

June 2024

Between competition and co-operation

How to engage with China on climate

By Christina Keßler



Between competition and co-operation: How to engage with China on climate

By Christina Keßler

- ★ European policy-makers need to rethink their engagement with China on climate. Europeans often point towards climate as an area where EU-China relations are positive. But the international environment today is defined by strategic competition. While the EU thinks it can isolate climate relations from more contentious parts of its relationship with China, Beijing does not agree.
- ★ However, co-operation in tackling global warming is urgent – so waiting for a more convenient geopolitical moment is not an option. In areas where climate co-operation is possible and could be effective, European policy-makers should engage with China. In other areas, European policy-makers should lean into the dynamic of competition to the benefit of climate action, for example when it comes to green technology.
- ★ International climate diplomacy is reaching its limits. However, climate co-operation can still yield some benefits in areas that can be depoliticised to some extent. The EU and China can work together on exchanging technical knowledge and on creating shared standards, for example on defining what is considered climate friendly.
- ★ Co-operation is also more effective when accompanied by some incentives. European policy-makers should not assume that Chinese policy-makers have an intrinsic interest in global climate co-operation but be aware of Chinese interests.
- ★ In parallel to climate co-operation, there are some areas in which the EU's focus should instead be on climate competition to advance decarbonisation. For example, Chinese attempts to build global influence should be an incentive for Europe to make better offers to countries around the globe when it comes to green projects.
- ★ When it comes to the climate economy and competition for green technology, Europe needs to have a debate on what kind of dependencies on China it is willing to accept. Depending on the outcome of this debate, European policy-makers will need to focus on protecting European green industries in certain selected areas as well as fostering research and innovation.
- ★ Debates on how to engage with Beijing on climate issues focus too often exclusively on the question of whether to co-operate or compete. But in order to advance climate action in a world that becomes more and more difficult to navigate, policy-makers need to do both.

China is the world's largest greenhouse gas emitter as well as the largest investor in renewables. Whether on reducing global emissions or advancing the green transition, the EU cannot afford to ignore the country. How should Europe engage with China to advance climate action?

In 2019, the EU coined a new way of talking about its increasingly complex relationship with China. According to this threefold approach China is a partner, a competitor and a systemic rival.¹ The wording tries to pull off a balancing act: protecting good relations in certain areas while acknowledging that there are many points on which the EU and China not only disagree but have fundamentally opposed interests. Systemic rivalry is often brought up in the context of China's efforts to assert its influence in its neighbourhood and globally. China has its own values which are different from those of the EU. The dimension of competition is clear when it comes to business interests. Technology is another dimension in which the EU and China compete. But where is China a partner?

“It is naive to assume that co-operation on climate can be insulated from this broader trend.”

When asked about the partnership dimension of the relationship, many European officials point to climate. Intuitively, that makes sense. Together, the EU and China represent around a third of the world's final energy consumption. Global warming is a global problem and poses a danger to populations in both China and Europe.

Current policies to combat climate change are projected to lead to approximately 2.7°C warming above pre-industrial levels by 2100.² If one takes a more optimistic view and includes binding long-term or net-zero targets in the projections, warming would be limited to around 2.1°C. According to a model which assumes a global average temperature increase of 2°C, even without considering potential accelerated ice sheet melting, rising sea levels will mean that globally the homes of 200 million people will lie below sea level by 2100.³ Higher annual flooding will affect the lives of another 160 million.

In China, around 45 per cent of the population lives in coastal regions, which are also responsible for more than 50 per cent of the country's economic output.⁴ According to the model, 43 million people in China would be directly affected by the rising sea levels. In Europe, the Netherlands would be especially affected, with more than 4 million people projected to live below sea level in 2100.⁵ In Germany, 1 million people are projected to be directly affected and 500,000 people in both France and Italy.

1: European Commission, 'EU-China – A strategic outlook', March 2019.
2: Climate Action Tracker, 'Addressing global warming', December 2023.
3: Scott Kulp and Benjamin Strauss, 'New elevation data triple estimates of global vulnerability to sea-level rise and coastal flooding', *Nature Communications*, 2019.
4: Nectar Gan, 'Record rise in China's sea levels threatens coastal cities like Shanghai', CNN, April 2023.

In light of the severity of the challenge, it should be possible for the EU and China to set aside differences and work together for the common good of the planet – in theory. But in practice global climate co-operation suffers from the so-called tragedy of the commons. While human beings in every country will be affected by the implications of global warming, every country also benefits in the short term from leaving the costs of cutting emissions to the rest.

The view of global climate co-operation as a sunny island in otherwise increasingly dangerous waters does not reflect reality. In recent years, the balance between co-operation and competition in EU-China relations has shifted in favour of the latter. It is naive to assume that co-operation on climate can be insulated from this broader trend.

China certainly does not see climate as an issue that can be insulated from tensions with the EU and the US. When US Speaker of the House Nancy Pelosi visited Taiwan in 2022, China reacted by suspending climate talks.⁶ In 2023, Fu Cong, the Chinese Ambassador to the EU, stated that "Global climate governance does not happen in a vacuum. One should not seek political confrontation on the one hand and expect unconditional co-operation on the other."⁷ The EU might be prepared to muddle through with its ambiguous threefold approach, but China is not.

Further, one cannot neatly separate climate action from geopolitics. Russia's war against Ukraine has showcased how easily energy dependencies are weaponised. Gas supplies are different from dependencies on solar panels or other green energy technology. Cutting off supplies in the latter category would not harm the EU as abruptly as cutting off gas. Still, European policy-makers rightfully have become a lot more sensitive to the implications of being dependent on potentially hostile countries for their energy supply.

The urgency of global warming requires us to undergo a fundamental energy transition in a very short time frame. It is a massive undertaking in scope, scale and complexity. The green transition is much more than just switching from a diesel car to an electric vehicle. It affects how we produce, store, transport and use energy in the future. Energy is at the heart of almost everything that humans do. The green transition requires a fundamental transformation of our entire energy system and our

5: Katharina Buchholz, 'Rising sea levels will threaten 200 million people by 2100', Statista, February 2020.
6: Joe Lo, 'US-China climate working group cancelled after Pelosi's Taiwan visit', Climate Home News, August 2022.
7: Euractiv, 'Global discord threatens COP28 climate talks, EU commissioner says', October 2023.

economies. Such a monumental shift will create winners and losers. China has set out to be one of the winners.

China was quick to recognise the economic opportunities flowing from the energy transition. The country has strategically positioned itself to be at the centre of the world's new energy system. From solar panels to batteries for electric vehicles (EVs), from wind turbines to critical minerals, China leads the global renewables market.

“China has strategically positioned itself to be at the centre of the world's new energy system.”

Some analysts warn that Europe could slip from dependency on Russian gas straight into the next one, this time on Chinese clean energy technology. But the truth is, Europe is already dependent on China. The EU imports 80 per cent of its solar panels and 98 per cent of its rare earth elements (used in wind power generation, hydrogen storage or batteries) from China.

Such dependencies raise concerns about national security and potential economic coercion. China has a history of using economic coercion to further political aims. For example, when a ‘Taiwan Representative Office’ opened in

Vilnius in 2021, China reacted with a number of coercive economic actions against Lithuania. Sweden and the Czech Republic also have experienced Chinese economic coercion. It is therefore easy to imagine China leveraging European dependencies for political purposes. In 2010 China did that with Japan, restricting rare earths exports over a territorial dispute. But dependency on Chinese green tech also affects the future of European industries. Consequently, the EU has extensively debated concepts such as ‘economic security’ and ‘de-risking’ in recent years. Renewable energy and competition cannot be separated.

Still, climate relations between the EU and China are not just about competition alone. While the exact mix might change over time, both co-operation and competition will continue to be important in the years to come. If European governments assume that the only way to advance climate action is to co-operate, they are doomed to fail; if they rely entirely on competition they are also likely to fail. Policy-makers should ask themselves how to leverage the dynamic of competition to advance climate action in the areas in which co-operation no longer is possible. Instead of wishing this dynamic away, Europe should lean into it to advance faster on climate action. Where co-operation is still possible and effective, it should happen. But in other areas, it is time for Europeans to engage in a climate competition – a ‘race to the top’ to the benefit of the climate.

The history of EU-China climate co-operation

Institutionalised climate co-operation between the EU and China dates back to 2005, when both actors agreed on a Climate Change Partnership which remains the framework for co-operation to this day. The two parties have reiterated their commitment to work together several times. In 2021 the EU and China established a High-Level Environment and Climate Dialogue, which has been held four times.

In the past, the EU and China have co-ordinated around COPs (Conferences of the Parties), the international climate negotiations that take place in the framework of the UNFCCC (United Nations Framework Convention on Climate Change). For example, they issued joint statements ahead of COP21 in Paris and COP26 in Glasgow. However, often the EU and China have different positions at the COPs. Despite its status as the world's largest emitter, China continues to argue in international climate negotiations that it should be classified alongside developing countries. This insistence matters, for example when it comes to the loss and damage fund. This fund is supposed to help the poorest countries that are most vulnerable to the effects of global warming. The EU has called on China to contribute, arguing that it has the means to do so; China however argues that it is a developing nation and thus should not have to pay.

China tries to portray itself as a leader of the developing world – and faces pushback for it, not only from the EU but also from the countries that are most affected by global warming.

The EU-China climate co-operation framework also encompasses technical dialogues which are primarily focused on EU officials sharing knowledge with their Chinese counterparts. Since 2014, the EU has put a lot of effort into sharing its experience of its emission trading Scheme (ETS) and supporting China in setting up and strengthening its own ETS. Both partners have also worked together on the development of an EU-China sustainable finance classification system. This is essentially a list of what kind of economic activities are considered climate-friendly by both sides. This classification is supposed to boost green investment.

Since December 2022, the EU and China have started to talk about how to reduce methane emissions. Another area in which both sides hold exchanges is climate adaptation. In July 2023, the EU and China agreed at the fourth High Level Dialogue on Environment and Climate Dialogue (HECD) to create a dialogue specifically focused on the EU's carbon border adjustment mechanism (CBAM).

The EU has pledged to become carbon-neutral by 2050. By 2030, the EU aims to reduce emissions by 55 per cent compared to 1990 levels. China likewise has made climate pledges. It aims to reach peak carbon emissions

by 2030 and carbon neutrality by 2060. While things look bleaker for some other pledges China has made, the country is currently on track to meet its 'peaking' goal even before 2030.

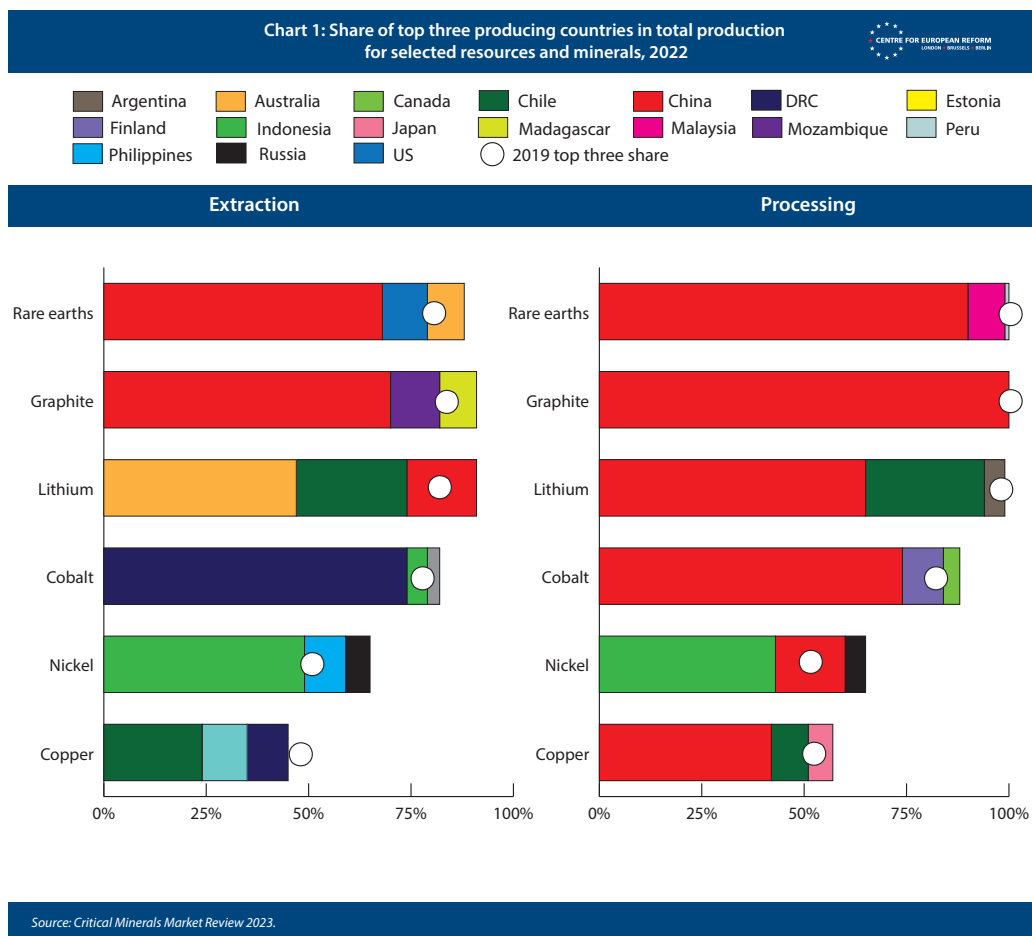
What drives China's green transition?

In order to effectively engage with China on climate issues the EU needs to understand what drives Chinese climate actions. China's relationship with climate action is seemingly marked by contradictions. The country is the world's largest carbon emitter and hosts approximately half of the world's coal power plants. At the same time, it is investing in green technology on a massive scale.

China's view of the link between economic growth, industrial policy and green technology explains this conundrum. China sees the green transition as an economic and strategic opportunity. Low-carbon technology is not just supposed to mitigate pollution and to reduce the country's carbon footprint. It follows an economic rationale and aims at the control of strategic sectors. This in turn legitimises the rule of the Chinese Communist Party (CCP).

The CCP's Five-Year Plans (FYP) provide comprehensive guidance for the country's economic and social development and investment priorities. The current FYP (2021-2025), highlights green development, aims to reduce the economy's carbon emissions and emphasises the importance of innovation.

Over recent years, China has invested massively in renewable energy. Today, the country dominates the global green tech supply chain.⁸ China produces approximately 90 per cent of the world's rare earth elements, 17 chemical elements that are needed to produce high-technology applications, including green technology. China further accounts for at least 80 per cent of the world's solar panel manufacturing. It is also responsible for the production of 60 per cent of wind turbines and electric vehicle (EV) batteries.



8: Edward White, 'How China cornered the market for clean tech', *Financial Times*, August 2023.

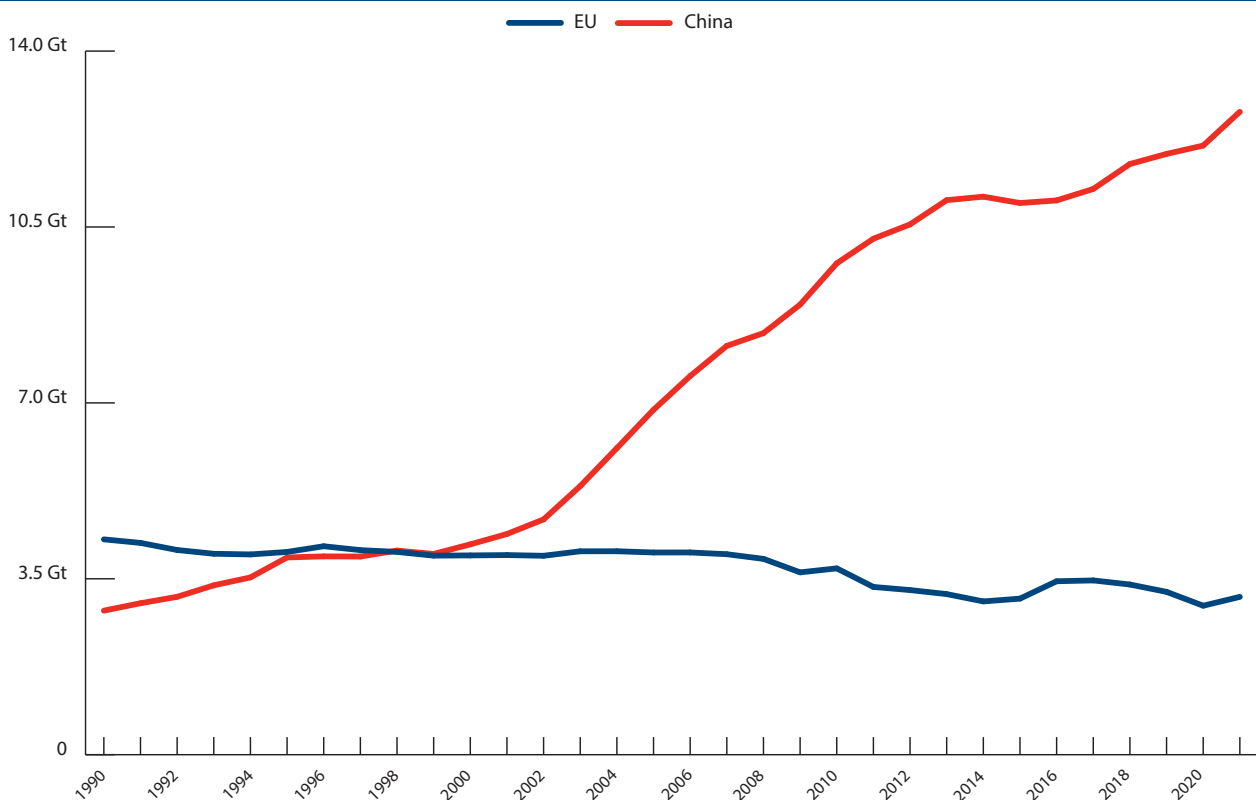
The strategy is bearing fruit. In 2023, clean energy was the biggest driver of China's overall economic growth, accounting for 9 per cent of China's GDP.⁹ Amidst rising concerns about the economy's slowdown, an ongoing real estate crisis and a shrinking population, this is a significant boost. However, there are signs that this clean energy investment model cannot continue indefinitely. In China, the rapid growth of solar panel capacity has led prices and profits to collapse, with finished modules selling at below average production cost. The profit squeeze especially hits smaller companies. Abroad, the rapid Chinese capacity growth raises concerns among China's trading partners that products will flood their markets and damage their industries.

China's huge investment in renewables has had many positive effects. It has made green technology cheaper for everyone, as China supplies green technology components at a far lower cost and on a larger scale than anyone else. But there also have been negative effects for renewable energy industries in other countries, such as

the European solar industry, which has been decimated over the last decade. Policy-makers in the EU are asking themselves whether and how to protect European industries (and if so, which ones) and how to balance this with the need to decarbonise.

In parallel to China's renewables offensive, Beijing continues to invest in fossil fuels. The country is the world's largest emitter and accounted for 27 per cent of global greenhouse gas emissions in 2020.¹⁰ Despite the CCP's pledges, coal power generation is still expanding in China. In 2023, China started construction of coal-fired power plants with a capacity of 70 gigawatts (GW). While China pledged to 'strictly control' new coal power in 2021, approvals of new coal power plants have increased. Compared to the previous five-year period (from 2016 to 2020), Chinese permits for new coal power plants increased fourfold over 2022 and 2023.¹¹ On average, China started construction on one new coal power plant per week in 2022.

Chart 2: Global historical emissions



Source: Climate Watch.

9: Lauri Myllyvirta, 'Analysis: Clean energy was top driver of China's economic growth in 2023', *Carbon Brief*, January 2024.

10: Hongqiao Liu, Simon Evans, Zizhu Zhang, Wanyuan Song and Xiaoying You, 'The Carbon Brief Profile: China', *Carbon Brief*, November 2023.

11: Flora Champenois, Lauri Myllyvirta, Qi Qin, and Xing Zhang, 'China risks missing multiple climate commitments as coal power approvals continue', *Centre for Research on Energy and Clean Air (CREA)*, February 2024.

China's continued reliance on coal can be explained by a push for energy security. Coal is the only fossil fuel that China has in abundance and that does not need to be imported, which makes it a crucial component of China's energy mix. Green energy produced in China's north cannot easily be transported to the South, where the energy demand is higher, due to fragmented energy grids. Green energy is also intermittent, rather than being able to scale up and down easily to meet demand like

coal-fired plants, and battery technology is not yet able to compensate. This means fossil fuels remain a component of energy security. While the current FYP emphasises the importance of green development, it also underlines the significance of energy security. In the context of Russia's war against Ukraine and its impact on global energy supply chains, energy security concerns have become more serious.

How will China respond to more climate competition?

As European policy-makers shape climate engagement with China, they need to ask themselves what China will do differently as the element of competition becomes more important.

“China is not undertaking its decarbonisation as a ‘favour’ to someone else, but in its own interest.”

While one crucial aspect of co-operation should be defining the rules of competition, European policy-makers should also be aware that Chinese officials will likely not use this language for it. China has strongly criticised the EU's threefold approach towards China. Chinese officials are careful to not employ the rhetoric of competition, while de facto participating in strategic competition. China has devoted much effort to de-coupling, for example through the Made in China 2025 programme, and has used economic coercion against Lithuania, Norway, Japan and others while decrying its use by the US and EU. Co-operating with China on creating shared rules and red lines on competition is still possible. But European policy-makers need to be aware that the rhetoric Chinese officials use on this topic is different, and they likely would not accept the use of the term 'competition'.

Another important consideration is what China would do in the absence of co-operation. This means European

policy-makers need to have a clear-eyed understanding of China's decarbonisation objectives. The CCP has a long tradition of putting engineers and natural scientists in high-ranking positions and does take global warming seriously. China's push for renewables is a massive undertaking, built on an economic rationale. The CCP will not abandon this project if climate diplomacy talks come to a halt. After Pelosi's visit to Taiwan, China did stop climate talks with the US, but it did not abandon its push for renewables. European policy-makers do not need to convince China of the importance of global warming and the green transition. China is not undertaking its decarbonisation as a 'favour' to someone else, but in its own interest.

Still, there is a more indirect link between co-operation and China's decarbonisation drive that policy-makers must be mindful of. One major factor which has influenced China's coal power plant expansion is concern about energy security. As the global dynamic has increasingly shifted from co-operation towards competition (and in some case, confrontation), energy security concerns have started to become more prominent. Just as European states became more concerned about energy security in the context of Russia's war against Ukraine, China has also become concerned about its own dependencies. European policy-makers need to take Chinese energy security concerns seriously, in order to assess China's decarbonisation drive accurately.

Climate co-operation with China – but how?

The fact that the CCP takes climate change and decarbonisation seriously does not automatically translate into an interest in global co-operation on the issue. The framework for thinking about decarbonisation in China is national instead of global.

It is not just China that is hesitant about co-operation with the EU on some issues; the EU does not want to further increase its dependency on China in the realm of

renewable energy. European officials also worry about working with China on advanced key technologies. The EU wants to make sure it does not lose technical know-how that is important for its economic competitiveness. In areas like artificial intelligence, European officials worry that the CCP may use these technologies to modernise the Chinese military and to strengthen surveillance. In the coming years, these concerns will increasingly affect research collaboration between the EU and China.¹²

¹²: Rebecca Acesati, Francesca Ghiretti and Sylvia Schwaag Serger, 'In research collaboration, drawing red lines with China isn't easy', MERICS, October 2021.

Despite an increasingly difficult relationship, there still is space for the two to work together, including on climate issues.

Co-operation may have more than one purpose. The aim might be to show that there are still areas where the EU and China have common interests, and that the overall relationship is not only a competitive one. If this is the rationale for co-operation, there does not need to be a concrete output; summits and declarations are enough. Climate co-operation then becomes merely a means to the end of being able to call China a partner in certain areas.

It is also still possible to co-operate in ways that yield results and advance climate action. To do that, officials in EU institutions and in national capitals need to be clear-eyed and aware that co-operation might require incentives – such as sharing knowledge or expertise that Chinese officials are interested in – or be accompanied by some pressure.

“By not understanding Chinese interests, policy-makers might ‘reward’ China for doing things it would do anyway.”

If climate co-operation is not built on these principles, the EU runs into several risks. By not understanding Chinese interests, policy-makers might ‘reward’ China for doing things it would do anyway. They also risk building ineffective policies that aim at changing Chinese behaviour and actions that are not easily influenced from the outside. Xi Jinping has made clear that China plans to deal with global warming in its own way and at its own pace. If policy-makers focus exclusively on co-operation when engaging with China on climate, this co-operation could easily become a sort of holy grail that needs to be protected at all costs. Then, the climate agenda becomes a way for China to hold other aspects of the relationship hostage. European policy-makers would be scared of implementing policies that might anger China in other areas out of fear that climate co-operation could break down.

Co-operation in Climate diplomacy

Despite disagreements between the EU and China at international climate talks, co-operation in and around the COPs is possible and beneficial. In past years, successful COPs have been characterised by US-China co-operation and joint statements, which paved the way for agreements at the COPs themselves. The EU and China have likewise released such joint statements ahead of several COPs, such as the Paris climate conference.

Climate co-operation with China around COP might become more important for Europe if Donald Trump is elected president again next November. Under Trump, the US would almost certainly withdraw from the Paris Agreement, as it did during his last presidency. China can be expected to remain in the Paris Agreement and in addition it would be likely to use the opportunity to portray itself as a responsible stakeholder in the international system.

This would provide an opportunity for COPs to advance – albeit, of course, without the US. The biodiversity COP in 2022 (not to be confused with the UNFCCC COP, which is an entirely different event) provides an example of what China can achieve in multilateral fora when its reputation is at stake.¹³ The conference was the first major international event organised and chaired by China (although it hosted in Canada due to Covid-19 restrictions). Failure to reach an agreement would have negatively reflected on China, so it had a keen interest in making the event a success. Chinese officials managed to reconcile diverging positions and Chinese pressure ultimately led to an historic breakthrough. Ultimately, the conference approved an ambitious agreement.

Co-operation in technical areas

However, climate co-operation that requires heads of state to meet grinds to a halt when other aspects of the relationship are deadlocked. Therefore, for effective climate co-operation, it is crucial to depoliticise the co-operation as much as possible.

There is significant space for climate co-operation between the EU and China when it comes to the sharing of knowledge and information. There is both a demand from China for these exchanges as well as a clear benefit. In general, when it comes to these types of exchange, China, which is trying to portray itself as a developing country, sees itself as the beneficiary of the co-operation rather than as a contributor. This should not stop the EU from trying to make attractive co-operation offers that could make a difference.

One area in which technical co-operation is possible and harbours great potential is methane and other non-CO₂ emissions. While methane is short-lived, its heat-trapping potential is much more significant than that of CO₂ which means that it leads global emissions to rise more quickly. Even if temperatures might sink again in the future, one-time heating to a certain level would do irreversible damage for example to the poles, with permanent implications for the global climate.

The EU is trying to encourage China to join the Global Methane Pledge, an initiative led by the EU and the US.¹⁴

¹³: Patrick Greenfield and Phoebe Weston, ‘Cop15: Historic deal struck to halt biodiversity loss by 2030’, *The Guardian*, December 2022.

¹⁴: International Energy Agency, ‘Global Methane Tracker 2022’, 2022.

The EU and China also started bilateral co-operation on the issue in December 2022.

The US and China have likewise discovered methane reduction measures to be an area in which co-operation is not just possible, but able to make a significant difference. The countries announced plans to hold a joint summit on methane and other non-CO₂ emissions in November 2023, as part of a larger climate co-operation agenda.

While the Chinese buy-in to the EU's offer to co-operate on methane has thus far been somewhat hesitant, co-operation in this area should nevertheless be pursued, as the potential pay-off is so large.

Another area in which knowledge sharing and expert exchanges on a technical level could be immensely beneficial is grid management. China's ineffective power grid is a major hindrance to the country's green transition. Today, the way the country's grid is organised incentivises the expansion of coal power. While China generates a massive amount of renewable energy capacity, it remains difficult to get the capacity to the regions where it is needed.

Energy efficiency is another area in which technical co-operation is possible – for example when it comes to the construction of energy-efficient buildings.

“While China sees itself as the recipient of knowledge from the EU, there are also areas where exchanges help European policy-makers.”

While China sees itself as the recipient of knowledge from the EU, there are also areas where exchanges help European policy-makers. China, aware of the implications of global warming, has undertaken many adaptation efforts. Not all results were positive. China's massive reforestation project, dubbed the 'Great Green Wall' for example, ended with most of the trees dead or dying due to factors such as pests and storms.¹⁵ While the project ended up having some limited success, more knowledge would have helped the trees survive. European policy-makers should learn from Chinese experiences to avoid similar situations in European projects, especially as adaptation will also become increasingly important in a European context as global warming progresses.

Both China and the EU have a shared interest in establishing common standards and frameworks, for example through a shared definition of what investments are considered climate-friendly. Therefore, at COP26 in Glasgow, both agreed on a common taxonomy, a system that aligns European and Chinese approaches to sustainable investments. However, sustainable

¹⁵: Jane Braxton Little, 'Lessons from the rush to reforest', Dialogue Earth, May 2021.

investments are not the only area in which common standards would be helpful. Another area is carbon accounting and pricing.

Europe has put a lot of effort into helping China create its own ETS over the last few years. However, compared to the EU's ETS the Chinese version only takes small steps and has not led to much emission reduction. So far, the Chinese carbon market only covers electricity production and does not yet include other industries. This does not mean co-operation on carbon accounting is fruitless. Creating a technical basis for accounting for emissions is likely to pay off in the future. You cannot make progress on something that you do not measure.

Co-operation with China is also warranted in areas which might at first glance seem to belong more to the sphere of competition. Commission President Ursula von der Leyen has successfully coined the term de-risking, which is not meant to get rid of dependencies altogether, but rather manage them in a way that mitigates risk. China feels targeted by a lot of the de-risking rhetoric and is unhappy with these policy developments – which is ironic, considering that China has been engaging in a de-coupling strategy for years.

This should not lead European policy-makers to shy away from discussing de-risking with their Chinese interlocutors. In fact, it would create certainty for Chinese companies if the EU were to spell out what de-risking means in concrete terms for different sectors. In some cases, it also might be possible for Chinese businesses to comply with certain requirements and then access the European market if those are met. For example, a recent suggestion is to follow the Chinese playbook and press Chinese carmakers to form joint ventures with their European counterparts in the EU. This does not only onshore production in the EU but also leads to the sharing of know-how.

The same is true for the EU's CBAM, a tool that places a carbon price on emission-intensive goods imported into the EU, in order to avoid 'carbon leakage', whereby manufacturers leave the EU to produce goods in countries that do not face a carbon price and then import them into Europe. Chinese reactions to CBAM – as well as the reaction of many other countries – have been negative, claiming that CBAM is a protectionist mechanism. But at the same time, Chinese businesses are trying to understand it better to learn how to comply with the regulation. The EU should support these efforts and co-operate to help explain its climate regulations and policies.

CBAM also showcases that climate policies often can be more effective if they are tied to some kind of economic leverage. When designing measures for climate co-operation, it is tempting to assume that every actor has an intrinsic motivation to engage. Rather than doing

this, European policy-makers need to take into account Chinese interests, for example economic ones, when designing policy. This might require a more robust approach, but it is a more realistic and more promising approach than relying on everybody's goodwill.

As the headwinds of geopolitics are growing stronger, another way of maintaining co-operation is to move away from the highly political national level to the sub-

national level. An example of how this is possible has been provided by California.¹⁶ Amidst difficult US-China relations, several Californian governors have worked on climate co-operation with China in recent years, among other things on air pollution management. Chinese officials have for example studied how California tries to reduce smog. Should Trump become president again, the states would once again become one of the few avenues for climate policy in the US – including external climate co-operation.

Towards climate competition

If the space for co-operation is shrinking, is it possible to advance climate action in other ways? Can European policy-makers leverage the dynamic of strategic competition in a way that benefits climate action? In a world that is more and more fractured and difficult to navigate, this would be good news for the planet.

“Ideally, such competition creates a ‘race to the top’, at the end of which the planet is better off.”

Some scholars argue that the way forward lies in climate competition with China.¹⁷ This climate competition is not necessarily a competition about which country has the most ambitious emission reduction targets. Rather, it is about competing in areas such as technological innovation and climate finance which then also positively affects the climate. Ideally, such competition creates a ‘race to the top’, at the end of which the planet is better off.¹⁸

The framework of climate competition helps policy-makers explore ways to accelerate decarbonisation efforts. Today, a major part of climate action is not about creating international agreements. It is about how and how fast states decarbonise domestically. Competition in certain areas could not just accelerate decarbonisation efforts in other countries – it also can help motivate us to speed up European decarbonisation efforts.

A prime example of how the framing of competition facilitates climate legislation is the US Inflation Reduction Act (IRA) of 2022. While the IRA is far from perfect (issues include noncompliance with international trade law and implementation difficulties), it is the most relevant piece of climate legislation passed in the US in recent years, heavily promoting clean energy. However, not everyone views the IRA as a piece of climate legislation. If this federal law had not been framed as a measure to strengthen economic competitiveness, including against China, it never would have entered into force.

It is not only the US government that is focusing on competitiveness. While the European Green Deal has been a major focus of the current Commission, climate legislation is coming under scrutiny across Europe in the midst of cost-of-living crises and farmers' protests. Indeed, the effort to increase European competitiveness is likely to define the work of the next Commission. Under these circumstances, European policy-makers should explain that competitiveness and decarbonisation are mutually compatible, and even mutually supporting, goals. For example, energy prices in Europe are far higher than in the US and China. More renewables would help bring the prices down and make them more stable and predictable.

But just as there are risks in focusing solely on climate co-operation with China, there are risks associated with framing climate engagement with the country solely in competitive terms. While competition is not a bad word, there is a risk that it could close the window of co-operation.

Successful climate competition needs to avoid falling into all-out competition. In such all-out competition, policy-makers would take decisions focused exclusively on competitiveness, ignoring decarbonisation goals. To draw another American example, the US Congress passed legislation in 2023 that would have repealed exemptions on American tariffs on solar panels from Southeast Asia. This legislation followed an investigation by the Commerce Department which found that some major Chinese solar panel makers tried to avoid US tariffs by finishing their products elsewhere. While the legislation might have made sense purely from a perspective of economic competitiveness, it would have been devastating for solar power in the US. Imports from the Southeast Asian countries make up approximately 80 per cent of US solar panel supplies. President Joe Biden ultimately vetoed the legislation – but an administration indifferent to global warming would have made a different call.

When navigating climate co-operation and competition, policy-makers are faced with tensions between different

16: Liu Yuanling, 'Opinion: Strengthen subnational links to promote China-US climate co-operation', *Dialogue Earth*, January 2024.

17: Roderick Kefferpütz, 'It's time for climate competition with China', *MERICs*, January 2022.

18: Janka Oertel, 'Ende der China-Illusion: Wie wir mit Pekings Machtanspruch umgehen müssen', *Piper*, August 2023.

priorities that need to be carefully weighed on a case-by-case basis. After an investigation into the role of government subsidies, the European Commission recently announced plans to impose tariffs on imported Chinese electric vehicles, although these are not expected to be high enough to exclude Chinese EVs from the market. Subsidy probes have also been launched related to Chinese solar panels and wind turbine suppliers. If the EU were to put very high tariffs on Chinese electric vehicles to protect polluting European cars, this would have significant negative consequences for the climate. Excluding Chinese solar energy from the market would likewise be an odd decision considering the EU industry barely exists anymore. European policies on competition and renewables should always take the bigger picture and the effects on the green transition into account.

“To what extent is Europe prepared to rely on Chinese imports for its energy transition?”

Another risk associated with climate competition is a rise of trade defence tools, protectionism and increasing disregard for WTO rules. This trend has been evident in international trade for some time now. While the trend does not exist due to climate legislation, climate competition can further intensify it. The IRA has been overall a positive development for America’s climate action, but it has also increased trade tensions and the risk of a green tech trade war. International trade is going to become even messier in the years to come, and climate-related policies are no exception to this.

There are several areas in which it is possible to leverage the dynamic of competition in order to create a ‘race to the top’, a positive dynamic that ultimately benefits climate action. These areas are competition over higher ambitions, competition in the climate economy and competition on who can make the better offer to third countries. It is questionable to what extent competition for the highest ambitions would spur China, the EU or the US to cut emissions faster. Therefore, the following section will focus solely on discussing climate economy competition and the competition for who can make the best offer.

Climate economy competition

China already has decided that it wants to be at the heart of the global green tech supply chain. For too long, European governments have been complacent in this area. It is time to take up the challenge and compete in the realm of green technology.

However, the answer to Chinese dominance of green technologies cannot be to blindly subsidise whatever

China is subsidising.¹⁹ China is already struggling with the excess supply of clean energy goods that it currently is producing. In addition, the EU will not ‘outspend’ China on subsidies and there are significant differences between the influence European policy-makers can have on European companies and the authority the CCP holds in relation to Chinese companies.

In order to find an intelligent approach to climate economy competition, the EU first needs to answer several questions. To what extent is Europe prepared to rely on Chinese imports for its energy transition? What kinds of risk are EU member-states willing to bear from an economic but also from a security perspective? In which areas do policy-makers need to make sure European industries still exist a few years from now? And what price is the EU prepared to pay – both financially and from a climate perspective – for refusing cheaper Chinese imports?

These are questions that should not just concern policy-makers, but also the rest of society. They are political decisions that cannot be left to be decided by the market. There are trade-offs to be made no matter how one answers these questions. Policy-makers, citizens, experts, business representatives and other stakeholders need to have a nuanced, careful debate about what kind of trade-offs Europe is willing to make.

European policy-makers should take a differentiated approach. In some areas, it is acceptable for green supply chains to be outsourced to China. In some industries, dependence is less risky or China is so far ahead that one can reasonably decide that competition would be in vain. One could for example conclude that this is the case for the solar industry. European policy-makers should instead concentrate firepower elsewhere. For example, policy-makers should make sure the European wind turbine industry does not suffer the fate of solar.

Competition must not just focus on protecting European industries and ensuring a minimum level energy independence from China, but also on gaining a technological edge. The EU should invest in fostering innovation. A competition for better technological solutions and innovation would drive prices down and lead to faster decarbonisation.

Competition on who make the best offer

Another area where climate competition could lead to a positive dynamic is climate finance. China’s effort to expand its geopolitical influence should incentivise the US and the EU to step up their efforts when it comes to the offers they are making to third countries. What matters is not just influencing China directly, but also shaping the environment in which China operates.

¹⁹: John Springford and Sandor Tordoir, ‘Europe can withstand American and Chinese subsidies for Green Tech’, CER policy brief, June 12th 2023.

The EU should try to establish itself as a climate leader – not just in terms of its commitments and its own decarbonisation drive, but also in terms of its relationship with third countries, especially emerging economies.

“While a few projects will be lost on balance, the bottom line is a positive one.”

When talking about climate partnerships, oftentimes many countries are lumped together under terms such as ‘Global South’. But when it comes to really making a difference, it is important to take a differentiated approach, taking into consideration how high their emissions are and where their interests and needs lie. There is no sense in making the same offer to both South Africa and Botswana.

While the Belt and Road Initiative (BRI) was still dominating headlines a few years ago, the Chinese programme to fund infrastructure projects abroad has since become much less active. The track record has been a mixed one, with the BRI increasingly losing allure in recent years. Many BRI projects have defaulted, others have been hampered by corruption, labour rights violations and environmental concerns. While China has said it will focus its projects abroad on green energy in the future, very few such projects have yet arrived.

When it comes to providing an alternative offer to third countries there is sometimes a certain defeatism which marks the debate in Europe. The narrative is that China cannot be outcompeted, because it does not care about

the many conditions that for example the EU wants the recipients of its programmes to meet. But the mixed track record of the BRI shows clearly that there is space to compete with China when it comes to making more attractive offers.

The real problem for renewable energy projects in emerging economies like India is not that the costs of these projects are too high, but rather that interest rates are high due to the substantial risks. Many projects could be profitable, however, if it were possible to finance them at lower interest rates. Public money can be leveraged to bring in private money by providing credit guarantees for the projects if they fail.

An example of using public money to attract private money are Just Energy Transition Partnerships. These programmes co-ordinate financial resources and technical assistance to a recipient country to speed up its fossil fuel phase-out. The EU has taken part in several Just Energy Transition Partnerships so far. In 2020, the European Commission launched the Sustainable Europe Investment Plan (SEIP), part of which uses public funds to motivate private investors through the European Investment Bank (EIB) to put their money into net-zero technologies.

The EU has already recognised the need to compete in the ‘global battle of offers’, as showcased by its Global Gateway initiative. In the area of climate finance, this battle of offers has the potential to unleash a positive dynamic at the end of which real progress will have been made on the green transition.

What next?

Too often, debates on how to engage with China on climate issues focus exclusively on the aspect of co-operation or competition. But in order to advance climate action in a world that is becoming more and more difficult to navigate, policy-makers need to see the full picture.

The US elections in November will prove consequential for global climate diplomacy. Should Trump be elected to a second term as US President, he almost certainly will withdraw from the Paris Agreement again. The EU elections saw an increase in support for right-wing parties – which will consequently affect the EU’s green policies. But given the urgency of global warming, it is not an option to wait for more convenient political circumstances.

The same is true for climate engagement with China. The relationship between China and the EU might be increasingly complex. But where the space for climate co-operation is closing, there is space to advance through climate competition.

Christina Keßler
Clara Marina O’Donnell fellow (2023-24), CER

June 2024