"EXCHANGING IDEAS ON EU-CHINA RELATIONS: AN INTERDISCIPLINARY APPROACH"
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ABOUT THE EU-CHINA OBSERVER

The electronic journal EU-China Observer is jointly published by the Baillet Latour Chair of European Union-China Relations and the EU-China Research Centre based in the Department of EU International Relations and Diplomacy Studies at the College of Europe in Bruges. The journal provides a platform for scholars and practitioners to further deepen the academic analysis and understanding of the development of EU-China relations from an interdisciplinary perspective.

The EU-China Observer publishes scholarly articles based on theoretical reasoning and advanced empirical research, practical policy-oriented contributions from all fields of EU-China relations, and conference reports on the annual conferences organised by the InBev-Baillet Latour Chair and the EU-China Research Centre. The journal targets academic audiences as well as policy practitioners, members of the business community, NGO representatives, journalists and other interested persons.

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Prof. Jing MEN
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The EU-China Research Centre follows closely the development of the European Union-China relationship and its three institutional pillars: political dialogue, economic and sectoral dialogue, and people-to-people dialogue.
After the failure of the climate negotiations in Copenhagen in 2009, much work has been done to create momentum at this year’s climate summit in Paris. At the 21st Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change almost 200 delegations will come together to finally reach a comprehensive agreement at global level to keep the global temperature rise below 2 degrees. A major reason for a new impetus in Paris is China’s shift in its climate protection philosophy. From acting as an obstacle to global progress in climate efforts, China is seizing the chance to establish itself as an important and constructive partner in foreign affairs and to increase its prestige globally and domestically.

At the end of COP 21, a high-level political protocol shall be established binding all countries for the first time and being accompanied by a more detailed decision on the precise implementation and reporting procedures. Mitigation of greenhouse gas emissions, measures to adapt to climate change and financial commitments to developing countries are crucial matters in the negotiations, which were inaugurated by the heads of governments and states on 30 November 2015.

Many things have changed since Copenhagen: renewable technologies have emerged as a profitable and practicable source, especially in electricity production, and investments have started to shift away from assets linked to fossil fuels as people predict a declining profitability in the long run. Most importantly, however, the political commitments and rhetoric of major players have changed on the road to Paris. While China had put a brake on the negotiations in Copenhagen, it has progressed in its national climate policies as well as in its international efforts ever since.

Taking responsibility
Ahead of COP 21, more than 160 nations have submitted a pledge on containing emissions and contributing to the overall goal of limiting temperature rise. This bottom-up process has opened a whole new dynamic within the “common but differentiated responsibilities” principle of global climate policies. Instead of imposing firm obligations, this method can ensure the involvement of especially reluctant countries. Even if the proposed contributions are conservative compared to many countries’ potential, this can serve as a successful procedure to bind all countries within a common framework. A new flexible and dynamic regime might have several advantages.

Within only a few years, technological opportunities have emerged and political majorities changed, making a more ambitious commitment possible for a country without having to go back to the negotiation table. While the US still feels uncomfortable with too many binding requirements in a future Paris agreement, it does commit to a comprehensive protocol this time to limit global warming. Even more unexpected is the Chinese transition in its climate
change philosophy. During the preparation of the climate conference in Copenhagen China’s ambiguous behaviour was the dominating theme: while it gave a “yes” to legally binding industrialised country reduction commitments and a “no” to legally binding developing country commitments, it gave a “yes” to the monitoring, reporting, and verification of developed countries measures and a “no” to the monitoring of measures by international experts in China.

“THE CHINESE PLEDGE FOR COP 21 IS AN EXAMPLE OF A RATHER LOW-KEY AMBITION OF CLIMATE ACTION THAT IS NOT AT THE EXPENSE OF THE COUNTRY’S FUTURE GROWTH”

Another plus might be the possibility for very diverse contributions. Countries have chosen different reference years, submitting absolute and relative reduction targets and partly tying their own efforts to conditions. It looks messy at first glance, but a uniform template for reduction commitments would not have received the support of all nations. This option provides flexibility to countries and encourages them to participate in the regime according to their particular capabilities or according to their willingness. Climate policy still faces one dilemma: Countries, understandably, do not want to give up on growth and development. But with emerging economies like Brazil, South Africa, India and China at the spearhead, emissions from industrial and energy production, transport and agriculture will rise further instead of being limited.

The Chinese pledge for COP 21 is an example of a rather low-key ambition of climate action that is not at the expense of the country’s future growth. The government does not promise absolute emission reductions but aims at lowering the carbon intensity: by 2030, CO2 emissions per unit of GDP shall be reduced by 60 to 65 percent compared to 2005 levels while increasing the country’s forest carbon stock volume at the same time. More importantly, the decision of Chinese authorities to peak the emissions not later than 2030 as well as the readiness to participate in a five year review process of the voluntary national emission reduction targets are a clear message to the partners in the world.

In the last few years China has taken over a leading role within this group of emerging economies. The country is closer to the Western world than most of the states in the group of developing countries, the G77, which China is still trying to be part of. In the past, China tended to hide behind its status as a developing country when it came to taking over global responsibility on environmental protection, development aid or contributions to international organisations. But this attitude seems to have changed. The People’s Republic has understood that to be respected as a strong economy and important political power, it also needs to do its bit. While India for example is still hesitant to commit to ambitious climate protection efforts with reference to its level of development and high level of poverty, China does have other means at its disposal to take more responsibility.

New allies

In Copenhagen, a missing dedication especially by the US and China was one of a whole range of reasons leading to the disappointment with the climate talks. This time, the two biggest economies have allied for a different cause and outlined their commitment in several common statements. This development is most welcomed by the EU, which has undertaken major diplomatic efforts in bi- and multilateral summits and high level meetings in the past few months to further encourage China in its efforts.

“CHINA WILL HAVE AN IMPORTANT ROLE TO PLAY FOR A PRODUCTIVE OUTCOME”

The French presidency of COP 21 is eager to present a successful outcome in Paris and has identified China as a decisive player in its summit preparations. Just weeks before the negotiations started, the French president Francois Hollande and the Foreign Affairs Minister went on a mission to China, signing yet another common declaration with Chinese Premier Xi Jinping announcing the importance of a clean energy transition and low carbon strategies. German chancellor Angela Merkel has also visited Beijing where encouraging words and cooperative gestures were exchanged with the Chinese partner in late October 2015.
The European Union can also help by building trust through enhancing technology partnerships in different areas such as clean transport and energy. This sort of bilateral cooperation could enable China to go even further in its climate policies and help create a good environment for negotiations. Mutual trust will be essential for reaching a global agreement on climate change in the future. In addition to an EU-Chinese partnership the commitment of the United States is an essential precondition for the Chinese government to agree on concrete measures for climate action in Paris.

Reducing carbon

Chinese authorities have made clear that coal technologies will remain important for domestic energy supply in the future. However, in its COP 21 pledge China committed to transforming its energy sources towards a more fossil-free portfolio. The motives for this are quite straightforward: on the one hand, there are the extraordinary costs arising from environmental damage in the most affected regions of China. On the other hand, and probably more important, this highly import-dependent country is facing a growing danger of energy supply disruptions in the future. From a pragmatic point of view, the remedy to both of these challenges is an increase of the share of renewable energies and a more efficient use of energy in general. Another rationale behind the Chinese ambition to reduce its use of fossil fuels is the economic potential of low-carbon technologies. China wants to deploy 800 to 1,000 gigawatts in non-fossil capacity by 2030, which roughly equals Europe’s entire electricity capacity today.

The decision of the Chinese government to introduce an emission trading system by the year 2017 is furthermore a major step in Chinese climate policy that is much appreciated by the EU. Increasing the price for emitting carbon could help to give environmentally friendly investments a clear direction. The European Union is happy to cooperate with China in the emission trading policy as well as in the creation of green cities including low-carbon buildings and environmentally friendly transportation systems. Having a Chinese emission trading in place and a functioning European system will pave the way for a different global competitive environment. Many of these policy announcements have not yet been implemented, but together they constitute a promising shift in Chinese climate change policies.

Making Paris a success

Besides China’s commitments ahead of COP 21, the negotiation strategy of the People’s Republic in Paris might tip the scales towards triumph or failure. China will have an important role to play for a productive outcome, but the country would also gain much from a successful result. In Paris, China has the chance to present itself as a constructive partner, and to be seen as an important foreign affairs ally as well as increasing its prestige globally and domestically.

BIO

Jo LEINEN

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Introduction
From 30 November to 11 December 2015, parties to the United Nations Framework Convention on Climate Change (UNFCCC) will meet in Paris for the 21st session of the conference of the parties (COP 21). The summit is to conclude a four-year negotiation process that started with the adoption of the 2011 “Durban Platform for Enhanced Action”. It represents the second recent attempt to agree on a fundamental reform of the climate regime. The first effort had ended in late 2009 with the “Copenhagen Accord”, a least common denominator document in which parties had loosely promised to undertake actions to reduce greenhouse gas (GHG) emissions. The Accord had been the result of a last-minute deal struck essentially by the United States and the BASIC (Brazil, South Africa, India, China) group at Copenhagen’s COP 15. Besides its meagre outcome, COP 15 had also dealt a severe blow to the reputation of two major global players: China and the European Union (EU). China was criticised by the global media for being the main foot-dragger, while the EU – for a long time considered as a global “climate leader” – was perceived to have been largely sidelined during the final hours of the COP, and as unable to reach its objectives.

The negotiations being conducted in the run-up to Paris provide not only an opportunity to finally agree to a substantial regime reform, but also a new occasion for China and the EU to fully (re-)establish their reputation in global climate politics and to durably contribute to a global regime whose viability will depend to a large extent on the commitment of the largest emitters. Central to the deal, as became apparent at Copenhagen, will be the contributions and positions of the two top emitters, China and the United States, as well as those of other emerging countries with rising emission profiles. The EU, whose emissions are in absolute and relative decline, arguably comes next in line, followed by developed countries such as Australia, Canada and Japan. At COP 15, both China and the EU seemed unprepared for their emerging new roles: China for responding to calls for leadership, and the EU for reacting to the fact that it was not asked to take on leadership. Both thus needed to develop strategies to better perform their new roles in the run-up to and at major global climate summits. Against this backdrop, this contribution asks what the EU and China can contribute to the Paris summit individually and, especially, collectively. It first discusses how China and the EU have developed their domestic climate policies and climate diplomacies since 2010, before considering
their bilateral relationship in the multilateral context. It concludes by exploring what their cooperation might signify for COP 21 and the subsequent period.

The EU and China in the run-up to the Paris summit

Domestic actions

Both the European Union and China have developed their internal climate regimes in significant ways since the Copenhagen summit.

For the EU, 2009 was, besides the Copenhagen summit, also marked by a deepening of the economic crisis and the entry into force of both the Lisbon Treaty and a major legislative "Climate and Energy Package". All of these factors initially curbed the Union’s appetite for developing further its internal climate regime. Initiatives by the European Commission to enhance the EU’s 2020 emission reduction target from 20 percent to 30 percent (from 1990 levels) were met with resistance by many member states. Instead, discussions focused first on the long term. They were based on a 2011 Commission Roadmap suggesting that the Union should reduce emissions by 80 percent below 1990 levels by 2050. While these debates remained inconclusive, the new impetus in global climate talks resulting from Durban also sparked further EU internal regime development for the time horizon 2030. Following a Commission proposal, the October 2014 European Council adopted a new target of 40 percent reductions by 2030 compared to 1990 levels, alongside targets for renewable energy and energy savings. Unlike in the case of the Copenhagen summit, however, this proposal was not unconditional, as the heads of state and government “will revert to this issue after the Paris Conference.” This review clause is indicative of internal cleavages between more ambitious Western EU members and especially the Visegrad group (Czech Republic, Hungary, Poland and Slovakia), requiring regular searches for compromise that have not yet been successful regarding the effort-sharing (non-ETS part) of the new 40 percent target. If one also considers that its flagship climate policy instrument, the European Emissions Trading System (ETS), has been under pressure for several years, the EU’s credibility in global climate politics essentially relies on its good record of meeting earlier commitments.

In China, the situation is somewhat different: with environmental degradation ever more strongly felt, the country’s leadership has recognised the need to become more active in environmental affairs, including climate change. The 12th Five-Year Plan (2011-2015) contains among others the target to curb its energy intensity by 16 percent and reduce its carbon intensity by 17 percent between 2011 and 2015. In 2014, when Premier Li Keqiang announced a ‘War on Pollution’, China’s coal consumption decreased by 2.9 percent, the first drop in 14 years. Moreover, China has announced that its GHG emissions will peak by 2030 and is undertaking serious efforts to promote clean energy technologies while reducing its coal dependency, targeting a 20 percent share of non-fossil fuels in total primary energy consumption by 2030. It has also engaged in pilot projects on emissions trading, and is aiming to deploy a nation-wide system as early as 2017. While many (implementation and other) challenges prevail, not least regarding coal, it is evident that China is actively seeking to develop an internal climate regime that is also intended to contribute to global-standard setting in the future.

Reinforced climate diplomacies

Domestic and external climate policies are closely intertwined in both Europe and China: domestic measures provide the basis for the positions the two parties can defend at the global level, and guide the development of their climate diplomacies.

The European Union’s positions regarding global climate politics have been characterised by a certain degree of continuity: since the mid-1990s, it has supported a solid,

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7 See also McMullen-Laird, Lydia, Xiaofan Zhao, Mengjie Gong & Samuel J. McMullen, “Air Pollution Governance as a Driver of Recent Climate Policy in China”, Carbon & Climate Law Review (forthcoming).
8 NDRC, 強化应对气候变化行动 · 中国国家自主贡献 Enhanced Actions on Climate Change: China’s Intended Nationally Determined Contributions, 30 June 2015.
legally binding global regime enshrining ambitious targets for key emitters that would keep the global temperature rise to below 2°C. In the ADP negotiations, these positions were revived. The 2015 Commission communication “The Paris Protocol” sums them up: the EU maintains the 2°C objective, officially proposes its 40 percent target for 2030, calls for a legally binding “Protocol under the UNFCCC”, for other parties to make ambitious pledges of “the highest possible level of ambition” early on and underscores that EU member states have pledged about half of the initial USD 10 billion to the Green Climate Fund.

In terms of climate diplomacy, the EU has in the past regularly attempted to “lead by example” by setting ambitious domestic targets and trying to actively demonstrate to others that it is possible to meet them. As the reference to the 2°C target was the only element of its position that had made it into the Copenhagen Accord, leadership by example was questioned after 2009. The above positions seem to suggest that, by and large, it has nonetheless been maintained, even if the EU has arguably become more pragmatic. It sermonises less about its “model”, and has tried to diversify its outreach, including through hands-on cooperation and the building of bilateral ties and alliances with like-minded countries, such as at the 2011 Cancun summit. Moreover, it has engaged in more extensive strategic thinking, evidenced by joint position papers of the Commission (its Directorate-General for Climate Action founded in 2010) and the External Action Service issued in 2011, 2013 and 2015.

Contrary to the EU’s traditional leadership ambition, China has long had to be called upon to actively take up its responsibility as an increasingly important GHG emitter. As its stance has habitually been oriented toward promoting equity and protecting its sovereignty, it has been reluctant to enter into a regime on “Western” terms. Where it had not been subjected to emissions reduction targets under the
UNFCCC and the 1997 Kyoto Protocol, its steeply rising emissions of the past 15 years have made such an exemption increasingly less tenable. And yet, China’s position has been to continue insisting on the importance of the principle of common but differentiated responsibilities (CBDR) in the climate regime, which essentially draws a dividing line between those that have contributed primarily to the problem and have the most means to deal with it (i.e. the developed world) and those that have less responsibility and possess more limited means (i.e. the developing world). Based on this principle, China has regularly called for climate finance from the developed world to be delivered to developing countries. In return for such finance, China had pledged emission cuts of 40-45 percent per unit of GDP by 2020 (compared to 2005 levels) under the Copenhagen Accord. In the framework of a November 2014 high-level agreement with US President Obama, China’s President Xi Jinping enhanced his country’s ambition, pledging “to achieve the peaking of CO2 emissions around 2030 and (…) to increase the share of non-fossil fuels in primary energy consumption to around 20 percent by 2030”. These targets were officially included in its Intended Nationally Determined Contribution (INDC) to the UNFCCC secretariat on 30 June 2015.

When it comes to China’s climate diplomacy, various strategic choices made in the aftermath of COP 15 can be observed. Among them figure strengthened ties with the BASIC group, especially India, the reinforcing of its leading role in a coalition of “Like-Minded Developing Countries” (LMDC) as well as — still — in the G-77/China group of developing countries, and the continued attempt to develop a web of bilateral, operational relations with other key players, including the US and the EU. While EU-China relations will be discussed next, it is important to note that the US-China climate cooperation has been considerably boosted during Obama’s second term. Their 2014 agreement ties into a series of high-level climate deals around issues like carbon capture and storage or low-carbon emissions and carbon markets, expanding the cooperation on, among others, low-carbon cities, aviation and maritime emissions and carbon markets, expanding the cooperation on emissions trading.

EU-China bilateral climate relations in the multilateral context
The bilateral climate relations between the European Union and China have evolved considerably over time, especially since the conclusion of the EU-China Partnership on Climate Change in 2005. They are primarily marked by technological or capacity-building cooperation. Following the creation of a Europe-China Clean Energy Centre in 2010, a series of comprehensive technical cooperation projects was launched at a China-EU Summit in September 2012, including on sustainable urbanisation and capacity-building on China’s emerging carbon market. The latter built on previous successful experiences with the Clean Development Mechanism (CDM). In 2013-2014, China successfully launched seven local and regional ETS pilots (in four municipalities: Beijing, Chongqing, Shanghai and Tianjin, and two provinces: Guangdong and Hubei, and the special economic zone of Shenzhen), and adopted the Interim Management Rules on Emissions Trading, outlining the blueprint for a nation-wide ETS expected to operate as of 2017. While the EU already distinctively contributed its expertise to these evolutions, another package of cooperation projects was adopted at the EU-China Summit in June 2015. The two agreed to intensify their climate cooperation on, among others, low-carbon cities, aviation and maritime emissions and carbon markets, expanding the cooperation on emissions trading.

For the EU, hands-on bilateral cooperation is also a means of engaging China into a broader policy dialogue to facilitate multilateral negotiations. Prior to the Copenhagen summit, however, it had been unable to convert strengthened cooperation into Chinese commitments in the UN

**“WHEN IT COMES TO CHINA’S CLIMATE DIPLOMACY, VARIOUS STRATEGIC CHOICES MADE IN THE AFTERMATH OF COP 15 CAN BE OBSERVED”**

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The Baillet Latour Chair of European Union-China Relations and the EU-China Research Centre are calling for contributions to the first issue of the EU-China Observer of 2016. The issue will focus on the topic of China’s Market Economy Status (MES) in EU-China relations.

The accession of China to the World Trade Organization (WTO) in 2001 is considered a major landmark for China’s integration into the global economy. In the context of WTO law, MES means that domestic prices are based on supply and demand – which was not yet the case for China upon accession to the WTO. Therefore, the accession protocol states that price comparability in determining subsidies and dumping does not need to be established by comparing prices to the domestic market, but can be established by employing a different methodology (e.g. by comparing to prices in other markets). However, the protocol also states that “[i]n any event, the provisions of subparagraph (a)(ii) shall expire 15 years after the date of accession.” (see: Accession Of The People’s Republic Of China - Decision of 10 November 2001)

The 15-year period will be due by December 2016, and in the meantime, debate began to heat up whether this protocol applies directly to WTO member states and whether this would mean that the EU will have to automatically grant MES to China. Commissioner Cecilia Malmström argued in an interview with The Wall Street Journal that “there’s no automaticity in that”.

With discussions about the MES becoming more prominent this year, we would like to invite researchers and practitioners to examine the issue of China’s MES from a legal and economic perspective. What may be the potential impact for the EU as well as on EU-China relations of either granting or not granting MES to China? What could be the implications for global economic governance and the role of the WTO if China does not obtain MES status? As we have witnessed the emergence of new trade blocs and bilateral trade agreements, will the WTO lose importance?

SUBMISSION DEADLINE: 15 JANUARY 2016
regime. China had been eager to learn from the EU, but in the end it disconnected bilateral from multilateral relations, remaining unwilling to engage in cooperative efforts at the global scale. China’s attitude may have changed in the meantime. In the margin of the 2015 EU-China Summit, Chinese Premier Li Keqiang called on the EU and China to "step up their cooperation ... to establish a fair, reasonable, win-win global climate governance system." In their Joint Statement, the two sides moreover "commit to work together to reach an ambitious and legally binding agreement at the Paris Climate Conference in 2015 (...), on the basis of equity and reflecting the principle of common but differentiated responsibilities and respective capabilities, in light of different national circumstances". As the first part of this statement and the generally intensified cooperation since 2010 indicate, the bilateral relationship between the EU and China should provide a more solid foundation for fruitful cooperation at the Paris summit. The two sides seem to have developed a better understanding of each other’s interests, opportunity structures and constraints than before. The second part of the statement reflecting China’s insistence on differentiation however also shows that the potential for discontent remains.

What EU-China relations can mean for Paris and its aftermath
The closer ties and seemingly higher levels of trust between the EU and China represent a major opportunity in view of the ongoing multilateral negotiation process. In the past, the two parties were regularly operating according to opposing logics: the EU with a more policy-oriented, legal, normative stance, China with a realist, sovereignty-oriented and geopolitical orientation. Today, signs of convergence can be detected: while the EU has arguably become more pragmatic, China has partially softened its approach by acknowledging the need for a binding global agreement. Moreover, both parties appear to agree on the necessity to undertake serious action and on the responsibility of top emitters for making major efforts (albeit following different trajectories).

At the Paris summit, China and the EU, together with the United States and other emerging countries (notably India), can be expected to be of central importance to the final outcome. Their contribution may be positive, if they can both bring their respective strengths to bear while using their bilateral ties to create leverage in the negotiations. China’s assets derive from its importance as an economic power, as a major emitter with a recent but dynamic internal climate regime and recognised leader inside the BASIC, LMDC and G-77/China groups. The EU is respected for its internal climate policies and long-standing global efforts. It also possesses traditionally strong relations with developing countries and the potential for favourable relations with civil society. These assets are non-negligible and are quite distinct from those of other players like the US, whose actions are often met with scepticism by the developing world and civil society. If the two players can find common ground, they can capitalise on their assets and indeed play joint lead roles in the negotiations by mediating between various key groups in the process.

This ‘if’ is a significant one, however. To be able to cooperate, the rapprochement between the two sides still needs to prove its worth in the heat of a decisive negotiation process. The risk that continued differences and old reflexes might resurface is real. For China, a lot will hinge on how far it is prepared to trust other parties in this negotiation process, pointing to its own achievements of delivering on its commitments in the past, and pushing other developed countries to make meaningful commit-
ments regarding mitigation and finance. This implies that the EU needs to be a more strategic actor than in the past: given the magnitude of the Union’s INDC, it is on some accounts still more ambitious than China and the US. At the same time, the leadership space it had sought to fill is now being tentatively occupied by these two countries. The US, and not the EU, will most probably be China’s first interlocutor during the negotiations (and vice-versa). The EU will need to adapt to this, and ensure that this does not mean that it will be automatically sidelined. To do so, it will need to follow a strategy of multiple bilateralisms: an open dialogue with China must coincide with strong cooperation with the US and other major parties. An advantage in this regard could be the fact that France, an EU member state, holds the Presidency of the COP. The EU will also have to better handle foreseeable frustrations. The final outcome will in all certainty more closely resemble what China and the US can agree to – that is, a bottom-up agreement based on national commitments – than the EU’s ideal result. The capacity to shape the terms of the agreement, especially regarding its compliance monitoring and regular reviews, might therefore be fundamental for the EU.

In light of this outcome, Paris 2015 will most likely also be the start of a new process focused on the operationalisation and implementation of the ‘agreed outcome’. Those parties that will have contributed to this outcome, including most probably China and the EU, will also need to ensure that its provisions are being put into practice. This can be a process requiring a certain degree of resilience: after the adoption of the Kyoto Protocol in 1997, it took parties in the climate regime several years to accomplish the operationalisation of rules agreed at COP 3, paving the way for a ratification of the Protocol despite the US withdrawal from this process. At that time, the EU’s determination and wide-reaching diplomatic efforts were instrumental to the continuity of the global climate regime. Concerted diplomatic efforts and the dynamics discussed in this article regarding a constantly reinforced practical EU-China cooperation involving mutual learning processes can therefore be expected to be of prime importance when it comes to the aftermath of the Paris summit – especially during times of presidential elections in the US that might jeopardise this country’s willingness and/or ability to lead.

In sum, at and after the Paris summit, China and the EU will have an unprecedented opportunity to capitalise on the investments made in their bilateral climate relationship and demonstrate their June 2015 commitment to collaborate effectively on this matter, thus contributing to making a more ambitious and sustainable global climate regime a reality.

©

BIO

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Introduction
Long-term shifts in geopolitical alliances and international crisis hotspots, as well as an increasing consensus on climate change science, have altered the political landscape between the 2009 Summit in Copenhagen and the 2015 COP 21 in Paris. China is today producing 24 percent of global emissions, which effectively makes it the most important country in the fight against climate change. The EU, as one of the most proactive blocs on climate policy and for years a strong advocate of the multilateral climate process, has developed a strong bilateral relationship with China. What is the status of EU-China relations? What will determine their agreement at Paris? This paper examines what the impact of Chinese domestic politics, a changing EU role in the multilateral arena, as well as EU-China bilateral cooperation means for an agreement in Paris that is acceptable to both sides.

China and the EU have been engaging in international bilateral climate relations since 2005, in a partnership on climate change, and have cooperated on issues of multilateral relevance such as the UN Clean Development Mechanism and more recently on the development of a Chinese emissions trading system. At the multilateral level in the process of the United Nations Framework Convention on Climate Change (UNFCCC) they are in different negotiation groups. While the EU coordinates the positions of its member states, China is representative of the formal "Group of the G77 and China", as well as the informal BASIC (Brazil, South Africa, India, China) grouping.

The status of EU-China climate change relations and its impact on the agreement in Paris has to be seen in the context of changing attitudes to climate policy and climate leadership. A sea-change in attitudes and policies towards climate change took place around 2006 when China overtook the United States in absolute emissions. As argued elsewhere, since then we have witnessed a convergence of framing of overall climate change policy, where China has been moving away from the rhetoric of justice between industrialised and developing countries, towards claiming “responsibility” for reducing emissions and declaring a “war on pollution”.2

1 The research for this article was supported by the Dahrendorf Forum, a joint initiative by the Hertie School of Governance, LSE and Stiftung Mercator. A more extensive analysis of the EU’s negotiating position was published as a Strategic Update by LSE IDEAS (see Olivia Gippner. 2015. Paving the road to Paris? What the EU can do to facilitate a political climate change deal. http://www.lse.ac.uk/IDEAS/publications/reports/pdf/Paving-the-Road-to-Paris.pdf). 2 This finding corresponds with previous trends, as demonstrated in my framing analysis of 2014. Gippner, Olivia. 2014. “Framing It Right: China–EU Relations and Patterns of Interaction on Climate Change.” Chinese Journal of Urban and Environmental Studies 2 (1): 1-22. 3 INDCs are the primary means for governments to communicate internationally the steps they will take to address climate change in their own countries. The majority of countries have committed their INDCs in 2015 and they serve as the basis for negotiation at the Paris summit. WRI. 2015. “What is an INDC?"
Pledges and core negotiation issues of the EU and China
These broader trends and converging understandings of climate change are mirrored in the two actors’ priorities going into the climate negotiations in 2015. Positions on the main issues at the COP 21 negotiations, in particular adaptation and climate finance for the EU and China actually align (see Table 1). Observers agree that the Chinese Intended Nationally Determined Contribution (INDC, its planned commitment going to the Paris Summit) stipulating the headline goal of an emissions peak by 2030, is conservative and below what is easily feasible, since studies have shown that emissions will peak much earlier around 2025.4

By defining its emissions peak, the Chinese government has demonstrated its willingness to reduce overall emissions and to transition its economic model towards lower-carbon growth and decreasing energy intensity. To meet that goal, China has introduced stricter emissions limits on its transport and energy sectors, developed its energy efficiency legislation and invested heavily in renewable and non-fossil energy sources. Although Beijing has not specified an absolute level of emissions, it announced its intention to implement the agreement by drawing on a national emissions trading scheme to be launched in 2017.6

While this demonstrates high-level Chinese support for climate action, carbon prices will likely have to rise, and nuclear and renewable energy efforts will need to be ramped up to exceed the number of coal-fired power plants for China to meet their targets. During 2009-13, Chinese per capita emissions doubled. If during the period 2015-30 there will be a commensurate increase in coal plants, the target of limiting global warming to 2°C above pre-industrial levels – agreed at the 2009 Copenhagen Summit – will be unachievable.7 That is why the EU and other countries emphasise the importance of a regular review mechanism every five years, in which countries can increase their objectives and their contributions to reach the 2°C temperature target.

Table 1: Climate pledges by China and the EU, based on both countries’ INDCs and announcements prior to COP 21

<table>
<thead>
<tr>
<th></th>
<th>China</th>
<th>EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mitigation</td>
<td>Emissions peak, national carbon market by 2017, fair and balanced, no external Measuring, Reporting and Verification (MRV)</td>
<td>Overall reduction, international MRV, transparency</td>
</tr>
<tr>
<td>Adaptation</td>
<td>Important, but not crucial. Continue efforts on agriculture, forestry and water</td>
<td>Support for adaptation planning within the member states and developing countries, no reference in the INDC</td>
</tr>
<tr>
<td>Finance</td>
<td>Common but differentiated responsibilities (CBDR), support for developed countries to reach USD 100 billion by 2020 each year, support for Green Climate Fund</td>
<td>Support to reach USD 100 billion by 2020 each year, support for GCF, planned Council conclusions on climate finance</td>
</tr>
<tr>
<td>Technology</td>
<td>Technology transfers</td>
<td>Technology development</td>
</tr>
<tr>
<td>Status of the country pledges</td>
<td>Not legally binding5</td>
<td>Legally binding</td>
</tr>
</tbody>
</table>

Despite support at the highest echelons of Chinese decision-making for the fight against climate change and water scarcity, China and the EU disagree on the legal status of an agreement. China wants to avoid it being legally binding, while the EU has included the demand in all its climate communications. This split will present a significant drawback for an alliance during the negotiations.

Furthermore, Chinese negotiators have a strong rhetorical preference for a “balanced” division of responsibility between developed and developing countries, while the EU emphasises an agreement “applicable to all”\(^9\). These different emphases do not exclude each other, yet they could conceivably slow down the process.

Although the division between the industrialised countries covered under Annex I of the Kyoto Protocol (who committed to emissions reductions in the first period) and the majority of developing countries has been removed from the present phase of the negotiations, China firmly demands that developed countries “honour their previous commitments”. This means, for example, filling up the currently incomplete Green Climate Fund (GCF) in order to support developing countries effectively in order to mitigate emissions and adapt to climate change. The GCF was founded at the Cancun summit in 2010 and countries pledged to fill it with 100 billion USD by 2020. So far, only 10.2 billion USD has been mobilised. The term “fairness” is also ubiquitous in European policy documents communications – a conscious choice by the European negotiators to garner support from China and other developing countries.

**Domestic changes in China: ideas, constituencies and bureaucracy**

There have been significant changes in the Chinese leadership’s attitude since the Copenhagen Summit. President Xi Jinping has made climate change a core priority of his government. Premier Li Keqiang underlined the importance of the “war” on pollution at the National People’s Congress in March 2014, but implementation may slow amid reduced forecasts for economic growth and current stock market woes.

The leadership is driven by increasing air pollution and internal constraints of energy dependence, since China is

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**Figure 1: Development of China’s carbon emissions based on INDC pledges**

![Development of China’s carbon emissions based on INDC pledges](image)
a net importer of coal, oil and natural gas. A rising middle class (from 4 percent of urban households in 2000 to 68 percent in 2012) that is able to make its concerns heard publicly, for instance through social media, is forcing the government to be more transparent and responsive to public requests.

Structural reforms towards a low carbon economy are now well underway and make the Chinese model a possible template for other developing countries. In addition, the government’s rhetoric now is to “be responsible” to the world and conducive to an agreement.

Besides the leadership level, the National Development and Reform Commission (NDRC) and its climate change department (though similarly understaffed as the European Commission’s DG Climate Action) have been able to develop a vast international network and push for domestic climate change innovations, from emissions trading to carbon intensity targets. One particular member of the NDRC, its former Vice-Chairman and once Environment Minister Xie Zhenhua, has acted as a key player and change agent.

“COOPERATION ON EMISSIONS TRADING IS A KEY EXAMPLE OF EFFECTIVE EU-CHINA CLIMATE COOPERATION”

For instance, he was an early supporter of market mechanisms for reducing emissions, such as emissions trading, and has been lead negotiator for the Chinese delegation since 2009. It is a positive sign that he has returned from his retirement to once again lead the Chinese negotiating team at the COP 21 summit.

EU-China bilateral cooperation

In terms of funding the EU has been highly supportive of Chinese climate projects. After the establishment of the EU-China climate partnership in 2005, the European Investment Bank (EIB) provided a €500 million loan to support the NDRC’s Chinese climate programme.

Big bilateral programmes involved the Clean Development Mechanism, emissions trading and carbon capture, storage and utilization (CCUS). The EU is planning more support for CCUS domestically in Europe and with a focus on China as well. Moreover, the EIB plans to cooperate closely with the newly founded Asian Infrastructure Investment Bank (AIIB) on climate topics.13

Cooperation on emissions trading is a key example of effective EU-China climate cooperation. The EU approach has served as a template regarding policy design and practical implementation, as well as providing lessons learned from a failed carbon credits market.

To achieve this, the EU has been proactive regarding high-level visits, organising delegations of scientists and policy-makers and developing guanxi (good long-term personal relationships, characteristic of Chinese networking) with Chinese officials within various departments of the NDRC. The European Commission’s DG Climate Action even has a specific office dedicated to emissions trading in China. The importance of the issue for the bilateral relationship is also reflected by the fact that the Chinese embassy to the EU in Brussels is one of the few Chinese embassies with a climate change desk.

In 2015, the year of the Paris summit, negotiations have been taking place long before and during the actual summit in Paris (30 November to 13 December) and will continue afterwards. European member states and China increased their bilateral meetings, during all of which climate change was high on the agenda. The June EU-China Summit agreed on a joint statement on climate change, after the initiative of the EU-China partnership ten years earlier.14 German Chancellor Merkel visited China at the end of October. Similarly French President Hollande went to Beijing on 1 November 2015 “to get China’s approval of a mechanism that would require countries to step up their emissions cuts over time.”15 The EU proposes this time frame to be five years. Instructive for the EU’s narrative

The EU-China Research Centre, based in the Department of EU International Relations and Diplomacy Studies at the College of Europe in Bruges, Belgium, offers a Visiting Fellowship to scholars working in the field of EU-China relations wishing to spend a research stay at the College in 2016. The application deadline is 8 January 2016.

VISITING FELLOWSHIP AT THE EU-CHINA RESEARCH CENTRE

ELIGIBILITY

• scholars with a PhD qualification and a strong interest in EU-China relations, preferably with an academic affiliation with a European or a Chinese university
• outstanding research qualifications and proven record of academic publications
• willingness to actively contribute to the research of the EU-China Research Centre

CONDITIONS OF THE FELLOWSHIP

• Residency period of one to three months at the EU-China Research Centre at the College of Europe in Bruges (except for July and August).
• The Fellowships are non-stipendiary, but the Centre will cover the Fellow's travel expenses, provide accommodation and free meals in the College restaurant. The Fellowships are thus mainly intended for faculty on leave or sabbatical and for postdoc researchers that have a salary from their home institution. The Visiting Fellow may use the College library, office space as well as free internet access, printing and photocopying.
• The Visiting Fellow is expected
  • to actively contribute to the research and other academic activities of the EU-China Research Centre (such as conferences or a guest lecture),
  • to submit one short article to the Centre’s electronic journal, the EU-China Observer (www.coleurope.eu/EUCO) and
  • to produce an activity report at the end of the Fellowship.
• For the duration of the Fellowship, the Visiting Fellow should use the affiliation with the EU-China Research Centre, Department of EU International Relations and Diplomacy Studies, when participating in relevant research activities or conferences and for publications
• The profile of the Visiting Fellow will be published on the website of the Centre (www.coleurope.eu/EUChinaCentre)

APPLICATION PROCEDURE

• Application deadline: 8 January 2016
• Candidates should submit the following documents:
  • A cover letter explaining their interest in EU-China relations and the preferred time of residence
  • A detailed CV with a list of publications
  • A research proposal of 2-3 pages outlining the research to be undertaken during the Fellowship and how it would fit with the research of the EU-China Research Centre
  • Names and contact details of two referees familiar with the applicant’s work.
• Applications should be sent in a single e-mail with attachments, with the subject line “Baillet Latour Fund Visiting Fellowship – SURNAME” addressed to Professor Jing Men

Professor Jing Men
EU-China Research Centre
Department of EU International Relations and Diplomacy Studies
College of Europe
Dijver 11, BE-8000 Bruges
via e-mail to ann.van_vooren@coleurope.eu

• Should you have any questions on the activities of the EU-China Research Centre, please contact Prof. Dr. Jing Men, jing.men@coleurope.eu
• The candidate who will be offered a Visiting Fellowship will be appointed by the Academic Council of the College of Europe.
with China, China has “a leading role’ in influencing other developing countries on this issue”.

Hence, as a Commission official has put it, there is an apparent “schizophrenia” in the relationship: while bilaterally both sides consider it positive and the Chinese NDRC is ready to act alongside the European Commission, their relationship at the multilateral level has so far been characterised by a return to traditional positions and a Chinese insistence on its role as a developing country in juxtaposition to the EU. There is a small chance of the new Chinese leadership reversing this dynamic during the COP 21 Summit, as demonstrated by several agreements, where the Chinese government actually converged on Chinese positions at the Paris Summit, most notably on the status of the agreement and five-year review cycle.16

**“CHINA AND THE EU ARE CHANGED ACTORS IN THIS NEW INTERNATIONAL ENVIRONMENT”**

**The EU’s changing role on climate change**

The EU’s negotiating power has changed considerably since the landmark Copenhagen Summit in 2009. The EU was able to develop an international role on the issue of climate change, beyond the sum of its member states.17 On climate change the EU coordinates its positions at multilateral meetings, while it is also perceived as an international actor in its own right by countries such as the United States and China.18 A convergence in terms of interests and policy preferences with China and the US can thus also be considered a validation of the EU’s role as an international actor. At the same time, however, in the light of the 2014 and 2015 US-China climate agreements, which changed the climate game completely, the EU is losing its leadership position to the US (on the negotiation side) and China (on the technology implementation side).19

In the light of a reduced scope for leadership, what are the EU’s options? In the run-up to Paris, during the negotiations and afterwards, the EU has supported China to take on a leadership role. It can encourage and highlight domestic enforcement efforts in China. The EU still excels in its technological innovation capacity and can support China by offering capacity building, and on a more strategic level, provide advice on how to manifest the link between climate change and public health (air pollution) and low-carbon growth to strengthen the present path in the face of slowing economic growth. Finally, the EU might have to accept a non-binding treaty, as long as it allows progress on questions of emissions reductions, adaptation and climate financing as well as maintaining room for “ratcheting up ambition”.

**Conclusion**

Often compared to the 2009 Copenhagen Summit analysts are much more optimistic about Paris 2015 for several reasons: i) in 2009 countries were still too deeply affected by the global financial crisis, keeping climate ambitions to a minimum; ii) China and the US were not yet fully on board and the division between developed and developing countries still dominated and circumscribed governments’ room for manoeuvre; iii) and finally, several glitches in terms of negotiation logistics, bad timing and an incoherent negotiation text led to the very limited output of the summit. The situation in 2015 has changed: countries feel able to commit to climate change and as a testament to that, by 2nd November 86 percent of countries had submitted their INDCs. The US-China agreement paved the way for other parties’ ambitions, and could promise a breakthrough on transparency and a single system on Measuring, Reporting and Verification. An extremely proactive French (and preceding Peruvian) presidency of the COP has developed a sophisticated process of pre-Paris bilateral and multilateral meetings, negotiation structures and diplomatic campaigns.

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Thus, China and the EU are changed actors in this new international environment. The increasing alignment of how to define the problem of climate change and how to address climate change is likely to have positive effects on EU-China bilateral relations. The EU may become a preferred interlocutor on the Chinese low carbon growth plan. Furthermore, the relationship now takes place at eye-level. The EU can offer its rich experience in implementing climate policy domestically (emissions trading, renewable energy policies, decoupling of emissions and economic growth) and building relationships with foreign climate change policy elites. China has been developing its own lessons for how to scale up technologies (e.g. solar) and policies (e.g. emissions trading). As the issue of climate change is far less contentious than human rights or investment and trade barriers, it opens a lot of common ground for the EU and China to develop their partnership and promises to continue doing so even after this year’s long-awaited Paris Climate Summit.

BIO

Dr. Olivia Gippner is Dahrendorf Postdoctoral Fellow on EU-East Asia relations at LSE IDEAS. Dr. Olivia Gippner holds a PhD in political science from the Free Universität Berlin and the Berlin Graduate School of Transnational Studies for which she researched EU-China climate relations and Chinese policymaking. From 2011-2014 she worked as a research fellow at the NFG-Research Group on "Asian Perceptions of the EU" in Berlin, analysing Chinese participation in peacekeeping missions and EU-China security relations. Olivia has lived and worked in several countries in Europe and Asia and besides her academic research has been working and publishing as a policy analyst on Nepal’s energy crisis in Kathmandu from 2010-2011 and as a freelance consultant. She has published in academic and policy outlets and regularly presents her research at academic conferences and expert briefings. Her main areas of interest are EU-Asia relations, China’s climate change policy, Chinese FDI, renewable energy, non-traditional security threats, decentralised energy systems.
Introduction
China’s spectacular industrialisation, economic growth and urbanisation has led to an unprecedented use of energy and severe levels of pollution. The country is today the world’s largest carbon emitter and the biggest energy consumer. Nevertheless, the Chinese leadership is determined to move forward and has recognised that a new model of development – inclusive and sustainable – is mandatory to maintain both domestic social stability and economic supremacy. This is also what emerges from the latest 5-Year Plan and from the political discourse, calling for innovation and a clean future.

Both internal domestic pressure and the emergence of China as a major geo-economic and geopolitical player require the Beijing government to pay particular attention to its activities in the international climate scenario. China published a national strategy on climate change, it actively took part in all major climate conferences and signed and ratified the Kyoto Protocol. Finally, it is putting in place a series of regulatory measures and market-based instruments – the most important being a Chinese Pilot Emission Trading Scheme (ETS) – to contain and mitigate climate change.

China is showing a strong commitment to increasing efficiency, opting for low-carbon sources and working with the international community to achieve climate targets and create a carbon market. In particular, it is working with the European Union (EU) through the EU-China Climate Change Partnership, which since 2005 has provided an ad-hoc platform for the two partners to exchange views on international climate change negotiations, encourage major low-carbon projects as well as share know-how on emissions trading.

This article sets out to discuss the increasing importance that China attaches to climate issues and its emergence as a key actor in the international climate scenario. By doing so, it intends to focus on China’s commitment to international climate objectives and how this translates into concrete initiatives to cut emissions. In particular, the article looks at Chinese domestic ETS as an example of the measures that China – building on the EU experience –

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1 Disclaimer: the findings, interpretations, and conclusions expressed in this publication are those of the author only and do not reflect the positions of Enel Foundation or the European Commission, nor does the citing of trade names or commercial processes constitute endorsement. 2 Coal has been the dominant energy source fuelling China’s rapid economic development. 3 The National Action Plan on Climate Change, published on June 4, 2007, is aimed at increasing the proportion of electricity generation from renewable sources and nuclear power and promoting efficient coal-fired power stations, preferring the use of cogeneration and the development of coal-bed and coal-mine methane. 4 Although refusing to commit to legally binding targets. 5 An international environmental treaty which aims at stabilising greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.
is putting forward in response to global warming. The first part will provide a context, looking briefly into international climate negotiations, the role of the EU and analysing China’s evolving position and increasing commitments. The second part will then focus on the Chinese ETS as a concrete measure to control carbon emissions, trying to highlight some of the challenges that lie ahead for its successful deployment.

1. The climate scenario and China’s international commitment to carbon reduction

The legal basis of the efforts to fight climate change lies in the United Nations Framework Convention on Climate Change (UNFCCC). The parties to the convention have met annually since 1995 in Conferences of the Parties (COP) to assess progress in dealing with climate change. In 1997, the Kyoto Protocol was concluded and established legally binding obligations for developed countries to reduce their greenhouse gas emissions. The main deliverable of last COP (COP 20, Lima) was a call for submission of Intended National Determined Contributions (INDCs) – basically the domestic plans that every country intends to adopt for addressing climate change.

China’s position has been evolving over the years. Since the adoption of the Kyoto Protocol, back in 1997, China gained the reputation of being a hardliner. Its refusal of mandatory commitments has been summarised by climate experts as the policy of the three NOs: no obligations, no voluntary commitments, no future negotiations. Over the last decade, however, there has been a shift to a less radical position, more flexibility and a cooperative attitude. China recognised the importance of Measurable, Reportable, Verifiable (MRV) nationally appropriate mitigation commitments and opened the door to pursue win-win technological cooperation. Furthermore, China’s attitude towards the three flexible mechanisms – and especially the Clean Development Mechanism (CDM) – has also changed positively.

Since becoming the world’s largest CO2 emitter, China is facing strong pressure to step up and participate more fully in international climate change negotiations in the lead up to the final rounds. Developed countries remained largely dissatisfied with its refusal to commit to more ambitious mandatory reduction targets and the call for “Common But Differentiated Responsibilities”. However, as pointed out by NDRC officials, China’s increased involvement in

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climate talks along with its determination to shift towards a low-carbon, energy efficient economy is mainly the result of domestic requirements. According to professor Zhang Haibin, climate expert at Beijing University’s School of International Studies, lower abatement cost, increasing exposure to ecological vulnerability and more willingness to share responsibilities on an equitable basis among international actors are the three key factors that may influence China’s future shift towards mandatory commitments.

After the Copenhagen Summit in 2009 (COP 15), China committed to reduce carbon intensity by 40-45 per cent by 2020 (from 2005 levels). Higher targets have been set for the developed cities and regions and for the major industrial hubs such as Guangdong, Shanghai, Jiangsu, Zhejiang and Tianjin. More recently (June 2015), in the lead up to COP 21, China submitted to the United Nations a pledge including a cut of greenhouse gas emissions per unit of GDP of 60-65 per cent from 2005 levels. It also showed greater commitment to work with international partners. The last EU-China Summit (June 2015), for example, represented an important shift for China-EU cooperation on climate, since the two partners have committed to achieving an ‘ambitious and legally binding’ climate agreement in the negotiations that culminate in Paris this December.

2. The creation of a Chinese Domestic Emission Trading Scheme (ETS): EU support and challenges ahead

The main challenge for controlling climate change in China remains lowering the carbon intensity of its electricity sector. The two key options on the table are the implementation of a carbon tax and the creation of a domestic emissions trading system. The introduction of a carbon tax in China has been discussed for a long time. In the past, Chinese Finance Minister Lou Jingwei raised the possibility that a carbon levy for China could become a reality, along with more tax reforms. According to some experts, a carbon tax levy, if kept low, may not substantially interfere with Chinese economic development, but will most likely increase energy price. This could lead, on the one hand, to higher energy saving, lower CO2 emissions, and most probably innovation and the use of updated technology, on the other hand, a carbon levy may entail border tax adjustments and penalise over compliant companies (which, conversely, are rewarded by a cap-and-trade system).

“THE PROJECT INTENDS TO ENHANCE THE DIALOGUE BETWEEN POLITICAL DECISION-MAKERS AND THE PRIVATE SECTOR”

Creating an emissions market in which sources (facilities, plants, firms etc.) are capped and assigned allowances according to the emissions target is probably the most important attempt to control CO2. The European Union is supportive of China’s efforts, and within the framework of the ‘EU-China Low Carbon and Environment Sustainability Programme’ it launched the three-year ‘EU-China ETS Project’ in January 2014 – assisting China with the design and implementation of Emissions Trading Pilots that lead over time to nationwide action. With a budget of about 5 million EUR, the project – due to be completed by January 2017 – aims at supporting China in meeting its emission reduction targets, providing technical assistance on the utilisation of market-based instruments and strengthening the capacity of key stakeholders involved at the national and local level. Also, the project intends to enhance the dialogue between political decision-makers and the private sector, involving a wide range of stakeholders (local stock exchange, financial service providers, verification and trading companies, industry, etc.).

Among the 12th Five-Year Plan target objectives, Chinese domestic ETS was presented as a key initiative in response to global warming, building on the EU ETS but also trying to avoid some of its limitations. For the time being, Chinese ETS is still in its pilot phase, tested on five municipalities (Beijing, Tianjin, Shanghai, Chongqing, Shenzhen).
and two provinces (Hubei and Guangdong), as part of a domestic plan to promote carbon emissions trading and establish a platform in these areas. Launched in Shenzhen in 2013, the initiative may play a critical role in ensuring that the country meets its voluntary objective to reduce carbon intensity by 40-45 per cent by 2020.23

The system is intended to be scaled-up at national level by 2017, but a number of obstacles to its correct functioning still lie ahead, ranging from the enforcement of a solid legal framework to a reliable, transparent domestic platform to register the emissions, along with designated independent entities to measure and verify them.23 The ‘cap debate’ – that is, whether the country should opt for an absolute cap, the effects of which are easier to predict, or an intensity-based cap, which has a lower impact on GDP – is still ongoing in China.24 There is also too much uncertainty associated with the future development of the certification system and trade creation. How many Certified Emission Reductions (CERs) will China need for future production? How should they be determined? In cities like Beijing or Shanghai, the ETS system could work relatively easily, since there is not much industry and credits are allocated to the largest emitters in the economy – advanced companies able to envisage the amount of credits they will need. However, most Chinese companies at national level – and especially SMEs, the core of Chinese economy – under the uncertainty of their future business may have the tendency to keep their credits rather than sell them, with the result that no trade will be created. This was the situation observed in China with a previous pilot SO2 cap-and-trade system and with a preliminary carbon trading experiment carried out in Beijing and Tianjin.26 Also, liquidity and price signalling are not working properly in China, as the market is largely controlled by the government. Under these circumstances it is challenging to promote – much less create – a carbon market.

Currently, an expansion of ETS is taking place in several regions, echoed by the central government; however, the competitive nature of the pilots, their difference in terms of targets, progress speed, market creation and availability of data, makes the possibility to link with each other very low.26 It will be challenging to move towards a national ETS, even more linking Chinese domestic ETS with the international carbon trading systems.27 However, it is probably too early to make predictions, as the pilots are still in their infancy and specific standards should be drawn up and agreed in order to make CERs perfectly convertible and therefore tradable on the international market.28

Some doubts still remain as to whether China will achieve carbon emission targets by using ETS. According to both Chinese academics and government bodies – including the NDRC – China considers ETS as a complementary tool to other CO2 emission reduction measures, including mitigation efforts, carbon tax and different market-based instruments. ERI analysts29 have emphasised that for concrete, short-term results, a command-and-control approach will undoubtedly have more impact when it comes to controlling climate change domestically. However, a voluntary system like ETS may work in the longer term, when the Chinese market will be more mature, the internalisation of pollution costs into economic activities more efficient and independent monitoring and reporting mechanisms are fully in place.

Conclusion

China is the world’s largest carbon emitter, but it was also one of the first countries to publish a national strategy on climate change. Although its position during international negotiations has been contentious in the past, China has been quite active on climate talks and attaches great importance to carbon reduction and low-carbon economy. The country has established a set of concrete targets under the 12th Five-Year Plan and has taken important domestic measures to control carbon emissions, promote energy efficiency and increase the use of clean energy.
Also, China is committed, alongside the international community, to achieve climate targets and create a carbon market. In particular, the EU and China agreed to form a Climate Change Partnership to strengthen the dialogue on climate policies, exchange views on key issues in the international negotiations and encourage the sharing of know-how on emissions trading. Furthermore, during the last EU-China Summit both partners agreed to further enhance the ongoing EU-China ETS project and to work together in the years ahead on the issues related to carbon emissions trading.

Among the domestic initiatives adopted by China against global warming, emission trading represents a key step to move away from the conventional development path. Domestic ETS is still in its infancy and there are major challenges that may prevent its successful enforcement. These include insufficient market liquidity, uncertainty linked to future CERs allocation, access to verifiable data and different development pace and targets of local pilot ETS. Also, the fact that the market is largely controlled by the State and price signalling is not working properly may undermine China’s efforts.

Nevertheless, Chinese ETS is, in principle, an effective tool and China is showing genuine interest in its implementation. It requires economic and societal changes and involves the recognition that price signal and the internationalisation of pollution costs in economic activities are more efficient than a strict top-down approach. Its success in reducing emissions will have a global impact and will undoubtedly contribute to China’s shift towards a low-carbon economy.

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