



# Making choices over China: EU-China co-operation on energy and climate

By Nick Mabey

★ Europe has invested significantly in the creation of a sustainable global climate change control regime. The EU needs the Copenhagen summit to be enough of a success to maintain political and economic momentum towards a global low carbon economy. A perception of failure at Copenhagen would undermine Europe's global influence and threaten its climate security.

★ Effective EU-China co-operation is critical to delivering a good deal at Copenhagen and to ensuring ongoing progress towards global decarbonisation. Europe and China are economically and politically interdependent, and have strikingly similar energy and climate change policies. As its largest investor, trade partner and provider of technology, Europe has a strong stake in China's success.

★ The aim of the Copenhagen agreement and EU-China bilateral co-operation must be to help China move to a position where its leaders believe they can deliver a peak in domestic carbon emissions between 2020 and 2030, while maintaining fast enough economic development to ensure social stability. With the US and Japan strengthening their co-operation with China, Europe must act decisively to maintain its comparative advantage as the country's leading economic and technology partner on low carbon economic development.

★ The EU and China should increase the status of energy and climate change in their bilateral relationship. This will require the progressive alignment of the EU's and the individual member-states climate policies towards China, behind a common European strategy. The 2009 EU-China summit must deliver agreement on some key flagship co-operation projects in order to build China's trust in the EU as an effective partner.

## Introduction

The EU has a vital interest in ensuring that China moves rapidly towards a low carbon economy. Even with strong leadership at the highest level in China, this will not be easy, given the country's scale, diversity and development needs. The building of an effective UN climate change agreement is an important component of this process and Europe must work hard to ensure that the Copenhagen summit in December 2009 is a success. But it is also crucial that the EU has a close bilateral relationship with China, which helps to accelerate the country's transition to a low-carbon economy by leveraging Europe's technology, expertise, investment and trade relationships.

European companies already inject over €1.5 billion a year into Chinese projects to lower emissions of greenhouse gases through the Clean Development Mechanism (CDM), while the EU spends €60 million annually on official bilateral co-operation on climate change issues.<sup>1</sup> These sums will grow rapidly in the coming years especially if the Copenhagen summit produces an ambitious global agreement. Unfortunately, the absence of a common strategic approach to China means that Europe has not reaped all the benefits it could from its investment in China's transition to a low carbon economy. Moreover,

<sup>1</sup> The Clean Development Mechanism (CDM) allows industrialised countries to earn emissions credits by investing in emissions-reducing projects in developing countries. These credits are used to meet industrialised countries' emissions targets under the Kyoto protocol.

Europe's ability to forge a privileged bilateral partnership with China is now under increasing pressure from the US and Japan, as they increase their official co-operation with the Chinese and aim to make inroads in China's growing market for low-carbon technology.

## Climate change as a global imperative for Europe

The Copenhagen climate change conference in December 2009 will shape global energy investment for the next decade. The right decisions will put the world on a secure trajectory towards decarbonisation by the middle of the century, deliver real global energy security and reduce geopolitical tensions over access to the remaining reserves of oil and gas. The wrong decisions will make it impossible to limit the rise in global temperatures to 2°C, condemning the world to a high risk of catastrophic climate change. The relative importance of the EU as a global player will primarily be expressed through the success – or failure – of the global climate change negotiations.

Europe has been a global leader in the fight to keep climate change below dangerous levels, displaying none of the weaknesses it suffers in other foreign policy areas. The EU has demonstrated leadership through a unified voice in international negotiations, through ambitious domestic actions such as the Agenda 2020 climate energy package agreed in

<sup>2</sup> *The 2020 climate and energy package commits the EU to do three things by 2020: reduce emissions of greenhouse gases by 20 per cent; increase energy efficiency by 20 per cent; and to increase the proportion of total EU energy consumption met from renewable sources by 20 per cent.*

<sup>3</sup> <http://cdm.unfccc.int/Statistics/Registration/RegisteredProjAnnex1PartiesPieChart.html>.

December 2008, and through strong co-operation with other countries.<sup>2</sup> European countries account for 80 per cent of the estimated €20 billion global market in emission reduction credits under the Clean Development Mechanism in the 2008-12 period; leveraging many times this amount of low carbon investment into developing countries.<sup>3</sup> Europe currently leads the world in setting strict standards for vehicle emissions; China's decision to adopt European standards means that it is already 10 years ahead of the newest US regulations proposed by the Obama administration.

Europe's investment in early action means that it has the assets and authority to consolidate its leadership of the global environmental agenda. This will not be leadership in the political sense; no one country – not least the EU – can be a climate change hegemon. But the EU will have demonstrated its ability to act as a pathfinder toward a low carbon economy, and have invested in the building of the global institutions and agreements needed to bring about internationally-coordinated action. As the world becomes steadily more interdependent and multipolar this style of leadership will become increasingly important.

With all major countries seeing the movement to a low carbon economy as inevitable, if not always immediate, this also positions Europe at the forefront of some of the fastest growing sectors in the global economy (the clean energy sector is already larger than the aerospace and defence industries combined). The EU's role on climate change is in many ways analogous to its engagement on international trade. The EU has contributed to the success of the multilateral trading system through multilateral rule-making, the size of the EU market, the influence of EU regulatory standards, and effective bilateral diplomacy and agreements. However, action on climate change should always be driven primarily by the need to achieve global – and thus European – climate security rather than narrow national economic advantage.

Europe has invested significantly in the creation of a successful, sustainable global climate change control regime. Europe needs Copenhagen to be enough of a success to maintain political and economic momentum towards a global low carbon economy. A perception of failure at Copenhagen would be bad for the EU's economic, security and political future, and Europe must be prepared to act decisively to prevent it. The EU's leadership on the low carbon economy means it stands to benefit most from a strong Copenhagen agreement. Europe's vulnerability to climate change-driven instability on its borders means it has the most to fear of all developed countries from uncontrolled climate change. Since Copenhagen is the prime example of rules-based international co-operation today, a failure would undermine Europe's political position in the world, and contribute to the decline of the multilateral system. There is no low cost, high carbon future for Europe.

## The role of the EU-China relationship

Effective EU-China co-operation is critical to delivering a good deal at Copenhagen and to ensuring ongoing progress towards global decarbonisation. Europe and China are economically and politically interdependent, and have strikingly similar energy and climate change policies. As its largest investor, trade partner and provider of technology, Europe has a strong stake in China's success. Only if Chinese emissions peak between 2020 and 2030 can the Europeans hope for climate security. Europe also needs China to pursue a multi-lateral approach to achieving energy security. As a project based on international law, the EU would fare badly in a 'great power' competition for dwindling global oil and gas resources.

China understands that it is highly vulnerable to the impact of climate change, but fears that decarbonisation may be incompatible with the rapid economic growth needed to maintain social stability. Chinese leaders have committed to the aim of achieving a low carbon economy, but have yet to put adequate political impetus behind a set of policies to fully achieve this. China is looking for new low

carbon technologies to bridge this gap, and to form the basis of its next stage of economic growth.

The aim of the Copenhagen agreement and EU-China bilateral co-operation must be to help China move to a position where its leaders believe they can deliver a peak in domestic carbon emissions between 2020 and 2030 (and to rapid emission reductions thereafter) while maintaining fast economic development and social stability. This is as much about helping show such a path is economically and technologically feasible as it is about traditional diplomatic engagement, persuasion and assistance.

### Europe's economic links with China are a critical asset

Europe's economic relationship with China is mainly based on trade in medium and high technology manufactured products which are not particularly carbon or energy-intensive to produce. Europe's trade in energy intensive goods with China is relatively insignificant: in 2008 high energy merchandise goods made up 8 per cent of Chinese exports to the EU. Chinese steel exports to the EU have surged since 2004, and now account for 18 per cent of total EU imports of steel. This has raised fears in Europe over the competitiveness of the European steel industry and led to calls for anti-dumping actions against Chinese producers. However, booming Chinese demand for steel, combined with rising wages and the costs of shipping the material from China to western markets, means that the Chinese are unlikely to capture a rising share of the global steel market.

Europeans often think of China mainly in terms of the more developed and export orientated eastern coastal regions. However, in climate change terms there is another China. In the less developed central and western regions of the country heavy industry mainly serves the domestic economy, and will continue to do so as rapid urbanisation drives demand for cement and steel. Europe's strategic interest is in reducing the climate impact of these carbon-intensive domestically-focused sectors. By way of example, China produces 50 per cent of global cement, but exports just 1 per cent of its production – and will construct the equivalent of the entire building stock of the EU-15 between now and 2020. China has some of the world's most efficient cement plants (including ones owned by the French company, Lafarge), but also a long tail of smaller, older inefficient units which are ripe for closure or modernisation.

<sup>4</sup> See Chatham House, *Changing Climates*, 2007.

Europe supplies over 50 per cent of the high technology used in China and is particularly active in the power, energy and transport sectors.<sup>4</sup> European supply chains could provide a major avenue for accelerating the decarbonisation of China's economy. This process will depend on increased flows of trade, investment, technology and joint research and development with

EU economies. Europe will also reduce the cost of meeting its own emissions targets if the cost of low carbon technologies is lowered by their mass deployment in China.

Europe's economic relationship with China will increasingly rest on the exchange of high-tech manufactured goods and services. Chinese firms will not compete internationally on the basis of cheap energy and low carbon prices. Indeed, China sees the shift to a low carbon economy as an opportunity to move up the value chain and increase its productivity. This will create opportunities and risks for European businesses, but active engagement with China can potentially maximise the positive results of the relationship. The Copenhagen agreement could result in an additional €20 billion a year of additional low carbon finance flowing into China from 2012 onwards – perhaps rising to €50 billion a year by 2020. This would attract at least as much in additional domestic and international private sector investment.<sup>5</sup> Europe's engagement with China must aim to produce the largest emissions reductions and economic gains possible from these flows.

### Europe must work to keep its lead in China

Despite the recent improvements in the tone of US-China relations, and the increased focus on co-operation on energy and climate change, the EU still has a lead in substantive engagement with China in this area. The EU has far stronger and more mature practical collaboration with China, even though this has not translated into equivalent levels of political engagement.

Europe must build on its existing relationship with China. There can be no global climate treaty without a strong consensus between the EU, China and the US at its core. The nature of climate change makes US leadership or US-China bilateralism insufficient. The EU's stronger economic ties with China and more advanced low carbon economy – being over 50 per cent more carbon efficient than the US – provide a powerful and attractive basis for effective engagement. This is recognised by Chinese policy-makers in principle, even if they find concrete co-operation with Europe as a whole often hard to realise in practice. Geopolitically, China would prefer to have balanced relations with both the US and a successful EU inside a strong multilateral framework. This view was reflected in China's negative response to the idea of a G2 leadership group comprising the US and China.

In terms of investment in low carbon technologies and bilateral diplomacy with China, Europe has much to

<sup>5</sup> The European Commission estimates that an effective Copenhagen agreement requires additional finance to developing countries of €97 billion by 2020. Assuming the majority flows through sectoral carbon market mechanisms, then at least 50 per cent is likely to flow to China.

learn from Japan. The more activist climate change policy of the new Japanese government is likely to consolidate Japan's position as a key strategic partner to China. Though Europe has advantages in terms of diversity and economic scale, Japan is often a more strategic, practical and reliable partner for China.

With general diplomatic and economic relations back on an even keel since mid-2009, the EU-China summit in November 2009 presents a real opportunity to reach substantive agreement on a new level of co-operation. But stronger co-operation on climate change and energy cannot be divorced from broader Europe-China relations. Many of the critical decisions Europe must make in order to accelerate the shift to a low-carbon economy will have implications for business competitiveness and energy security. For the EU to take bold moves to strengthen economic co-operation with a country that many Europeans see as a threat to their living standards will not be easy, even if it is necessary.

### **Realising the full potential of the EU-China relationship**

Whatever the outcome of Copenhagen, Europe will need to forge a close bilateral relationship with China if it is to meet its climate objectives. At the moment European co-operation with China is not sufficiently focussed, or of the necessary scale to drive significant change. Too often the Chinese see Europeans as prioritising trade and investment objectives – whether at national or EU-wide level – over climate and energy security outcomes. Europe will only be an effective partner if it makes some critical strategic choices over what it needs from the relationship and how it intends to prioritise co-operation in the coming years.

EU member-states and the European Commission need to make the following choices if Europe is to fulfil the potential of the EU-China relationship:

#### **I. Place energy and climate security at the centre of EU-China relations**

Energy and climate change are still seen as a supplemental or a minor component in EU-China relations, essentially subordinated to trade and market access. This will have to change. Low carbon investment is a rapidly growing commercial sector – 80 per cent of the annual €1.3 trillion low carbon investment the International Energy Agency estimates is needed by 2030 will be made in developing countries.

The need to boost investment in low carbon technologies must be accorded greater importance than other economic objectives, because it is crucial in order to meet other public policy objectives, such as a stable climate and energy security. Europe's long-term objective to accelerate China's decarbonisation is arguably more vital to its citizens than the short-term commercial needs of European companies.

Given the likelihood of mounting tensions between the EU and China over the size of the EU's trade deficit with China and the latter's reluctance to rapidly revalue its currency, energy and climate change will provide the best opportunity for deepening EU-China co-operation over the next few years. This must be reflected in climate and energy issues being accorded a higher diplomatic priority in regular bilateral meetings, and in more senior representatives from both sides being involved in the discussions.

#### **II: Agree a clear role for EU-China bilateral relations in Europe's climate change diplomacy**

Over the past few years Europe has rightly put the main emphasis of its climate change diplomacy on multilateral negotiations. This will change in the future, whatever the outcome of the Copenhagen summit. If the Copenhagen conclusions are weaker than hoped for, there will be an urgent need to sustain momentum through enhanced co-operation with countries which have signalled their intent to move on climate change. China is the most important actor in this potential 'coalition of the ambitious'.

If Copenhagen is largely successful in laying the foundations of an effective international climate security regime, and defining significant commitments from all major countries, the focus will shift to translating goals into action. This means rapid implementation of ambitious, economy-wide low carbon development strategies by all major emitters, underpinned by effective international mechanisms to boost clean investment in developing countries and to accelerate the development and diffusion of low carbon technologies. China can play a unique role not only in showing other developing countries that low carbon growth is possible, but also in bringing down the cost of low carbon technologies worldwide and in sharing its expertise with less advanced countries. China's size and geographical diversity means it can offer a variety of low carbon growth models to countries at differing stages of development.

#### **III: Co-ordinate the low carbon co-operation strategies of the EU and the individual member-states towards China**

Companies based in the EU are purchasing carbon credits produced in China worth €1.5 billion a year under the Clean Development Mechanism of the Kyoto Protocol. This lowers the cost of complying with the EU's emissions targets – because reducing emissions in China is cheaper than in the EU – and helps drive China's transition to a low carbon economy. The EU and member-state governments are also collectively investing around €60 million per year in official climate and energy co-operation projects.<sup>6</sup> The European Investment Bank has a €500 million framework loan facility *Freeman and Holsag, 'Climate for co-operation: The EU, China and climate change', September 2009.*

with China for investment in projects to lower carbon emissions, and member-state development banks have additional facilities. Moreover, there are large private investment flows from Europe into low carbon sectors in China. Europe is a very significant investor in green technologies in China. But the impact of this investment on China's development strategy, its overall stance towards climate questions and on the country's overall relationship with the EU has been modest at best.

The reason why the EU punches below its collective economic weight in China is not hard to identify. Commercial rivalry between member-states leads them to prioritise their national economic interests over wider European policy goals. The Chinese government often finds dealing with the EU as a whole complex, slow and confusing. As a result, it often responds by picking and choosing between its European partners, and focusing on bi-lateral co-operation with individual member-states on specific projects. It must be recognised that these competitive forces will not disappear and that even a more strategic, united Europe would only ever have a relatively limited influence on China's development.

However, there is still clear scope for Europe to increase return on its growing investment. Chinese policy-makers value the EU's expertise and experience in pioneering decarbonisation models, and wish to learn from and adapt European experience. The priority for the EU must be to help China quickly develop practical decarbonisation paths which fit with its different developmental and economic imperatives.

For example, the EU should focus its effort on helping to create large-scale models of low carbon economic growth in different regions of China. To this end, the Commission and the national governments could agree to pool a growing share of their bilateral assistance programmes in 'low carbon zones' where the Chinese government has agreed a strategy for accelerated decarbonisation. Similar strategic priorities could be agreed in the areas of technology development and co-operation, urban planning, capacity building and regulatory assistance and reform.

If the Europeans made an effort to align their resources behind a common strategic approach, they would increase the impact and sustainability of their assistance, reduce administrative demands on Chinese

<sup>7</sup> This would not involve removing national budgetary and administrative responsibility for member-state funds, but rather directing them to commonly agreed priorities. This reflects standard practice used to co-ordinate European development aid in developing countries.

partners, and preserve the useful diversity and differing expertise of different EU parties. A realistic target could be to align 50 per cent of EU and member-state funds around agreed strategic priorities and programmes by 2013.<sup>7</sup>

## VI: Take the lead in convening tripartite discussions between the EU, China and the US

Constructing an effective and sustainable global climate regime will require action in many different international formations. The United Nations Framework Convention on Climate Change (UNFCCC) negotiations are already supplemented by informal talks at the Major Economies Forum, the G20, the Greenland Dialogue, and multiple regional and interest based groupings.<sup>8</sup> However, in some areas there will be value in trilateral discussions between the EU, China and the US to resolve critical issues. These include the trade in environmental technology and the disagreements surrounding trade and climate change policy. In some areas this should be extended to four-way discussions including Japan.

<sup>8</sup> *The Major Economies Forum on Energy and Climate* comprises the EU, Australia, Brazil, Canada, China, India, Indonesia, Japan, South Korea, Mexico, Russia, South Africa and the United States; the *Greenland Dialogue* is a series of informal discussions on climate change between key ministers involved in international climate negotiations.

## Trade and climate change

Chinese policy-makers are concerned at a general level about Chinese goods being excluded from western markets if they fail to engage responsibly in global efforts to combat climate change. However, along with all the other major emerging economies, China has signalled that it would take retaliatory trade measures if it faced unilateral trade measures in high energy using sectors. The EU should firmly move away from threatening to use unilateral trade measures against China, such as the imposition of so-called carbon tariffs on imports of Chinese-made goods. Exports of carbon-intensive goods account for only 5 per cent of China's combined merchandise trade with the US and Europe (8 per cent for the EU; 3 per cent for the US) and this proportion is falling. As a result, trade tariffs based on the carbon content of goods would represent a small stick with which to threaten China. Punitive sanctions going beyond proportionate measures – as proposed by some groups in the US – would rightly provoke a strong Chinese reaction and could potentially derail the climate negotiations and the prospect of further trade liberalisation. Given the interconnectedness of the European and Chinese economies, this would be highly damaging for both sides.

Energy-intensive, trade-exposed industries in Europe and the US have been successful in lobbying for exemptions from climate legislation, for example by prolonging their access to free emissions allowances under emissions trading schemes. Introducing 'border taxes' as well – as proposed by some in both the US and Europe – would not only infuriate China but also further reduce the economic incentive for firms in Europe and the US to adopt transformative, low carbon technologies. A level playing field with comparable carbon constraints in all major economies will not be achieved until 2020-30 at the earliest. In the meantime, the EU should work actively with the US and China to agree on a pragmatic approach to

defusing this issue, and managing any resulting political pressures in a cooperative manner.

Europe could start by discussing the potential for a 'peace clause' within the Copenhagen agreement, subjecting any unilateral trade measures to impartial, multilateral review in the UNFCCC. Europe could augment this with a renewed focus on liberalising trade and investment in low carbon goods and services and on forging closer co-operation on the development of new technology. This approach would allow sanctions against verified 'rogue countries' renegeing on climate change commitments, but avoid their abuse for protectionist reasons. An agreement at Copenhagen to increase taxes on marine tanker fuel could also help reduce competitive pressures in bulk, energy intensive sectors by raising transport costs, while also providing a new flow of funds to support decarbonisation in China and other emerging economies.

### Technology co-operation

Technology co-operation is an area where trilateral talks – with potentially the addition of Japan – could defuse a highly contentious issue. Achieving the EU's target of keeping the rise in global temperatures to below 2°C will require the rapid development and

diffusion of new technologies after 2020.<sup>9</sup> The rate of technology diffusion to developing countries will need to be at least double the historic rate, which implies a far more active approach to technology co-operation on the part of the multinational companies based in developed economies who own the vast majority of low carbon technologies.<sup>10</sup>

<sup>9</sup> See IEA, 'Energy technology perspectives', 2008; E3G and Chatham House, 'Innovation and technology transfer: framework for a global climate deal', 2009; Office of Tony Blair, 'Technology for a low carbon future', 2009.

<sup>10</sup> See Chatham House, 'Who owns the low carbon economy?', 2009.

Negotiations on this issue at the UNFCCC are mired in ideological disputes which date back to the debates on access to medicines in the 1990s, and in many ways to the economic disputes of the 1970s. There has been a hardening of fronts recently, with some developing countries demanding that all patents on low carbon technology be put in the public domain, and many developed countries steadfastly resisting pressure for any enhanced sharing of intellectual property. However, these disagreements should not be exaggerated. After all, China recently asked the OECD to review its domestic innovation system, implying that China is now getting serious about protecting intellectual property. And China has also repeatedly asserted the importance of intellectual property rights protection for its domestic enterprises – not least against aggressive competition from other Asian nations.

The EU should work with the US, China and Japan to find ways of accelerating the development and

diffusion of low carbon technologies. Preliminary agreement on a set of measures could then be reached at the Major Economies Forum in advance of the Copenhagen summit, and could form the basis of agreement in the UNFCCC.

### V. Agree fast-track progress on priority EU-China co-operation projects at the EU-China summit in November 2009

This year's EU-China summit will take place just after President Obama's first visit to China, and just over a week before the Copenhagen conference opens. During Obama's visit the US and China plan to announce a set of new co-operation initiatives which should cover CCS, solar power, low carbon cities and capacity building. These projects are at an early stage of development and currently have no significant US government resources behind them. However, given the political importance of the Obama visit, it is likely that the projects will receive a large amount of publicity and be presented as concrete examples of US-China global leadership on climate change.

This presents risks to the EU. It is in the EU's interest to see active co-operation between the US and China on climate change, but Europe does not want to see a US-China bilateral deal outside the Copenhagen process. The EU-China summit in November 2009 is also not the right place to pre-negotiate Copenhagen outcomes. However, if the EU-China summit lacks any substantive new outcomes on climate change, Europe's claims to low carbon leadership will look increasingly fragile.

The way out of this dilemma is to focus on delivering summit outcomes which will send the right signals on maintaining momentum towards a low carbon economy and which do not seem to pre-judge the outcome of Copenhagen. There is not enough time or political momentum at this stage to agree a detailed set of policy objectives, but there is the opportunity to elevate the overall level of EU-China co-operation in this area and to accelerate progress on some politically visible flagship projects.

At a process level this could be achieved through the establishment of a senior EU-China low carbon economy taskforce, with an agreed workplan and mandate to produce joint initiatives over the coming year. In terms of flagship projects, one critical area where progress is required is on the EU-China CCS demonstration plant that was agreed at the 2005 EU-China summit. The targeted completion date of 2020 for this project has been overtaken by events, with the EU itself planning to complete eight to ten CCS projects by 2015 and at least eight other major CCS demonstration plants underway in the US, Australia, Norway and Canada. The summit could build on the extensive work carried out on this project to date by agreeing to complete the CCS plant by 2015, make it a full part of the knowledge sharing process under the

EU's CCS demonstration programme, and agree to jointly identify a workable financing mechanism by May 2010. A credible aim would be to have completed the selection of a demonstration site and a commercial consortium in advance of the next EU-China summit.

### Low carbon technology and investment development zones

Another major area could be a joint initiative to establish China's first 'low carbon technology and investment development zone' (LCTIDZ), potentially in the city of Nanjing, which will host the EU-China summit. Feasibility studies of different types of low carbon zones have been developed through a range of collaborative EU-China pilot research in different regions of China. The creation of these zones aims to provide a platform for a more intensive EU-China climate change partnership, with a clear and strong focus on economic restructuring, technology co-operation and the engagement of the business community. The strategic goals are:

- ★ To facilitate the upgrading of technology and the joint development of new technologies by China and the EU, thereby helping to achieve long-term reductions in CO<sub>2</sub> emissions.
- ★ To allow the EU and China to work with the business community to build a new intellectual property regime to facilitate rapid and large-scale diffusion of low carbon technology and to help prevent protectionist measures.
- ★ To identify ways to help both Chinese and European enterprises, in particular small and medium sized ones, to overcome barriers to innovation and market entry through joint EU-China public and private partnerships.

A feasibility study exploring the potential for LCTIDZs in three Chinese provinces (Gansu, Shandong and Jiangsu) was recently completed by E3G in co-operation with the Investment Promotion Agency of the Ministry of Commerce of

<sup>11</sup> E3G, 'Feasibility study on EU-China low carbon technology and investment demonstration zones', September 2009.

China. The final report was launched in September in Xiamen.<sup>11</sup> The feasibility study commends the establishment of two new zones: one in Pingliang City, Gansu province, to foster co-operation on low carbon coal power generation and low carbon agriculture; and another in Nanjing Yangtzi river industrial development zone in Jiangsu province, to foster co-operation on low carbon chemical and steel production.

Chinese partners at both local and national level have indicated a willingness to provide co-financing for LCTIDZ initiatives of this kind. In the long term, it will be possible to scale-up co-operation to the regional level in some areas of China.

The EU-China summit in November 2009 could recognise the importance of taking forward these initiatives. An EU-China multi-stakeholder forum of governments and businesses should be established to identify critical areas for action and to monitor progress and co-operation in these zones at future summits, with a view to strengthening and scaling up successful models of co-operation.

### Conclusion

The ratification of the Lisbon treaty could open the way for a more coherent and strategic foreign policy. No bilateral relationship will be more important than the one with China. The European interest lies in accelerating the decarbonisation of the Chinese economy along a low carbon path. With that objective in mind, the EU should concentrate on cooperating with China to demonstrate a successful model of low-carbon growth in China.

The EU should accord climate change and energy the same status as economic and commercial issues within the EU-China bilateral relationship. The urgency of the challenge posed by global warming combined with the potential rewards of strong co-operation with China should make the EU willing to experiment with new models of co-operation and partnership.

Europe cannot do this on its own. A similar commitment will be needed from the Chinese side. E3G's experience of working in China gives us encouragement that this is the case. There is a growing conviction among many Chinese economic policy-makers that the move to a low carbon economy will drive the next stage of Chinese economic development. Europe has a real opportunity to support this process through the EU-China summit and associated partnership programmes.

Such a partnership with China would put real substance behind European aspirations to shape the international system in its own image. It would build on Europe's role in multilateral negotiations and consolidate its position at the forefront of the drive to put the global economy on a low carbon path. Europe has all the assets it needs to make this happen, but it needs to decide to make them work in the European interest.

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