



## EU-China Green Competition: The Way Forward for Climate Change?

It is widely agreed that the world of international climate policy changed at Cop-enhagen. Just how different the world Europe faces is only just beginning to emerge, as is reflected by the Communication issued by Connie Hedegaard, the Commissioner for Climate Change Action, in May. One of the key factors in the changed world is of course China, whose shadow looms over the Communication. This, however, is not the China of the post-Copenhagen recriminations, the one that in Europe was portrayed as entirely to blame for wrecking the summit and preventing it from achieving European expectations. The China in this document has a different aspect, that of a competitor in the race to develop a clean energy economy, and one that is possibly leaving Europe trailing behind.

The Communication titled *Analysis of Options to Move Beyond 20 per cent Greenhouse Gas Emission Reductions and Assessing the Risk of Carbon Leakage* issued on May 26, 2010 is ostensibly intended to open debate on the question of options for raising the EU's greenhouse gas emission reduction target from 20 per cent by 2020 to 30 per cent. However, it appears to be a first tentative step on the road to adjustment of EU thinking not just on the target itself and domestic aspects of climate change policy, but also on how that policy relates to other key international actors.

The Communication sets out the case for why the EU should move to a 30 per cent emissions reduction target. A central part of the argument concerns that fact that 30 per cent target is now significantly easier and less costly as a result of the economic crisis, which has caused a sharp reduction in EU emissions. According to the Communication, emissions in the EU Emissions Trade Scheme (ETS) fell by 11.6 per cent in 2009 compared to 2008. One result of this is that the estimated cost of achieving the 20 per cent reduction target will be reduced from 70 billion euros to 48 billion euros.

### Driver of growth

The domestic argument is backed up by another strand of reasoning in which China looms large. The focus is not however on negotiations climate from a climate agreement under United Nations (UN) auspices, rather it is on what the paper calls the green technology revolution. The Communication claims that, "There is now a widespread consensus that the development of resource-efficient and green technologies will be a

major driver of growth." It goes on to say that there are, "Signs of the transition towards a low carbon economy are emerging across the world, with countries attracted to the greener option also because of its potential to create large numbers of new jobs." The Communication notes that the Europe 2020 programme is intended to re-orientate the EU towards a more sustainable future and to seize opportunities provided by early investment in green technology.



*China's green power*

But, the Communication argues that Europe's potential to lead cannot be taken for granted. One of the main reasons for this is China. As the Communication notes, China has been making huge investments in renewables. In 2009 it led the world in installation of wind power capacity, and has also become the largest investor in renewables. The Communication points out that on the Renewable Energy Attractiveness Index compiled by Ernst & Young to measure the attractiveness of investment in the sector, China is now second only to the US. In fact, according to this index, the situation is more serious than that. The Communication does not mention that the attractiveness index of major European countries like Germany, the UK and Spain has declined in recent years as China's has risen. In the wind power sector, China is now ranked as the most attractive country in the world for investment.

There is no guarantee that China will succeed in its aim of becoming a leader in this field. Already there are signs that inefficiencies typical of other boom sectors in the Chinese economy are beginning to affect the re-newables sector. There is overcapacity in the wind power sector, and many completed projects are reported to make no contribution to actual electricity generation. In the short term, China faces exactly the opposite

problem to the EU, and its task is getting harder. While recession in the EU has brought emissions reductions, in China rapid economic growth in recent months has brought a reversal in the government's key goal of reducing the energy intensity of the Chinese economy. After several years of substantial declines, rapid growth, especially in energy intense sectors, brought a sharp increase of 3.4 per cent in energy intensity per unit Gross Domestic Product in the first quarter of 2010. The government has called for redoubled efforts to reach the target of a 20 per cent reduction in energy intensity over the period of the 11<sup>th</sup> Five Year Plan, ie from 2006 to 2010. Premier Wen Jiabao called for an "iron hand" to be used in closing energy-inefficient power and industrial plant, and the government announced that tougher measures would be adopted to ensure targets are met.



Despite these difficulties, the rise of renewable energy in China and the enormous importance placed on the sector by the Chinese government has been plain to see for some time. The green economy, including clean energy, is now central to China's industrial policy, and is considered to be a strategic sector where it may be able to lead the world.

### **Economic advantage**

What is different from the European standpoint is that the Communication appears to introduce a new element into EU thinking on climate change policy. In the international context until now EU domestic policy, at least in its official form, has been considered almost entirely in the wider the UN process. Even after Copenhagen, in a previous Communication issued on March 9, 2010 on International Climate Policy Post-Copenhagen: Acting Now to Reinvigorate Global Action on Climate Change, the focus has been on the EU's position in the UN negotiations, and its claim to a leadership role in that process.

The May 2010 Communication indicates an implicit recognition that this process is not the only

dynamic driving climate change policy. There is another dynamic at work, focused around economic advantage, which is emerging as a potential driver of climate change policy.

The government in China perhaps more than any other has taken on board the idea that the low-carbon economy presents an enormous opportunity. Hence, its considerable government support and growing investments in this area. In China the low-carbon economy is seen as an opportunity, not a cost. This contrasts with the view which has prevailed in the past. Until now climate change mitigation has generally been regarded as a cost by governments, business and much of public opinion in the West. The UN process and its difficulties is rooted in this view. Nations must come together to agree a set of actions on climate change mitigation that they would not otherwise undertake alone because to do so would place the first mover at an economic disadvantage. The withdrawal of the US from Kyoto was based on this view of the world, and much of the continued resistance to stronger action there and elsewhere in the developed world still reflects this view.

This thinking has been to a considerable degree abandoned in China. The Communication attempts to introduce it into wider European climate change policy. This may not be easy however. While the Chinese government has the iron hand of administrative planning to enforce its goals, the EU relies mainly on the soft, if somewhat visible, hand of the market through the ETS. The Communication argues that increasing the emissions reduction target to 30 per cent would contribute significant long-term benefits for Europe's competitiveness, by maintaining a strong position in a rapidly growing global market for low carbon technologies, as well as restoring the EU's leadership position in the UN process. But the idea of unilaterally moving to a 30 per cent target was almost immediately dismissed by industry ministers from France and Germany. The fact that they are industry ministers is significant, and indicates the extent to which the traditional thinking on the relationship between climate and economics is prevalent in Europe's political leadership. Many business organizations in Europe can also be expected to follow the same line. Nevertheless, as the Communication indicates, the looming shadow of the challenge from China may eventually be one that cannot be ignored. The emergent dynamic of business competition may diverge from the UN process, but in the end this imperative may be as important in achieving real mitigation efforts.

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