

#### **CENTER FOR ENERGY AND CLIMATE**



# The EU Green Deal External Impacts

Views from China, India, South Africa, Türkiye and the United States

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# Abstract

Ahead of June 2024 European elections and against the backdrop of growing geopolitical and geoeconomic frictions, if not tensions, between the EU and some of its largest trade partners, not least based on the external impacts of the European Green Deal (EGD), Ifri chose to collect views and analyses from leading experts from China, India, South Africa, Türkiye and the United States of America (US) on how they assess bilateral relations in the field of energy and climate, and what issues and opportunities they envisage going forward. A key highlight from these contributions is that the EGD matters as it is taken seriously by most trading partners. While it is a source of frictions, if not tensions, the European Union (EU) actually has an influence on some of the policy dynamics in these countries. Also, the issues of economic security and industrial policy have now become pivotal in the discussions on energy and climate policies, which tends to reinforce further the geopolitical dimension of the EU energy transition. As EU's policies have a growing external impact, and as EU's energy transition process is increasingly affected by policies put in place in the rest of the world, the next European political cycle should put a robust external energy and climate strategy among its priorities, be it towards the neighborhood as well as larger trade partners.

# Résumé

À la veille des élections européennes et dans un contexte de tensions géopolitiques et géoéconomiques croissantes entre l'Union européenne (UE) et certains de ses principaux partenaires commerciaux, y compris en raison des impacts externes du Pacte vert européen, l'Ifri a choisi de recueillir les points de vue et les analyses d'experts de premier plan venant de Chine, d'Inde, d'Afrique du Sud, de Turquie et des États-Unis sur les relations bilatérales dans le domaine de l'énergie et du climat, et sur les défis et opportunités qu'ils envisagent pour l'avenir. Il en ressort que le Pacte vert est pris au sérieux par la plupart des partenaires commerciaux de l'UE, qu'il est source de tensions mais que l'UE a cependant une influence sur certaines des dynamiques politiques de ces pays. Par ailleurs, les questions de sécurité économique et de politique industrielle sont désormais devenues centrales dans les discussions sur les politiques énergétiques et climatiques, ce qui tend à renforcer encore la dimension géopolitique de la transition énergétique européenne. La prochaine mandature européenne devrait ériger la stratégie extérieure du Pacte vert comme priorité stratégique, à la fois à l'encontre du voisinage mais aussi des autres grands partenaires commerciaux.

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# Introduction

#### Marc-Antoine Eyl-Mazzega and Diana-Paula Gherasim

With the European Green Deal (EGD) being now implemented through a wide variety of policies and sectors, Europe's global climate leadership aspiration is no more only attracting either disdain, incredulity, curiosity or applauds, it actually has very concrete consequences for its trading partners which deserve careful attention. The external dimensions of the EGD mainly consist in the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD), the Carbon Border Adjustment Mechanism (CBAM), the Methane Regulation, the Regulation on Deforestation-free products, the Critical Raw Materials Act, and the Batteries Regulation, as well as EU's climate finance commitments. EU's economic security strategy, closely intertwined, will also increasingly matter. For the EU, a critical challenge is now to manage the relationship with China, because Chinese equipment is now essential to EU's energy transition (in the field of solar photovoltaics [PV], electric vehicles [EVs], wind equipment, power electronic, not to mention the raw materials), but now risks destabilizing EU's own industrial basis and put its strategic autonomy in peril. Both the EU and China still have to implement a strategy that avoids a lose-lose scenario, or one where only China mainly wins.

The way EU's trade partners react to these regulations is, of course, of crucial importance at a time when the EU is facing Russia's aggression on Ukraine, the threat from China's overcapacities, the prospects of a further challenging transatlantic relationship, beyond the Inflation Reduction Act, should Donald Trump be elected in November 2024. Moreover, the EU is facing overall criticism over having dual standards, insufficient climate finance commitment, insufficient decarbonization achievements, а transition that is not economically viable, a poor energy security record or unilateral policies that harm emerging nations. Europeans, in turn, consider that they have to create a level playing field in order to avoid becoming a decarbonized island which benefits climate-free riders at the expense of its industries, that they are contributing the most to global climate finance when others, such as China or Russia, do less or nothing, and that its extraordinary efforts and achievements (about -37% emissions from 1990 already) are not properly recognized. The Just Transition Partnerships, for example, are seen as a valuable engagement to help key partner countries address the coal challenge in a just manner.





Source: Archibald André, Ifri 2024, Eurostat.





Source: Archibald André, Ifri 2024, BEA.

One other issue related to the narrative around the EGD is that some EU representatives have been encouraging an inaccurate association with the US' Inflation Reduction Act (IRA), hence reinforcing a distorted view that the EGD is mostly about green protectionism and reducing the climate discussion to financing capabilities. Hence, the EU should not give up on its ambitions or change course, but it needs to do a better job at explaining to the leaders and opinion makers in third countries the overarching nature of its ecological and energy transition model and have a true strategy about how it wants to engage with third countries in this field which do not have carbon markets but trade with the bloc. At the same time, what is interpreted as a "backlash" against EU's climate policies is something that attracts a lot of scrutiny from foreign mass media and could lead to quick and fraught conclusions in third countries, driving further climate populism and skepticism there, while the notion that the EU is increasingly an isolated, high-cost decarbonization island is also likely to fuel domestic mistrust into energy transition policies. To address this, Ifri has already proposed to create the position of a High Representative for the Green Deal and Sustainable Development in the World.

As pointed out in our previous papers, it is in the EU's close neighborhood where the EGD can have most rapidly a significant impact. The case of Türkiye is interesting in this regard, as one can identify elements of a policy framework that are relatable to that in Europe (Renewable energy sources and Energy Efficiency targets, a Green Deal Action Plan...) and a business sector that wants to get aligned with the legislations of the Single Market and increase economic integration. Yet, the situation looks still dire – as shown in the graph below, the coal consumption in Türkiye has been going up: according to data from Ember,<sup>1</sup> while in 2013, about a quarter of power generation in both Türkiye and the EU was based on coal, in 2023 this share decreased to 12% in the EU, but reached 36% in Türkiye. At the same time, the EU needs to help foster the progressive decarbonization of the electricity mix in the Balkans, where the share of coal has been relatively stable at more than 50% of the electricity generation throughout the period 2009-2022 (see Figure 3, p. 9).



#### Figure 3: Evolution of the share of gas and coal in the electricity mix of the Balkans\* (2009,2021, 2022)

Source: Archibald André, Ifri 2024, EIA 2024.

\* Balkans countries considered are Albania, North Macedonia, Kosovo, Serbia & Montenegro.



#### Figure 4: Evolution of coal consumption in Algeria, Egypt, Morocco, Tunisia and Türkiye (1965-2022)

Source: Archibald André, Ifri 2024, Energy Institute (2023).

The key friction point present across the board is the CBAM. The attitudes around this tool range from "outright discriminatory" to fears of a domino effect (i.e., seeing other major countries adopt such tools). The core issue for developing countries is that they see it as unjust to "bear the externalized cost of EU's decarbonization journey", as  $CO_2$  costs in these countries are much lower than the EU ETS price. From a European point of view, this is ultimately the only mechanism compliant with global trade rules that allows it to act towards establishing a level playing field in terms

of climate action between European companies and third parties. The idea behind is also to incentivize partner countries to put in place their own CO<sub>2</sub> pricing internally which would mean that they collect revenues based on the polluter pays principle internally. Yet, the acceptability of such tools is a challenge in developing countries. The EU is right to press forward with mitigating GHG emissions and ensuring imports to the EU pay the environmental costs of the emissions associated with their production; at the same time, developing countries underline that under the Paris Agreement, there is the principle of common but differentiated responsibilities, which implies lower emissions reductions in those countries that have not contributed historically to climate change. The EU has already compromised on a number of issues in the current setup of CBAM: limited emissions coverage and no export rebates, whereas having the EU-ETS covering the full production of EU companies, while CBAM only targets the part of the production in third countries that is exported to Europe, hence third producers can spread the costs of paying the CBAM permits over the whole production. Actually, without an expansion of the scope of CBAM to derivate products and more accurate CO2 measuring and verification, the current setup might create further trade distortions and fail to mitigate the disadvantage for EU companies. A possible compromise could be for the EU to use the revenues collected from CBAM as a source of financing for the decarbonization of industries, renewables deployment, clean tech manufacturing and infrastructure deployment in developing countries. At the same time, the EU should press forward with creating a global market for clean products, for instance through public procurement based on common sustainability and resilience criteria.

The first elements of feedback on the promise of a just transition under the Just Energy Transition Partnerships point out a lack of transparency and accountability on their setup, financing and objectives, as well as a tendency to place most of the focus on decarbonization and little on economic diversification, innovation, social investment and social inclusion, hence lacking a "developmental nature". Given the novelty of JETPs and the potential they withhold to promote true cooperation between advanced and developing countries, this constructive criticism should be considered, and the EU should work towards instilling more transparent and inclusive ways of working, a closer collaboration with civil society in third countries and more holistic projects to respond to the need of economic development and the fulfilment of SDGs. One pathway could be to bring JETPs under the Global Gateway initiative, together with the Net Zero Industry Partnerships and Critical Raw Materials Partnerships, in order to propose a comprehensive climate and economic security package.

# The EU Green Deal is flying under the radar in the United States

**Thibault Denamiel** 

### Climate and trade: a critical nexus

President Joe Biden has referred to several current policy challenges as "inflection points in history" – areas in which decision-making has tremendous, long-term implications. Climate change is perhaps the most significant "inflection point" in which we now find ourselves. The administration uses the phrase as a rhetorical tool to garner political will from both sides of the aisle and across the country – a necessity given the lack of unity around the issue, which still threatens to upend US efforts toward decarbonization. The term is also apt to describe the state of the transatlantic trade relationship, for which climate policies hold profound consequences.

The significance of the climate conversation to the US trade community can be explained by two factors. The first is, of course, urgency. Troves of data suggest that we are barreling towards a catastrophic scenario that will involve, among other issues, forced migration *en masse* and widespread food insecurity throughout the 21<sup>st</sup> century and beyond. Climate policy must involve trade tools to facilitate the supply of inputs necessary for the transition away from hydrocarbons. An effective trade policy is particularly relevant as the US also aim to accomplish two other economic goals that could hinder green transition objectives – diversification away from China and the revamping of supply chains to enhance their resilience. Secondly, policies at the nexus of trade and climate have the propensity to cause conflict, even among close partners. The Inflation Reduction Act's large subsidies tied to local content requirements have yielded significant bitterness among US allies, much of it still unresolved today.

### US perception of the EU Green Deal

Nevertheless, the EGD is flying relatively under the radar in the United States. Although some of its features, such as the CBAM are attracting

notice, the EGD is altogether not receiving as much attention as one would expect from a major climate package from one of the world's largest economic blocs.

This dearth of attention stems from multiple issues around the Deal. One of them is policymakers' inaccurate portrayal relative to the US' own climate legislation, presenting the EGD as the European equivalent of the IRA. In a joint statement,<sup>2</sup> European Commission President von der Leven and US President Biden presented the two policies as mirroring responses to climate change. This framing is evidently inaccurate. The two packages contrast each other in terms of mechanisms to spur the green transition, as the IRA utilizes chiefly tax incentives (as well as grants and loans), contrasting the combination of regulations, incentives, and streamlined stateaid processes of the EGD. In addition, while the investments generally aim to tackle the climate change issue, they have targeted different objectives to do so - the US aims to reduce emissions by 40% by 2030, whereas the EU is targeting 2050 as a deadline to become climate-neutral. The policies also diverge in their considerations around global trade rules: the IRA's local content requirements likely violate World Trade Organization (WTO) commitments, whereas the EU has repeatedly emphasized respect of multilateral norms. Looking at the EGD through the lens of the IRA inevitably leads to comparisons around fiscal capabilities - where the EU's package, although impressive, does not match the US' investments.

The IRA faces its own challenges when it comes to fostering an efficient green transition. The location-based guardrails around many incentives curb a significant number of items critical to clean energy supply chains from qualifying. For instance, critical minerals sourced from a majority of important extractors and refiners around the world are not eligible. In addition, the US is facing several acute labor shortages, including in manufacturing goods necessary to roll out green technologies, which will further derail the IRA's timeline. Nevertheless, the Act has attracted significant amounts of buy-in: just one year after its enactment, the IRA had already led to the announcement of around 280 clean energy projects across 44 American states, totaling a whopping 282 billion dollars (US\$) of investment.

In turn, the EGD is regarded as a green transition package plagued with implementation pitfalls. Given its relative anonymity to the general US population, there is a relatively low amount of political pressure facing elected officials to comment on the issue – opinion around the issue is thus often shaped by civil society experts as well as the press. Many critiques from these backgrounds are tied to political backlash within the EU. For example,

<sup>2.</sup> White House, Joint Statement by President Biden and President von der Leyen, March 10 2023, available at: <u>www.whitehouse.gov</u>.

Bloomberg assessed<sup>3</sup> in 2023 that enacting the measures needed to achieve climate neutrality by 2050 would be incredibly difficult to implement, given how EU Member states had launched challenges in European courts and the issue had already become politically divisive. *The Washington Post*, in 2024, described<sup>4</sup> the contrast between the EU's continued release of ambitious climate targets despite intense public pushback against the policies that come with it. While polls show that concern about climate change is higher among most European countries than it is in the US, even European citizens tend to balk at steps that would cause a personal financial hit. Analysts have also expressed skepticism around the EU's insufficient coordination capabilities between member states.

## Friction point: CBAM and GASSA

Perhaps the most widely discussed aspect of the EGD is the CBAM, which highlights the US regulatory gap on carbon pricing. Without a federal tax on carbon, US firms will not be exempt from CBAM. Nevertheless, researchers have argued<sup>5</sup> that the CBAM's effect on US products would be relatively limited due to the limited trade in covered goods as well as the relatively lower carbon intensity of US manufacture of covered goods.

CBAM is related to a more explosive issue in transatlantic trade, namely negotiations over the EU-US Global Arrangement on Sustainable Steel and Aluminum (GASSA). The two sides' differences over a wide variety of issues have stood in the way of successfully completing the negotiations, despite the importance of EU-US trade in the sector - in 2022 alone, the EU exported<sup>6</sup> 3.97 million metric tons of steel to the US, and 285 thousand tons of aluminum. Among other barriers, the EU does not want to grant CBAM exemptions or carve-outs for concerned US industries. The deadline for negotiations has been delayed and is now set for 2025 – at which point a very different administration could be in power. The dysfunction of the GASSA negotiations has come to symbolize both the Biden administration's trade policy shortcomings and the limits of transatlantic cooperation in this space. That dysfunction is due, in part, to the politically thorny nature of steel and aluminum trade considerations in the US. The industry holds weight both because of its disproportionate role in choosing the next president – due to the strength of unions nationwide

<sup>3.</sup> E. Krukowska, J. Ainger, "Why Putting Europe's Green Deal Into Action Is So Hard", Bloomberg, 28 June 2023, available at: <u>www.bloomberg.com</u>.

<sup>4.</sup> C. Harlan, "Europe Calls for Swift Reduction of Fossil Fuels, Despite 'Greenlash' ", *The Washington Post*, February 6, 2024, available at: <u>www.washingtonpost.com</u>.

<sup>5.</sup> D. Hoening, "Potential CBAM Impacts on U.S. Industry", Climate Leadership Council, October 10, 2023, available at: <u>https://clcouncil.org</u>.

<sup>6.</sup> H. Yermolenko, "The Prospects for a Steel Agreement Between the EU and the US Remain Uncertain", GMK Center, October 20, 2023, available at: <u>https://gmk.center</u>.

as well as the location of industry hubs in swing states – and the symbol it has become in the US of trade's negative externalities.

The EU and the US currently share a sense of urgency around climate change, and both prioritize policies to spur the green transition. They should, therefore, continue to resolve key differences to enable their respective responses to complement each other. To ensure that the EGD is as successful as possible, the EU should keep on emphasizing common goals and work on defining guardrails around industrial and trade policies with the US. Laying the foundation for a virtuous cycle of cooperative competition that leverages trade policy for the benefit of the climate on both sides of the Atlantic would empower the US and the EU to make effective investments in critical industries.

# US elections and the future of transatlantic climate and trade conversation

Any discussion around a "US direction" on climate and trade policy ignores an uncomfortable truth – polarization is at an all-time high, and with it comes a set of presidential hopefuls who hold drastically different perspectives on the issue. Former President Trump, the Republican nominee, presents a particularly uncertain picture. Both because of his own volatility of character and the isolationist aspirations of the base he represents, former President Trump's ability to work well with economic partners is dubious at best.

Policies at the nexus of climate and trade are particularly at risk, given his skepticism concerning climate action. Several infamous examples from the first Trump term are relevant here. The Trump administration triggered the US withdrawal from the Paris Agreement, later revoked by his successor. He routinely toyed with leaving the WTO altogether, and his term rendered the Appellate Body useless. Engagement in multilateral forums meant to address the climate crisis, such as COP, was lackluster. The Trump administration imposed Section 232 tariffs on steel and aluminum imports from the EU. In short, President Trump's track record does not bode well.

### <u>Trump Two</u>

The Trump campaign has already begun antagonizing the EU, stating that the bloc would be treated like China – as an "enemy". Trump's isolationist tendencies did not leave him with his 2020 defeat: he has already proposed to impose a 10% tariff on all US imports. A second Trump term would likewise show even more<sup>7</sup> contempt than the first for climate change policy

<sup>7.</sup> S. Waldman, "No More Going Wobbly in Climate Fight, Trump Supporters Vow", Politico, January 16, 2024, available at: <u>www.politico.com</u>.

by appointing climate-skeptic aides in positions of power and supporting a robust rollback of fossil fuel regulations. Altogether, meaningful cooperation over climate and trade between the US and the EU seems doubtful under a second Trump administration. Pulling out of the Paris Agreement would likely be on the table, and GASSA negotiations would be cut short with additional tariffs on European steel and aluminum imports on the way.

When it comes to placing trade barriers on technologies enabling the green transition, a Trump term would likely first focus on ramping up pressure on China. As a candidate, he has already proposed enormous tariffs on virtually all Chinese goods ("more than 60%"). The Trump campaign has also proposed targeting goods produced<sup>8</sup> by Chinese companies in third countries, which include a non-trivial amount of goods related to the green transition, such as solar panels. Republican lawmakers – joined by some Democrats – have also singled out such items, demanding<sup>9</sup> the Biden administration take action to prevent manufacturers of these goods from taking advantage of lowered trade barriers such as tariffs holidays.

Rolling back the IRA is at the top of former President Trump's to-do list should he win the election. The Act's incentives for EVs and clean power projects would reportedly<sup>10</sup> be most at risk. A potential second Trump administration's ability to do so would depend on the direction of legislative election results: if the Republican party retains control of the House and gains it in the Senate, excising critical components of the IRA would be especially within reach.

#### Biden Two

Efforts to address the climate crisis under a second Biden administration would undoubtedly continue. To that end, the US would remain committed to multilateral frameworks such as the Paris Agreement or active participation at COPs. The latter has already served as a platform for the US to announce the launch of new initiatives, including some involving the EU and Member states. These include, for instance, the mobilization of US\$4.2 billion in government-led investments from G7 nations in the hopes of enhancing nuclear power efficiency with a focus on collective enrichment and conversion capacity over the next three years.

However, the Biden administration would likely keep on going down a path that disregards trade rules - as least in part - in favor of green transition and onshoring objectives. A Biden Two would remain set on

<sup>8.</sup> H. Lowenkron, "Trump Threatens 100% Tariffs on Chinese Cars Made in Mexico", Bloomberg, March 16, 2024, available at: <u>www.bloomberg.com</u>.

<sup>9.</sup> M. Daly, "House Votes to Reinstate Solar Panel Tariffs Paused by Biden", PBS, April 28, 2023, available at: <u>www.pbs.org</u>.

<sup>10. &</sup>quot;Trump Wants to Unravel Biden's Landmark Climate Law. Here Is What Is Most at Risk", MIT Technology Review, available at: <u>www.technologyreview.com</u>.

ramping up US capabilities in clean energy sectors through industrial policy tools to bring manufacturing back to the country – although its ability to do so would, again, largely depend on control of the legislature. Projections show that control of Congress sits, much like the presidential race, on a razor's edge, and it is possible that both chambers would switch parties. Another Biden term would also continue to push for diversification away from China, with a more reasonable phase-out process than his Republican counterpart – opting instead for the small yard, high-fence philosophy at the heart of the Sullivan doctrine which focuses economic security measures at the high end of technology advancements.

President Biden's far more amicable attitude towards Europe would spell a more promising future for the US-EU Trade and Technology Council (TTC). While the TTC has had challenges and setbacks in achieving concrete regulatory achievements – such as the inability to spur a common methodology for calculating carbon intensity of trade goods – it has nevertheless succeeded in its broad goal of reviving the transatlantic relationship. Its value lies<sup>11</sup> in the staff-level interactions, enabling key government representatives on both sides to form communication channels that may have otherwise not existed. The next challenge for a potential second Biden administration and its counterparts will be in further developing the TTC by institutionalizing it, rather than keeping it in its current transitory format.

Regardless of who ends up winning the November 2024 election, EU-US climate and trade issues will likely remain a contentious issue. There would be alignment on the overall imperative of tackling the challenge with a second Biden presidency, with space to coordinate efforts through multilateral frameworks. US trade practices, however, would likely keep turning inwards, making a productive partnership more difficult to achieve. A second Trump term would come with a host of trade-related challenges, including larger trade barriers across sectors. In addition, the US government's efforts towards decarbonization at home and abroad would be hobbled, losing precious time the world does not have to mitigate the impending crisis.

# China and the EU Green Deal – leaving cooperation channels open

Kevin Jianjun Tu

As the world's second-largest economy, and the most dominant GHG emitter, China was the third largest partner for EU exports of goods (8.8%) and the largest partner for EU imports of goods (20.5%) in 2023,<sup>12</sup> China's perception towards the EGD thus deserves careful examination.

China and the EU have been interacting on energy since 1981, when an EU delegation from the Directorate General for Energy paid an official visit to China, and energy is also one of the earliest fields that have been institutionalized in the EU-China relations.<sup>13</sup> In 1995, the EU published "A Long-Term Policy for China-Europe Relations," identifying environmental protection, including climate change, as a priority area of assistance to China. In 2005, the "EU and China Partnership on Climate Change" was issued at the 8<sup>th</sup> EU-China Summit in 2005, which remains the basis of EU-China climate cooperation. Bilateral commitments to climate cooperation were renewed in 2010, 2015 and 2021.<sup>14</sup>

In the context of increasingly closer bilateral energy and climate engagement, which culminated in the announcement of a "Leaders' Statement on Climate Change and Clean Energy" at the China-EU Summit in July 2018 in Beijing, major EU energy and climate initiatives have long been carefully studied by Chinese policymakers and experts alike. Since the EGD was first announced in December 2019, it soon caught rising attention from the Chinese energy and climate community.

To help the Chinese audience better understand the EGD, Tian and Gao (2020) introduce the background of the EGD and present a preliminary analysis of its main contents.<sup>15</sup> By comparison, Zhang *et al.* (2020) focus on

<sup>12. &</sup>quot;China-EU – International Trade in Goods Statistics", available at: <u>https://ec.europa.eu</u> [accessed on March 20, 2024].

<sup>13.</sup> C. Zhang, "The EU-China Energy Cooperation: An Institutional Analysis", EIAS, February 2017.

<sup>14. &</sup>quot;Islands and Oases: EU-China Climate Diplomacy in Times of Geopolitical Challenges", available at: <a href="http://www.e3g.org">www.e3g.org</a> [accessed on March 21<sup>st</sup>, 2024].

<sup>15.</sup> D. Tian, S. Gao, "Background of Europe's Green New Deal and Preliminary Analysis of Its Main Contents", *World Environment*, No. 2, 2020, pp. 68-71.

the implementation process of the Green New Deal in Europe.<sup>16</sup> On April 2<sup>nd</sup>, 2020, the Policy Research Center for Environment and Economy (PRCEE) at the Chinese Ministry of Ecology and Environment organized a dialogue entitled "The EGD, its impacts and implications among key Chinese and European", with key takeaways being: green development in China and the EGD share many commonalities but also have their own unique characteristics, both sides should learn from each other. As the implementation of the EGD is evolving, its detailed instruments and implications are expected to unfold over time and deserve continuous Sino-European exchange as well as evaluation by Chinese experts.

According to an extensive literature review as well as the author's exchange with selected contacts, the initial perception towards the EGD among Chinese stakeholders has been largely positive. For instance, while Xu and Chai (2020),<sup>17</sup> Li (2020)<sup>18</sup> and Kang *et al.* (2020)<sup>19</sup> are among the first batch of Chinese literature dedicated to the EGD, their assessment of the EGD is generally favorable, with acknowledgment of more ambitious climate target, more just and equitable transition, and ample green business opportunities brought by the EGD. Though Li (2020) did point out more international climate pressure imposed on China as a result of the EGD, and trade-related shock waves due to the forthcoming EU carbon border adjustment mechanism (CBAM), and more stringent food and environment standards, among other EU initiatives, Chinese literature back in 2020 generally considered EGD-related benefits for China outweighing its risks, with main takeaways for China as below:

- creating win-win opportunities between economic development and climate change;
- further strengthening overarching design and legislation of climate change regime;
- paying attention to a more just and equitable clean energy and lowcarbon transition and ramping up transition-related financial supports for coal-producing regions as well as resource-depleted areas;
- putting more emphasis on technology and institutional innovations;
- improving public and stakeholder engagement;
- further increasing China's climate ambitions in support of better international image;

<sup>16.</sup> N. Zhang *et al.*, "The Implementation Process of Green New Deal in Europe", *World Environment*, No. 4, 2020, pp. 87-89.

<sup>17.</sup> Y. Xu, Q. Chai, "Interpretation of Europe's Green New Deal and Its Enlightenment and Reference Significance to China", *World Environment*, No. 2, 2020, pp. 63-67.

<sup>18.</sup> Z. Li, "Borrow Experience Related to the EU Green Deal, Accelerate Promotion of China's Green Revitalization", *Journal of Urban Studies*, No. 6, 2020, pp. 59-63.

<sup>19.</sup> Y. Kang *et al.*, "Key Bullets of the EU Green Deal and Its Implications for China: China Development Observation", No. 25, 2020, pp. 114-117.

- proactively initiating domestic reform to tackle the EGD-related challenges;
- improving the greenness of domestic investment and consumption;
- further strengthening China's international energy and climate collaboration, especially with the EU and its member states.

Against this backdrop, the EGD has to certain extent contributed to China's unilateral announcement of peaking national carbon emissions before 2030 and achieving carbon neutrality before 2060 in September 2020, alongside the Biden Administration's rejoining of Paris Agreement in January 2021 and release of a long-term climate strategy of delivering netzero emissions no later than 2050 in October 2021.<sup>20</sup>

Following the inception of European Energy Crisis in September 2021, and the outbreak of the Russian-Ukrainian War in February 2022, Europe's energy system faces an unprecedented crisis.

Due to rising geopolitical tensions and increasing securitization of energy and climate policies across the globe, Chinese experts began to pay more attention to the EGD's negative implications for China. For instance, Dong and Zhao (2023)<sup>21</sup> complain that green development under the EGD narrowly focuses on economic competition, and government interventionoriented industrial policy differs significantly with EU's past practices. Given the overly protectionist and geo-politicized nature of the EGD's supporting instruments such as EU CBAM, Net-zero Industry Act, and European Critical Raw Materials Act, the implementation of the EGD will inevitably result in negative impacts on global low carbon development and relevant supply chains. As the EU's derisking strategy primarily targets China, Sino-EU collaboration on energy and climate is expected to be negatively affected, with repercussion for the EU's own low carbon development and energy transition agenda.

Jointly facing the looming danger of a second Trump presidency, Sino-EU diplomacy including climate dialogues has significantly intensified in recent months, and China's perception towards the EGD also becomes more nuanced. For example, Zhao (2024)<sup>22</sup> not only presents the noticeable progress made by the EU on target setting, legislation, finance and investment, and implementation, but also identifies various challenges such as lack of commitment of certain agenda items, significant gap between word and deeds, dilemma related to the EU CBAM, and difficult economic

<sup>20. &</sup>quot;The Long-Term Strategy of the United States: Pathways to Net-Zero GHG by 2050", available at: <u>www.whitehouse.gov</u> [accessed on March 20, 2024].

<sup>21.</sup> Y. Dong, H. Zhao, "Ambitions and Predicaments Related to the EU Green Deal", *Peace and Development*, No. 5, 2023, pp. 102-127;176.

<sup>22.</sup> B. Zhao, "The EU Green New Deal and New Development of Climate Politics", *Contemporary World*, No. 2, 2024, pp. 26-31.

recovery. Though the implementation of the EGD gives the EU certain first mover advantages, the EU may still need to make more concerted efforts to recover its economy, and promote industrial and energy transitions, in support of its long-term climate neutral goal. Finally, no matter how the EGD unfolds in the EU, China needs to continuously monitor and evaluate its short-term development as well as long-term prospects, aiming to promote a more just and rational global governance regime.

# *Driving forces that lead to positive Chinese perception*

### Recognition of the EU's global climate leadership especially amid uncertainties brought by the forthcoming US presidential election

Given the EU's proven track record on clean energy transition and climate change, the bloc's global climate leadership is not only widely recognized by Chinese stakeholders, the EU is also long regarded as a role model for China's own green transition agenda as it took global climate leadership.

China's pilot ETS starting from 2013 and national ETS operational in July 2021 have all learnt from the EU ETS. China's renewable feed-in tariff (FIT) policy introduced since 2009 for onshore wind and since 2011 for solar PV has been instrumental in driving the rapid expansion of its renewable energy sector, its design has been inspired by successful implementations of similar policies in other countries, particularly in Europe, including Germany's Renewable Energy Sources Act (EEG) (2000), and similar incentives in Spain and Demark. Coupled with long history of Sino-European energy and climate collaboration, Chinese key stakeholders are eager to examine the EGD since its introduction and learn relevant experience and lessons to move China's own transition agenda forward.

To make the EUs' global climate leadership even more appealing to the eyes of Chinese, a rather disruptive history of climate commitments made by various American administrations also help to certain extent. Although the Clinton administration signed the Kyoto Protocol in 1998, George W. Bush quickly stated his opposition upon taking office in 2001. In 2015, the Barack Obama administration teamed with China to conclude the Paris Agreement, only for President Donald Trump to pull the US out of the deal in 2017. Then, on his first day in office this January 2021, President Joe Biden took steps to put the US back in the Paris Agreement. It is thus legitimate for the international community to have questions about the political credibility of any major climate commitment made by the US government. While the Biden administration has made strong climate pledges, the devil, as always, is in the details of the supporting policies and their political sustainability,<sup>23</sup> especially when considering the forthcoming US presidential election.

### Chinese desire to maintain Sino-European ties on clean energy research and innovation, investment and trade

To achieve the dual carbon goals, China needs to make enormous domestic investment, with total capital need by 2060 estimated to exceed US\$15 trillion.<sup>24</sup> China will spend a significant portion of the above investment on clean energy research and innovation. As the world's largest clean energy market, China will remain a major global player in clean energy research and innovation in decades to come. Similarly, clean energy research and innovation is critical to reach climate objectives as part of the EGD, not least via the Innovation Fund.

In the era of globalization especially after China joined the WTO in 2001, China has obtained technology transfers from Western countries. This has been a cost-effective way for it to catch up and to advance its technology in various sectors,<sup>25</sup> such as solar PV, wind, battery storage and electric vehicles. Even though the geopolitical climate is no longer geared towards maximum openness and international collaboration and is increasingly dominated by technological decoupling and export restrictions, the EU needs to face the political reality that China is already a clean energy superpower. Meanwhile, China's choice for international collaboration on clean energy research and innovation becomes increasingly limited. Looking ahead, to what extent the EU and China will maintain or decouple bilateral ties on clean energy research and innovation will become an important factor shaping the pace from clean energy breakthroughs to economies of scale in manufacturing, with profound implications for the global climate agenda.

China and the EU also face similar predicaments in areas of clean energy investment and trade. Taking Sino-EU bilateral trade on solar PV as an example, while solar power will remain the backbone of Europe's clean energy transition, the European solar power revolution is, and will continue to be, predominantly "made in China". In 2022, 96% of Europe's imports of solar panels came from China,<sup>26</sup> largely due to China's more than 80% market share throughout the entire solar PV value chain including

<sup>23. &</sup>quot;China, the World, and the Mantle of 'Green Leadership'", available at: <u>www.sixthtone.com</u> [accessed on March 5, 2024].

<sup>24. &</sup>quot;Dual Carbon Goals-related Investment: Priority and Finance Mechanisms", available at: <u>https://m.thepaper.cn</u> [accessed on March 6, 2024].

<sup>25. &</sup>quot;Climate Superpowers: How the EU and China Can Compete and Cooperate for a Green Future", available at: <a href="http://www.e3g.org">www.e3g.org</a> [accessed on March 3, 2024].

<sup>26. &</sup>quot;International Trade in Products Related to Green Energy", available at: <u>https://ec.europa.eu</u> [accessed on March 4, 2024].

polysilicon, ingot, wafer, cell and module manufacturing<sup>27</sup> as well as Chinese PV manufacturers' extraordinary ability to bring down unit cost of solar panels by more than 95% since 2007.<sup>28</sup>

To improve supply chain resilience, the Net-Zero Industry Act under the EGD aims to achieve a non-binding 40% self-sufficiency benchmark for solar panels and other strategic net-zero technologies by 2030. In recognition of the increasing lack of comparative competitiveness of EU solar panel manufacturers, the European Commission signed the European Solar Charter in April 2024, and sets out a series of voluntary actions to be undertaken to support the EU PV sector. It is worthwhile to note that the above Charter has taken a balanced approach and bears no mention of EU trade tariffs or restrictions on cheap solar panel imports.<sup>29</sup> Otherwise, EU-China trade frictions if any are expected to result in significantly higher unit costs of solar panel imports, similar as what happened in the United States and India, as illustrated in Table 1.

Time	PERC module price difference compared with China (\$/w)			PERC module price difference compared with China (\$/w) Percentage of price growth compared with				hina	
	India	USA	Europe	Australia	India	USA		Europe	Australia
2021Q1	0.002	0. 119	0.000	0.000		1%	56%	0%	0%
2021Q2	0.009	0. 112	0.000	0.000		4%	49%	0%	0%
2021Q3	0.001	0. 102	0.000	0.000		0%	43%	0%	0%
2021 <b>Q</b> 4	0.000	0.062	0.004	0.004		O%	23%	1%	1%
2022Q1	0.002	0. 058	0.003	0.002		1%	22%	1%	1%
2022Q2	0.000	0. 073	0.008	0.005		0%	27%	3%	2%
2022Q3	0.001	0. 077	0. 011	0.009		O%	29%	4%	3%
2022Q4	0.082	0. 116	0.002	0.007		32%	46%	1%	3%
2023Q1	0. 086	0. 143	0.006	0. 022		38%	64%	3%	10%
2023Q2	0. 086	0. 165	0.005	0.006		41%	79%	2%	3%
2023Q3	0. 101	0. 197	0.003	0.002		59%	116%	2%	1%
2023 <b>Q</b> 4	0.100	0. 201	0.002	0. 001		77%	154%	2%	1%

# Table 1: Comparison of unit costs of PERC\* solar panelsin selected overseas markets against China

#### Source: Adopted from C. He (2024).<sup>30</sup>

\* PERC stands for Passivated Emitter and Rear Contact. PERC is currently the mainstream solar panel technology.

<sup>27. &</sup>quot;Solar PV Global Supply Chains", IEA, available at: <u>www.iea.org</u> [accessed on March 6, 2024].
28. B. Wang, "National Solar PV Capacity Addition in 2024 Is Expected to Reach 190-220 GW",

<sup>available at: <u>http://gxt.shaanxi.gov.cn</u> [accessed on March 6, 2024].
29. European Solar Charter, available at: <u>https://energy.ec.europa.eu</u> [accessed on March 6, 2024].
30. C. He, "Solar Power In-depth Research: N-type in the Mainstream, Demand Drives Differentiation of Comparative Advantages Among Technologies", Guolian Securities, February 18, 2024.</sup> 

As accelerating the deployment of solar panels is deemed as a much higher economic-security priority for Europe than developing its own PV manufacturing capabilities,<sup>31</sup> trade restrictions on Chinese solar panel imports did not gain tractions in Europe so far. Nevertheless, similar stance does not necessarily apply to other clean energy technologies. In September 2023, the European Commission launched an anti-subsidy investigation into electric vehicles coming from China, followed with another one against Chinese wind turbine manufacturers in April 2024.

To avoid a tit-for-tat EU-China trade war on clean energy technologies as well as the unnecessarily high costs required to deliver the EU's climate-neutral goal by 2050, concerted efforts should be made by both sides to explore politically plausible and mutually acceptable solutions. In this regard, China should seriously consider how to steer Sino-EU collaboration on energy and climate in an increasingly mutually beneficial direction. By comparison, the EU should avoid oversecuritization or geo-politicization of its energy, industrial and climate policies, thus leaving sufficient room for bilateral clean energy investment and trade. One low-hanging fruit that deserves special attention from both sides is that the "third market cooperation" in the Chinese context and "friendshoring" in the EU context should have the potential to create synergy. If Chinese manufacturers could be allowed to make investment in regions with good relations with both EU and China, this might be helpful to improve supply chain resilience from the EU perspective and also offer investment and growth opportunities for Chinese manufacturers. If the above issue could be tackled from the right angle, the strong capacity of Chinese clean energy manufacturers could be tapped to help improve EU supply chain resilience with substantial benefits shared by all sides.

#### Chinese positive perception of Europe

In the mid-2000s, Figure 5 (p. 24) indicates that the percentage of the population in selected Western countries who had an unfavorable opinion of China was (well) below 50% and then fluctuated over time, trending upwards, especially after the outbreak of US-China Trade War in 2018. In all the Western countries surveyed in 2023, the shares who say they have an unfavorable opinion of China are at or near their historic highs in Pew Research Center's nearly two decades of polling on this topic.<sup>32</sup>

<sup>31. &</sup>quot;Smarter European Union Industrial Policy for Solar Panels", Bruegel Institute, available at: www.bruegel.org [accessed on March 6, 2024].

<sup>32. &</sup>quot;Views on China", Pew Research Center, available at: <u>www.pewresearch.org</u> [accessed on March 21, 2024].



#### Figure 5: Percentage in a surveyed country who have an unfavorable opinion on China

Source: Pew Global Attitudes Survey (various years).

While recent public opinion polls conducted in Western countries show increasingly negative views of China, the Chinese public does not necessarily hold similar views of "the West" as a whole. According to a two-wave survey in China, Adam Liu *et al.* (2023).<sup>33</sup> discover great divergence and asymmetries in Chinese public perceptions. Figure 6 (p. 25) indicates that there is no monolithic "West" in the eyes of the Chinese public, and Chinese attitudes toward European countries and the US differ significantly, despite they all belong to "the West" in mainstream English and Chinese discourses.

By comparison, whereas the Chinese reciprocated American antipathy with a low favorable opinion of the US, there was an asymmetry in public perceptions between China and Europe. Though major EU Member states such as Germany and France have long held rather negative attitudes toward China, the Chinese public still expresses much greater favorability towards European countries than the other way around, though the degree of favorability still varies across countries.

Meanwhile, it is worthwhile to note reciprocation between the US and China, as well as asymmetry in public perceptions between China and Europe, also held in the past. Back in 2010, while 49% of American have a favorable opinion on China, the Chinese public reciprocated with a 58% favorability towards the US<sup>34</sup> By comparison, though 61% of German, and 59% of French have an unfavorable opinion of China in 2010, 85% of Chinese back then have a favorable attitude towards the EU.<sup>35</sup>

<sup>33.</sup> A. Liu *et al.*, "Unpacking 'the West': Divergence and Asymmetry in Chinese Public Attitudes Towards Europe and the United States", *Journal of Current Chinese Affairs*, Vol. 52, No. 1, 2023, pp. 119-133.
34. "Views of China", op. cit.

<sup>35.</sup> H. Dekker, J. van der Noll, *Chinese Citizens' Attitudes Towards the European Union and their Origins*, Nottingham: China Policy Institute/University of Nottingham, 2011.



#### Figure 6: Favorable opinion on each other between China and selected western countries in 2021

Source: Pew Global Attitudes Toward China Survey 2021, and A. Liu et al. (2023).<sup>36</sup>

## Challenges to Sino-European relations

### The perception of a strategic shift by the EU towards trade protectionism and state interventions

The EU has long championed the principle of free trade and multilaterism until recently, when a complex international landscape poses many challenges to the Union, from the risk of collapse of the multilateral trading system to new strategies endorsed by key global players such as US Unilateralism, China's Exceptionalism and Russia's "Disruptivism".<sup>37</sup>

Cheng (2021) claims that the EU has already launched a new round of protectionism, with coverage extended to trade, investment, technology etc. Nevertheless, though EU protectionism is expected to stay in the long run, the principle of open and free trade will still remain the EU's mainstream strategy.<sup>38</sup>

<sup>36.</sup> A. Liu *et al.*, "Unpacking 'the West': Divergence and Asymmetry in Chinese Public Attitudes Towards Europe and the United States", op. cit.

<sup>37. &</sup>quot;EU Multilateral Trade Policy in a Changing, Multipolar World: The Way Forward", available at: <u>https://link.springer.com</u> [accessed on April 4, 2024].

<sup>38.</sup> W. Cheng, "New Development of the EU's New Round of Protectionism", 2021, available at: <u>http://ies.cssn.cn</u> [ accessed on March 3<sup>rd</sup> 2024].

When the Business Environment Report of the EU 2022/2023 was released in March 2023, China Council for the Promotion of International Trade (CCPIT) openly expressed China's rising displeasure over the perceived EU strategic shift towards trade protectionism and state-interventions via the following complaints:<sup>39</sup>

- trade protectionism and over-intervention have made the EU business investment worse;
- the EU's "policy toolbox" has raised market access barriers across the board;
- generalization of the national security concept has hindered free trade;
- intensified trade protectionism accelerates decoupling from China on multiple fronts;
- discriminatory public services increase operational uncertainty for Chinese companies.

Taking the EU CBAM as an example, the EU considers it as a legitimate policy instrument intended to avoid carbon leakage and lose economic competitiveness due to its own higher climate ambitions. By comparison, as the world's largest exporting country, China is naturally concerned about any unilateral move by its trading partner that may negatively affect the economic competitiveness of Chinese products and services in the international market. China exports more manufactured goods and services to the EU than any other country. Not surprisingly, the unilateral introduction of the EU CBAM has thus raised serious concerns among Chinese stakeholders.

Despite being open to dialogue, Chinese stakeholders widely hold a rather negative perception towards the EU CBAM as a carbon tariff to protect selected European sectors. More specifically, Chinese scholars believe that the CBAM should be implemented under the multilateral framework of the United Nations and that the right of developing countries to equitable development should be emphasized. The CBAM is deemed a manifestation of the EU's "invisible carbon barrier" and a tool of trade protectionism, which fails to fully adhere to the principle of common but differentiated responsibility, the Paris Agreement and the WTO multilateral trade framework. It may harm the developing country bloc in addressing climate change while growing a green economy. The EU, they argue, should avoid adopting a unilateralist CBAM and transferring the burden of climate mitigation to developing countries.<sup>40</sup>

<sup>39. &</sup>quot;Business Environment of the European Union 2022/2023", China Council for the Promotion of International Trade, 2023, available at: <u>www.ccpit.org</u> [accessed on April 6, 2024].

<sup>40.</sup> K. Tu *et al.*, "EU-China Roundtable on Carbon Border Adjustment Mechanism", Briefing of the first dialogue on May 26, 2021, Berlin: Agora Energiewende, 2021.

Nevertheless, since the EU CBAM entered its transitional phase in October 2023, expected CBAM-related trade frictions between EU and China did not materialize so far, and key Chinese stakeholders especially exporting companies from those affected sectors are scrambling to better understand its mechanism and prepare reporting mandated by the EU.

### <u>Perceived and actual backlash against Europe's</u> <u>green transition agenda</u>

In the era of poly-crises, the EU enjoys widespread recognition among Chinese stakeholders for its global climate leadership with admiration. The downside of the story is that any domestic backlash against Europe's green transition agenda will not only lower Chinese public confidence towards the EGD but also sometimes attract ill-intended media reactions.

After the outbreak of the Russian-Ukrainian War in February 2022, some European countries were forced to restart mothballed coal-fired power plants. Germany, with its 2045 climate neutrality goal, and nuclear and coal phase-out plans, has been deemed by key Chinese stakeholders as the champion of the EGD. Germany's restart of coal power plants in late 2020 thus attracted particularly negative media coverage in China:

- CCTV: environment protection is no longer a concern, Germany's largest coal-fired plant was restarted for power generation.<sup>41</sup>
- The Paper: Germany, a pioneer for coal phase-out, restarted coal plants to save gas. Will its 2030 coal phase-out target be ever achievable?<sup>42</sup>
- Germany suddenly restarted five coal power plants, a slap in the face? The time to know the country's true colors.<sup>43</sup>
- Amid an energy crisis, how was Germany's environmental protection idealism compromised by reality?<sup>44</sup>

Only after concerted efforts were made by key stakeholders such as Agora Energiewende and GIZ to explain the rationale as well as the scheduled re-closure of those coal power plants to the Chinese audience in detail the above media frenzy started to faint.

Though the UK has no longer been an EU member country since January 2021, the country's rollback of climate policies in September 2023 was not only widely condemned by the international environment community but also attracted bad media coverage in China, with potentially negative impacts on Chinese perception towards the EGD.

<sup>41.</sup> Available at: <u>http://china.cnr.cn</u> [accessed on April 6, 2024].

<sup>42.</sup> Available at: <u>https://m.thepaper.cn</u> [accessed on April 7, 2024].

<sup>43.</sup> Available at: <u>www.163.com</u> [accessed on April 7, 2024].

<sup>44.</sup> Available at: https://news.sina.com.cn [accessed on April 7, 2024].

### Conclusion

Since the release of the EU-China Strategic Outlook in 2019, the EU has defined China as a cooperation partner with whom the EU has closely aligned objectives, a negotiating partner with whom the EU must find a balance of interests, an economic competitor in the pursuit of technological leadership, and a rival promoting alternative governance models.

From the Chinese perspective, among the top five CO<sub>2</sub> emitting economies, namely China, the US, EU, ASEAN and India, China is facing the most challenging international environment. If bilateral relations among them are described with traffic light, China's relations with both the US and India arguably fall between yellow and red light, and EU-China relations are in the yellow light zone. Against rising geopolitical tensions, how to re-energize China-EU collaboration on energy transition and climate change becomes increasingly imperative to stabilize bilateral relations. Meanwhile, China also becomes increasingly wary of securitization and geopoliticization of the EU's energy and climate policies.

How to appropriately balance EU-China climate engagement between "partnership" and "competition" remains an open question. Both China and the EU should avoid being overly distracted by the ongoing US-China rivalry when tackling the most paramount global challenge either bilaterally or multilaterally and maintain sufficient political space for collaboration instead of confrontation on pressing climate issues.

# The EU Green Deal, India and beyond

#### Narendra Taneja

India is a supporter of the EU's efforts to incentivize green and renewable sources of energy. There are multiple tracks engaged in promoting India – EU cooperation and collaboration in the low-carbon energy sector. Solar, offshore wind, hydrogen, gasification, carbon capture, storage, electric transportation, energy efficiency, modeling, climate finance, research and training and policy infrastructure support are among the noted areas.

India, home to 1.4 billion women, men, and children, is almost three times bigger than the EU in terms of population, with its federal Constitution allowing considerable autonomy to various states in most areas except defense, foreign policy, and a few others. Oil, gas, coal and nuclear power are almost tightly controlled and regulated by the Centre in New Delhi, but states play a lead and formidable role in renewables and biofuels. The ever-expanding private sector is the biggest player in renewables. Hence, India is not only about what the Centre thinks but also, if not more, about what other players and stakeholders think and do – be it about the EGD, the IRA or, for that matter, even – which has almost no support in any quarters in India – China's Belt and Road Initiative.

### An increasingly complex reading of the EU in the current geopolitical and geoeconomic context

Most Indian observers increasingly look at the EU with two prisms: the EU before the Ukraine War (UW) and the EU after the UW. There is a view that the EU has turned more inward-looking, unsure, short-sighted and a bit transactional since the UW, and that it is concerned only about its own energy security. Many think that the EU, which used to be more inclusive, far-sighted, and global-minded, and doing everything possible to strengthen the EU's energy autonomy – by building grids, pipelines and energy evacuation infrastructure within and with the countries all around Europe and beyond – is now history. They also point out the visible disagreements – some prefer to call them the fault lines – between the bigger economies like Germany and the smaller ones on issues such as energy transition, the role of natural gas, nuclear power and the future of coal.

Geopolitical pundits also caution the EU against its "strategic slumber" *vis-à-vis* Beijing and the alleged "China addiction". They believe that the authoritarian China today enjoys bigger sway over the democratic EU's rules against itself (Beijing), leaving several countries a bit worried on the front of their own otherwise close ties with Brussels. "Are the German car makers more powerful than the politicians in Berlin or Paris when it comes to the EU's China policy?" asked a former Indian ambassador in Europe, and then rushing to answer the question himself, "Well, the fact is that seems to be the case".

However, the EU is among the top priority regions for India, with deep and historic ties based on mutual interests and common democratic values. India and the EU share similar views on several matters of strategic importance, such as the Indo-Pacific, the Indian Ocean, the India-Middle East Economic Corridor, the Arctic and, last but not least, on building a sustainable global energy and climate securities order.

# A perception that the EU does not understand the challenges of developing countries

While India and the EU are working closely involving the EU's ambitious Green Deal mission and India's equally ambitious multiple expeditions to achieve the Net Zero emission target in the stages by 2050 and 2070, it is, however, the bilateral energy ties between India and France and India and Germany that dominate the India-Europe energy universe.

Every step that the EU takes is followed with tremendous interest and objectivity in India. CBAM has been carefully studied but has found almost no support in the country. Many consider it "outright discriminatory" and "the one that would create hurdles in trade and commerce". India seeks a greater understanding of its energy security as New Delhi does everything possible to deepen its energy and climate partnership with the EU. For instance, coal is the only stable source of fuel for India. New Delhi has a high to very high dependence on imports of all other fuels, especially oil. In such a scenario, a Just Transition Partnership has to be truly that: "Just".

India's ambition is to be energy-independent by 2047, and solar, hydrogen and nuclear are projected to play an important role in it. Therefore, India is keen to incentivize research and development and manufacturing in solar and hydrogen particularly to become self-reliant and also an important export hub to the extent possible. India is keen to collaborate with Europe wherever possible in efforts to realize these goals. A green economy is India's declared priority, and manufacturing of solar panels, cells, batteries, EVs and hydrogen electrolyzers are focused priority areas as far as India's industrial policy, both at the federal level and state level is concerned. Most in India's strategic community admire the level of understanding between New Delhi and Paris, most particularly on jointly pioneering the inter-governmental International Solar Alliance and the partnership in setting up the upcoming new generation nuclear power reactors in India with the French collaboration, the alleged rethinking at the Élysée Palace on the future of nuclear energy, post the Fukushima accident, notwithstanding.

Experts in India also want to know more about the EU's plans for its autonomy in the renewable energy space and also seek more clarity on its stand on nuclear power, which India believes will play a key role in achieving global energy and climate security agendas. There are also serious concerns about the inability on the part of many sections within the EU to understand the Global South's dependence on oil, gas and coal to build and sustain their economic growth and eradicate energy poverty. The per capita energy consumption in India, for instance, is still among the lowest in the world.

India stands 4<sup>th</sup> globally in terms of renewable energy installed capacity: 4<sup>th</sup> in wind and 5<sup>th</sup> in solar power, which makes the country a world superpower in its pursuits for green energy and, hence, the faster transition away from fossil fuels. However, given India's heavy dependence on imports for fuels (87% for oil, 54% for natural gas) and on "rival" China for solar power equipment, India has no alternative but to aggressively secure more oil, gas and coal from wherever and howsoever it can for two or three decades more as part of its two national missions: 1. To become a developed economy by 2047 and 2. Achieve energy independence by 2050. India foresees its energy mix made mainly of renewables, hydrogen and nuclear power by 2050.

### Perspectives for future EU-India cooperation on climate and energy issues

India and the EU partnership would flourish further if Brussels could show respect to the following facts: 1. India needs all sources of energy available, including oil and coal, to sustain its economic growth, eradicate poverty and secure its borders and shores strongly in an increasingly hostile neighborhood; 2. India needs the latest technology and capital on better and more friendly terms for its ambitious energy transition agenda; 3. Brussels must respect that, in India, the transition away from fossil fuels would happen at its own pace and with its own characteristics; 4. India is a vibrant democracy. Greater dialogues and engagements with all stakeholders and partners are the best way forward to deepen the India-EU energies ties.

The EU needs to recognize that wind and solar combined still supply only under 4% of the global energy mix while the share of hydrocarbons is still a mammoth 80%. The EU must become more realistic as far as such global hard realities are concerned. India and the EU together have the potential to construct a new template for cooperation and collaboration in low carbon energy, based on a mutually respected take on climate change, energy transition and eradication of energy poverty. If successful, such a template would inspire other countries and regions to enter into similar agreements with the EU. Showing respect for each other's limitations and constraints is the key.

# Rekindling the South Africa – EU strategic partnership for converging interests and shared value

#### **Gaylor Montmasson-Clair**

"When elephants fight, the grass gets trampled," goes the African proverb. South Africa, like other low- and middle-income countries, is caught in the crossfire of a tri-partite race between the EU, US and China aimed at securing "green" competitiveness and advantage. This dynamic has recently put the long-standing strategic relationship between the EU and South Africa under scrutiny.

The EU has been a major political and economic partner of South Africa since the dawn of democracy. Strategized under the Trade, Development and Cooperation Agreement (TDCA) in 1999 and the Joint Action Plan of 2007, the EU-South Africa Strategic Partnership has, despite some divergences of interests and visions, withstood the test of time, carried by common and converging commitments and goals.

As a bloc, the EU is South Africa's largest trading partner. Under the auspice of the EU-Southern African Development Community (SADC) Economic Partnership Agreement (EPA), 19% of South Africa's exports landed into the EU (US\$21 billion) in 2023, while South African imports of European goods totaled US\$25 billion (or 23% of South African imports). European direct investment into the South African economy has also been historically strong. The economic bloc accounts for more than half of all foreign direct investment in the South African economy, at R1.6 trillion (US\$94 billion) at the end of 2022. In addition, the Union and its members have been a major source of support and development assistance to South Africa, second only behind the US.

Yet recent developments in EU policy, including the Union's bilateral engagement with South Africa, point to an underlying shift in dynamics. The EGD is set to have drastic impacts on the South African economy and broader geopolitical relationships. The signing of a JETP, heralded with great fanfare in 2021, has done little to allay fears.

## Collateral damage

The EGD, as part of its "Fit for 55" policy package, which targets a reduction of European GHG emissions of 55% by 2030, compared to 1990 levels, has wide-ranging implications for the South African economy. The set of legislations and regulations enacted by the EU affects virtually every value chain.

In South Africa, the CBAM has crystallized a lot of concerns. Based on 2022 data, 19% of South Africa's iron and steel exports and 28% of aluminum exports are at risk in the short term. Exports of organic chemicals and plastics are also at threat in the medium term. Given the fragility of the local economy and of affected industries, specifically, the additional financial burden or the loss of market triggered by CBAM would further weaken the prospects of sustainable development.

The mechanism is unjust. It would see many low- and middle-income countries bear the externalized cost of the EU's decarbonization journey in the context of an international commitment to Common but Differentiated Responsibilities and Respective Capabilities (CBDR-RC). CBAM would see climate-based financial transfers from the Global South to the EU in direct opposition to global climate goals and negotiations. It would also see the imposition of European carbon pricing on Global South firms, against the spirit of CBDR and Nationally Determined Contributions of the Paris Agreement. Despite this, there has been a lack of bilateral (and international) dialogue and engagement in the lead-up to the CBAM. These features have prompted the South African government to lead a Global South campaign against the mechanism and other green protectionist measures. Responsible for merely 3% of historical GHG emissions, African countries specifically, led by the South African delegation, have, as a bloc, rejected the CBAM as a unilateral, protectionist and unfair measure, calling on the EU (and other large emitters) to face their historical climate debt universally recognized under UNFCCC processes. Local stakeholders have also called for the development status and the (absence of) climate responsibility of African countries to be recognized and internalized by Global North partners.

In addition, the very short transition period, leaving little room for affected industries to decarbonize, and the lack of assistance in establishing MRV systems as well as rolling out low-carbon technologies in targeted "hard-to-abate" industrial sectors, has also raised serious issues for the South African government and business. Short-term avenues for South African exporters to avoid any CBAM liability are limited. While most firms have embarked on a decarbonization journey, notably by improving energy efficiency and procuring their own renewable energy, energy-intensive industries need time and resources to adjust. Some activities, such as aluminum smelting, also have no choice but to rely, at least in part, on the national grid, which will take decades to decarbonize. Policy options, particularly the role of South Africa's own carbon tax, are currently being investigated as a way of retaining any carbon-related payment locally. The impact on the broader economy of any increase in carbon pricing, especially given South Africa's ongoing social and economic challenges, remains a major stumbling block, however.

Furthermore, the CBAM truly is the tree that hides the forest. First, the implementation of the EU CBAM has initiated a domino effect, with most other Global North economies (such as the UK, the US, Australia, Canada, and Japan) actively looking at implementing their own border carbon tax in the near future. Second, the CBAM is just one of the many components of the EU Green Deal that have externalized impacts. The Farm to Fork Strategy, the Regulation on Deforestation-free supply chains, the Circular Economy Action Plan and the Sustainable and Smart Mobility Strategy, among others, will drastically impact South Africa's agricultural and manufacturing value chains (impacting the export of wines, citrus fruits, automotive vehicles and more). The Corporate Sustainability Reporting Directive (CSRD), which requires Europe-based companies to report extensively on their supply chain emissions (as part of Scope 3 emissions), will have a direct impact on all South African suppliers. Third, the Green Deal forms part of a "green industrial policy" drive and the associated scramble for "critical minerals" unfolding primarily between the EU, the US and China. The "sustainability grip" of predominantly Global Northheadquartered lead firms is tightening on their global supply chains, squeezing their suppliers based on environmental grounds, and simultaneously, the policy space of Global South countries to develop sustainably and inclusively is proving increasingly harmfully constrained.

Yet, South Africa displays extensive capabilities and expertise in a number of critical value chains. In addition to a rich mineral endowment, the South African economy benefits from a robust skill base and globally competitive industries in multiple sectors (e.g., mineral beneficiation, metal products, automotive, chemicals, machinery, capital equipment, agroprocessing, and battery manufacturing). With the adequate domestic policy environment and strategic support from international partners such as the EU, an array of economic opportunities could materialize for companies able to overcome the obstacles. The automotive, renewable energy, battery storage, sustainable fuel, "green" chemicals, waste management, water treatment, and noise and vibration control industries are some of the sectors that could benefit from increased access to the European market going forward.

## Inadequate transition support

With just transition ambitions overtly stopping at the EU border in the EGD, the striking of a JETP between South Africa and a consortium of predominantly European partners has carried the hopes of strong, just transition support flowing to South Africa.

The JETP between South Africa and the UK, Germany, France, and the US, along with the EU, initially totaled US\$8.5 billion. This was extended to US\$11.6 billion, with the Netherlands, Denmark, Spain, Switzerland, and Canada joining the partnership. The deal is an important milestone, implementing commitments to international support from Global North economies to Global South countries in their pursuit of a just transition to a green economy.

It is a start, and yet, its scale is patently mismatched with what is required for South Africa to affect a socially inclusive, sustainable transition. The implementation plan of the JETP itself estimates that South Africa requires a total of R1.5 trillion over five years to implement a just transition in the electricity, automotive and green hydrogen sectors. The JETP (as it stands now) will cover about R198 billion, or 13% of that, leaving a significant financing gap.

The JETP implementation plan, developed largely behind closed doors, is not a comprehensive plan for South Africa's just transition, but only a contribution towards it covering three sectors (electricity, new energy vehicles and green hydrogen). And, of course, one should not expect a handful of countries to exclusively foot the bill, but it does give an idea of the scale of the challenge and how much reliance can be placed on international partnerships.

While US\$11.6 billion is a significant sum in absolute terms, it is worth putting this sum into perspective. Direct investment into South Africa by the Netherlands, UK, US, Germany, and France (i.e., the key JETP partners) as of the end of 2022 stood at R1074, R715, R161, R121 and R33 billion, respectively, summing to R2.1 trillion or about US\$124 billion. South Africa's insured export credit exposure in 2021 totaled US\$64 billion, including US\$45 billion of short-term trade finance. This gives an idea of the availability of insurance and guarantees.

Looking at the details, to what extent is the JETP a "decarbonization" versus a "just transition" plan? Not surprisingly, the vast majority of the funding is required for the electricity value chain (R1,030 billion over the 2023-2027 period), ahead of green hydrogen (R319 billion) and NEVs (R128 billion). The bulk of the funding is for infrastructure (R1,374 billion or 93% of the total envelope), which is skewed significantly towards solar and wind generation investments (R474 billion). This infrastructure funding, which was the original intent of the JETP, is critical to support South Africa's cash-strapped utility in expanding the country's electricity

grid and enabling a large-scale rollout of renewable energy technologies. Economic diversification and innovation are allocated a mere R83.4 billion in comparison. Social investment and inclusion, as well as skills development, receive R9.6 and R2.7 billion, respectively. Overall, over the five-year period, R60 billion is considered to be necessary for a just transition in Mpumalanga's coalfields.

The composition of the offer looks more like business-as-usual than a rebalancing of financing terms in line with a global just transition: 42% of concessional loans, 24% of commercial loans or equity, 16% of export credit, 12% of guarantees and a mere 7% of grants. By comparison, over the 2018-2022 period, South Africa received US\$3.0 billion of ODA grants from the US, US\$0.2 billion from the UK, US\$0.1 from Canada and Switzerland, and US\$0.7 billion from the European JETP countries (Germany, France, Denmark, Netherlands, Spain, EU). While these ODA grants do cover a wide array of issues (e.g., health and education), the amount vastly outweighs the grant component of the JETP (US\$756 million).

This raises questions about the developmental nature of the just transition partnership, especially given South Africa's existing debt constraints. The allocation of the grant funding to date and its unimpactful nature have also been heavily criticized for flowing primarily for foreign entities and consulting firms rather than on-the-ground communities.

The terms of loans and guarantees remain, for most, to be determined, but what is already known raises further questions. The terms of  $\bigcirc 600$ million concessional loans from France and Germany ( $\bigcirc 300$  million each) forming part of the JETP, at an average rate of 3.3% over 20 years, provide the South African government with relatively cheap finance. However, these are denominated in Euros, adding to South Africa's exposure to foreign exchange. More problematically, these loans are for general budget support and, therefore, not earmarked for the country's just transition. These loans are probably beneficial to South Africa on their own account but labeling them as "just transition finance" is problematic.

Comparatively, separate from the JETP, the European Investment Bank (EIB) has extended a €200 million line of credit to the Development Bank of Southern Africa (DBSA), leveraging a further €200 million (half from the Green Climate Fund and half from the DBSA) to support the delivery of 1,200 MW of distributed renewable energy generation by private investors. This facility is set to complement the EIB's contribution to the JETP (US\$1 billion of loans and US\$35 million of grants). While exact terms are not public, the EIB is known for offering targeted, earmarked finance in local currency.

The JETP is certainly a worthwhile effort to attend to just transition issues in some of the key sectors of the economy by mobilizing and channeling foreign resources. It is not, however, *the* solution for financing South Africa's just transition, and there is no guarantee that it will be provided on inclusive terms beneficial for the country's development. Assessing the plan with a critical eye reveals a mixed bag, made of opportunities, as well as a number of risks and concerns to be borne in mind going forward. As the bulk of the funds is yet to flow, the opportunity to maximize impact remains open.

# Way forward

Looking ahead, South Africa faces an imperative to deliver a just transition to a green economy. South Africa is afflicted by the triple social ills of high unemployment, widespread poverty, and extreme inequality, with a highly carbon-intensive economy historically dependent on coal-fired power plants and energy-intensive, extractive industries. As the country embarks on its low-carbon transition, with at its core massive investment in renewable energy and battery storage and the phase-out of the extensive domestic coal value chain, the long-standing relationship with the EU should prove to be truly a *strategic partnership*, focusing on shared value and synergetic dynamics.

Notably, it ought to strengthen the competitiveness of the South African economy in "green technologies" and "digital innovation". Mutually beneficial strategies, particularly in terms of value and employment creation and access to resources (including critical minerals), should provide pathways to avoid zero-sum games. European OEMs and lead firms can play a strategic role in supporting South African companies to move up their value chains through industrial clustering, technology upgrading, and knowledge and skills sharing. European MDBs and DFIs can help address the high cost of capital in the South African economy through concessional, de-risked and innovative financing arrangements. At the political level, collaborative approaches to build policy regimes jointly addressing socio-economic and environmental challenges in favor of a global just transition should be actively pursued, merging the European priority of climate change mitigation and the South African imperative of socio-economic upliftment.

# Türkiye's perspective on the EU Green Deal

#### Fatin Durukan

Türkiye's energy transition is characterized by profound shifts, including substantial investments in renewable energy and a move towards decentralized energy systems, spurred by economic expansion and growing energy demand. Despite these efforts, GHG emissions in Türkiye have surged by 157% over the last three decades, driven by factors such as growth in the energy, transportation, and industrial sectors (fueled by economic and population growth), as well as recent periods of high temperatures and drought.<sup>45</sup> Türkiye's electricity generation relies on coal (35%) and gas (23%), with hydro and renewables making up around 38% in 2022. The commissioning of nuclear power reactors is positive but will not alter the strong share of fossil fuels in a generation.<sup>46</sup>

In this regard, the Turkish government, businesses, and NGOs are working to ensure Türkiye's compliance with the EGD and to accelerate the green and energy transition.

### EU-Türkiye relations and the EGD

The launch of the EGD has added a new layer of complexity to the complex mix of cooperation and friction that characterizes the EU-Türkiye. With EU accession negotiations at a standstill since 2018, both sides are pursuing other forms of partnership, such as the modernization of the Customs Union and the easing of visa regulations for certain groups. Nonetheless, the EGD has highlighted the urgent need to update the EU-Türkiye relations and bring Türkiye's economic policies in line with EU norms. Despite this, the European Commission notes that progress has been hindered by concerns over the functioning of democratic institutions, democratic regression, the constitutional framework, the separation of powers, and Türkiye's reluctance to adhere to EU sanctions against Russia,

<sup>45. &</sup>quot;The Case of Turkey", SHURA Energy Transition Center, available at: <u>https://shura.org.tr</u> [last modified December 9, 2023]; "Greenhouse Gas Emissions", OECD Statistics, available at: <u>https://stats.oecd.org</u> [last modified March 22, 2024].
46. "Türkiye", IEA, available at: <u>www.iea.org</u>.

thereby limiting the prospects of the EGD for broader political alignment.<sup>47</sup> Yet, this impasse does not preclude the possibility of cooperation between the two on green and energy transition initiatives.<sup>48</sup> Although Türkiye and the EU adopt divergent strategies towards the energy transition, their goals intersect. Türkiye emphasizes national energy security and economic development, channeling investments into renewable and nuclear energy sources.<sup>49</sup>

Strong trade relations between the two sides also emphasize the importance of cooperation. In 2022, the trade volume between Türkiye and the EU, its seventh-largest trading partner, amounted to €198.1 billion, accounting for 3.6% of the EU's total international trade.<sup>50</sup> This reflects a balanced trade relationship, with the EU constituting 26% of Türkiye's imports and 41% of its exports.<sup>51</sup> Established in 1995, the EU-Türkiye Customs Union has significantly increased trade volume but now requires modernization to address contemporary economic challenges and expand its coverage to include services, foreign direct investment, and public procurement.<sup>52</sup>

### *Trade, competitiveness, and the Carbon Border Adjustment Mechanism (CBAM)*

The EGD presents a multi-faceted landscape of challenges and opportunities for Türkiye, intertwining environmental objectives and economic realities. On the challenges front, Türkiye faces the need to align its industries with the EU's stringent environmental standards, manage the impacts of the CBAM on its exports, and secure financing for sustainable development amidst a changing investment environment favoring green initiatives.<sup>53</sup> On the other hand, the EGD also reveals significant opportunities for the country, such as the potential to strengthen its renewable energy sector, leverage green finance, and modernize the

<sup>47. &</sup>quot;Türkiye 2023 Report", European Commission, available at: <u>https://neighbourhood-enlargement.ec.europa.eu</u>.

<sup>48. &</sup>quot;Brussels to Revive Ties with Turkey as EU Candidacy Remains Stalled", Euronews, November 29, 2023, available at: <u>www.euronews.com</u>.

<sup>49.</sup> B. Dilli, K. J. Nyman, "Turkey's Energy Transition Milestones and Challenges", Washington, D.C.: World Bank Group, 2015, available at <u>http://documents.worldbank.org</u>.

<sup>50. &</sup>quot;EU Trade Relations with Türkiye", European Commission, available at: <u>https://policy.trade.ec.europa.eu</u> [last accessed March 30, 2024].

<sup>51.</sup> Ibid.

<sup>52. &</sup>quot;Türkiye 2023 Report", op. cit.

<sup>53.</sup> A. Aydıntaşbaş, S. Dennison, "New Energies: How the European Green Deal Can Save the EU's Relationship with Turkey", ECFR, June 22, 2021, available at: <u>https://ecfr.eu</u>; K. Tastan, "The Challenge of Decarbonisation and EU-Turkey Trade Relations: A Long-Term Perspective", *SWP Comment*, No. 66, Stiftung Wissenschaft und Politik, 2022.

Customs Union agreement with the EU to improve its trade relations and economic stability.<sup>54</sup>

A cornerstone of the EGD is the implementation of the CBAM, a policy designed to level the playing field between EU producers, who are subject to stringent environmental regulations, and their non-EU counterparts.55 This shift holds profound implications for Türkiye, a nation whose exports to the EU represented a significant 40% of its total goods in 2022.56 The country's economy depends largely on carbon-intensive industries like steel, cement, and energy. Transitioning these sectors to greener alternatives demands substantial investment, technological innovation, and business model shifts. Exporting from such sectors may become costlier, affecting Türkiye's competitiveness in the EU market and potentially resulting in a GDP loss of 2.7% to 3.6% by 2030.57 The financial impact of the EU's CBAM on the Turkish industry is highly variable, depending on certificate prices and sector coverage. By 2032, costs could reach €2.5 billion with a certificate price of €150/tCO<sub>2</sub>e, driven by increasing CBAM fees and broader sector inclusion, alongside the phase-out of EU ETS free allowances. 58 In contrast, a 2027 scenario with a €75/tCO<sub>2</sub>e charge estimates costs at €138 million, possibly due to narrower CBAM coverage or incomplete effects of the EU ETS allowance phase-out.<sup>59</sup> Türkiye could, however, mitigate these expenses through the implementation of domestic carbon pricing strategies. This approach not only offers a financial reprieve but also supports Türkiye's journey towards self-sustained low-carbon development, reducing the need to allocate resources to the EU. Moreover, the proposed modernization of the Customs Union presents a strategic avenue to foster enhanced cooperation. This initiative could serve as a catalyst for economic growth, seamlessly integrating the objectives of digital and green transformation. However, there is a cautious attitude towards carbon pricing due to concerns about its regressivity, potential negative impacts on competitiveness, and low levels of public support, despite an acknowledgment of its necessity for substantial emissions reduction and alignment with global climate goals.<sup>60</sup>

<sup>54.</sup> K. Elgendy, K. Tastan, "Turkey's Climate Opportunities and Challenges" Chatham House, May 2022, available at: <u>www.chathamhouse.org</u>.

<sup>55. &</sup>quot;EU Carbon Border Adjustment Mechanism", European Parliament Think Tank, 2023, available at: <u>www.europarl.europa.eu</u> [last accessed January 12, 2024].

<sup>56.</sup> F. Resat Durukan, "Climate Lobbying as an Action to Strengthen Relations Between the EU and Turkey", Global Relations Forum Young Academics Program, *Policy Paper Series*, No. 16, 2023.

<sup>57.</sup> I. Long, C. Inclan, D. Conway *et al.*, "Potential Impact of the Carbon Border Adjustment Mechanism on the Turkish Economy: Quantification of the Economic Impacts and Review of Climate Policy Response Options", EBRD, 2023, available at: <u>https://iklim.gov.tr</u>.

<sup>58.</sup> Ibid. 59. Ibid.

<sup>60.</sup> A. Uyduranoglu, S. S. Ozturk, "Public Support for Carbon Taxation in Turkey: Drivers and Barriers", *Climate Policy*, Vol. 20, No. 9, 2020, pp. 1175-1191.

# *Türkiye's policy landscape on the energy transition*

Türkiye's pledge to attain climate neutrality by 2053 has triggered the creation of the Turkish ETS, crafting strategic frameworks for low-carbon development, and harmonizing with EU eco-friendly product norms. The nation's ecological transition is steered by the Green Deal Action Plan, delineated in Presidential Circular 2021/15, which presents a suite of 32 objectives and 81 measures spanning nine sectors.<sup>61</sup> This plan encompasses strategies for carbon reduction, fostering a green economy, and ensuring sustainable energy sources. The Ministry of Treasury and Finance's Medium-Term Program (2024-2026) offers an economic context that supports these environmental ambitions, while the National Renewable Energy Action Plan targets a minimum of 20% energy consumption from renewable sources by 2023.62 Türkiye's energy strategy for 2030 and 2040 is focused on increasing the share of renewables in electricity to 50% by 2030 and 80% by 2053, with ambitious targets for solar and wind energy.<sup>63</sup> The country also aims to improve energy efficiency with a US\$20 billion plan to reduce energy consumption by 16% by 2030 and reduce GHG emissions by 41% from business-as-usual levels in the same year.<sup>64</sup> Despite the progress, Türkiye's electricity generation still heavily relies on imported coal, which constituted 36.3% in 2023,65 with a significant portion coming from Russia. The country surpassed Poland to become Europe's second-largest coal-fired power producer after Germany, while in the EU, it fell to 12%.66 Experts criticize the misalignment between Türkiye's economic interests and climate policies, the prevalence of greenwashing, and the coal industry's influence on the Ministry of Energy, which impedes progress towards the 2053 carbon-neutrality goal.67

Concurrently, Türkiye is positioning itself as a key gas hub for Europe, aiming to capitalize on its strategic location for gas transit and trade, potentially bolstering energy security and market stability in the region. The population's attitude towards renewable energy is largely positive, with growing interest in electric vehicles, as evidenced by an expanding network

<sup>61. &</sup>quot;ESG Framework Investor Presentation", Ministry of Treasury and Finance of Turkey, 2023, available at: <u>https://en.hmb.gov.tr/esg</u>.

<sup>62.</sup> Ibid.

<sup>63. &</sup>quot;Renewable Energy in Turkey", *CMS Expert Guides*, CMS Law, available at: <u>https://cms.law</u> [last accessed April 1, 2024]; "Türkiye Energy Independence Only Comes with Clean", Ember Climate, available at: <u>https://ember-climate.org</u> [last accessed April 1, 2024].

<sup>64. &</sup>quot;Some \$20 bln to be Invested in Energy Efficiency: Minister", *Hürriyet Daily News*, available at: <u>www.hurriyetdailynews.com</u> [last accessed April 2, 2024].

<sup>65. &</sup>quot;Electricity", Ministry of Energy and Natural Resources, available at: <u>https://enerji.gov.tr</u> [last modified April 1, 2024].

<sup>66.</sup> B. Sercan, "Türkiye Electricity Review 2024", Ember Climate, March 12, 2024, available at: <u>https://ember-climate.org</u>.

<sup>67.</sup> F. Resat Durukan, "Climate Lobbying as an Action to Strengthen Relations Between the EU and Turkey", op. cit.

of electric vehicle charging points, and a growing shift towards energyefficient technologies such as heat pumps.68 The forthcoming Climate Change Law, expected in 2024, represents legislative strides toward netzero emissions.<sup>69</sup> Moreover, a Memorandum of Understanding was signed between Türkiye and international organizations such as the World Bank, European Bank for Reconstruction and Development (EBRD), United Nations (UN), and International Finance Corporation (IFC), as well as France and Germany, providing the country with both expertise and a financial package worth US\$3.2 billion.70 Türkiye has revised its climate action plan, detailing in its Nationally Determined Contributions (NDCs) an ambitious goal to cut GHG emissions by 41% from projected business-asusual levels by 2030, establishing a foundation for reaching net-zero emissions by the year 2053.71 This ambitious 2030 target is supported by strategic initiatives, including the development of a Climate Change Law, enhancements in the ETS, and the creation of sector-specific decarbonization roadmaps. The commitment to peak emissions by 2038 serves as an implicit milestone, steering Türkiye's trajectory toward its long-term goal.72 This initiative also seeks to stimulate private investment in projects aligned with Türkiye's climate goals and its overarching strategy for carbon neutrality by 2053.73 The EU's recent Türkiye Report acknowledges some progress in climate policy and renewable energy law alignment but calls for more resolute environmental measures.74 This includes setting clear deadlines for permitting renewable energy projects to encourage investment and development, establishing more ambitious and legally binding GHG reduction targets, and developing a comprehensive climate action plan. The report also calls for increased investment in renewable energy and energy efficiency, enhanced environmental impact assessments, promotion of sustainable land use and forestry practices, and greater public participation in environmental decision-making.

## The EU's perspective on Türkiye's environmental progress

EU officials have expressed support for Türkiye's commitment to the Paris Agreement and its updated NDCs and climate policies. However, they

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<sup>68. &</sup>quot;Wind and Solar Could Halve Türkiye's Foreign Dependency in Power Generation by 2030", Anadolu Agency, available at: <u>www.aa.com.tr</u> [last accessed April 1, 2024].

<sup>69.</sup> The Draft Climate Change Law, available at: <u>www.baib.gov.tr</u> (PDF) [last accessed March 15, 2024]. 70. "Towards a Greener and More Resilient Türkiye," World Bank, February 19, 2024, available at: www.worldbank.org.

<sup>71. &</sup>quot;Updated First Nationally Determined Contribution (NDC)", The Republic of Türkiye, available at: <u>https://unfccc.int</u> (PDF) [last accessed April 1, 2024].

<sup>72.</sup> Ibid.

<sup>73. &</sup>quot;Financing the Next Generation of Green Growth and Prosperity in Turkey", World Bank, available at: <a href="http://www.worldbank.org">www.worldbank.org</a> [last accessed April 2, 2024].

<sup>74. &</sup>quot;Türkiye 2023 Report", op. cit.

advocate for more ambitious environmental targets from the Turkish government such as implementing stricter measures to cut GHG emissions, transitioning towards renewable energy sources while simultaneously phasing out coal, and aligning its environmental laws, particularly those concerning waste management and pollution reduction, with EU regulations.75 Since 2019, efforts to enhance dialogue and cooperation between the EU and Türkiye in the areas of climate, energy, and transport have faced obstacles, but the potential for significant progress remains. The participation of Türkiye's private sector in EU programs such as Horizon Europe and Horizon 2020, which focus on industrial decarbonization and clean technology, appears positive. Nevertheless, concerns persist regarding the Turkish government's commitment to the EGD targets and the need to strengthen its commitments to the Paris Agreement. In essence, EU officials perceive the Turkish businesses as more willing to embrace sustainable practices than the Turkish government.76 The EU aims to support Türkiye's green transformation through financial assistance mechanisms such as the Instrument for Pre-Accession Assistance III (IPA III)77 and the European Fund for Sustainable Development Plus (EFSD+)78. However, the draft EU's Corporate Sustainability Due Diligence Directive (CSDDD)<sup>79</sup> and issues related to greenwashing pose challenges in maintaining sustainable trade relations between the EU and Türkiye.80

# Perspectives from Turkish businesses and NGOs

The need for a green transition and the advantages it can bring to Türkiye, especially in terms of modernizing its economy and reducing its environmental footprint, is widely recognized. The significance of the EGD is broadly accepted by Turkish businesses and NGOs that advocate for the modernization of the Customs Union. Organizations such as the Turkish Industry and Business Association (TÜSİAD) and the Union of Chambers and Commodity Exchanges of Türkiye (TOBB) are significantly interested in the EGD to promote sustainable development and increase competitiveness in the European market. They have established a task force to identify areas where Turkish industries can comply with EGD regulations and standards to assess the impact of the EGD on various sectors. Turkish businesses are also examining the need to update the EU-Türkiye Customs Union and integrate mechanisms such as the ETS. TÜSİAD advocates for the success of the EGD

79. Ibid.

<sup>75.</sup> Ibid.

<sup>76.</sup> Interview with EU official, Brussels, March 5, 2024.

<sup>77. &</sup>quot;Overview – Instrument for Pre-accession Assistance", European Commission, February 19, 2024, available at: <u>https://neighbourhood-enlargement.ec.europa.eu</u>.

<sup>78. &</sup>quot;Corporate Sustainability Due Diligence", European Commission, February 18, 2024, available at: <u>https://commission.europa.eu</u>.

<sup>80.</sup> Interview with EU official, Brussels, March 5, 2024.

through strategic partnerships and regulatory cooperation, emphasizing the importance of cross-border partnerships for reducing climate change and improving the supply chain.<sup>81</sup> In addition to TÜSİAD, which is known for its proactive climate change policies, leading companies such as Koç Holding, Sabancı Holding, and Zorlu Holding are carefully examining Türkiye's EGD policies and engaging in lobbying efforts in this regard.<sup>82</sup> Moreover, Turkish businesses are increasingly aligning with international Environmental, Social, and Governance (ESG) standards and embracing green financial practices, including issuing green bonds and implementing sustainable banking initiatives. These actions, together with the compulsory corporate sustainability disclosures as per the Turkish Sustainability Reporting Standards, are positioning Turkish companies to be more competitive and attractive for ESG-focused investments.<sup>83</sup> Additionally, the Turkish businesses consider the CSDDD as an opportunity to integrate trade with the EU's climate neutrality goals and are closely monitoring the system that will require companies to conduct due diligence on environmental and human rights issues.<sup>84</sup> From the perspective of energy transformation, Turkish NGOs are also collaborating with their counterparts in the EU. The Turkish Wind Energy Association (TWEA) is a key participant in the Black Sea Renewable Energy Coalition (BSREC), a joint effort initiated by the Center for the Study of Democracy, the Energy Policy Group from Romania, and the Ukrainian Wind Energy Association. The BSREC is focused on promoting knowledge exchange and collaborative efforts to develop zero-carbon marine renewable energy and infrastructure in the Black Sea region. This initiative reflects Türkiye's commitment to enhancing regional cooperation in renewable energy and power networks, contributing to energy security, economic growth, and environmental protection.85

# Actionable policy recommendations

To streamline Türkiye's green and energy transformation, three actionable policy recommendations are proposed, emphasizing the synergy between the Turkish government and the EU:

Integrated Renewable Energy and Just Transition Initiatives: Türkiye should prioritize investments in renewable energy and energy efficiency to decarbonize its energy sector, aligning with the EGD and the "Fit for 55" package. Simultaneously, a Just Transition framework

<sup>81. &</sup>quot;What Are the Implications of the European Green Deal for EU-Turkey Relations?", Centre for Applied Turkey Studies (CATS Network), Stiftung Mercator, November 2023.

<sup>82.</sup> F. Resat Durukan, "Climate Lobbying as an Action to Strengthen Relations Between the EU and Turkey", op. cit.

<sup>83.</sup> Ibid.

<sup>84.</sup> Interview with NGO official, Brussels, March 6, 2024.

<sup>85. &</sup>quot;Towards a Black Sea Renewable Energy Coalition", European Maritime Spatial Planning Platform, available at: <u>https://maritime-spatial-planning.ec.europa.eu</u> [last accessed April 1, 2024].

should be established to ensure that the green transformation is socially equitable. This framework would include re-skilling programs for workers in carbon-intensive industries, support for SMEs in adopting green technologies, and social protection for vulnerable communities. The EU can play a pivotal role by providing technical assistance, sharing best practices, and facilitating financial support mechanisms to ensure a balanced and fair transition.

- Promoting Green Investment and Sustainable Finance: Developing a robust framework for low-carbon investment and sustainable finance is crucial. Türkiye should introduce financial instruments like green bonds and implement ESG criteria in investment decisions to attract green capital. The EU's support in sharing regulatory expertise and extending financial instruments aimed at green projects would significantly contribute to creating a conducive environment for sustainable investments. Encouraging European investors to explore opportunities in Türkiye through dialogues and information exchange can further integrate Türkiye into the global green finance network.
- Fostering Green Technologies and Innovation through Collaborative R&D: Türkiye needs to bolster its innovation ecosystem by increasing R&D investments in low-carbon technologies. Establishing partnerships with the EU for joint R&D projects and innovation programs can enhance Türkiye's capabilities in developing sustainable solutions. Incentives such as tax breaks and grants for green technology startups, alongside the creation of innovation hubs, can stimulate domestic and international investments in this sector. The EU's involvement in facilitating access to Horizon Europe and other innovation-focused initiatives would be instrumental in achieving these goals.





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