EU–China climate engagement: Policy drivers, synergies and gaps for accelerating the transition towards carbon neutrality
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1. Introduction

The world sits at a critical juncture in the global fight to tackle climate change. While the United States reconsiders its position, the European Union (EU) and China have led the way in backing the 2015 Paris Agreement. The last year has seen landmark announcements on their respective plans to reach carbon neutrality by 2050 and 2060, and they are now due to update their 2030 targets in their Nationally Determined Contributions (NDCs) towards the Paris Agreement. Implementation of the European Green Deal and China’s upcoming 14th Five Year Plan (FYP) for 2021-25 will determine whether this transition is accelerated and sets a bar for global ambitions. Various factors have shaped convergence and divergence in EU–China relations in recent years. While there have been commitments to climate cooperation, tensions over economic competitiveness, market access and human rights have also spilled over, and there is a risk that systemic rivalries as well as domestic interests in the post-coronavirus recovery could derail progress.

This policy briefing summarises the key policy drivers for decarbonisation in China and the EU, and analyses where synergies could enhance action and gaps could limit progress. Literature and official statements were reviewed, and several experts were interviewed to draw out the following recommendations.

Recommendations

**Strategic visions:** The EU’s Green Deal and China’s concept of ecological civilisation reflect markedly different worldviews, but should also underpin strategic understanding on the basis that they both present visions for achieving renewed sustainable growth through technological innovation and greener societies.

**Carbon neutrality goals:** By setting ambitious 2030 goals, the EU should continue to press China to reach peak emissions more quickly by reducing coal consumption. Both parties should draw on each other’s experiences of negotiating transitions with fossil-fuel dependent member states and provinces.

**Carbon markets:** The EU should carefully consult trading partners on its proposed carbon border adjustment mechanism, alongside providing support to China to develop its own nascent carbon market, with a view to progressing towards a minimum set of rules for a global emissions trading infrastructure.

**Energy transitions:** In scaling up renewables and reforming energy systems, the EU and China should ensure that opportunities are kept open for policy and technology cooperation where beneficial, while also maintaining high-level dialogue to prevent trade disputes from hindering progress towards decarbonisation.

**Circular economies:** As China and the EU both look to promote circular economies, they should aim to align production standards and share best practices for reuse, repair and recycling to pave the way for wider decoupling of development from climate change.

**Land-use planning and biodiversity:** The EU should work with China to encourage greater ambition in
the biodiversity COP15 and climate COP26 in 2021. Integrated strategies for climate and ecological challenges should draw lessons from China’s experience of consolidating land-use planning and nature-based solutions.

**Sustainable finance and commodity supply chains:** Financing green recoveries and promoting sustainable commodities globally will require coordinated multilateral responses. The EU should engage China to promote stronger transparency and environmental, social and governance norms for mobilising investment.

### 2. China’s vision and plans

#### Ecological civilisation

In recent years, China has increasingly framed its response to climate change and environmental degradation in terms of developing an “ecological civilisation”. This concept was first introduced at the Communist Party’s 17th Congress in 2007, and since then has underpinned national environmental laws and local governance, as well as being incorporated into the constitution in 2018. To some extent it can be interpreted as a Chinese approach to sustainability, but it has also been formulated to connect China’s traditional heritage to its future progress.¹ As such, it has been described as a state-backed “socio-technical imaginary” of how a harmonious society can evolve through economic growth and technological innovation.² This vision also reflects how China positions itself as a global climate actor.

#### Carbon neutrality pledge

At the UN General Assembly on 22 September 2020, President Xi Jinping announced that China would deliver a stronger emissions reduction target, peak emissions before 2030 and strive to reach carbon neutrality before 2060. The announcement elicited global reaction, with many suggesting that it was timed to highlight the lack of US...
leadership. Whether it included all greenhouse gases was also queried. Nonetheless, it was pointed out that the typical Chinese approach is to “under-pledge, over-achieve”. Nearly three weeks later, Tsinghua University’s Institute for Climate Change and Sustainable Development presented research on how China could achieve its goal through a long-term, low-carbon development and transition strategy. It included all greenhouse gases in its modelling. This demonstrated that China faces tough challenges to achieve its goal of reducing emissions from peak to zero in 30 years or less. The research recommended increasing renewable energy consumption to 20% by 2025, capping carbon emissions under 10.5 billion tonnes, and controlling coal use toward a peak in the 14th FYP. It also recommended updating China’s NDC targets for 2030 to lower CO2 emissions per unit of GDP by over 65% from 2005 and reach a 25% share of non-fossil fuels in primary energy consumption.

The 14th Five Year Plan

The plenary session of the Communist Party’s Central Committee in the week of 26 October 2020 discussed the proposals for the 14th FYP. Subsequent communiques and proposals provide a broad outline of goals for 2021-25 and long-term objectives to 2035. The full outline is expected in March 2021, and special plans will be released after then. There are several signals of what can be expected at this stage:

- **Economic development**: Economic growth will aim to make China a “moderately developed” nation by 2035, with the quality of sustainable growth emphasised through more robust domestic demand and opening up the economy in what the government calls a “dual circulation” process.

- **Technology**: Self-reliance in technology will become a national strategic pillar with innovation-driven development central to this endeavour. The Annual Work Report in May 2020 indicated that investment will stimulate new technology-based infrastructure, green and energy-efficient urbanisation, and green consumption (such as electric cars).

- **Climate change**: Statements by leading officials anticipate that existing carbon emissions targets will be toughened and expanded to include overall caps, and that a package of climate and energy legislative measures will be introduced.

- **Carbon markets and finance**: Five government ministries and regulators recently issued “guidance on promoting investment and financing to address climate change” to 2025, which include advancing the construction of a national market mechanism for carbon emission trading.

- **Green development**: Proposals aim to accelerate green, low-carbon and sustainable development, improve environmental quality, strengthen ecosystems, and improve resource use efficiency. Spatial-zoning of ecological, agricultural, industrial and urban functions is expected to be consolidated into a single, integrated land-use plan.

- **International relations**: Proposals aim to develop a “higher-level open economy” and seek “win-win” cooperation, including Belt and Road Initiative (BRI) cooperation and participation in the global governance system.
3. The European Green Deal

On 11 December 2019, the European Commission’s President Ursula von der Leyen presented the European Green Deal. The over-arching strategy and package of transformative policies aim to make Europe’s economy sustainable and to reach carbon neutrality by 2050. It also envisages working with international partners to improve global environmental standards and promote sustainable finance.

The Green Deal encompasses many different laws, policies and initiatives, including the following:

- **European climate law**: Presented in March 2020 to set out the process to reach the 2050 climate neutrality goal. A new 2030 NDC target to reduce greenhouse gas emissions by at least 55% compared to 1990 has been proposed, but this decision has been deferred until the EU summit in December 2020.

- **Carbon market and border adjustment**: Reforms of the emissions trading system (ETS) are anticipated in 2021 with a potentially tighter cap on permits. Consultation has recently closed on a new carbon border adjustment mechanism (CBAM) to counteract the risk that companies may transfer production to countries with lower ambitions or weaker frameworks for emissions.

- **Circular Economy Action Plan**: Launched in March 2020 with a revised sustainable product initiative (currently in consultation), mandatory green public procurement criteria, and information-based initiatives to empower consumers, as well as value-chain and sector-specific actions.

- **Strategies for energy system integration and hydrogen**: The energy system integration strategy was released in July 2020 to build on the clean energy legal acts of 2018-19 that promote renewable energy generation, energy efficiency improvements, and other energy-related initiatives. The concurrent hydrogen strategy sets out a phased process to promote this new fuel.

- **Biodiversity and agriculture strategies**: The Biodiversity Strategy aims to establish a network of protected areas, restore degraded ecosystems, and support measures to tackle the global biodiversity crisis. The Farm to Fork Strategy aims to develop food systems so that they mitigate climate change and reduce biodiversity loss. Reforming farm subsidies in the Common Agricultural Policy is key to both strategies, but many observers have criticised the European Parliament for approving proposals in October 2020 that are incompatible with the Green Deal.
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Overall visions

Although they represent distinct worldviews, China’s ecological civilisation concept and Europe’s Green Deal strategy share some broad commonalities. They are both essentially visions for how sustainable economic growth can continue alongside decarbonisation. Neither aims to limit growth, and both see an opportunity for progress through technological innovation and greener societies. Of course, they differ markedly in how they view the role of the state and markets. Ecological civilisation serves to some extent as a national slogan to legitimise Communist Party leadership, whose approach has been analysed as a form of “coercive environmentalism”. Conversely, the European Green Deal is a compendium of market-based policies, which some argue lacks the tools for structural and systemic change across diverse member states. These differences intersect with wider geopolitical rivalries over governance norms. Nonetheless, there may also be potential for convergence as China turns inwards to foster its domestic economy while the EU takes a more developmentalist turn to reinvigorate its economy.

“What we need to understand with China’s ecological civilisation is that this is an imaginary or vision which claims that it is possible to continue the same form of global economic growth and solve climate change mainly through technology, which many European politicians would also agree with”.

Professor Mette Halskov Hansen
China Studies, University of Oslo

Carbon neutrality goals

There is broad synergy between the EU’s and China’s respective commitments to achieve carbon neutrality. Previously the EU had put greater emphasis on carbon mitigation, while China attached greater importance to adaptation alongside economic development. They have also taken divergent
views on equity and differentiation between the Global North and South for shouldering responsibility to curb emissions. Although such differences still exist, the recent shift in commitments might set an example for other emerging global economies like India.  

While their long-term goals coincide, there are potential gaps in their targets before 2030, in particular while attention is focused more on stimulating economies post-coronavirus. Despite making great advances in renewables deployment, much still depends on how China reduces its dependence on fossil fuels like coal. Analyses have found that several Chinese provinces have heavily favoured high-carbon investments in their post-Covid stimulus plans in 2020, including major new coal plant approvals. Although China is expected to meet its 13th FYP cap on coal consumption, and the low profitability of coal may shift investment decisions, there are concerns that the 14th FYP may lack near-term ambition to strongly reduce emissions. Previously it was anticipated that China could peak emissions by 2025. While the EU could maintain pressure on China to halt coal plant construction, it must also negotiate the pace of its own low-carbon transition. The EU has faced opposition from some member states that rely on fossil fuels and coal, most notably Poland, over its targets to 2030 and Just Transition support.

`Carbon markets`

The EU has led the way globally in developing its carbon market, and engaged in dialogue with China to support it to implement its own emissions trading system. Although China has conducted pilot schemes, it has delayed introducing a broader national system. The statements that this will finally happen over the course of the 14th FYP may provide grounds for cooperation and alignment. Previously it was anticipated that the EU and China could work together on a minimum set of rules leading to an international emission trading infrastructure.

Differing frameworks for emissions also carry the risk of disputes between trading partners, in particular over the implementation of border carbon adjustments. From the outset, the EU’s CBAM proposal to prevent carbon leakage overseas has received strong criticism from China on the grounds that it would unilaterally impose a tax on international trade. Some European institutes have also argued that it is an overly complicated approach to carbon pricing that may hinder more than help climate diplomacy, and that the EU would be better placed to focus on developing a competitive low-carbon industry in Europe first. Much may depend on how the EU applies its mechanism,
The EU needs to engage early with trading partners, including China, to ensure that its proposed carbon border adjustment mechanism actually supports climate action internationally, rather than becomes a damaging point of contention for climate diplomacy.”

Byford Tsang
Senior Policy Advisor, Climate Diplomacy Team, E3G

for example it may be more manageable if applied initially to less-traded products like cement. Ultimately, it will be a difficult balancing act for the EU to encourage China to develop its nascent carbon market so that more consistent and stronger emissions standards incentivise decarbonisation of heavy industries.

Energy transitions

The zero-carbon energy transition is a massive challenge that will require ongoing policy stimulus. The EU has set out its strategies, and experts have highlighted the potential for China to accelerate progress by targeting greater investment in renewables, transmission lines, energy storage, distribution grids and technologies like batteries, heat pumps and hydrogen electrolysis.
Chinese authorities and policymakers have also looked to European partners for insight; for example, a case study reveals how Denmark has become one of China’s preferred strategic energy policy interlocutors. \(^{45}\)

The clean energy transition will rely on development and implementation of innovative technologies, infrastructure and services. EU companies have been world leaders in such advances, and have profited greatly from their export to China. \(^{46}\) European car manufacturers have recently also depended on the subsidised boom in electric cars in China. \(^{47}\) Serious trade disputes have arisen though when lower-cost Chinese manufacturers buoyed by state subsidies have entered the market, moved up the value chain, and displaced European companies and jobs. The biggest dispute to date was over solar panels, which led to anti-dumping investigations and punitive tariffs before being settled in 2013. \(^{48}\) The EU’s hydrogen strategy appears to have been designed to protect against similar issues. \(^{49}\) Concerns have also been raised over lax protection of intellectual property rights, although there are indications that China is strengthening its patents law \(^{50}\) and copyright protections law. \(^{51}\)

Normative conflicts are liable to continue, but economic competition is also important to scaling up decarbonisation and the EU and China will need to carefully weigh up such tensions. \(^{52}\) Although hopes for a broader EU–China trade and investment agreement may be far-fetched at the moment, some argue that there is still potential for energy partnerships and win-win cooperation in technologies, combined with high-level dispute resolution when necessary. \(^{53}\)

**Circular economies**

China and the EU have been early promoters of circular economy business models that reuse, repair and recycle materials over the whole production life cycle, thereby reducing waste and decoupling growth from climate change. Since adopting the Circular Economy Promotion Law in 2008, China has developed a comprehensive policy framework and its companies have pioneered transformations in areas like battery recycling, but a recent review also found limitations in its focus on production means over ends and its reliance on direct subsidies. \(^{54}\) The EU has also started up many innovations, but there are critiques over how its approach lacks the structural tools for transforming traditional linear business models. \(^{55}\)
The EU’s updated Circular Economy Action Plan and China’s “dual circulation” strategy could therefore give renewed impetus. EU legislation will have implications for Chinese exporters, and there is potential for its sustainable product initiative to encourage China to adopt equivalent standards. The two parties signed a memorandum of understanding on circular economy cooperation in 2018, and alignment of key mechanisms and sharing of best practices could create a system shift, for example in plastics. As ever though, differences in approach may also limit their complementarity.

Integrating biodiversity and land-use strategies

There are many calls for integrated strategies for tackling global issues, instead of fragmented approaches for different sectors. The trade-offs between enhancing agricultural production and reducing biodiversity loss is a common example. Nature-based solutions (NBS) have been posited instead to protect ecosystems, mitigate climate change and benefit humanity. China has taken steps in this direction through the development of integrated land-use planning, including ecological conservation and agricultural “redlines”, and payment for ecological services schemes. It has also undertaken massive reforestation programmes, which already act as important carbon sinks. While China’s rapid development has driven massive natural destruction and has particular land governance characteristics, there are lessons for other countries. The EU meanwhile has been at the forefront in recognising the need for integrated global solutions, but has struggled to implement them itself as evidenced by its difficulties reforming farm subsidies in the Common Agricultural Policy. The latest State of Nature in the EU report shows that many member states are systematically failing to protect nature.

During 2021, the Convention on Biological Diversity (CBD) COP15 in May in Kunming, China, and the UN Framework Convention on Climate Change (UNFCCC) COP26 in November in Glasgow, UK, will be key events for promoting integrated strategies. As the COP15 host, China has indicated that ecological civilisation will be a major theme. There have been concerns about the lack of ambition leading up to this event, however, and fears that it will struggle to develop actionable
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targets and national obligations. European countries have joined initiatives to kickstart the process, while China could draw more effectively on its prior experience of co-leading a nature-based solution manifesto for climate.

“China is on track to becoming the first large country with an integrated land-use planning framework to meet the objectives of the CBD and the UNFCCC, which will provide important lessons and motivation for other countries to pursue ambitious, integrated strategies.”

Guido Schmidt-Traub
Executive Director, UN Sustainable Development Solutions Network

Sustainable finance and commodity supply chains

Long-term decarbonisation will depend on the mobilisation of investment funds, and analysis has shown that global stimulus plans for economic recovery after the coronavirus pandemic could easily cover climate change policies. Within the EU there is discussion about how to support an international green recovery and debt relief. It has developed sustainable finance initiatives, including an International Platform for Sustainable Finance (IPSF) to scale up environmentally sustainable investments. There is also mounting attention on promoting sustainable commodity supply chains, in particular for agricultural commodities such as soy, beef, palm oil and timber that are driving deforestation, biodiversity loss and greenhouse gas emissions. Germany is going further to develop a supply chain act with binding regulations requiring companies to adhere to environmental and human rights protections.
In the last decade, China has changed the global development architecture through massive levels of investment overseas, which has often financed high-carbon projects of questionable benefit. It has promoted BRI as a major conduit between Asia and Europe, and developed closer links with some European countries (the 17+1 forum). Leaders have spoken of a “green” BRI, but it is difficult to discern how this is being operationalised by Chinese banks and enterprises. Recent finance guidance including steps for aligning international finance with ecological and climate ambitions also need further detail on how they might be coordinated. China is a major consumer and processor of global commodities, and is being encouraged to develop measures to green its supply chains.

There are many possibilities therefore for EU–China engagement on these issues. China has joined the IPSF and shown some inclination towards green funds and debt relief, but observers have suggested that multilaterals and other countries may be better placed to take the initiative and then bring China into the fold. Stronger transparency and environmental, social and governance (ESG) norms are also needed to underpin sustainable finance and supply chains. By taking a principles-first approach it is argued that the EU could engage and shape China’s participation in such standards.

Harmonised standards applied to both the European and Chinese financial markets would have a significant impact on the global understanding of sustainable finance. However, there are European red lines on defining green investments - particularly the “do no harm” principle - that can’t be watered down if a common standard is to come to fruition.”

Jennifer Tollmann
Policy Advisor, Climate Diplomacy Team, E3G
5. Conclusions

“Sustainability needs to be pushed into becoming the economically rational choice. The EU’s Green Deal could do that, and China’s stated long-term interests align with it too. Now is the time to align climate roadmaps and standards, and compete for green solutions.”

Nis Grünberg
Senior Analyst, Mercator Institute for China Studies (MERICS)

This briefing has summarised several major policy drivers centred on the EU’s Green Deal and China’s upcoming 14th FYP. It finds that there are potential synergies between them in their climate and energy commitments, but also gaps between their approaches. More broadly, geopolitical rivalries and differences over economic competition, market access and human rights all carry the risk of derailing engagement. Whether climate diplomacy should be kept separate or used as leverage in wider strategic relations is an ongoing debate. Some have suggested that the EU needs to take a “principles-first approach” and pursue more conditional cooperation in order to engage China and shape its behaviour, while competing in delivering decarbonisation to create pressure for upward convergence towards stronger measures. Whether China is receptive to such positioning is another question; another viewpoint is that it does not necessarily consider the EU as a global energy player or major partner, and is likely to only be a selective norm-taker. It also needs to be acknowledged that in some issues China is now taking a lead, and both sides have lessons to learn over how to accelerate decarbonisation. In any case, as two of the world’s largest economies and greenhouse gas emitters, EU–China engagement will continue to be important to implementing the Paris Agreement. Despite their differences, there is potential for nimble climate diplomacy to maintain constructive engagement that supports alignment and cooperation on key issues. Achieving global, long-term decarbonisation will depend on it.
Endnotes


2. *Ibid*


6. He, J. (2020) *Full slide from Professor He Jiankun’s presentation*, 12 October 2020. https://mp.weixin.qq.com/s?__biz=MzU5MzY5ODlWwNQ==&mid=2247489602&idx=1&sn=c6c6ee7b640539cb6f80581717a7990&chksm=fe0dd4b0c97a5da6b00836019650a2adeee075e1b53290703b5c8fdecbfed7081324a47d9a21#rd


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27. A joint letter to the European Commission signed by leading environmental and public health organisations calling for the withdrawal of the Common Agricultural Policy proposals can be accessed on the European Public Health Alliance’s website at https://epha.org/joint-letter-i-call-to-withdraw-the-cap-proposal/


65. Ibid.


