Europe needs to stay in the driving seat on climate change policy because any genuine commitment to decarbonisation by other major powers like China and the United States will only materialise if Europe delivers first. This will be risky, expensive and will not happen overnight – the price of global leadership.

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