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The Vienna Institute for
International Economic Studies

The evolution of the EU's climate policy in light of EU-China relations

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November 7, 2023

Deglobalisation in time of global climate change

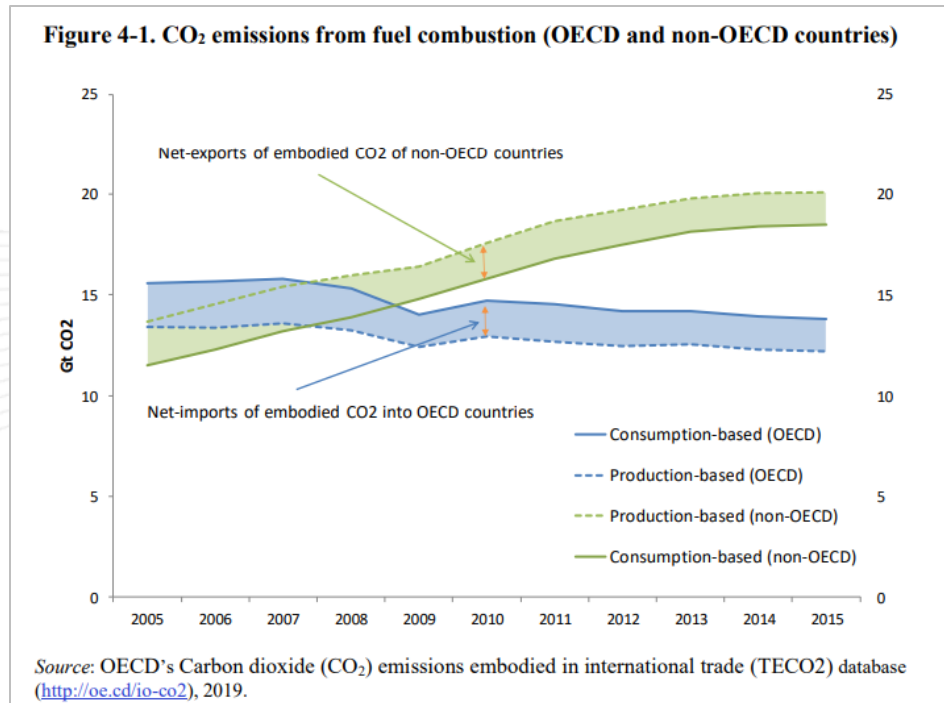
„The electric vehicle sector holds huge potential for Europe’s future competitiveness and green industrial leadership. EU car manufacturers and related sectors are already investing and innovating to fully develop this potential. Wherever we find evidence that their efforts are being impeded by market distortions and unfair competition, we will act decisively. And we will do this in full respect of our EU and international obligations - because Europe plays by the rules, within its borders and globally. This anti-subsidy investigation will be thorough, fair, and fact-based.“

European Commission, 2023

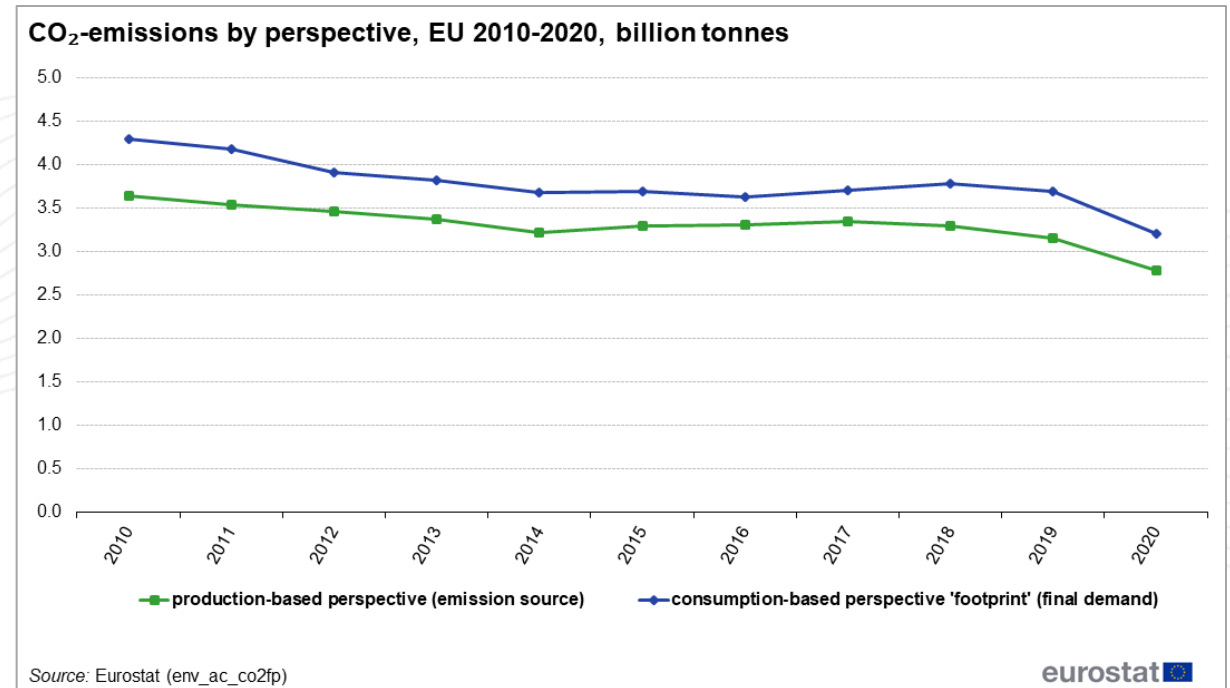
China’s representatives at the WTO said the CBAM was “regrettable” and “fails to comply with UNFCCC, Paris Agreement principles and WTO rules”, Yicai reported, adding that they also criticised the EU’s increasingly “defensive” approach to trade, which could have “serious implications for international trade, global supply chains and the WTO”.

Carbon Brief, 2023

Traditionally, the focus of „international“ climate policy was the spatial distribution of emissions resulting from North-South trade patterns

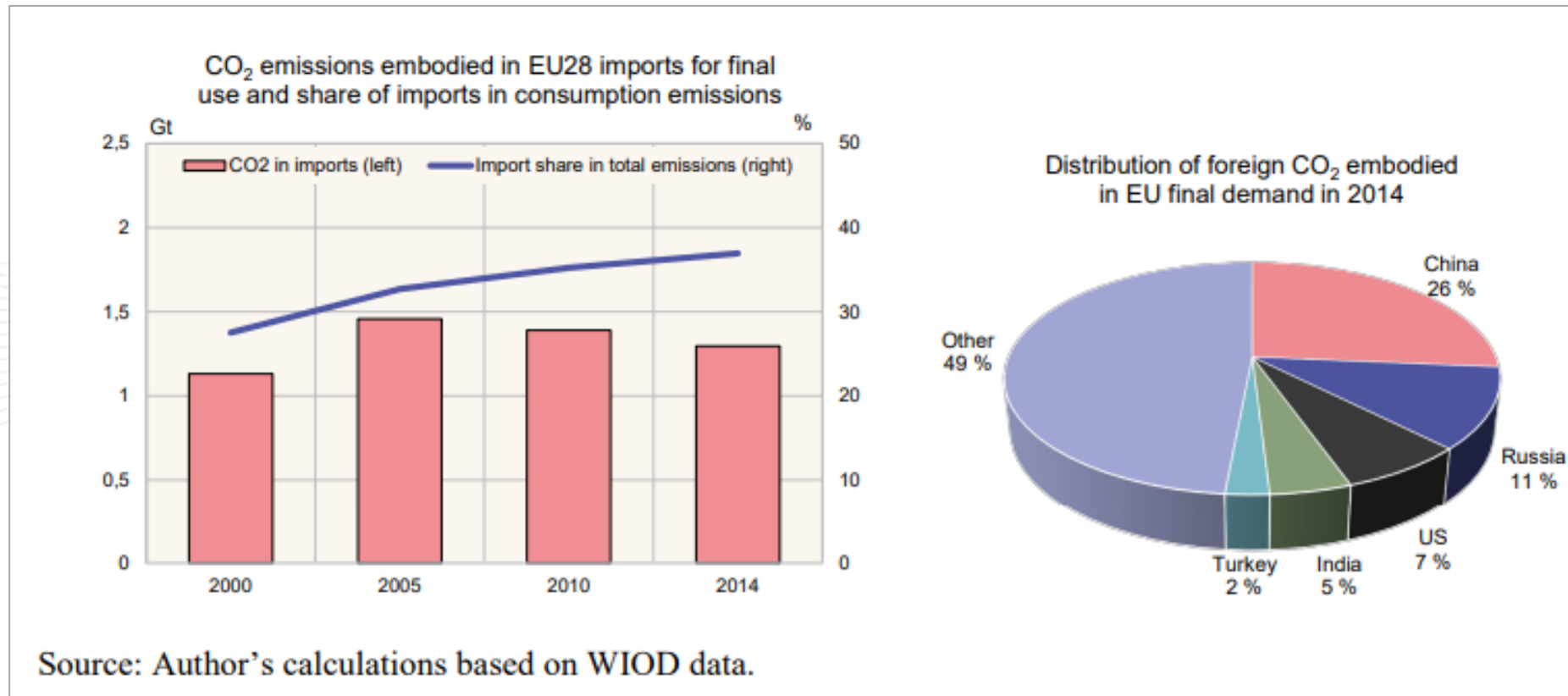


Yamano and Guilhoto, 2020



Eurostat, 2020

Trade with China accounts for the largest share of EU's imported emissions



Simola, 2020

The EU's policy focus has been to protect the domestic climate agenda while shielding its energy-intensive industries

- Shielding own companies from cost-imposing policies by attempting to shift part of the burden outwards:
 - From standard-setting, FTAs with environmental provisions to...
 - Carbon Border Adjustment Mechanism
 - Reporting obligations that cover VCs



Sectors covered in the first phase of the CBAM - our environmental policy tool to help maximise the European and global impact of our fight against climate change.

CEMENT	IRON & STEEL	ALUMINIUM
FERTILISERS	ELECTRICITY	HYDROGEN

#EUGreenDeal

European Commission

The infographic features a decorative header with a blue and orange wave pattern and a green leaf-like pattern on the right. The text is centered, and the sector names are in green boxes with a leaf texture. The bottom right corner includes the European Commission logo and the hashtag #EUGreenDeal.

However, the focus has shifted towards the emerging green economy

1. Adopting a green industrial policy coupled with strategic concerns

- Net-Zero Industry Act
- Projects of Common European Interest
- Batteries Regulation
- ...

2. Pursuing strategic autonomy in critical resources

- Critical Raw Materials Act
- Global Gateway
- ...

3. Challenging competitors' policy choices

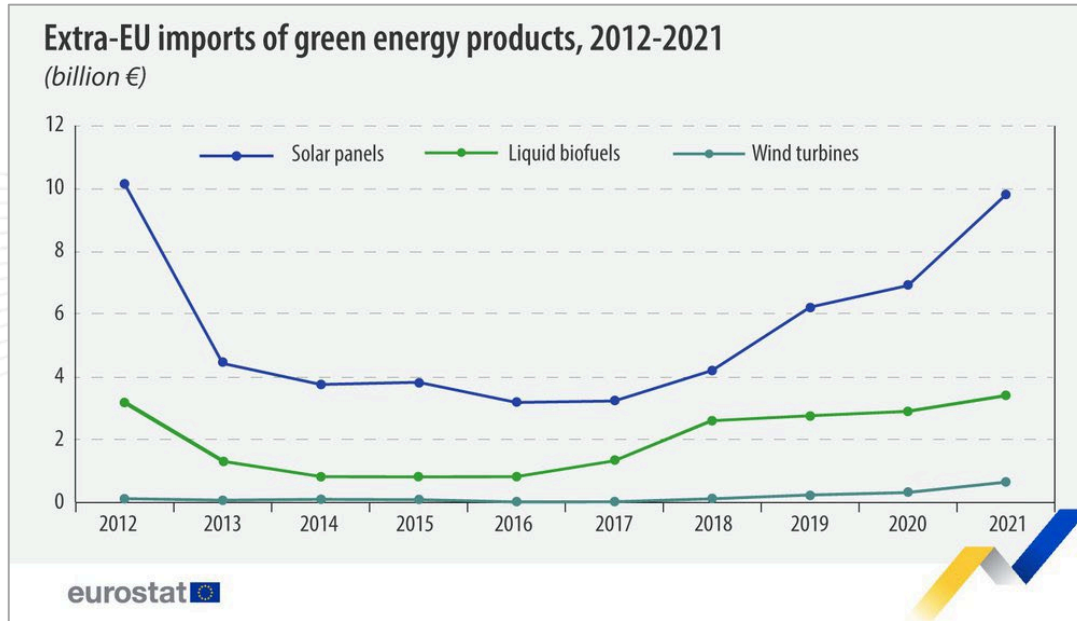
- Anti-subsidy investigation

4. Shifting some abatement costs on foreign exporters

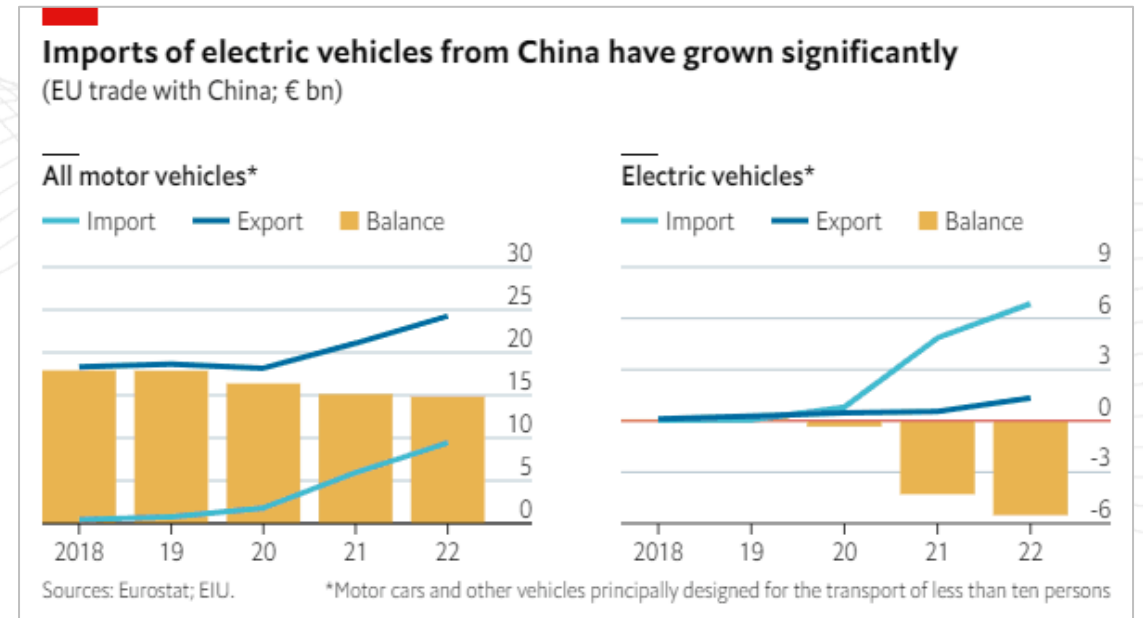
Goals:

- The Union's overall **strategic net-zero technologies manufacturing capacity** approaches or reaches at least 40% of the Union's deployment needs by 2030.
- At least 10% of the EU's annual consumption for **extraction**,
- At least 40% of the EU's annual consumption for **processing**,
- At least 15% of the EU's annual consumption for **recycling**,
- **Not more than 65%** of the Union's annual consumption of **each strategic raw material at any relevant stage of processing** from a single third country.

The EU has fallen behind China in the race to secure primacy in the new „green“ economy



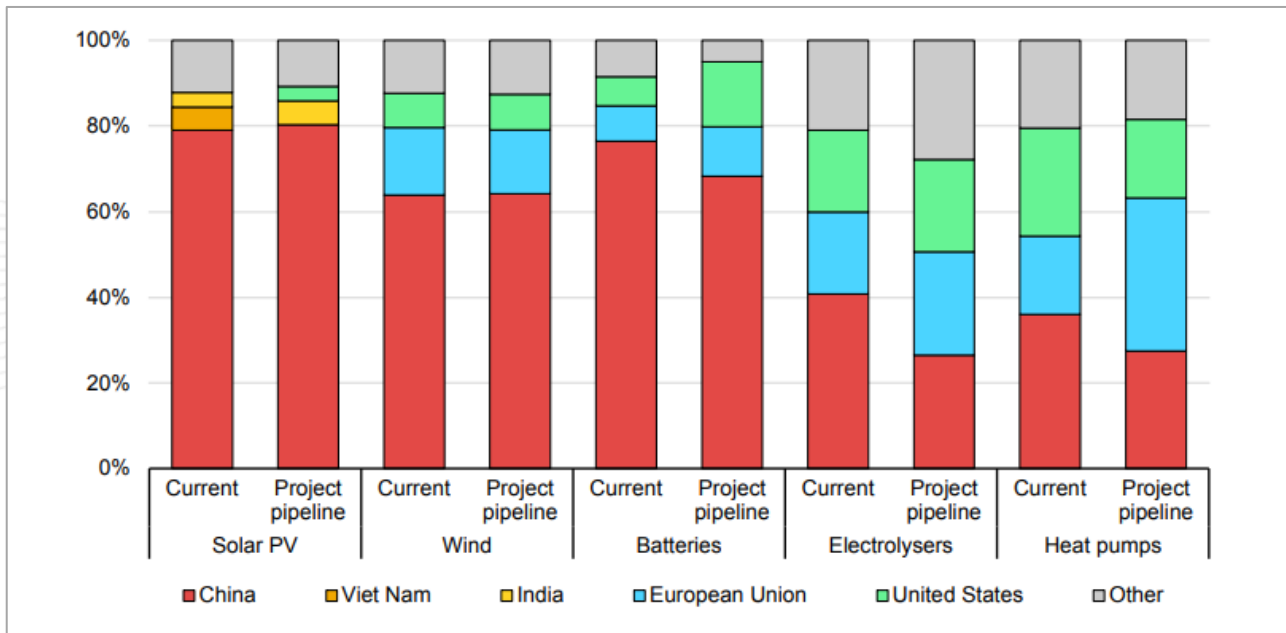
Balkan Green Energy News, 2022; Eurostat



Economist Intelligence Unit; 2023; Eurostat

The EU's lack of domestic manufacturing capabilities for key green technologies and control over raw materials raises alarm

Current and projected geographic concentration for manufacturing operations for key clean technologies:

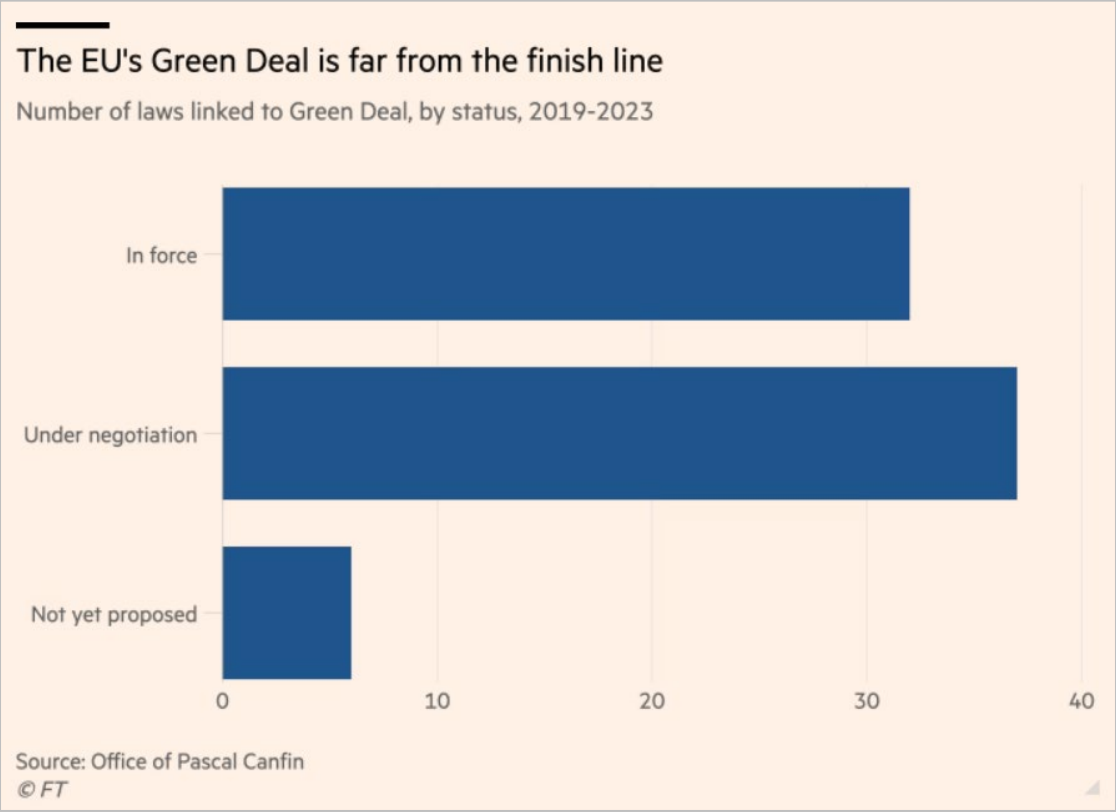


Reasons for concern include:

- Economic reasons: who reaps the rewards
- Risk management reasons: supply chain risks
- Security reasons: disputes and tensions with China
- Social and political reasons: pressure on EGD, energy crisis, etc.

IEA, 2023

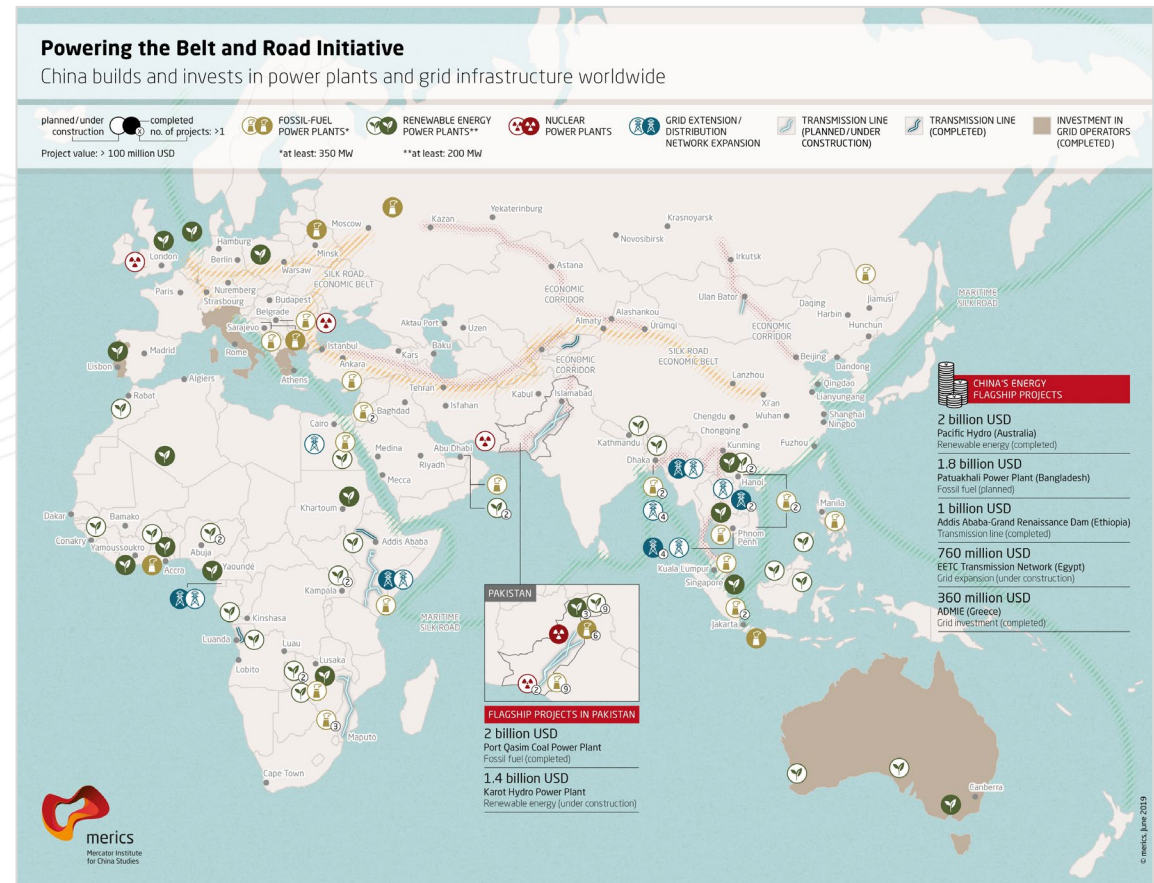
The European Green Deal's implementation is under pressure



Financial Times, 2023



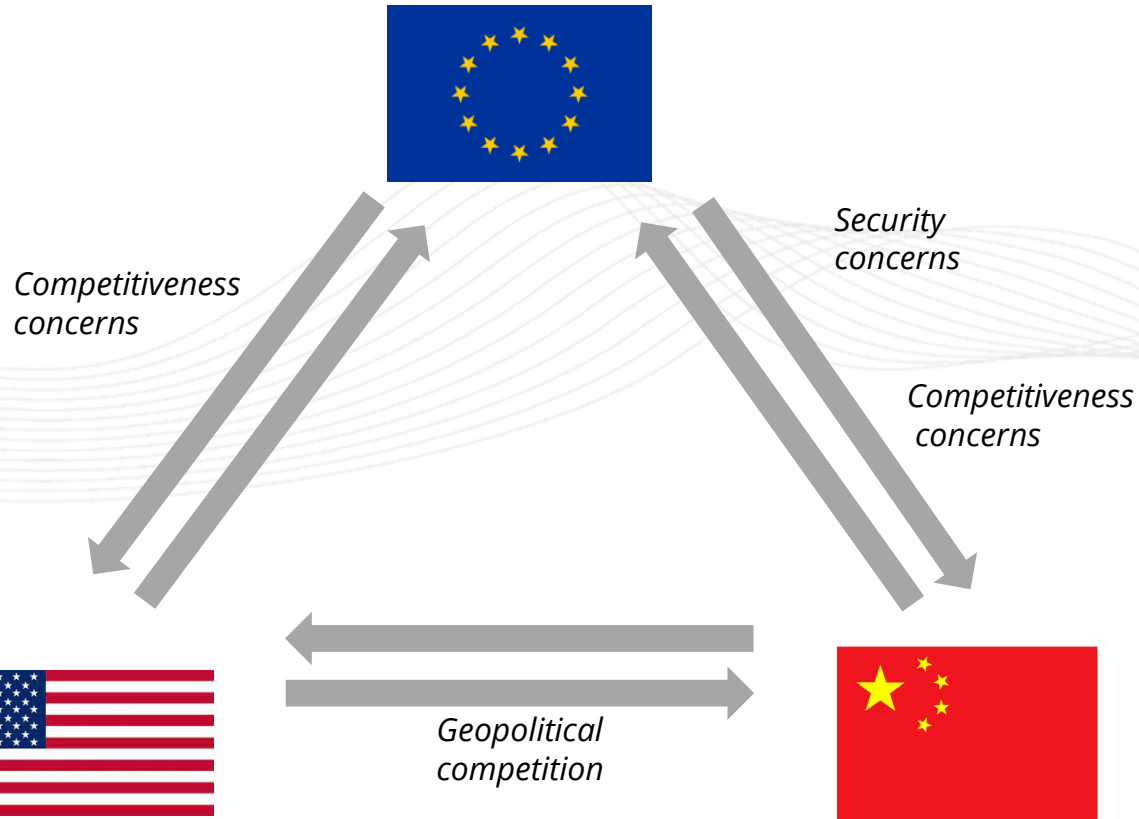
USA is a critical factor in EU-China climate relations, and third countries are becoming more prominent



Merics, 2023

The triangle of mistrust threatens to impede climate efforts

CBAM – Green protectionism?



IRA – erodes competitiveness of trading partners?

Subsidies and industrial policy – allowing for weaponization?

Critical assessment of the EU's approach

- The EV investigation, albeit justified under WTO rules, threatens the climate agenda, shows a misunderstanding of the modern view on industrial policy :
 - The fact that China produces high quality batteries and electric cars is a benefit in terms of the common societal objective of reducing CO2 emissions (Altenburg and Rodrik, 2017).
 - Questionable if tariff escalation is the best option to protect own interests
 - Guided by political reasons
 - Prevent possibility of a global climate pact
- CBAM will not have significant effects on a macroeconomic level (Korpar et al., 2023)
- Masks structural issues within the EU: underfinancing, limited space for industrial policy
- Masks structural issues with the European car industry
- Competitive advantages and legacy of securing resources will not go away
- The EU should pursue a pragmatic approach while being even more proactive in the domestic space

How to manage frictions and accelerate the net-zero transition

1. **Emissions reduction should be the primary goal of policy efforts:** lower costs and increase uptake of low-carbon technologies while allowing poorer countries access and financing
2. **Manage complexity:** understand each other's needs and priorities
3. **Asymmetric policy choices will introduce competitiveness concerns and trade frictions,** which need to be addressed in a way that does not lead to escalation, trade wars, or the unraveling of effective climate policy choices
4. **Build policy frameworks that lead to greater policy alignment and guardrails:** ETS connections, agreements on green subsidies, climate clubs, etc.
5. **Use GVCs as vehicles for sustainable development upstream**
6. **Develop win-win industrial collaborations** taking location into account (Bown and Clausing, 2023) – to increase green tech uptake

Contact

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