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Perspectives

How committed is the PRC to climate change mitigation?

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There is much speculation, internationally, as to the extent of the People's Republic of China's (PRC) commitment to decarbonisation and meaningful implementation of the Paris Agreement. While PRC President Xi Jinping's carbon neutrality commitment has gained widespread praise, it has not escaped scrutiny and criticism.

So how committed is the PRC to climate change mitigation? Recent analysis that the PRC may soon enter a carbon peaking plateau, also pointed out that the central government's carbon reduction goals are one of only eight 'binding' targets in the entire current five-year plan.

But the question itself, of whether 'China' is serious about climate, suggests that the issue is simply a matter of the Communist Party of China's (CPC) political will. While the PRC is indeed a one-party authoritarian state, it is a mistake to assume that central government priorities are necessarily able to be implemented without challenge.

While many regions have been ambitious in decarbonising their economy, others have been slower, or faced challenges in transitioning away from smokestack industries. For example, Shandong, the PRC's largest coal consuming province, was slow to meet the requirements of the central government's efforts to clean up the air around Beijing which began in earnest back in 2013. In 2017, the Shandong government was targeted by the Central Environmental Inspections team.[1] The inspection process finally led to substantive efforts to cut back on some of the planned and under-construction coal power and aluminium capacity that did not meet official requirements. Eventually, a large chunk of the province's aluminium production capacity was moved to Yunnan where it can run on hydropower as opposed to coal.

Adding to the challenge of meeting central government goals, a decision was made in 2014 to devolve authority from the central government to local governments on approvals for coal power projects, leading to a surge in approvals as rust belt provinces sought to capitalise on a relatively easy and familiar approach to generating growth and jobs. That authority has only just been brought back to the central level on September 11, in an announcement from the National Development and Reform Commission.

Another key driver of new coal power investment (and avoided retirement) has been concern around the need for sufficient dispatchable power to meet winter and summer demand peaks. Over the last winter, power rationing was seen in Zhejiang, Jiangxi and Hunan provinces. Various hypotheses were put forward for the measures, including grid instability caused by renewables and the limitations placed on Australian coal imports. However, neither of these factors played any meaningful role in the shortages. Renewable penetration in the three provinces is much lower than in the northwest, which has not faced such measures, and Australian

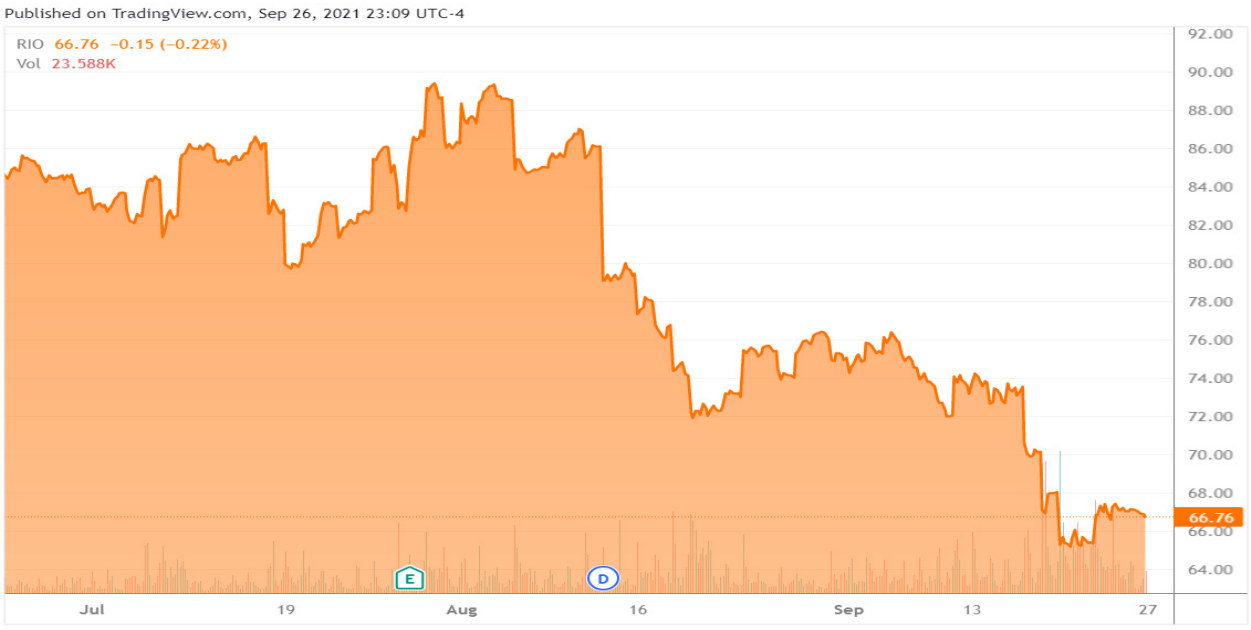
1 The Central Environmental Inspections team is a powerful body of environmental officials, prosecutors, and party disciplinary inspectors, which have been deployed during recent years to enforce environmental policy and regulations, with a focus on provincial leaders and large state-owned enterprises.

coal imports, before the embargo, only accounted for under three percent of coal used for power generation in the PRC.

Far more important factors were: (1) A supply crunch created by the rapid stimulus-fuelled recovery of the PRC economy post-COVID-19; (2) an especially cold winter in central China; (3) insufficient transmission infrastructure; and (4) strict energy efficiency targets. These issues have emerged again in recent weeks in the northeast, but accentuated by spike in coal prices, with the benchmark Zhengzhou thermal coal futures price having increased by over 130 percent since the beginning of the year.

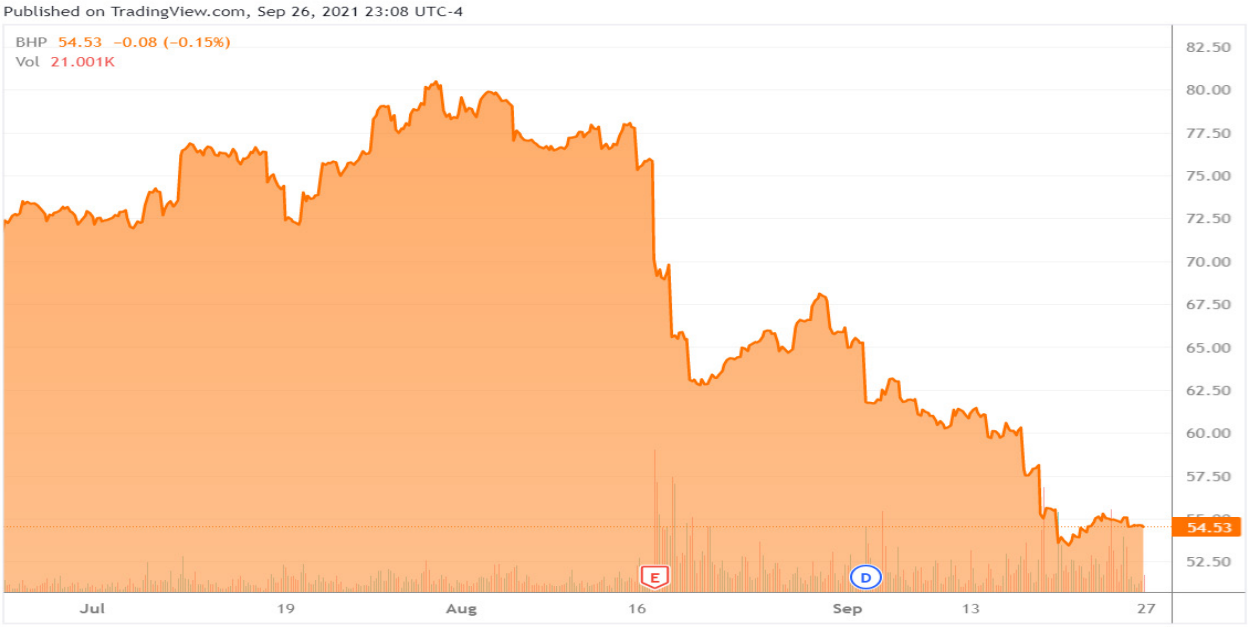
Outside of the power sector, emissions from the steel and cement sectors are driven largely by trends in the construction sector, especially property development. While the central government issued a target of limiting 2021 steel output to 2020 level, perhaps a more significant factor in the downturn in steel production since July has been the property construction taking a major hit from tightening credit restrictions, exemplified by the potential default of the PRC's second largest private property developer, the Evergrande Group. While obviously not a climate policy, per se, these efforts at reining in excess lending to real estate, which became unavoidable given the structural misallocation of capital on a massive scale, may be extremely significant for the PRC's carbon emissions in the coming years, and potentially contribute to an earlier peak than would otherwise be the case. These trends are already being reflected in the value of Australian miners, Rio Tinto, BHP and Fortescue (Figures 1, 2 and 3).

Figure 1. Rio Tinto share price



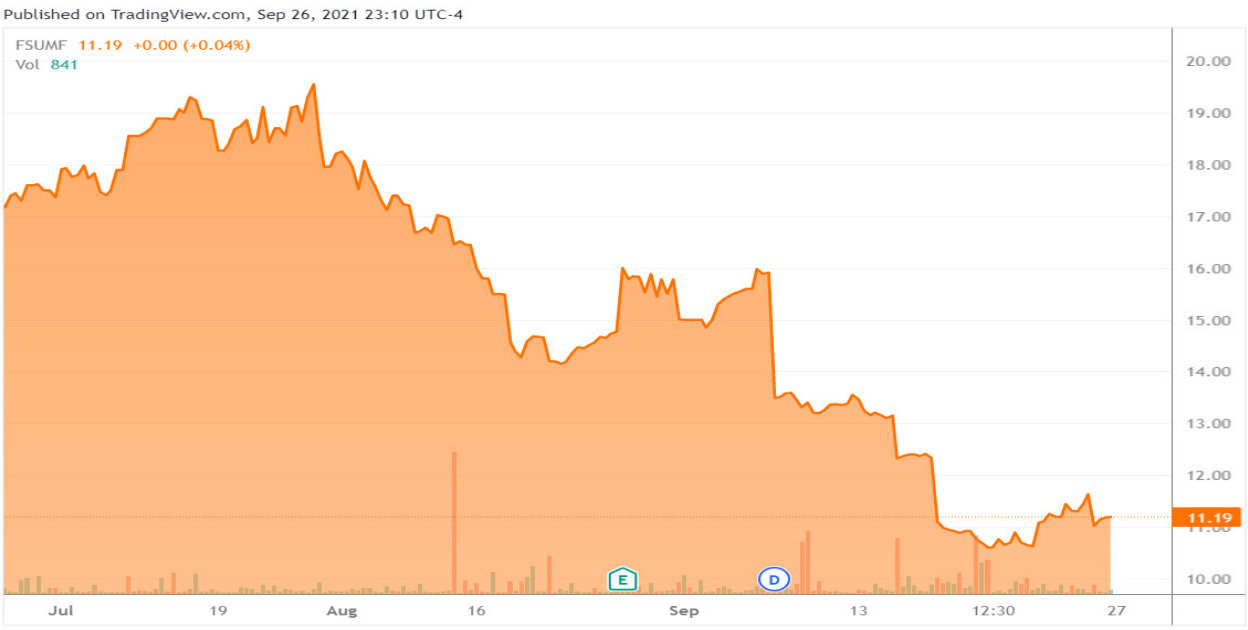
Source: Tradingview.com

Figure 2. BHP share price



Source: Tradingview.com

Figure 3. Fortescue Metals Group share price



Source: Tradingview.com

In addition to the central targets and macroeconomic trends, the PRC's national emissions trading system has recently seen its first trades in carbon emission allowances. Sectors beyond the power generation sector, such as steel, cement and aluminium, are expected to be brought under the emissions trading scheme (ETS) in the coming few years.

With this understanding of the motivations and trends impacting on the PRC's climate policy, what role for international engagement? It has been suggested that the era of deep engagement with China on climate has passed. Competition may prove to be just as important, if not more so, in motivating increased ambition on both sides.

The UK decided to substantially reduce its engagement with the PRC on the low carbon economy in April, though some remains via grants through the PACT programme. Australia, which shared frequent government-to-government exchanges with Chinese counterparts on carbon pricing during the Gillard government's short-lived carbon pricing mechanism, has had ongoing engagement between the CSIRO and the Chinese Academy of Sciences on greenhouse gas emissions monitoring, but nothing substantive in the policy or innovation space. Further, the recent announcement of the AUKUS security partnership has been described by the PRC as further evidence of a 'Cold War' mentality towards the PRC, and by others as 'bad timing ahead of COP26'.

The European Union remains the largest contributor to bilateral engagement with the PRC on climate-related issues, through the EU-China ETS Platform, the EU-China Energy Cooperation Platform (ECECP) and the EU-China Environment Project.

Australia is obviously far from having the same level of engagement with the PRC on these issues, given the current bilateral tensions, although Andrew Metcalfe, Secretary of the Department of Agriculture, Water and Environment was recently given a speaking slot at the annual meeting of the China Council for International Cooperation on Environment and Development (CCICED), with the PRC's Minister for the Environment, Huang Runqiu, also present. Metcalfe said that Australia is committed to work with the PRC to strengthen environmental safeguards and greening value chains. If both sidfes eventually find it to be in their interests to manifest a programme of cooperation on climate, there are a wide range of areas where interests may align, such as identifying successful strategies for creating employment opportunities in coal transition communities, sharing technical advice on the integration of a high share of renewable to the electricity grid, emerging energy storage technologies, and climate adaptation techniques, especially in relation to desertification. While both countries can and will find ways to deal with each of these issues independently, the sharing of experience and lessons learned certainly couldn't hurt.

Climate politics in the PRC is not as straightforward as top-down decision-making that progresses linearly. The priority given to climate change from the very top of the party system is unmistakeable, however real challenges remain, especially in transitioning communities heavily dependent on coal, steel, aluminium, cement and other heavy emitting industries. Whether competing or cooperating with the PRC, understanding the dynamics that drive the PRC's emissions is key to a smart approach to engaging the PRC on climate policy.

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