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EU-China Cooperation:

Opportunities for Deepening Joint Action on Green Growth

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China's Reform "Trilemma"



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- 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



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- **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



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- 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

But On-going Tensions Exist



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- Inclusion of aviation in the EU Emission Trading System
- Export impacts of Chinese clean energy subsidies: light bulbs; solar case etc
- Domestic preferences in Chinese procurement rules
- IPR and technology sharing issues
- Export restrictions on rare earths
- Chinese suspicions of TTIP regulatory agenda

75% of EU Trade Defence Instruments Apply to RES

Opportunity for Deeper Co-operation?



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- 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

Deepening EU-China Cooperation (I)



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Aim: To **reduce risks** of EU-China trade conflicts and **maximise mutual opportunities** for trade, investment and services in low carbon and environmental goods and services (LCEGS) sectors.

1. Reducing Risks

- EU-China “peace clause” to always refer issues to bilateral dialogue before invoking WTO cases over anti-dumping and subsidy actions in LCEGS sectors (this would not remove either sides ability to seek recourse to WTO dispute resolution).
- Agreement on enhanced transparency on subsidies and support mechanisms for low carbon sectors.
- Create a standing contact group under the EU-China High-level Economic and Trade Dialogue on low carbon and green trade covering: transparency of subsidies; sharing of developing economic and industrial policy plans and policies; early dispute resolution on sensitive trade and investment issues;

Deepening EU-China Cooperation (II)



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2. Generating Opportunities

- Agreement to maintain current (low) levels of Chinese and EU applied tariffs on LCE goods and pursue this jointly through APEC and WTO
- Agreement to prioritise “early harvest” of investment and services liberalisation in low carbon and environment sectors, inside the EU-China Investment Agreement negotiations. This process will emphasise areas relevant to green urbanisation, including, urban design services, environmental services, infrastructure, construction, professional services and industrial supply chains
- Agreement to identify a range of priority environmental and low carbon sectors for reciprocal public procurement liberalisation, and to develop stronger facilitation procedures to ensure these opportunities are more easily accessible by companies, including SMEs.

Deepening EU-China Cooperation (III)



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3. Building an Enabling Regulatory Environment

- Work to improve, align and ensure better compatibility of low carbon and green regulation aiming for upwards harmonisation, mutual recognition and joint development of dynamic standards in key low carbon and environmental product areas. Establish a time-limited EU-China Working Group to take forward this agenda.
- Agreement to explore options for strengthening international rules governing trade and investment in natural resources, energy and raw materials in order to identify opportunities to improve the function of markets, reduce price volatility and reduce environmental impacts. This process will also cover government support to resource trade and investment through export guarantees, public banks etc.
- Agreement to actively collaborate to help achieve an ambitious and credible international climate agreement at the UNFCCC negotiations in Paris in 2015 which will set the international context for domestic green growth, and facilitate the faster growth of global markets and investment.

Conclusions

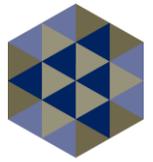


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- The conditions for EU-China co-operation have shifted radically
- China is more aligned with a green growth and low carbon agenda; Europe is more interested in driving trade and investment growth
- Growing EU-China low carbon trade is often perceived to have caused more problems than benefits; despite being fastest growing export sector in countries like UK and a 80% drop in Solar PV costs since 2008.
- Package could be framed as creating an “**EU-China Green Trade and Investment Area**” – sending strong commercial and political signals
- Broader political benefits of being seen to advance parts of TTIP sustainability, liberalisation and regulatory agenda with China

Danger of missing next Chinese reform and investment wave

Background: EU-China Summit 2012



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- 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.