EU-China Dialogue on Green Stimulus Packages

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We are all in this downturn together

The novel coronavirus (COVID-19) pandemic has precipitated the most severe global recession since the 1930s. The European Central Bank recently warned that Europe's GDP could decline by double digits this year. And China, once a seemingly unstoppable economic juggernaut, saw its economy decline by 6.8 percent year-over-year (YOY) in the first-quarter of 2020. The last time China reported an economic contraction was at the end of the Cultural Revolution, more than four decades ago.

COVID-19 has wreaked havoc on economies in Europe, China and most everywhere else in the world. Prolonged social distancing and travel restrictions are expected to cause profound and long-lasting damage to areas of the economy such as the service sector, where they have already decimated tourism, shuttered movie theaters and closed down night clubs in many urban centers across the globe.

Because so much of economy is interconnected, COVID-related impacts are unlikely to be isolated. For instance, the sudden drop of business investment in the service sector can lead to recessions in the real estate and car industries. The growing international cries to relocate the global supply chain for key sectors are real and cannot be ignored.

Silver linings

Amid the economic turmoil, the downtown has had some positive effects on the environment. The International Energy Agency (IEA) projects that global electricity demand will fall by 5 percent YOY in 2020. In terms of primary energy consumption, coal is set to decline by some 8 percent YOY, the largest decline since World War II, along with sharp reductions in gas and oil consumption. The disruptions caused by COVID-19 are expected to push down global energy investment in 2020 by 20 percent, the equivalent of almost $400 billion, with most of the reductions concentrated in major oil- and gas-producing nations.

But the effects of the pandemic alone will not resolve long-term sustainability challenges. If global warming is to be kept well below two degrees Celsius, global carbon emissions will have to stay below 2020 levels for the next five years. But shutting down the global economy for half a decade in order to limit emissions is not the answer.

The good news is that renewables are the only energy source whose demand has been rising in 2020. In Europe, renewables made up 48 percent of total electricity generation in May – proof positive that the power system can handle high shares of renewables. In China, cumulative wind and solar power output over the first five months of 2020 increased by 5.0 percent and 9.3 percent YOY, respectively, while national power generation fell 3.1 percent YOY.

Bounce back better

For all governments, the most immediate and pressing policy priority in 2020 is to determine an appropriate economic recovery package. It is especially crucial that the principles of low-carbon development and climate neutrality guide decision-making because the effects of today's stimulus measures are going to impact the world for decades.

In this regard, today's crisis also represents an opportunity for the EU and China to move forward with their clean-energy agendas. By investing in efficiency, grid integration, renewables, electric vehicles and low-carbon infrastructure, among things, they can help the economy bounce back better.

The crisis is an opportunity for the EU and China to tackle not just climate change but also social inequality and other important policy issues. Ideally, they will pursue these objectives under an overarching framework for cooperation.

Rescue plans

In May, the EU Commission presented budget proposals for the 2021–2027 Multiannual Financial Framework (MFF) and the 2021–2024 Next Generation EU (NGE), amounting to 1.85 trillion euros in total[1]. To cope with the COVID-19 pandemic, the EU member states and the UK have been working on their own stimulus plans as well. Germany was first to enact a stimulus package, a 130 billion euro program including measures such as a VAT reduction, electricity price cuts, and subsidies for future technologies.

Stimulus Proposal/Plan in Europe & China

EU Proposal	
Multiannual Financial Framework (MFF): for 2021-2027	€ 1,100 billion
Next Generation EU (NGE): recovery budget for 2021-2024	€ 750 billion
Support member states to recover: Support investments, reforms and just transition	
Kick-start the economy and help private investment: Support key sectors and technologies Invest in key value chains Solvency support for viable companies	
Learn the lessons from the crisis Support key programs for future crises Support global partners	
Germany Plan	
Released stimulus package	€ 130 billion
VAT cut	€ 20 billion
Subsidies to families with children	
Support local govt re employment subsidies & loss in tax	
EV charging facilities	€ 2.5 billion
Health care	€ 4 billion
Communication	€ 5 billion
Electricity price cut	
Tax cut/subsidies - future technologies incl. AI/EV/hydrogen	€ 50 billion
UK Discussion	
Stimulus package under discussion	£ 500 billion
E.g. urban renovation	£ 2.5 billion
China Plan	
Higher deficit (>3.6%)	min. ¥ 1 trillion
Special bond	¥ 1 trillion
All 2 trillion distributed to local govt	
Tax cut	¥ 2.5 trillion
Local govt special bond	¥ 3.75 trillion
Central govt investment budget	¥ 600 billion
Prioritized fields:	
New Infrastructure	
New Urbanization	
Environmental protection	
Energy security: Clean & high efficient coal utilization, RE, energy system	
Large projects: transportation, water conservancy, railways	

Meeting remarks & government website information

In early March, China managed to get COVID-19 mostly under control, and its economy has since rebounded, making it the only major economy that is still expected to see positive growth in 2020. China has nevertheless initiated relatively strong stimulus measures in light of 2020 both marking the end of its 13th Five-Year Plan (FYP) and serving as the benchmark year for its 14th.

How green are we?

To reach the current European climate and energy targets – at least a 40 percent reduction in greenhouse gas (GHG) emissions by 2030 relative to 1990 levels; at least a 32 percent share of renewables; and at least a 32 percent increase in efficiency – the EU would need to invest around 2.5 trillion euros in the buildings, industry, power, and transport sectors. To achieve the more ambitious target currently under discussion – a 50–55 percent reduction in GHG emissions – the EU would need to invest at least three trillion euros. But only part of the funding needed to reach these targets has been set aside. And, according to a study by Climate & Company, it is not yet clear how much of the EU's 1.85 trillion euro spending bills will be devoted to closing the gap.

In the UK, the investment areas under discussion include energy-inefficient building retrofits, offshore wind, nature-based solutions, sustainable agriculture and resilience. The country's economic recovery package is somewhat green but mostly neutral with regard to the climate. It mainly focuses on regional

[1] On 21. July, the EU leaders agreed on the 2021–2027 Multiannual Financial Framework (MFF) and the 2021–2024 Next Generation EU (NGE) budget, totaling 1.82 trillion euros.

equity and innovation such as the hydrogen economy and digitalization.

By contrast, Germany has allocated between 23 and 31 percent of its announced budget to climate-related fields. China has also incorporated clean energy into its stimulus agenda. Compared with the stimulus packages they passed after the 2008 financial crisis, Germany and China have made significant progress in reducing investment in energy- and carbon-intensive areas. But experts believe that neither country has gone far enough.

What else should we do?

The energy sector will be a major driving force underlying the economic recovery. To sustain the energy system and build a robust recovery, the IEA recommends that one trillion US dollars be earmarked for energy conservation, investment in renewables and power grids, and other clean technologies over the next three years. The measures could boost average global economic growth by 1.1 percentage points by 2023. It could also make the year 2019 the peak of global GHG emissions by reducing 4.5 billion tons of carbon emissions.

According to the International Renewable Energy Agency (IRENA), the investment required for the global clean-energy transition – and for staying within the 2-degree scenario – amounts to 4.5 trillion USD annually. About half needs to go to energy efficiency; 40 percent, to renewables, electrification and grid modernization. Europe and China together account for about half of the total investment requirement.

Top economies in transition

The EU, China, and the UK make up 34.4 percent of the global GDP (2018, Word Bank). They are home to the world's biggest investors, markets, overseas developmental aid organizations, technology transfer programs and green financing specifically designed for the climate change agenda.

But the three parties are also major carbon emitters, and thus face the common challenges of bringing about a clean-energy transition while recovering from the economic downturn caused by COVID-19.

Deepen mutual understanding

→ The EU – The transition to clean energy must not only not deliver economic and ecological benefits; it must also maintain social cohesion as well by, say, providing employment opportunities, particularly for low-skilled workers. This larger mission is in keeping with the idea of a fair and just clean-energy transition enshrined at the EU and member state levels. Achieving it will require special policy instruments and investments.
→ China – The government needs to set more ambitious climate targets. This includes ensuring that the country reach peak emissions around 2025, committing itself to climate neutrality as soon as possible, and halting the financing of coal at home and abroad. China urgently needs to reform its energy sector to move its sustainability agenda forward.
→ The UK – Half of the financing for the green projects during the last crisis was from the European Investment Bank. Now with Brexit done deal, it is uncertain whether a national infrastructure bank is needed and how green it would be. If green investment cannot be delivered in time to generate economic growth, the stimulus is likely to resort to measures such as tax relief in traditional areas.

Maximize common ground while respecting differences

Despite the many disagreements at the EU-China virtual summit on June 22, leaders from both sides have acknowledged the urgent need to work together to alleviate the dramatic economic consequences of the COVID-19 pandemic while aiming towards a green recovery.

It is estimated that one-third of the global stimulus would come directly from government budgets. The remaining two-thirds would have to be raised on capital markets. In the EU, the stimulus will increase

the public debt borne by future generations, so it should be used in a way that ensures their well-being. In China, large state-owned enterprises are expected to play a significant role in financing and investment.

Besides internal solutions, multilateral and bilateral collaboration is required to help resolve financing- and green growth-related challenges. For instance, Chinese investment in European low-carbon technologies could make a real difference. To fulfill the great expectations placed on EU-China cooperation, both sides must encourage more exchange on this topic and others.

Bottom-up matters

Much emphasis has been put on top-down actions with regard to finance and technology research, development and transfer. But bottom-up citizen involvement is also important, all the more so in view of the pressure to create a fair and just transition in Europe and China.

In November 2018, the yellow vests movement emerged in France, initially triggered by an increase to the carbon tax on fossil fuels. It ultimately led to the establishment of a citizens' convention consisting of a random selection of 149 individuals from diverse professions and social backgrounds. Supported by experts, their task has been to design measures ensuring that France reaches its climate target – a 40 percent reduction of GHG emission by 2030 – in a way that is fair to everyone.

After nine months of deliberations, the convention recently submitted 150 proposals to the French government, three of which could be particularly relevant to China:

- → Product eco score – the rating would appear on product packaging and be based on, say, the type of electricity used in manufacturing.
- → Longer lives for electronic devices – to reduce climate impact, product lifetimes and warranties should be extended between 5 and 15 years.
- → Border adjustment tax – the tax should be raised for products imported from countries where ambitious climate policy is absent.

Citizens should be involved not only at the policy dialogue level, but also at the grassroots level of EU-China cooperation, which includes projects such as the "zero-carbon" community, where citizens serve as direct beneficiaries.

Wei ji: turning postponements into a blessing

There would have been opportunities to tackle many of the aforementioned challenges in September at the EU-China summit and later this year at COP 26. Unfortunately, due to the ongoing pandemic, these two politically significant events have been postponed.

In Chinese culture, a crisis as significant as the COVID-19 pandemic is often perceived not only as a threat (*wei*) but also as an opportunity (*ji*)—or *wei ji*. In this spirit, the EU and China have decided to seize the opportunity posed by the pandemic. They are preparing to initiate Track 1.5/Track 2 dialogues and launch joint research projects on how they can better work together to recover from the current crisis, forge sustainable societies and economies, set global standards, and pave the way towards the long-term climate goals of the Paris Agreement.

Potential outcomes of the next EU-China summit

Not surprisingly, climate change is expected to take center stage at the next EU-China summit.

In light of the current American administration's lack of commitment to the Paris Agreement, the EU and China are likely to play a more decisive role in moving the global climate agenda forward.

When the European Climate Law goes into effect, the EU's decarbonization targets will become legally binding, with more ambitious nationally determined contributions (NDC) to come. China, for its part, is expected to announce higher climate ambitions.

In addition to decarbonization, the EU looks forward to cooperating with China in areas such as sustainable finance, green supply chains (particularly in the agriculture sector), and nature-based solutions. In 2021, China will host the Convention on Biological Diversity (CBD), where both parties hope to identify opportunities for combining the climate agenda with biodiversity efforts.

EU-China leadership and common interests

If the COP26 is to be successful it will require that the EU and China reach a breakthrough at the next summit.

Both parties, together with the UK, must elevate their climate ambitions in support of COP26. The practical policy choices will be mainly determined by whether all parties exercise joint climate leadership.

The stimulus packages that governments are planning, along with NDCs and other long-term strategies, must be mutually reinforcing. The renewal of NDCs before the COP26 will send a strong policy signal, increasing market confidence in the clean-energy transition and in low-carbon development.

In this sense, postponing the COP26 was the right decision, for it allows participating countries to attend to domestic and international political dynamics as they initiate their own green recoveries.

Tell new stories about growth

The European Green Deal, which aims to ensure a just and inclusive clean-energy transition, will together with the Multiannual Financial Framework and Next Generation budget plans serve as the basis for sustainable development in the EU. In China, the government will focus policy efforts primarily on their announced stimulus measures and on the enactment of the 14th FYP, which will guide China's social and economic development for the 2021–2025 period.

In comparing the plans of the EU and China and sharing insights, Agora and Energy Foundation China have been able to identify the following priority issues for all stakeholders:

→ Coal transition
- Initiate low-carbon growth in coal-dependent regions/provinces.
- Share experiences with creating a fair and just transition to clean energy in coal-dependent regions/provinces.

→ Green financing
- Jointly push the investment agenda in renewables, efficiency, and related fields.
- Leverage public budgets to attract additional funding from capital markets.

- Formulate a mutually acceptable debt relief program to help recipient countries invest in a green and resilient recovery.

→ A fair and just transition to clean energy
  - Encourage citizen involvement.
  - Work to include the large number of low-income residents in the rural areas of China, who are key for the country's green recovery and ongoing urbanization.

→ The clean-energy transition in energy-intensive sectors
  - Work on unlocking "hard-to-abate" sectors such as steel, cement, and chemical manufacturing.

→ Joint interests of the EU and China
  - Initiate interest-driven international collaboration on climate issues.

Joint efforts by European and Chinese think tanks and research institutes are helping to establish new narratives of green growth and recovery. It is essential that political leaders on both sides join these effort as they create a shared vision of how Europe and China can develop and collaborate in the years to come.

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