

**CHINA-EU COOPERATION IN ENVIRONMENTAL  
MATTERS: BETWEEN THE ANVIL OF TRADE  
COMPETITION AND THE HAMMER OF DE-  
RISKING?”**

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# CHINA-EU COOPERATION IN ENVIRONMENTAL MATTERS: BETWEEN THE ANVIL OF TRADE COMPETITION AND THE HAMMER OF DE-RISKING?”

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## INTRODUCTION

In 2025, China and the EU celebrated 50 years of cooperation and engagement, during which their interactions have evolved in one of the cornerstones of the international system. Both have emphasized the importance of multilateralism, the international rule of law and the UN Charter. Their relation has grown into a dense network of exchanges into economics, technology, climate cooperation, and multilateral governance. During that time China and the EU have become deeply interconnected. Nonetheless, currently, their relation is increasingly contentious and, even if agreement may appear on the fundamental issues, divided in vision and purpose.<sup>1</sup> Currently, the EU regards China through the triptych of “partner, competitor, and systemic rival”.<sup>2</sup> In this context, China is increasingly considered a competitor, if not a systemic rival. However, in the field of the environment, the EU’s China strategy considers mainly a partner. With regard to trade, however, the EU considers China more as a competitor, away from the optimism that the EU has when China joined the WTO.

The ambitious European Green Deal has linked the EU’s environmental policy to trade,<sup>3</sup> with international trade agreements including clauses with environmental standards. As trade and the environment have become intertwined, trade and trade-related measures may be used to advance environmental goals. Furthermore, due to the increasing impact of climate change, green technology and energy have become of the utmost importance. China has obtained a dominant position in the EU as a supplier of cheap green technology and products, in particular for solar panels and, more recently, EVs. Geographical changes have, however, raised concerns in the EU about the EU’s reliance on Chinese green technology and products and the fear that China may use this dependence against EU interest. Consequently, the EU has started to engage in a de-risking strategy with regard to green energy and products, by building resilience and diversifying its supply. Although the EU has stressed that de-risking does not mean decoupling from the Chinese economy, the reaction of China has been negative.<sup>4</sup>

Since trade and the environment are intrinsically linked, and this connection is considered a risk that has to be managed, the question arises how this impact China-EU cooperation in climate matters. The objective of this research report is therefore to explore this tension between trade and climate and how de-risking is impacting China-EU cooperation. The report first sets out its methodological approach which is based on constructivism and in particular role behaviour. The report then examines how in the EU trade has become linked to environmental issues through the inclusion of sustainable development goals in trade agreements. Subsequently, the report will examine how an environmental measure, CBAM, has an impact on trade. In the next section, the

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<sup>1</sup> Jing Men, “EU-China Relations at 50: Continuity, Change, and Institutional Resilience”, 7 *China International Strategy Review* 2025, 243.

<sup>2</sup> European Commission, “EU-China – A Strategic Outlook”, JOIN(2019) 5 final, 12 March 2019, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52019JC0005>.

<sup>3</sup> Groupe d’Etudes Géopolitiques, “The EU and China: Climate and Trade Increasingly Intertwined”, available at: <https://geopolitique.eu/en/articles/the-eu-and-china-climate-and-trade-increasingly-intertwined/>.

<sup>4</sup> Center for China and Globalization, “What De-risking means for China”, in Ivano De Carlo (ed.), *EU-China Relations at a Crossroads, Vol. III: Business Unusual*, 30 June 2024, 25, available at: [https://www.epc.eu/content/EU-China\\_TT\\_Compendium\\_2024\\_v16.pdf](https://www.epc.eu/content/EU-China_TT_Compendium_2024_v16.pdf).

report will look into the de-risking strategy of the EU and how this has been implemented in the field of green technology and products through the Net-Zero Industry Regulation.

## I. METHODOLOGICAL APPROACH

Because the research covers aspects of international relations and law, the research will adopt a constructivist approach to China-EU relations. Accordingly, China-EU relations are socially constructed, which entails that they may change over time depending on how each actor sees the other. To paraphrase Wendt, China-EU relations is what China and the EU make of it.<sup>5</sup> Consequently, the more China and the EU would consider each other as competitors or rivals, the less likely they will intend to cooperate, for instance on environmental matters. A significant benefit of a constructivist approach is that it emphasizes the role of norms in international relations. Norms have been defined as “a broad class of prescriptive statements – rules, standards, principles, and so forth – both procedural and substantive” that are “prescriptions for action in situations of choice, carrying a sense of obligation, a sense that they ought to be followed”.<sup>6</sup> Crucially, constructivism holds that actors act on internalized prescriptions of what is socially defined as normal, true, right, or good, without, or in spite of calculation of consequences and expected utility”.<sup>7</sup> This approach is therefore particularly useful in the context of the EU, where every action must be based on the EU Treaties. Furthermore, the EU is characterized by its many actors, the Member States through the European Council and the Council, the European Commission through the European Parliament, the European Commission as the guarantor of the European public interest, and the Court of Justice as the ultimate arbiter of the legality of EU actions. Although each of these actors may have its own opinion with regard to China-EU relations, the position of the EU is in the end determined through the interaction of all these actors which crystallizes in the adoption of EU legislation on the basis of which the EU acts towards China.

Furthermore, the advantage of a constructivist approach is that it provides insight into how actors constitute themselves and the others they interact with within the normative framework they operate and how foreign policy behaviour is changed through interactions.<sup>8</sup> In other words, the existing normative framework does not only shape what the actors therein consider to be social prescriptions, but also form the roles they deem to play towards others.<sup>9</sup> According to Wendt, actors in international relations act “on the basis of meanings’ grounded in the conceptions that they hold vis-à-vis themselves and other states”.<sup>10</sup> For instance, Article 3 (1) UNFCCC contains the principle of “common but differentiated responsibilities and respective capabilities” is not only a norm, but institutes different roles for achieving the goals of the Climate Change Framework Convention, and those different roles will further shape the interactions between the Parties.

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<sup>5</sup> See: A. Wendt, “Anarchy is What States Make of It: The Social Construction of Power Politics”, 46 *International Organization* 1992, 391-425.

<sup>6</sup> A. Chayes and A. Handler Chayes, “Regime Architecture: Elements and Principles”, in J.E. Nolan (ed.), *Global Engagement: Cooperation and Security in the 21st Century* (Washington, D.C. 1994), 65.

<sup>7</sup> J.G. Marsch and J.P. Olsen, “The Logic of Appropriateness”, in R.E. Goodin (ed.), *The Oxford Handbook of Political Science* (Oxford 2011), 480.

<sup>8</sup> J. Gurol and A. Starkmann, “New Partners for the Planet? The European Union and China in International Climate Governance from a Role-Theoretical Perspective”, 59 *Journal of Common Market Studies* 2021, 519. See also: T. Uemura, “Understanding Chinese Foreign Relations: A Cultural Constructivist Approach”, 16 *International Studies Perspectives* 2015, 345–365.

<sup>9</sup> *Ibid.*, 520-521. Roles refer to “patterns of expected appropriate behavior”: R. Bengtsson O. Elgström, “Conflicting Role Conceptions? The European Union in Global Politics: Conflicting Role Conceptions?” 8 *Foreign Policy Analysis* 2012, 94.

<sup>10</sup> A. Wendt, “Anarchy is What States Make of It: The Social Construction of Power Politics”, 46 *International Organization* 1992, 397.

International actors do not necessarily need to have only one role, but may have multiple complementary or conflicting roles or may have issue-specific roles in different policy fields.<sup>11</sup> Roles may also change because of self-perception, perception of other actors, or crises.<sup>12</sup> A change in the position of an actor may also have an impact on the interaction based on roles: the character of interaction will depend on “the degree of congruence in norms and worldviews between the partners and their relative positions in the international system, ranging from competitive to accordant”.<sup>13</sup> Consequently, it can be expected that changes in the self-perception or perception of actors will have an impact on their role and interaction with each other. Concretely, if the EU considers China more a systemic rival than a competitor or a partner, this will have an effect on China-EU cooperation in environmental matters. Hence, a field where cooperation was the dominant interaction, may change in an area of rivalry or competition because either China or the EU’s role has changed due to geopolitical changes. Another factor is the role of external actors. For instance, the strategic rivalry between China and the United States of America has an influence on the EU’s recalibration towards both China and the United States.<sup>14</sup> In addition, rivalry and competition in one area may seep into areas of cooperation. As the Chinese ambassador to the EU, Fu Cong, made clear: “climate cooperation does not happen in a vacuum. One should not seek political confrontation on the one hand and expect unconditional cooperation on the other”.<sup>15</sup>

## II. MAPPING OF THE CURRENT STATE OF AFFAIRS OF CHINA-EU INTERACTION IN ENVIRONMENTAL MATTERS

### 1. Overview of the history of China-EU cooperation

China-EU cooperation in environmental matters has a long history, marred with changing roles of the actors involved. In particular, China has moved from an aid recipient to an equal partner, whereas the EU has moved from the undisputed leader on climate change action to one of the main actors and a mediator and facilitator, but still a leader in the drive to address climate change through the adoption of binding economy-wide climate neutrality targets.<sup>16</sup> Since 2002, climate change has been prominently featured on the agenda of China-EU summits. At the 8<sup>th</sup> China-EU Leaders’ Meeting in 2005, China and the EU committed to cooperation in this area as a partnership and set up a ministerial-level dialogue in 2010. Furthermore, in 2017, the Ministerial on Climate Action (MoCA), an annual high-level meeting that brings together climate envoys from China, Canada and the EU provided as space for discussions and promotion of ambitious implementation of the Paris Agreement, was set up. In 2018, China and the EU signed the China-EU Leaders’ Statement on Climate Change and Clean Energy, reiterating their shared goal

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<sup>11</sup> M. Breuning, “Role Theory Research in International Relations: State of the Art and Blind Spots”, in S. Harnisch, C. Frank, and H.W. Maull (eds.), *Role Theory in International Relations* (London 2011), 16–36.

<sup>12</sup> J. Gurol and A. Starkmann, “New Partners for the Planet? The European Union and China in International Climate Governance from a Role-Theoretical Perspective”, 59 *Journal of Common Market Studies* 2021, 522.

<sup>13</sup> A. Michalski and Z. Pan, “Role Dynamics in a Structured Relationship: The EU–China Strategic Partnership: Role Dynamics in the EU–China Strategic Partnership”, 55 *Journal of Common Market Studies* 2017, 612.

<sup>14</sup> C. Trasi, “Convergence, Not Alignment: EU-China Climate Relations ahead of COP30”, Bruegel, 35/2025, 9 October 2025, available at: [https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373\\_1.pdf](https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373_1.pdf).

<sup>15</sup> As quoted by EURACTIV, available at: <https://www.euractiv.com/news/global-discord-threatens-cop28-climate-talks-eu-commissioner-says>.

<sup>16</sup> Institute of Carbon Neutrality (Peking University), Institute for European Environmental Policy (IEEP) and CTGN Europe, “Powering the Twin Engines: Navigating China-EU Climate Cooperation”, May 2025, 9 and 12, available at: [\\*Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf](https://www.icep.org.cn/wp-content/uploads/2025/05/Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf).

of emissions reduction and sustainable development. In 2020, China and the EU established the High-Level Environment and Climate Dialogue (HECD).<sup>17</sup>

The current state of affairs of China-EU relations is influenced by the EU's ambiguous relationship with China, enshrined in the somewhat incoherent EU's position that China is at the same time a “partner, competitor, and systemic rival”,<sup>18</sup> a position repeated in 2023.<sup>19</sup> Nonetheless, in the environmental sphere China and the EU were still considered to act as partners: the EU-China Strategic Outlook identified the environmental field as one of the areas in which China and the EU would still cooperate.<sup>20</sup> Even now, China and the EU have issued joint statements on climate change, jointly initiated ministerial meetings on climate action, and signed and implemented a memorandum of understanding on enhancing carbon emission trading cooperation, conducting fruitful policy dialogues and practical cooperation.<sup>21</sup> Not surprisingly, cooperation on climate change has been regarded as one of the few highlights of China-EU cooperation as opposed to competition and rivalry,<sup>22</sup> due to “functional necessity, reputational incentives, and global interdependence”.<sup>23</sup>

Their cooperation on the environment takes place in both a multilateral and bilateral framework. Both actors cooperate as part of the multilateral environmental treaty system, in particular the climate treaty system, and as part of the broader bilateral China-EU partnership, for instance through the China-EU Climate Change Partnership set up in 2005, which remains the framework of cooperation between them. In 2021 the EU and China established a High-Level Environment and Climate Dialogue.<sup>24</sup> In particular, China-EU climate dialogues were instrumental in bridging the developed-developing divide during the negotiations on the Paris Agreement.<sup>25</sup>

The cooperation is currently highly institutionalized with ministerial level dialogues, high-level working groups, and cooperation agreements.<sup>26</sup> Furthermore, the decision of the United States of America to withdraw from the Paris Agreement, led to increased cooperation between China, the EU and Canada to salvage the Agreement. Both China and the EU promised and adopted in December 2018 in Katowice, Poland the Paris Agreement Work Programme, the rulebook for

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<sup>17</sup> Institute of Carbon Neutrality (Peking University), Institute for European Environmental Policy (IEEP) and CTGN Europe, “Powering the Twin Engines: Navigating China-EU Climate Cooperation”, May 2025, 16, available at: [\\*Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf](#).

<sup>18</sup> European Commission, “EU-China – A Strategic Outlook”, JOIN(2019) 5 final, 12 March 2019, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52019JC0005>.

<sup>19</sup> European Council Meeting (29 and 30 June 2023), Conclusions, EUCO 7/23, §30, available at: <https://data.consilium.europa.eu/doc/document/ST-7-2023-INIT/en/pdf>.

<sup>20</sup> European Commission, “EU-China – A Strategic Outlook”, JOIN(2019) 5 final, 12 March 2019, available at <https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52019JC0005>.

<sup>21</sup> See recently: Fifth EU-China High Level Environment and Climate Dialogue, available at: [https://climate.ec.europa.eu/news-your-voice/news/press-readout-fifth-eu-china-high-level-environment-and-climate-dialogue-2024-06-19\\_en](https://climate.ec.europa.eu/news-your-voice/news/press-readout-fifth-eu-china-high-level-environment-and-climate-dialogue-2024-06-19_en).

<sup>22</sup> “Climate cooperation increasingly becomes a highlight of China-EU partnership: MEE spokesperson”, available at: <https://www.globaltimes.cn/page/202404/1311422.shtml>.

<sup>23</sup> Jing Men, “EU-China Relations at 50: Continuity, Change, and Institutional Resilience”, 7 *China International Strategy Review* 2025, 248.

<sup>24</sup> J. Gurol and A. Starkmann, “New Partners for the Planet? The European Union and China in International Climate Governance from a Role-Theoretical Perspective”, 59 *Journal of Common Market Studies* 2021, 519.

<sup>25</sup> Jing Men, “EU-China Relations at 50: Continuity, Change, and Institutional Resilience”, 7 *China International Strategy Review* 2025, 249; C. Keßler, “Between Competition and Co-operation, How to Engage with China on Climate”, Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](#).

<sup>26</sup> J. Gurol and A. Starkmann, “New Partners for the Planet? The European Union and China in International Climate Governance from a Role-Theoretical Perspective”, 59 *Journal of Common Market Studies* 2021, 519; C. Keßler, “Between Competition and Co-operation, How to Engage with China on Climate”, Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](#).

the implementation of the Paris Agreement.<sup>27</sup> The same statement expresses that China and the EU were convinced that their collaboration on climate change (and clean energy) will become one of the main pillar of their bilateral partnership, including in their economic relations.<sup>28</sup> Furthermore, the EU has shared its experience of its emission trading Scheme (ETS) and supported China in setting up and strengthening its own ETS. Both partners have also worked together on the development of an EU-China sustainable finance classification system. Since 2022, they have engaged in discussions to reduce methane emissions and in 2023, they agreed at the 4<sup>th</sup> High Level Dialogue on Environment and Climate Dialogue (HECD) to set up a dialogue focused on the EU's carbon border adjustment mechanism (CBAM).<sup>29</sup>

## 2. Climate Change

Especially in the field of climate change the China and EU cooperation seems promising. Both subscribe to the finding that addressing climate change is of the utmost importance. Both have continued to stress the importance of climate change governance and the climate change legal framework.<sup>30</sup> Both have promised to become climate neutral, the first by 2050 and the second by 2060.<sup>31</sup> In 2025, China pledged its first absolute reduction target to cut its emissions by 7 to 10 percent from peak levels by 2035.<sup>32</sup> The EU and China continue to have dialogues on emissions trading, sustainable finance, and renewable energy. In addition, EU expertise in carbon markets informed the design of China's national emissions trading scheme. In contrast, Chinese advances in renewable technology have significantly contributed to the EU's own green transition.<sup>33</sup>

Yet, despite this alignment on the importance of addressing climate change, underneath significant challenges to an increasing cooperation emerge. Despite being a party to the Paris Agreement and pledging reduction in CO<sub>2</sub> emissions, China has been responsible for over 60% of the rise in CO<sub>2</sub> emissions, whereas EU emissions have declined. In addition, China now produces more than 30 percent of the annual global emissions total, more than all developed countries combined.<sup>34</sup> However, China has at the same time made significant strides in renewable energy. As of the end of September 2024, the combined installed capacity of wind and solar power reached 1.25 billion kilowatts, achieving the target of 1.2 billion kilowatts or more of total

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<sup>27</sup> EU-China Leaders' Statement on Climate Change and Clean Energy, Beijing, 16 July 2018, §9, available at [https://climate.ec.europa.eu/document/download/aa5191c1-23ac-4aca-a154-2240b5cd3b9c\\_en?filename=20180713\\_statement\\_en.pdf](https://climate.ec.europa.eu/document/download/aa5191c1-23ac-4aca-a154-2240b5cd3b9c_en?filename=20180713_statement_en.pdf).

<sup>28</sup> *Ibid.*, §16.

<sup>29</sup> C. Keßler, "Between Competition and Co-operation, How to Engage with China on Climate", Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](#).

<sup>30</sup> Joint EU-China Press Statement on Climate, The way forward after the 10th anniversary of the adoption of the Paris Agreement (2025), available at: <https://www.consilium.europa.eu/en/press/press-releases/2025/07/24/joint-eu-china-press-statement-on-climate>;

<sup>31</sup> European Commission, "The European Green Deal", COM(2019) 640 final, 11 December 2019, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>.

<sup>32</sup> C. Trasi, "Convergence, Not Alignment: EU-China Climate Relations ahead of COP30", Bruegel, 35/2025, 9 October 2025, available at: [https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373\\_1.pdf](https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373_1.pdf).

<sup>33</sup> Jing Men, "EU-China Relations at 50: Continuity, Change, and Institutional Resilience", 7 *China International Strategy Review* 2025, 249.

<sup>34</sup> C. Trasi, "Convergence, Not Alignment: EU-China Climate Relations ahead of COP30", Bruegel, 35/2025, 9 October 2025, available at: [https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373\\_1.pdf](https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373_1.pdf); J. Pisani-Ferry, B. Weder di Mauro, and J. Zettelmeyer, "Building Coalitions for Climate Transition and Nature Restoration", Bruegel, 17/2025, 1 July 2025, available at: <https://www.bruegel.org/policy-brief/building-coalitions-climate-transition-and-nature-restoration>.

installed capacity of wind and solar power by 2030 that China committed to at the Climate Ambition Summit.<sup>35</sup>

Although China has increasingly relied on renewable energy, in particular solar energy, coal plays still an important role in China's energy mix and accounts for more than half of the world's coal fleet and 70 percent of new global coal projects.<sup>36</sup> For China, climate measures may not endanger its continuous economic development and security concerns, including energy security.<sup>37</sup> Consequently, it adopts a development first climate responsibility<sup>38</sup> and, through the reliance on coal, of which China has an abundance, next to green energy primarily wants to ensure its energy security in the shifting geopolitical climate.<sup>39</sup> Moreover, China maintains that it must still be regarded as a developing country, thereby skirting responsibility to contribute to the Green Climate Fund or the Loss and Damage Fund, despite the EU calling upon China to do exactly this.<sup>40</sup> This has put puts China at odds with the EU, with its ambitious decarbonization agenda. As a developed region, the EU also has more onerous obligations under the UNFCCC and needs to contribute to the Green Climate Fund or the Loss and Damage Fund.

### 3. Green technologies and renewable energy

Intrinsically connected to addressing climate change through decarbonization, is green technology.

Green technology may alleviate the impacts of the EU's ambitious decarbonization agenda on its industry and also contribute to its energy security.<sup>41</sup> Consequently, China and the EU also collaborate on energy transition to renewable energy.

China-EU energy cooperation traces its origins to the mid-1990s, with clean energy emerging over time as cornerstone of the bilateral energy agenda. In 1994, the China and the EU entered into a partnership with the opening of the 1st China-EU Energy Conference. With the launch of the Dialogue Mechanism, energy security, infrastructure and renewable energy have gradually been covered. As a result, China and the EU have systematically integrated energy and environmental issues into parallel cooperation frameworks. In 2003, their bilateral relations were upgraded to a Comprehensive Strategic Partnership, coinciding with the launch of the China-EU Energy and Environment Program. Through the China-EU Energy Dialogue governmental energy exchanges became institutionalized. In 2018, the China-EU Leaders' Statement reinforced cooperation on clean energy, including clean power generation, high-efficiency cogeneration, and

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<sup>35</sup> Institute of Carbon Neutrality (Peking University), Institute for European Environmental Policy (IEEP) and CTGN Europe, "Powering the Twin Engines: Navigating China-EU Climate Cooperation", May 2025, 9, available at: [\\*Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf](https://www.ctgn.eu/wp-content/uploads/2025/05/Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf).

<sup>36</sup> *Ibid.*; J. Pisani-Ferry, B. Weder di Mauro, and J. Zettelmeyer, "Building Coalitions for Climate Transition and Nature Restoration", Bruegel, 17/2025, 1 July 2025, available at: <https://www.bruegel.org/policy-brief/building-coalitions-climate-transition-and-nature-restoration>

<sup>37</sup> C. Keßler, "Between Competition and Co-operation, How to Engage with China on Climate", Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](https://www.cer.eu/publications/2024-06-between-competition-and-co-operation-how-to-engage-with-china-on-climate).

<sup>38</sup> C. Trasi, "Convergence, Not Alignment: EU-China Climate Relations ahead of COP30", Bruegel, 35/2025, 9 October 2025, available at: [https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373\\_1.pdf](https://www.bruegel.org/sites/default/files/2026-04/convergence%2C-not-alignment%3A-eu-china-climate-relations-ahead-of-cop30-11373_1.pdf);

<sup>39</sup> C. Keßler, "Between Competition and Co-operation, How to Engage with China on Climate", Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](https://www.cer.eu/publications/2024-06-between-competition-and-co-operation-how-to-engage-with-china-on-climate).

<sup>40</sup> *Ibid.*

<sup>41</sup> J. Cornille, J. Delbeke, P.P. Raimondi, and S. Tagliapietra, "Framing the EU Challenge to Deal with 'China Shock 2.0' in Clean Tech", EU School of Transnational Governance, 2026/15, June 2026, available at: <https://cadmus.eui.eu/server/api/core/bitstreams/1f0ef5cd-d6c2-47f0-8fd1-0806ebd4f8a8/content>.

energy market design. In 2019, the EU-China Energy Cooperation Platform was launched to deepen collaboration on energy policy and innovation.<sup>42</sup>

During this cooperation, China has developed a dominant position in green energy technology, but this in turn creates a significant challenge for the EU.<sup>43</sup> China controls 60 to 85% of key clean energy technology supply chains at prices EU producers cannot match. This leadership is caused by broad subsidies three to eight times larger than those of OECD countries, scale, innovation, competitiveness and a vast domestic demand.<sup>44</sup> Furthermore, China processes and refines over 90% of battery-grade graphite and more than 77% of refined rare earth elements and has linked its mineral investments to increase its dominance in manufacturing of intermediate goods that use critical materials as inputs.<sup>45</sup> This fits in China's own derisking strategy, whereby it wants to insulate Chinese industry from foreign technology and imports, while at the same time reinforcing other countries' reliance on Chinese technology and supply chains.<sup>46</sup> Meanwhile, the EU has increasingly become reliant on Chinese green technology. In fact, the EU remains the single most important external market for China's electric and hybrid vehicles exports. Even with EU tariffs, Chinese EV exports to the EU rose by 82% in the first quarter of 2026 and exempted plug-in hybrid shipments rose by 1,443% from the first quarter of 2024. Moreover, China supplied 98% of the EU's solar panels, 88% of lithium-ion batteries, 90% of EU inverter imports, and 93% of neodymium permanent magnets.<sup>47</sup> In the field of solar panels, although Chinese dominance has led to sharp price decreases, this has come at the cost of European solar panels industry.<sup>48</sup>

If the EU wants to achieve its goal of delivering the 32% electrification target by 2030,<sup>49</sup> it will have to address the challenge of China's dominance in green energy technology, which in turn means adopting a policy of derisking, protecting the EU's industry, and a more competitive attitude towards China. The alternative, an enhanced cooperation between China and the EU in the field of green energy is unlikely, though may happen for specific sectors. According to this approach, the EU would accept China's dominance in green technology but would integrate it on its terms. Chinese manufacturers would have receive access to the EU market in exchange for

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<sup>42</sup> Institute of Carbon Neutrality (Peking University), Institute for European Environmental Policy (IEEP) and CTGN Europe, "Powering the Twin Engines: Navigating China-EU Climate Cooperation", May 2025, 17, available at: [\\*Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf](https://www.iecep.eu/wp-content/uploads/2025/05/Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf)

<sup>43</sup> J. Cornille, J. Delbeke, P.P. Raimondi, and S. Tagliapietra, "Framing the EU Challenge to Deal with 'China Shock 2.0' in Clean Tech", EUI School of Transnational Governance, 2026/15, June 2026, available at: <https://cadmus.eui.eu/server/api/core/bitstreams/1f0ef5cd-d6c2-47f0-8fd1-0806ebd4f8a8/content>.

<sup>44</sup> *Ibid.*

<sup>45</sup> *Ibid.*

<sup>46</sup> N. Grünberg, "De-risking Green Tech in China: From Dependence to Dominance", MERICS, available at: <https://merics.org/en/comment/de-risking-green-tech-china-dependence-dominance>.

<sup>47</sup> J. Cornille, J. Delbeke, P.P. Raimondi, and S. Tagliapietra, "Framing the EU Challenge to Deal with 'China Shock 2.0' in Clean Tech", EUI School of Transnational Governance, 2026/15, June 2026, available at: <https://cadmus.eui.eu/server/api/core/bitstreams/1f0ef5cd-d6c2-47f0-8fd1-0806ebd4f8a8/content>; C. Keßler, "Between Competition and Co-operation, How to Engage with China on Climate", Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](https://www.cer.europa.eu/publications/between-competition-and-co-operation-how-to-engage-with-china-on-climate).

<sup>48</sup> C. Keßler, "Between Competition and Co-operation, How to Engage with China on Climate", Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](https://www.cer.europa.eu/publications/between-competition-and-co-operation-how-to-engage-with-china-on-climate).

<sup>49</sup> European Commission, "Action Plan for Affordable Energy: Unlocking the True Value of our Energy Union to Secure Affordable, Efficient and Clean Energy for all Europeans", COM(2025) 79 final, 26 February 2025, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52025DC0079&qid=1741780110418>; see also: European Commission, "AccelerateEU - Energy Union Affordable and Secure Energy through Accelerated Action", COM(2026) 370 final, 22 April 2026, available at: [https://energy.ec.europa.eu/document/download/7fac9eea-5717-4182-a368-bd68c427ff4c\\_en?filename=Communication.pdf](https://energy.ec.europa.eu/document/download/7fac9eea-5717-4182-a368-bd68c427ff4c_en?filename=Communication.pdf)

stable supplies of inputs, technologies, and components and a firm commitment not to weaponize any chokepoints.<sup>50</sup> Although this approach would make decarbonization more affordable and faster, it would come at the expense of the EU's energy security and industrial capability.<sup>51</sup> In the context of the current geopolitical situation whereby China has declared a close partnership with Russia, this approach is unlikely to be adopted. Moreover, a continued (over)reliance on Chinese green technology, would not alleviate the concern that China may put export controls on rare earth elements as a tool of foreign policy, as it has done before against certain EU Member States.<sup>52</sup> Not surprisingly, European and Member States' officials are not keen to take this route.<sup>53</sup> On the contrary, the conflict in Ukraine has bolstered the EU's resolve to diversify the EU's energy supply, increase renewable energy production and address energy poverty.<sup>54</sup> In this regard, the EU is not planning to let one energy dependence to be replaced by another.

#### 4. Climate Finance

Another environmental area in which China and the EU have collaborated is climate action finance. Both China and the EU have developed an emissions trading scheme. China's climate finance efforts involve a dual-track carbon trading system. This system encompasses a national emissions trading scheme (ETS) and a voluntary emissions reduction market, namely the China Certified Emissions Reduction (CCER). China's national ETS started as a pilot program in 2010, expanding to seven regions before launching nationwide in 2021. The steel, cement and aluminum smelting industries were incorporated into the national ETS in 2025. The CCER market was initiated in 2012, suspended in 2017 for restructuring and reform, and restarted in 2024.<sup>55</sup> Furthermore, through the Belt and Road Initiative, China introduced international climate financing in third countries and supported green projects through the Silk Road Fund, the China-Asean Investment Cooperation Fund, the China-Central and Eastern Europe Investment Cooperation Fund, and the Everbright "Belt and Road" green investment fund.<sup>56</sup>

The EU was the first to set up an emissions trading system (EU ETS), which, today, remains the largest greenhouse gas emissions trading scheme. The EU ETS is an instrumental tool in meeting the EU's climate targets through cost-effective reductions in industrial greenhouse gas emissions and is an important source of revenue for climate finance. After its creating in 2005 and the three-year pilot phase, the EU ETS was subject to several reviews and extensions. Over time, the EU ETS has become the cornerstone of the EU's climate policy, driving emissions reductions cost-effectively. Through continuous reforms, sectoral expansion, and stricter targets, the ETS remains crucial to the EU's ambition to achieve climate neutrality by 2050.

Over the last few years, several sources of public funding have been invested to support the green transition in the EU. As an EU financial institution, the European Investment Bank (EIB)

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<sup>50</sup> J. Cornille, J. Delbeke, P.P. Raimondi, and S. Tagliapietra, "Framing the EU Challenge to Deal with 'China Shock 2.0' in Clean Tech", EU School of Transnational Governance, 2026/15, June 2026, available at: <https://cadmus.eui.eu/server/api/core/bitstreams/1f0ef5cd-d6c2-47f0-8fd1-0806ebd4f8a8/content>.

<sup>51</sup> *Ibid.*

<sup>52</sup> C. Kessler, "Between Competition and Co-operation, How to Engage with China on Climate", Centre for European Reform, June 2024, available at: [Between competition and co-operation: How to engage with China on climate](#).

<sup>53</sup> *Ibid.*

<sup>54</sup> Institute of Carbon Neutrality (Peking University), Institute for European Environmental Policy (IEEP) and CTGN Europe, "Powering the Twin Engines: Navigating China-EU Climate Cooperation", May 2025, 13, available at: [\\*Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf](#).

<sup>55</sup> *Ibid.*, 14.

<sup>56</sup> *Ibid.*

plays the role of the EU's Climate Bank, investing in projects that align with the Paris Agreement. The EIB provides financing, expertise, and advisory services to public and private sectors to fund sustainable projects, particularly in renewable energy, energy efficiency, clean transportation and climate adaptation. Green bonds are another financial instrument that play a crucial role in the transition, serving as a fixed-income instrument for sustainable projects. They are governed by the European Green Bond Standard Regulation,<sup>57</sup> a voluntary act based on the criteria of the EU taxonomy for defining green economic activities.

The EU, together with its Member States, is also the biggest provider of climate finance in the world. Since 2013, the EU has more than doubled its contribution to international climate finance. About one-third of the EU external budget for 2021-2027 is earmarked for climate-related projects through the Neighbourhood, Development and International Cooperation Instrument (NDICI) – Global Europe. In 2024, the EU's and Member States' contribution to climate finance amounted to EUR 28.6 billion from public sources.<sup>58</sup>

The establishment of China's ETS was the result of the close cooperation with the EU in emission. In addition, China and the EU have launched two cooperation programs aimed at enhancing their partnership in emissions trading. These initiatives were supported by a total investment of 15 million euros (approx. 117 million yuan), which was allocated to facilitate the sharing of expertise for the establishment of China's ETS. China and the EU signed the Memorandum of Understanding (MoU) to Enhance Cooperation on Emissions Trading in 2018, establishing a regular dialogue mechanism on ETS between the two parties. The updated MoU signed in 2024 further expanded cooperation by incorporating additional topics, including the China Certified Emission Reduction (CCER) mechanism.<sup>59</sup>

## 5. Biodiversity

Finally, a more recent area of cooperation is biodiversity. In September 2020, under the China-EU HECD mechanism, climate change and biodiversity conservation were included as areas of cooperation. At the 2<sup>nd</sup> HECD cooperation in the fields of climate and biodiversity became important topics in the China-EU leaders' dialogue, with both sides committed to taking prompt actions to implement the Kunming-Montreal Global Biodiversity Framework.<sup>60</sup> This new area of cooperation demonstrates that, despite tensions in their mutual relations in environmental matters, China and the EU can still find new common grounds.

## III. THE ANVIL OF TRADE COMPETITION

The brief overview of cooperation in environmental matters demonstrates that China and the EU have a long history of collaborating on the environment, in particular on climate change, a cooperation that is ongoing and has extended recently in other areas. In a globalized economy, where China and the EU are each other's largest trade partners as of 2023, environmental matters and trade have necessarily become intertwined. From the EU's perspective, trade has been affected by the deteriorating relation between the two economies due to a myriad of factors, including the perceived lack of market access of EU companies, the existing trade

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<sup>57</sup> Regulation (EU) 2023/2631 of the European Parliament and of the Council of 22 November 2023 on European Green Bonds and optional disclosures for bonds marketed as environmentally sustainable and for sustainability-linked bonds, *OJ L*, 2023/2631, 30.11.2023.

<sup>58</sup> Institute of Carbon Neutrality (Peking University), Institute for European Environmental Policy (IEEP) and CTGN Europe, "Powering the Twin Engines: Navigating China-EU Climate Cooperation", May 2025, 17, available at: [\\*Powering-the-Twin-Engines-Navigating-China-EU-Climate-Cooperation-2025.pdf](#).

<sup>59</sup> *Ibid.*, 18.

<sup>60</sup> *Ibid.*

imbalance, and the Chinese no-limits partnership with Russia. China, on the other hand, has accused the EU of closing-up its internal market and of protectionism, and even of decoupling from the Chinese economy under the influence of the United States of America. The adoption of the much-touted Comprehensive Investment Agreement has been delayed indefinitely.

There are multiple, complex connections between trade and the environment. Tariffs and other barriers to trade in clean technology products and environmental goods and services can foster global efforts to develop a low-carbon economy.<sup>61</sup> Furthermore, they may come closely intertwined when climate policies would have significant economic impacts.<sup>62</sup> International regimes on trade and on climate change are also inextricably linked.<sup>63</sup> If the global transition to a low-carbon economy is to be achieved and the Paris Agreement's goal of limiting average global temperature increases to well below 2 degrees Celsius realized, the international trade system will need to offer support.<sup>64</sup>

While new climate measures, including emissions regulations, might constrain certain types of economic activity, they can also provide incentives for more sustainable development. The transition to a green economy offers important potential benefits for developing countries.<sup>65</sup> Trade systems have significant potential to promote the exchange of environmentally-friendly goods and services, increase resource efficiency, and generate green growth and job creation.<sup>66</sup> This transition can be supported by the transfer of renewable energy technology, as well as capacity building that is offered through the global climate regime.<sup>67</sup> Trade can also contribute to the advancement of environmental standards, through the inclusion of such standards in international trade agreements. Hence, competition in international trade may also be a catalyst for collaboration through the adoption of mutually agreed trade standards.

Since trade and environmental matters are linked, trade-related issues may seep into environmental cooperation. For instance, with regard to green technologies and renewable energy, the EU producers are put under strain by Chinese imports. On 4 July 2024, the EU put countervailing duties on Chinese EVs,<sup>68</sup> with China rapidly responding with launching a WTO case against the EU.<sup>69</sup> However, international trade and investment also significantly contributed

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<sup>61</sup> M.W. Gehring, "EU Constitutional Aims and External Relations – Legal Consequences of Climate Provisions in EU Trade Accords", 1 March 2023, University of Cambridge Faculty of Law Research Paper No. 2/2023, 7, available at: <https://ssrn.com/abstract=4387594>.

<sup>62</sup> M.-C. Cordonier Segger, "The Principles: Integration", in M.W. Gehring and M.-C. Cordonier Segger (eds.) *Sustainable Development in World Trade Law* (Kluwer 2005), 141.

<sup>63</sup> M.W. Gehring, "EU Constitutional Aims and External Relations – Legal Consequences of Climate Provisions in EU Trade Accords", 1 March 2023, University of Cambridge Faculty of Law Research Paper No. 2/2023, 7, available at: <https://ssrn.com/abstract=4387594>.

<sup>64</sup> *Ibid.*

<sup>65</sup> European Commission, "Communication Rio+20: Towards the Green Economy and Better Governance", COM/2011/0363 final, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:52011DC0363>; UNEP, "Toward a Green Economy: Pathways to Sustainable Development and Poverty Eradication", Nairobi, UNEP 2011, available at: <https://www.unep.org/resources/report/towards-green-economy-pathways-sustainable-development-and-poverty-eradication-10>.

<sup>66</sup> M.W. Gehring "Legal Transition to the Green Economy", 12 *McGill International Journal of Sustainable Development Law and Policy* 2016, 136.

<sup>67</sup> United Nations Environment Programme UNEP World Trade Organization. WTO, Trade and Climate Change: WTO-UNEP Report (WTO 2009).

<sup>68</sup> "Commission Imposes Provisional Countervailing Duties on Imports of Battery Electric Vehicles from China while Discussions with China Continue", available at: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_24\\_3630](https://ec.europa.eu/commission/presscorner/detail/en/ip_24_3630).

<sup>69</sup> "China Confirms It Filed Appeal to WTO over EU Electric Vehicle Tariffs", available at: <https://www.euractiv.com/section/economy-jobs/news/china-says-filed-appeal-to-wto-over-eu-electric-vehicle-tariffs/>.

to the rise of solar energy. Chinese firms were able to boost the sector's growth by raising funds through overseas IPOs and by finding a willing market in the EU through generous feed-in-tariffs provided by EU governments to accelerate the deployment of solar energy. In turn, this led to significant advancements in production capacity and quality and a serious reduction in costs.<sup>70</sup> Furthermore, environmental measures may have an impact on the ability of EU economic actors to compete with competitors abroad or may persuade European companies to reallocate production outside of the EU.<sup>71</sup> For instance, the EU ETS requires EU based companies to acquire emission rights, which makes moving energy-intensive industries outside of the EU to jurisdictions with no ETS or weaker ETS appealing.

Therefore, the first part will look into how EU law allows international trade agreements to include environmental standards. The second part looks at the Carbon Border Adjustment Mechanism (CBAM), a mechanism adopted on the legal basis of Article 192 TFEU, environmental matters, that has a clear impact on international trade.

## **1. The EU's competence on trade and the connection between trade and environmental matters**

The EU is an actor limited in its competences. Therefore, for every internal and external act, it needs to point to a basis in EU law, in the end a Treaty Provision, that allows the EU to take that act.<sup>72</sup> The EU cannot only act internally, but equally internationally, as the result of the EU's legal personality established in Article 47 TEU and the EU's general competence to conclude international agreements established in Article 216 TFEU.<sup>73</sup> With regard to international trade, the EU has exclusive competence over the common commercial policy, whereas for environmental matters the EU has a shared competence with the Member States.<sup>74</sup> Article 206 TFEU elaborates upon the sphere of the common commercial policy, as to include tariff rates, the conclusion of tariff and trade agreements relating to trade in goods and services, the commercial aspects of intellectual property, and foreign direct investment. This enumeration is not complete, however, since the EU trade policy is embedded in the larger goals of the EU's external action and reinforces the EU's foreign and security policy.<sup>75</sup>

Consequently, the EU's common commercial policy is not confined to reduction of tariffs and liberalization of trade, but also promotes sustainable development, labour rights, human rights, the environment and good governance.<sup>76</sup> In this regard, Article 3 (3) TEU stipulates that one of the goals of the EU is to work to achieve sustainable development which includes high levels of

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<sup>70</sup> B. McWilliams, S. Tagliapietra, and C. Trasi, "Smarter European Industrial Policy for Solar Panels", Bruegel, 8 February 2024, available at: <https://www.bruegel.org/policy-brief/smarter-european-union-industrial-policy-solar-panels>.

<sup>71</sup> M.W. Gehring, "EU Constitutional Aims and External Relations – Legal Consequences of Climate Provisions in EU Trade Accords", 1 March 2023, University of Cambridge Faculty of Law Research Paper No. 2/2023, 4-5, available at: <https://ssrn.com/abstract=4387594>.

<sup>72</sup> Article 5 (2) TEU; P. Conconi, C. Herghelegiu, and L. Puccio, "EU Trade Agreements: To mix or not to Mix, That's the Question", 55 *Journal of World Trade* 2021, 231.

<sup>73</sup> P. Conconi, C. Herghelegiu, and L. Puccio, "EU Trade Agreements: To Mix or not to Mix, That's the Question", 55 *Journal of World Trade* 2021, 231.

<sup>74</sup> Article 3 (1)(e) TFEU; more generally: P. Conconi, C. Herghelegiu, and L. Puccio, "EU Trade Agreements: To Mix or not to Mix, That's the Question", 55 *Journal of World Trade* 2021, 233-234.

<sup>75</sup> Article 21 (2)-(3) TEU; Article 205 TFEU; Article 207 (1) TFEU.

<sup>76</sup> European Commission, "Trade, Growth and World Affairs: Trade Policy as a Core Component of the EU's 2020 Strategy", COM(2010) 612 final, 9 November 2010, 15, available at: <https://eur-lex.europa.eu/legal-content/%20EN/TXT/PDF/?uri=CELEX:52010DC0612&from=en>.

environmental protection. This is not merely a restatement of policy, but a constitutional goal.<sup>77</sup> The constitutional goals, as introduced by the Lisbon Treaty, had a direct influence on the EU's external action, in particular the common commercial policy.<sup>78</sup>

Article 3 (5) extends this to external action, with the EU having to contribute to global sustainable development. Furthermore, Article 21 (1)(f) specifically states that one of the goals of external action is to adopt policies and action to “help develop international measures to preserve and improve the quality of the environment and the sustainable management of global natural resources, in order to ensure sustainable development”. Sustainable development also is the foundation for the European Green Deal, the current policy context for management of the connection within the EU of trade and the environment.<sup>79</sup> Not surprisingly, since 1994, almost all trade agreements have sustainable development as an objective.<sup>80</sup> More recent trade agreements, containing human rights and environmental clauses are considered as vehicles for the EU to export its values and to ensure that the EU's trade partners act consistently with European values and standards, and are a means to export its environmental standards by including them in these agreements.<sup>81</sup>

Furthermore, the exclusive competence of common commercial policy is not limited to areas typically associated with trade, but extends to other areas as well that are covered by trade agreements. Hence, it is only the EU, without the Member States, that can conclude trade agreements, even if they contain environmental clauses, that, if they would be separated, would be a shared competence. The CJEU has indeed extensively interpreted the scope of the common commercial policy as including any agreement that related to trade with third States,<sup>82</sup> if that agreement does not merely have incidental implications for trade with third States. In essence, the agreement must intend “to promote, facilitate or govern such trade and has direct and immediate effects on it”.<sup>83</sup> This covers trade liberalization in goods and services, market access of goods and services, customs duties and customs facilitation, non-tariff barriers to trade and investment, commercial aspects of intellectual property rights, government procurement, commitments regarding free and undistorted competition, and admission and protection of

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<sup>77</sup> M.W. Gehring “EU Constitutional Aims and External Relations – Legal Consequences of Climate Provisions in EU Trade Accords”, 1 March 2023, University of Cambridge Faculty of Law Research Paper No. 2/2023, 2, available at: <https://ssrn.com/abstract=4387594>.

<sup>78</sup> M. Krajewski, “The Reform of the Common Commercial Policy”, in A. Biondi, P. Eeckhout and S. Ripley (eds.), *EU Law after Lisbon* (Oxford 2012), 293; P.-C. Müller-Graff “The Common Commercial Policy Enhanced by the Reform Treaty of Lisbon?”, in A. Dashwood and M. Maresceau (eds.), *Law and Practice of EU External Relations* (Cambridge 2008), 189.

<sup>79</sup> European Commission, “The European Green Deal”, COM(2019) 640 final, 11 December 2019, 3, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>; E. Reed, “The Evolving Environment-trade nexus in the WTO and the EU: Building Blocks of a Just Transition”, 27 *Journal of Environmental Policy and Planning* 2025, 651.

<sup>80</sup> M.W. Gehring, “EU Constitutional Aims and External Relations – Legal Consequences of Climate Provisions in EU Trade Accords”, 1 March 2023, University of Cambridge Faculty of Law Research Paper No. 2/2023, 3, available at: <https://ssrn.com/abstract=4387594>.

<sup>81</sup> S. Gstöhl & D. Hanf, “The EU's Post-Lisbon Free Trade Agreements: Commercial Interests in a Changing Constitutional Context”, 20(6) *European Law Journal* 2014, 736; A. Dimopoulos, “The Effects of the Lisbon Treaty on the Principles and Objectives of the Common Commercial Policy”, 15 *European Foreign Affairs Review* 2010, 161.

<sup>82</sup> CJEU, C-414/11, *Daiichi Sankyo and Sanofi-Aventis Deutschland* [EU:C:2013:520], §50; CJEU, C-137/12, *Commission v. Council* [EU:C:2013:675], §56; CJEU, *Opinion 2/15, Free Trade Agreement Between the European Union and the Republic of Singapore* [EU:C:2017:376], §35.

<sup>83</sup> CJEU, C-414/11, *Daiichi Sankyo and Sanofi-Aventis Deutschland* [EU:C:2013:520], §51; CJEU, C-137/12, *Commission v. Council* [EU:C:2013:675], §57; CJEU, *Opinion 3/15, Marrakesh Treaty on Access to Published Works* [EU:C:2017:114], §61; CJEU, *Opinion 2/15, Free Trade Agreement Between the European Union and the Republic of Singapore* [EU:C:2017:376], §36.

direct investment.<sup>84</sup> Therefore, the common commercial policy covers all aspects of green technology and green products and is not limited to the liberalization of trade in these goods and services, but also covers direct investment<sup>85</sup> of foreign entities in the EU green sectors, the development of green standards, and the issue of subsidies to green technology and products and the impact thereof on the EU.

Moreover, the CJEU found that that “the objective of sustainable development henceforth forms an integral part of the common commercial policy”<sup>86</sup> and held that the common commercial policy has to be implemented consistently with the other objectives of the EU’s external action.<sup>87</sup> It is through the concept of sustainable development which includes the protection of the environment that environmental standards can be integrated into the common commercial policy.

Nonetheless, this objective may not lead to the harmonization of rules between the EU and the State Party; instead, commitments to sustainable development in trade agreements are limited to commitments that make liberalization of international trade conditional on compliance with international obligations concerning social protection of workers and environmental protection.<sup>88</sup> Trade agreements may therefore contain conditions that, in order for State parties to have market access, these State parties must abide by certain environmental standards. These provisions must be adopted to ensure that trade occurs in accordance with environmental commitments and to ensure that environmental standards are not adopted for protectionism. It is important to note that an international trade agreement may not be utilized as an enforcement mechanism for environmental standards. If that were the case, such clauses have no longer a trade objective and are not part of the common commercial policy, for which the EU has exclusive competence, and need to be concluded via a shared agreement.<sup>89</sup>

Although trade and the environment have been the subject of discussion worldwide and in the EU, recently, there has been a to conclude more sustainable trade agreements;<sup>90</sup> in this regard, the adoption of the Paris Agreement has propelled environmental standards into EU trade agreements in the last decade.<sup>91</sup> Such standards are not limited to obligations of means or result,

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<sup>84</sup> CJEU, Opinion 2/15, *Free Trade Agreement Between the European Union and the Republic of Singapore* [EU:C:2017:376].

<sup>85</sup> Direct investment is defined as: “investments of any kind made by natural or legal persons which serve to establish or maintain lasting and direct links between the persons providing the capital and the undertakings to which that capital is made available in order to carry out an economic activity. Acquisition of a holding in an undertaking constituted as a company limited by shares is a direct investment where the shares held by the shareholder enable him to participate effectively in the management of that company or in its control”: CJEU, C-446/04, *Test Claimants in the FII Group Litigation* [EU:C:2006:774], §§181–182; CJEU, C-326/07, *Commission v. Italy* [EU:C:2009:193], §35; CJEU, Opinion 2/15, *Free Trade Agreement Between the European Union and the Republic of Singapore* [EU:C:2017:376], §80.

<sup>86</sup> CJEU, Opinion 2/15, *Free Trade Agreement Between the European Union and the Republic of Singapore* [EU:C:2017:376], §147.

<sup>87</sup> CJEU, Opinion 2/15, *Free Trade Agreement Between the European Union and the Republic of Singapore* [EU:C:2017:376], §§225–244 and §§285–293.

<sup>88</sup> *Ibid.*, §166.

<sup>89</sup> P. Conconi, C. Herghelegiu, and L. Puccio, “EU Trade Agreements: To Mix or not to Mix, That’s the Question”, 55 *Journal of World Trade* 2021, 236-237.

<sup>90</sup> G. Marín Durán, “Sustainable Development Chapters in EU Free Trade Agreements: Emerging Compliance Issues” (2020), 57, *Common Market Law Review* 2020, 1031; M.-C. Cordonier Segger, “Integration as a Principle of European Law, and its Relevance to the Negotiation of Trade and Investment Agreements”, in M.-C. Cordonier Segger (ed.), *Crafting Trade and Investment Accords for Sustainable Development: Athena’s Treaties* (Oxford 2021), 89.

<sup>91</sup> M.W. Gehring, “EU Constitutional Aims and External Relations – Legal Consequences of Climate Provisions in EU Trade Accords”, 1 March 2023, University of Cambridge Faculty of Law Research Paper No. 2/2023, 3, available at: <https://ssrn.com/abstract=4387594>; M.-C. Cordonier Segger, ‘Advancing the Paris Agreement on Climate Change for Sustainable Development’ (2016) 5 *Cambridge International Law Journal* 202.

but also may require that the Parties conduct environmental protection “in a manner consistent with the multilateral environmental agreements” and that Parties must seek to ensure that laws and policies “provide for and encourage high levels of environmental protection”.<sup>92</sup> The EU Korea Free Trade Agreement includes provisions requiring high levels of environmental and labour protection, whereas the EU-Singapore and EU-Viet Nam Free Trade Agreements link the environmental and labour protection to international standards.<sup>93</sup> Moreover, the EU-Japan Economic Partnership Agreement was the first agreement to contain a comprehensive commitment to implement the Paris Agreement. The provision explicitly commits each party to work together to realize UNFCCC aims, to take steps to meet Paris objectives and to promote trade as a means of reducing GHG emissions and of achieving climate-resilient development.<sup>94</sup> Nonetheless, it must be stressed that the inclusion of sustainable development goals in trade agreements does not mean that such provisions can be enforced. For instance, despite global sustainability commitments in the recent EU-Mercosur Free Trade Agreement, the commitments are based on voluntary cooperation and lack any meaningful enforcement mechanisms.<sup>95</sup>

## **2. An environmental measure with trade impact: the EU Carbon Border Adjustment Mechanism.**

Carbon Border Adjustment Mechanisms (CBAMs) are regarded as innovative policy instrument with a dual nature: that of being a trade instrument used within climate policy.<sup>96</sup> CBAMs have been touted as being able to achieve a number of objectives, such as the prevention of carbon leakage, the promotion of compliance with the Paris Agreement, the development of climate leadership, the internalization of emissions in the country of consumption and the generation of revenue.<sup>97</sup> Nonetheless, although CBAMs were extensively discussed amongst scholars, until the EU stepped in, policymakers considered the chances for their implementation as dim due to the technical difficulties associated with such measures.<sup>98</sup>

The EU was the first to enact a comprehensive CBAM, with other jurisdictions equally examining their adoption. As a trade instrument, the EU CBAM is regarded as part of the “unilateral turn” through the EU’s adoption of a variety of defensive trade instruments after the EU failed to extend its ETS through international agreements.<sup>99</sup> The European Commission announced its intention of proposing a CBAM in the European Green Deal in 2019.<sup>100</sup> On 14 July 2021, the European Commission published a proposal for an EU regulation establishing a

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<sup>92</sup> *Ibid.*

<sup>93</sup> Article 13.3 EU-Korea Free Trade Agreement; Article 12.2 EU-Singapore Free Trade Agreement; Article 13.2 EU-Viet Nam Free Trade Agreement.

<sup>94</sup> Article 16.4 EU-Japan Economic Partnership Agreement.

<sup>95</sup> See: L.C.C. Lima, S.M. Pires, and D.N. Resende “Influence of the European Green Deal on International Trade Agreements: Analysis of the EU-MERCOSUR Case”, 17 *Revista de Direito Económico e Socioambiental* 2026, available at: <https://doi.org/10.7213/rev.dir.econ.soc.v17i1.33038>.

<sup>96</sup> D. Wennick, “How the EU’S Carbon Border Adjustment Mechanism Challenges the Dominant Climate Paradigm”, 30 *European Foreign Affairs Review* 2025, 29.

<sup>97</sup> A. Pirlot, “Carbon Border Adjustment Measures: A Straightforward Multi-Purpose Climate Change Instrument?”, 34 *Journal of Environmental Law* 2022, 25.

<sup>98</sup> G. Marín Durán, “Securing Compatibility of Climate Border Adjustments with the Multilateral Climate and Trade Regimes”, 72 *International and Comparative Law Quarterly* 2023, 73; D. Wennick, “How the EU’S Carbon Border Adjustment Mechanism Challenges the Dominant Climate Paradigm”, 30 *European Foreign Affairs Review* 2025, 30.

<sup>99</sup> D. Wennick, “How the EU’S Carbon Border Adjustment Mechanism Challenges the Dominant Climate Paradigm”, 30 *European Foreign Affairs Review* 2025, 30.

<sup>100</sup> European Commission, “The European Green Deal”, COM(2019) 640 final, 11 December 2019, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2019%3A640%3AFIN>

carbon border adjustment mechanism, as part of the Fit for 55 Package.<sup>101</sup> The proposal was linked to an adjustment of the EU's ETS,<sup>102</sup> whereby free allowances would gradually be extinguished, and was presented as an instrument to tackle carbon leakage and protect European business without the EU compromising on its ambitious climate targets.<sup>103</sup> The legislative proposal for CBAM was presented in July 2021 and enacted in May 2023.<sup>104</sup> It started in transitional phase from October 2023, where importers had reporting obligations, to 1 January 2026, when it fully entered into force.

The EU CBAM complements the EU's efforts to decarbonize its domestic industry through its ETS. The need to decarbonize production processes requires higher prices under the ETS, which in turn increases the risk of carbon leakage, i.e. the relocation of carbon-intensive producers outside of the EU. Previously, the ETS protected carbon-intensive industries through the free allocation of allowances, which neutralizes the price signals that the ETS is supposed to send to carbon-intensive producers. Instead, the EU wanted to gradually abolish the free allocations and equalize the carbon cost of foreign exporters and domestic producers through the EU CBAM. The EU CBAM would therefore also incentivize the decarbonization of foreign manufacturing industry.<sup>105</sup>

The EU CBAM is a declarative system that exposes importers of carbon-intensive goods to the carbon prices formed on the EU ETS. CBAM covers cement, electricity, fertilizers, iron and steel, aluminium, and hydrogen, which may only be imported into the EU by an authorized CBAM declarant. Every year, each authorized declarant must submit a CBAM declaration for the previous year that sets out the total quantity of each type of CBAM goods imported, the total embedded emissions, and the total number of CBAM certificates to be surrendered. Consequently, the EU CBAM obliges these importers to purchase CBAM certificates on a common central platform, and to surrender via the CBAM registry a number of certificates corresponding to the embedded emissions of the imported goods.<sup>106</sup> The price of CBAM certificates is calculated as the average price of carbon allowances auctioned within the EU ETS for each week.<sup>107</sup> As a result, the prices on the EU ETS are extended to importers so that "imported products are subject to a regulatory system that applies carbon costs equivalent to those borne under the EU ETS, resulting in a carbon price that is equivalent for imports and domestic products".<sup>108</sup>

The CBAM applies to the embedded emissions in imported goods, i.e. the direct GHG emissions released during their production and the indirect emissions associated with the electricity consumed during these production processes.<sup>109</sup> For goods other than electricity, embedded emissions must be calculated based on actual emissions, e.g. determined based on

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<sup>101</sup> Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999, *OJ L 243*, 9.7.2021.

<sup>102</sup> G. Marín Durán, "Securing Compatibility of Climate Border Adjustments with the Multilateral Climate and Trade Regimes", 72 *International and Comparative Law Quarterly* 2023, 75.

<sup>103</sup> D. Wennick, "How the EU'S Carbon Border Adjustment Mechanism Challenges the Dominant Climate Paradigm", 30 *European Foreign Affairs Review* 2025, 32-33; J. Wettestad, "The EU's Carbon Border Adjustment Mechanism: Shaped and Saved by Shifting Multi-Level Reinforcement", 42 *Review of Policy Research* 2025, 515-516.

<sup>104</sup> Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism, *OJ L 130*, 16.5.2023.

<sup>105</sup> Recital 11 and Recital 14, Regulation (EU) 2023/956.

<sup>106</sup> Article 20 Regulation (EU) 2023/956.

<sup>107</sup> Article 21 Regulation (EU) 2023/956.

<sup>108</sup> Recital 15 Regulation (EU) 2023/956.

<sup>109</sup> Article 3 (22), Regulation (EU) 2023/956. For iron and steel, aluminium and chemicals, embedded emissions are limited to direct emissions, and for the other goods subjected to CBAM, the CBAM also covers indirect emissions.

measurement systems.<sup>110</sup> Embedded emissions must be verified by an accredited verifier that must prepare a verification report, including the quantification of direct emissions of the relevant production installations and the embedded emissions.<sup>111</sup> Actual emission standards take into account the energy efficiency improvement requirements or technology bans in the calculation.<sup>112</sup> If actual emissions cannot be determined, default values will apply, which are set based on the average emission intensity of the 10% worst performing EU ETS installations for that type of goods in the absence of reliable data for the exporting country.<sup>113</sup> For embedded emissions in electricity imports, default values apply, unless these imports are governed by a power purchase agreement between the CBAM declarant and a foreign producer, for a power plant connected to the EU transmission system and that does not emit more than 550 grams of CO<sub>2</sub>/kilowatt-hour.<sup>114</sup>

The EU allows CBAM declarants to claim a reduction of the number of CBAM certificates due based on the price of carbon paid in the country of origin.<sup>115</sup> Nonetheless, the CBAM Regulation sets onerous conditions to the crediting of carbon pricing in third countries. First, the carbon price must take the form of a tax, levy, fee, or an emission allowance under a greenhouse gas emissions trading system.<sup>116</sup> The 2023 Commission Implementing Regulation specifically requires “the provision of a legal act providing for the carbon price”.<sup>117</sup> This definition, and the Commission’s additional clarification, implies that voluntary carbon credit markets and mechanisms that consist in the voluntary trading of certificates generated from emission reduction projects without legal framework governing these mechanisms in the third country are excluded.<sup>118</sup>

Second, the price must be paid under a carbon emissions reduction scheme, and apply to greenhouse gas emissions emitted during the production of goods.<sup>119</sup> By requiring that the carbon price is to be calculated on greenhouse gas emissions, the EU CBAM excludes “positive” indirect carbon pricing mechanisms, namely policies that change the price of carbon-intensive products but are not directly based on the carbon emissions of these products.<sup>120</sup>

Third, the reduction may only be claimed for carbon prices that have been “effectively paid” in the country of origin.<sup>121</sup> Allowances allocated free of charge cannot be considered to have been effectively paid and therefore foreign installations can only claim a reduction of their CBAM burden for the greenhouse gas emissions for which they have to acquire allowances on the market.<sup>122</sup>

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<sup>110</sup> Article 7 (2) Regulation (EU) 2023/956; Article 4, Commission Implementing Regulation (EU) 2023/1773 of 17 August 2023 laying down the rules for the application of Regulation (EU) 2023/956 of the European Parliament and of the Council as regards reporting obligations for the purposes of the carbon border adjustment mechanism during the transitional period, OJ 2023 L 228/94.

<sup>111</sup> Article 8 Regulation (EU) 2023/956.

<sup>112</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 177.

<sup>113</sup> Article 7 and Annex IV Regulation (EU) 2023/956.

<sup>114</sup> Article 7 (3) and Annex IV, §5 Regulation (EU) 2023/956.

<sup>115</sup> Article 9 Regulation (EU) 2023/956.

<sup>116</sup> Recital 29 Regulation (EU) 2023/956.

<sup>117</sup> Article 7 (1) Commission Implementing Regulation (EU) 2023/1773.

<sup>118</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 173.

<sup>119</sup> Article 9 Regulation (EU) 2023/956.

<sup>120</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 173.

<sup>121</sup> Article 9 Regulation (EU) 2023/956.

<sup>122</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 173; A. Marcu, M. Mehling, and A. Cosbey, “Border Carbon Adjustments

Fourth, the carbon price reduction must be adjusted to reflect any rebate or other form of compensation available in the third country that would have resulted in a reduction of that carbon price.<sup>123</sup> By requiring that the compensation must have resulted in a reduction of “that carbon price”, the CBAM Regulation makes it difficult to exclude fossil subsidies that third countries can adopt to counteract the impact of direct carbon prices.<sup>124</sup>

The effective payment of carbon prices in a third country must be independently certified, i.e. certified by a person that is independent both from the CBAM declarant and the authorities of the third country.<sup>125</sup> To facilitate the application of carbon price reduction, the EU may conclude agreements with third countries or territories.<sup>126</sup>

However, the EU CBAM provides in an important exception. Jurisdictions that are fully linked to the EU ETS, or that conclude an agreement on the linking of their ETS with the EU system, are excluded from the scope of application of the CBAM Regulation, provided the carbon price is effectively charged and exporters are not entitled to any rebate beyond what is provided in the EU.<sup>127</sup> In addition, non-EU electricity systems that are integrated with the EU electricity market can exempt their electricity imports from the CBAM. They must therefore commit to climate neutrality by 2050 and to transpose EU electricity law and climate law, including “carbon pricing at a level equivalent to that in the Union” and the implementation of an ETS in the electricity sector with a price equivalent to the EU to be finalized by 2030.<sup>128</sup> The European Commission may remove a country from the exemption if it has not shown sufficient progress to comply with EU law or acted in a way that is incompatible with the objectives of EU climate law.<sup>129</sup>

With regard to implementation, each Member State must designate a national authority that must verify that the number of CBAM certificates surrendered is correct and request the declarant to surrender additional certificates if needed. Declarants that fail to surrender sufficient CBAM certificates will have to pay a penalty for each missing certificate.<sup>130</sup> The European Commission registers foreign production installations in the CBAM Registry and is charged with taking action to address practices of circumvention of the CBAM Regulation.<sup>131</sup> These practices concern “changes in the pattern of trade in goods” for which there is insufficient economic justification other than to avoid the CBAM obligations, including modifying goods or artificially splitting shipments to escape the application of the CBAM.<sup>132</sup> Situations where importers sent their goods to a third country before entering the EU also have to be monitored,<sup>133</sup> in order to facilitate identification of attempts by foreign producers to avoid the CBAM by re-routing their goods to jurisdictions that are exempt from the CBAM.<sup>134</sup>

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in the EU: Issues and Options”, European Roundtable on Climate Change and Sustainable Transition, 2020, at 38, available at: <https://ercst.org/wp-content/uploads/2021/08/20200929-CBAM-Issues-and-Options-Paper-F-2.pdf>.

<sup>123</sup> Article 9 Regulation (EU) 2023/956.

<sup>124</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 173.

<sup>125</sup> Article 9 Regulation (EU) 2023/956.

<sup>126</sup> Article 2 (12) Regulation (EU) 2023/956.

<sup>127</sup> Article 2 (6) Regulation (EU) 2023/956.

<sup>128</sup> Article 2 (7) Regulation (EU) 2023/956.

<sup>129</sup> Article 2 (9) Regulation (EU) 2023/956.

<sup>130</sup> Article 26 Article 2 (9) Regulation (EU) 2023/956.

<sup>131</sup> Article 10 and Article 27 Regulation (EU) 2023/956.

<sup>132</sup> Article 27 Regulation (EU) 2023/956.

<sup>133</sup> Recital 66 Regulation (EU) 2023/956

<sup>134</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 175; A. Marcu, M. Mehling, and A. Cosby, “Border Carbon Adjustments

The EU CBAM has been criticized for not providing an exemption for the least-developed States and is considered in tension, if not at odds, with the EU's obligations under WTO law and the common but differentiated responsibilities and respective capabilities of Article 3 (1) UNFCCC.<sup>135</sup> The EU CBAM has also been chastised for not including indirect carbon pricing, for instance through fuel excise taxes or fossil fuel subsidy reforms, that increases the price of energy needed for the production of a good.<sup>136</sup> Such indirect carbon pricing is more prevalent, especially in developing countries, since they are easier to implement than setting up an ETS.<sup>137</sup> As a result, the consequences of EU CBAM may be particularly felt in developing countries,<sup>138</sup> especially those heavily reliant on energy-intensive industries.<sup>139</sup> At the same time, despite the spillover effects, CBAM is expected to accelerate decarbonization of high-emitting industry sectors of the EU's trading partners and bolster technological innovation,<sup>140</sup> and thereby contribute to combating climate change.

The impact of the implementation of CBAM on China is considered to be significant, due to its vital industries such as iron, steel, and aluminium. Especially with regard to aluminium, China is a major producer and an emitter of a significant share of greenhouse gases, particularly perfluorocarbons (PFCs).<sup>141</sup> China is also the leading global steel producer and the implementation of EU CBAM could pose a significant threat to the industry, making its exports less competitive in the EU market.<sup>142</sup> Iron, steel, and aluminium production is energy-intensive and decreasing CO<sub>2</sub> emissions in these industries is hard to achieve; therefore, the EU CBAM may result in increased prices for these goods and further exacerbating the challenges faced by industries and potentially leading to job losses and economic strain.<sup>143</sup> Considering that these sectors are crucial for China's economic development, EU CBAM is not only regarded as a green trade barrier, but also, potentially, a threat to China's national strategic interests.<sup>144</sup> If the Fit for 55 package would be implemented, EU CBAM would alleviate the loss of production in its steel

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in the EU: Issues and Options”, European Roundtable on Climate Change and Sustainable Transition, 2020, at 38, available at: <https://ercst.org/wp-content/uploads/2021/08/20200929-CBAM-Issues-and-Options-Paper-F-2.pdf>.

<sup>135</sup> G. Marín Durán, “Securing Compatibility of Climate Border Adjustments with the Multilateral Climate and Trade Regimes”, 72 *International and Comparative Law Quarterly* 2023, 80 et seq.; A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 182 et seq.;

<sup>136</sup> A. Boute, “Accounting for Carbon Pricing in Third Countries under the EU Carbon Border Adjustment Mechanism”, 23 *World Trade Review* 2025, 177.

<sup>137</sup> P. Agnolucci et al., “Measuring Total Carbon Pricing”, The World Bank Research Observer, 2023, 5 available at: <https://elibrary.worldbank.org/doi/abs/10.1596/1813-9450-10486>.

<sup>138</sup> G. Magacho, E. Espagne, and A. Godin, “Impacts of the CBAM on EU Trade Partners: Consequences for Developing Countries”, 24 *Climate Policy* 2024, 243-259.

<sup>139</sup> S. Perdana, M. Vielle, and T.D. Oliveira, “CBAM and Brazilian Energy-Intensive Industries”, 24 *Climate Policy* 2024, 260–273.

<sup>140</sup> F. Clora, W. Yu, and E. Corong, “Alternative Carbon Border Adjustment Mechanisms in the European Union and International Responses”, 174 *Energy Policy* 2023, available at: <https://doi.org/10.1016/j.enpol.2023.113454>; J. Chang, “Implementation of the EU Carbon Border Adjustment Mechanism and China's Policy and Legal Responses”, 110 *Environmental Impact Assessment Review* 2025, 3.

<sup>141</sup> S. Perdana, M. Vielle, and R. Li, “Trade War to Cooperation: Scrutinizing China's Strategies to the EU Carbon Border Adjustment Mechanism”, *Review of World Economics* 2026, 11-12, available at: <https://doi.org/10.1007/s10290-026-00635-6>

<sup>142</sup> L.T. Zhao, et al., “How will CBAM Affect the Decarbonisation of Steel Industry in China? A System Dynamics Approach”, *International Journal of Production Research* 2023, available at: <https://doi.org/10.1080/00207543.2023.2285397>

<sup>143</sup> W. Li, X. Liu, and C. Lu, “Analysis of China's Steel Response Ways to EU CBAM Policy Based on Embodied Carbon Intensity Prediction”, 282 *Energy* 2023, available at: <https://doi.org/10.1016/j.energy.2023.128812>.

<sup>144</sup> S. Perdana, M. Vielle, and R. Li, “Trade War to Cooperation: Scrutinizing China's Strategies to the EU Carbon Border Adjustment Mechanism”, *Review of World Economics* 2026, 5, available at: <https://doi.org/10.1007/s10290-026-00635-6>.

and aluminium industries in the EU, while at the same time significantly decreasing the imports from China.<sup>145</sup> Nonetheless, although some Chinese industries may experience short-term pressure, the EU CBAM may as well spur China to initiate policy reform and expand the Chinese ETS to more industries.<sup>146</sup> Since EU CBAM contains an exception for jurisdictions with a similar ETS to the EU ETS, Chinese industries would in that case not be subject to EU CBAM requirements. In the end, EU CBAM despite the risk of creating further trade tensions, may be the catalyst for further cooperation in the spirit of historical China-EU cooperation on the ETS.

#### IV. THE HAMMER OF DE-RISKING

The previous part demonstrated that trade and the environment have become increasingly connected. The application of the Foreign Subsidy Regulation demonstrated a general trade-related mechanism can be employed against Chinese investments in green technology, thereby complicating cooperation in environmental matters. Furthermore, the EU CBAM, whose goal is to combat climate change by addressing carbon leakage, employs trade-like measures and may protect EU industries from outside competition. Nonetheless, even if these measures may lead to tensions in cooperation on trade and the environment, this does not mean that the overall level of cooperation in those areas is affected. After all, China and the EU had their trade spats before, this did not necessarily lead to a deterioration in their overall relation. A comparison could be made with the trade conflicts between the EU and the US, that frequently led to WTO cases between them, but had no significant impact on their friendly relations. Consequently, what matters is not the adoption and implementation of for instance the EU CBAM, but how this is viewed in the context of China-EU relations.

What has notably changed in recent years is that the EU considers its trade dependency on China increasingly as unsustainable and is even examining a specific tool to address China's alleged distortions of the global market.<sup>147</sup> European Commission President Ursula von der Leyen outlined her vision for a new de-risking strategy in March 2023, while at the same time stressing that de-risking did not mean decoupling from the Chinese economy.<sup>148</sup> In addition, the European Commission and the High Representative published a Joint Communication on a European Economic Security Strategy in June 2023, laying “the groundwork for a discussion with a view to creating a common framework to de-risk and protect the Union's economic security”.<sup>149</sup> The European Commission proposes “to identify and assess, collectively with EU member states and with inputs from private stakeholders, risks to the EU's economic security that threaten its key interests within clearly defined parameters, taking into account the evolving geopolitical context and, where appropriate, stakeholders' views.”<sup>150</sup> The Chinese reaction to the EU's de-risking has largely been negative since China sees elements of rivalry in the EU's de-risking policy,<sup>151</sup> in

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<sup>145</sup> *Ibid.*, 11-12.

<sup>146</sup> J. Chang, “Implementation of the EU Carbon Border Adjustment Mechanism and China's Policy and Legal Responses”, 110 *Environmental Impact Assessment Review* 2025, 3-4.

<sup>147</sup> See: <https://www.euractiv.com/news/brussels-to-propose-dedicated-tool-to-pull-away-from-china-trade-chief-says/>.

<sup>148</sup> “Speech by President von der Leyen on EU-China Relations to the Mercator Institute for Chinese Studies and the European Policy Centre”, available at: [https://ec.europa.eu/commission/presscorner/detail/en/speech\\_23\\_2063](https://ec.europa.eu/commission/presscorner/detail/en/speech_23_2063).

<sup>149</sup> “Joint Communication to the European Parliament, the European Council and the Council on ‘European Economic Security Strategy’”, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023JC0020&qid=1687525961309>.

<sup>150</sup> *Ibid.*

<sup>151</sup> Center for China and Globalization, “What De-risking means for China”, in Ivano De Carlo (ed.), *EU-China Relations at a Crossroads, Vol. III: Business Unusual*, 30 June 2024, 25, available at: <https://www.epc.eu/content/EU-China-TT-Compendium-2024-v16.pdf>.

particular because many of the adopted measures have been used against Chinese dominance in renewable energy sector and more recently EVs.

The EU can point to China's state-led system which with its extensive use of industrial policy to support exports and globalise its companies has created major distortions in global markets. Furthermore, attempts to increase market access or to spur China to become a more market-driven economy have failed, whereas the EU has increasingly become strategically dependent on China since the pandemic. EU imports of green tech from China have ballooned, while China has continued to reduce its imports from the rest of the world, especially the EU.<sup>152</sup> In addition, the EU can refer to Chinese interference with the supply of rare earth minerals, which causes significant distortions in 2025, and the imposition of export controls on Dutch semiconductor producer Nexperia, whose chips are mostly assembled in China, as another example of this dependence.

Crucially, despite the existing economic opportunities, the EU regards China now an economic competitor, while the EU retains the label of “partner” for areas of global governance, such as climate change, where China remains a necessary actor to be engaged and to negotiate with, despite different perspectives.<sup>153</sup> However, the linkage between trade and the environment does not bode well for the continued cooperation between them in environmental matters. In this section, a brief overview will be given on the derisking policy of the EU towards China. This is followed by a discussion on the Net-Zero Industries Act, as the key policy to ween the EU of the dependency on Chinese green technology and manufacturing.

## 1. Overview of the EU's de-risking strategy

The current EU drive for derisking must be understood in the context of geopolitical changes. Whereas, until recently, the neoliberal globalization paradigm prevailed with a reliance on the power of market forces and free trade, increasing tensions between great powers have led to a more security-oriented outlook, even at the cost of economic efficiency, global supply chains and shareholder value maximization.<sup>154</sup> This is especially the case when due to global supply chains products that are deemed vital, such as critical raw materials and semiconductors, rely primarily on a handful of suppliers that are located in jurisdictions that may compete with the EU. Although these concerns existed before the pandemic, the COVID-19 crisis acted as an accelerator by amplifying these pre-existing concerns.<sup>155</sup> The creation of the Health Emergency Preparedness and Response Authority,<sup>156</sup> must be viewed in this context. Furthermore, Russia's invasion of Ukraine, also demonstrated the risks to be dependent for energy needs on a foreign actor. China's support of Russia, as part of strategic considerations, also increased worries in EU capitals about dependencies on China.<sup>157</sup>

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<sup>152</sup> A. García-Herrero and A. Vasselier, “Updating the EU strategy on China: Co-existence while Derisking through Partnerships”, Bruegel, October 2024, Policy Brief 27/24, 2, available at: <https://www.bruegel.org/sites/default/files/2024-10/PB%2027%202024%20311024.pdf>.

<sup>153</sup> A. Brinza et al., “EU-China Relations: De-risking or De-coupling – The Future of the EU Strategy Towards China, March 2024, 7, available at: [https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO\\_STU\(2024\)754446\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf)

<sup>154</sup> F. Nicolas, “EU's Derisking from China: A Daunting Task”, 23 *Asia Europe Journal* 2025, 470.

<sup>155</sup> Ibid.

<sup>156</sup> Commission Decision of 16 September 2021 establishing the Health Emergency Preparedness and Response Authority (2021/C 393 I/02), available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021D0929%2802%29&from=EN>.

<sup>157</sup> A. García-Herrero and A. Vasselier, “Updating the EU strategy on China: Co-existence while Derisking through Partnerships”, Bruegel, October 2024, Policy Brief 27/24, 4, available at: <https://www.bruegel.org/sites/default/files/2024-10/PB%2027%202024%20311024.pdf>; A. Brinza et al., “EU-China Relations: De-risking or De-coupling – The Future of the EU Strategy Towards China, March 2024, 59,

In June 2023, the European Commission and the High Representative for Foreign Affairs and Security Policy published a Joint Communication on a European Economic Security Strategy, that focuses on minimizing risks among certain economic flows in the context of increased geopolitical tensions and accelerated technological shifts, while preserving maximum levels of economic openness and dynamism.<sup>158</sup> Following this joint communication, the European Economic Security Package was approved in January 2024.<sup>159</sup> With this package, the European Commission aimed to reduce its strategic dependence on the most sensitive sectors, including critical raw materials, semiconductors, healthcare, digital technology, and food products. To that end, it seeks to mitigate the risk of economic coercion and supply chain disruptions, but also to enhance industrial competitiveness.<sup>160</sup>

The EU's economic security and derisking strategy relies on three pillars, the so-called 3 Ps (protect, promote, and partner). The strategy aims at (1) "protecting the EU's economic security through a range of existing policies and tools, and considering new ones to address possible gaps"; (2) "promoting the EU's competitiveness, by strengthening the Single Market, supporting a strong and resilient economy, investing in skills, and fostering the EU's research, technological, and industrial base"; (3) "partnering with the broadest possible range of partners to strengthen economic security."<sup>161</sup> The "protection" element of the strategy relies on existing tools that need to be better implemented, such as trade defense instruments, FDI screening, and export controls and the adoption of new ones to protect the EU from economic security risks. An example thereof is the Anti-Coercion Instrument.<sup>162</sup> The primary goals are the counterbalancing of market distortions, caused by China, and to pursue a level economic playing field, and to ensure reciprocity.<sup>163</sup>

The "promoting" element relies exclusively on internally competitive markets to ensure European companies' competitiveness at the global level is no longer a valid assumption.<sup>164</sup> Therefore, the EU has begun pursuing a range of proactive measures to diversify supply chains and boost industrial as well as technological competitiveness in areas such as technology together with digital and green transitions.<sup>165</sup> However, this aspect of the policy risks to further protectionism and global economic fragmentation. It may also set up a strategic rivalry with China. Internally, it may erode the EU's single market's coherence and the EU's cohesion due to increases in state aid.<sup>166</sup> The European Chips Act<sup>167</sup> belongs to this "promoting" effort.

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available at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO\\_STU\(2024\)754446\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf).

<sup>158</sup> European Commission, "EU-China – A Strategic Outlook", JOIN(2019) 5 final, 12 March 2019, available at:

<https://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX%3A52019JC0005>.

<sup>159</sup> Available at:

[https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip\\_23\\_3358/IP\\_23\\_3358\\_EN.pdf](https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_23_3358/IP_23_3358_EN.pdf)

<sup>160</sup> F. Nicolas, "EU's Derisking from China: A Daunting Task", 23 *Asia Europe Journal* 2025, 471.

<sup>161</sup> European Commission, "An EU Approach to Enhance Economic Security" 20 June 2023, available at

[https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip\\_23\\_3358/IP\\_23\\_3358\\_EN.pdf](https://ec.europa.eu/commission/presscorner/api/files/document/print/en/ip_23_3358/IP_23_3358_EN.pdf).

<sup>162</sup> Regulation (EU) 2023/2675 of the European Parliament and of the Council of 22 November 2023 on the protection of the Union and its Member States from economic coercion by third countries, *OJ L*, 2023/2675, 7.12.2023.

<sup>163</sup> A. Brinza et al., "EU-China Relations: De-risking or De-coupling – The Future of the EU Strategy Towards China, March 2024, 61, available at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO\\_STU\(2024\)754446\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf).

<sup>164</sup> F. Nicolas, "EU's Derisking from China: A Daunting Task", 23 *Asia Europe Journal* 2025, 471.

<sup>165</sup> A. Brinza et al., "EU-China Relations: De-risking or De-coupling – The Future of the EU Strategy Towards China, March 2024, 61, available at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO\\_STU\(2024\)754446\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf).

<sup>166</sup> *Ibid.*

The “partnering” element of the strategy is the one the EU is most familiar with due to its long history and experience with drafting free trade agreements. Partnering is an example of collaborative de-risking and has to occur with “reliable partners”, including countries which have made bolstering economic security a policy priority. However, collaborative de-risking with developing countries faces challenges, for instance because of the adoption of the EU CBAM, which may affect developing countries in particular.<sup>168</sup>

It is important to note that the EU’s economic security strategy is country agnostic, and there is no mention of China;<sup>169</sup> at the same time, there is no denying that the deteriorating relations with China have contributed to the adoption of the EU’s economic security strategy.<sup>170</sup> As a result, a key tenet of the EU’s economic security strategy is derisking from China, but it does not aim to decouple from China.<sup>171</sup> Importantly, the EU strategy entails reducing critical dependencies and vulnerabilities and diversifying where necessary, while recognizing the importance and need to maintain open channels of communication. Therefore, de-risking and cooperation with China at the same time is not contradictory. Nonetheless, China may be an important, driving factor, but the Commission’s de-risking strategy remains principled: to ensure that the EU is economically secured and strategically autonomous; this requires the EU to reduce its vulnerabilities and to increasing its weight as a geopolitical actor on the global stage. For that, it will need to address four types of risk: (1) risks to the resilience of supply chains, including energy security; (2) risks to the physical security and cybersecurity of critical infrastructure; (3) risks related to technology security and technology leakage; and (4) the risk of weaponizing economic dependencies and economic coercion.<sup>172</sup>

## 2. The EU’s attempt at de-risking in the area of green technology: The Net-Zero Industrial Act

The transitioning from fossil fuels to renewable energy has not made the EU independent, but has shifted dependency to China. As the main manufacturer of clean technology equipment, China is central to the debate on clean energy supply security in the EU.<sup>173</sup> In 2023, China accounted for 86% of the total production of solar photovoltaics modules, and dominates all segments of the supply chain.<sup>174</sup> Consequently, the EU is concerned that their dependence on Chinese green technologies may expose them to the risk of supply disruptions, as occurred with

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<sup>167</sup> Regulation (EU) 2023/1781 of the European Parliament and of the Council of 13 September 2023 establishing a framework of measures for strengthening Europe’s semiconductor ecosystem and amending Regulation (EU) 2021/694 (Chips Act), *OJ L* 229, 18.9.2023.

<sup>168</sup> A. Brinza et al., “EU-China Relations: De-risking or De-coupling – The Future of the EU Strategy Towards China, March 2024, 63, available at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO\\_STU\(2024\)754446\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf)

<sup>169</sup> *Ibid.*, 59.

<sup>170</sup> F. Nicolas, “EU’s Derisking from China: A Daunting Task”, 23 *Asia Europe Journal* 2025, 472.

<sup>171</sup> U. von der Leyen, “Speech by President von der Leyen on EU-China Relations to the Mercator Institute for China Studies and the European Policy Centre”, 30 March 2023, available at:

[https://ec.europa.eu/commission/presscorner/detail/hu/speech\\_23\\_2063](https://ec.europa.eu/commission/presscorner/detail/hu/speech_23_2063).

<sup>172</sup> A. Brinza et al., “EU-China Relations: De-risking or De-coupling – The Future of the EU Strategy Towards China, March 2024, 59, available at:

[https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO\\_STU\(2024\)754446\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2024/754446/EXPO_STU(2024)754446_EN.pdf).

<sup>173</sup> M. Draghi, “The Future of European Competitiveness – Part A”, 2024, available at:

[https://commission.europa.eu/topics/competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/competitiveness/draghi-report_en); A. Boute, “Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act”, 62 *Energy Strategy Reviews* 2025, 2, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr)

<sup>174</sup> A. Boute, “Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act”, 62 *Energy Strategy Reviews* 2025, 2, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

Russian gas in 2022.<sup>175</sup> In addition, the EU considers China's subsidization of green technology manufacturers as an additional factor for the EU's dependence and for the difficulty of European green technology manufacturers to compete on equal footing.<sup>176</sup> This new dependency has created increasing concerns due to geopolitical shifts and the worsening relations between China and the EU. Nonetheless, the current dependency on China is different: instead of focusing on the uninterrupted availability of fossil energy sources at affordable prices through extended supply chains, the current supply security in green energy depends on the availability and affordability of clean technology equipment and components and the raw materials needed for their manufacturing.<sup>177</sup> In other words, the EU's energy security is no longer a concern of access to oil resources and natural gas, but at maintaining sufficient technological capacity, scientific advancements and manufacturing capability for the green energy sector.<sup>178</sup>

However, if the EU wants to achieve its ambitious goals of reducing net greenhouse gas emissions by at least 55% in 2030 relative to 1990 levels and achieve climate neutrality by 2050, any trade-restrictive measures adopted to ensure green energy supply security could undermine the achievement of these goals. Hence, "systematically shutting out Chinese technology would likely set back the energy transition and therefore impose higher costs on the EU economy".<sup>179</sup> Furthermore, decoupling from China "will likely set back, rather than accelerate, the EU green transition".<sup>180</sup> With the adoption of the Net-Zero Industry Act,<sup>181</sup> the EU attempts to square the circle. The Act is the EU's part of the legal and policy architecture governing the EU energy transition and is connected to the EU's Green Deal Industrial Plan<sup>182</sup> and the Clean Industrial Deal<sup>183</sup>.

At the outset, the Net-Zero Industry Act makes it clear that it does not intend to achieve complete technological self-sufficiency. Instead, the Act intends to lower the risk of supply disruptions by supporting the scale-up of the manufacturing capacity of net-zero technologies and their supply chains in the EU.<sup>184</sup> In this regard, the Net-Zero Industry Act introduces benchmarks, streamlined permitting procedures, and sustainability and resilience criteria in renewable energy auctions and public procurement procedures. The European Commission and Member States must support net-zero manufacturing projects to ensure that the strategic

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<sup>175</sup> European Commission, "EU Solar Energy Strategy", COM (2022) 221 final, 18 May 2022, available at:

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2022%3A221%3AFIN&qid=1653034500503>

<sup>176</sup> See: Commission Staff Working Document for a Regulation of the European Parliament and of the Council on establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem (Net Zero Industry Act), SWD(2023) 219 final, 19 June 2023, available at:

[https://www.europarl.europa.eu/RegData/docs\\_autres\\_institutions/commission\\_europeenne/swd/2023/0219/COM\\_SWD\(2023\)0219\\_EN.pdf](https://www.europarl.europa.eu/RegData/docs_autres_institutions/commission_europeenne/swd/2023/0219/COM_SWD(2023)0219_EN.pdf)

<sup>177</sup> A. Boute, "Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act", 62 *Energy Strategy Reviews* 2025, 1, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

<sup>178</sup> *Ibid.*

<sup>179</sup> M. Draghi, "The Future of European Competitiveness – Part A", 2024, available at:

[https://commission.europa.eu/topics/competitiveness/draghi-report\\_en](https://commission.europa.eu/topics/competitiveness/draghi-report_en).

<sup>180</sup> N. Poitiers et al., "The EU Net Zero Industry Act and the Risk of Reviving Past Failures", Bruegel, 2023, available at: <https://www.bruegel.org/first-glance/eu-net-zero-industry-act-and-risk-reviving-past-failures>.

<sup>181</sup> Regulation (EU) 2024/1735 of the European Parliament and of the Council of 13 June 2024 on establishing a framework of measures for strengthening Europe's net-zero technology manufacturing ecosystem and amending Regulation (EU) 2018/1724, *OJ L*, 2024/1735, 28.6.2024.

<sup>182</sup> European Commission, "A Green Deal Industrial Plan for the Net-Zero Age", COM(2023) 62 final, 1 February 2023, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52023DC0062>

<sup>183</sup> European Commission, "The Clean Industrial Deal: A Joint Roadmap for Competitiveness and Decarbonisation", COM(2025) 85 final, 26 February 2025, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52025DC0085>.

<sup>184</sup> Article 1 Net-Zero Industry Act.

dependencies of the EU in net-zero technologies and their supply chains are reduced. For that, they have to support net-zero manufacturing projects in order to reach a manufacturing capacity of at least 40% of the EU's annual deployment needs necessary to achieve the EU's 2030 climate and energy targets; and an increased EU share to reach 15 % of world production by 2040, unless the increased EU manufacturing capacity would be significantly higher than the EU's deployment needs necessary to achieve the Union's 2040 climate and energy target.<sup>185</sup> Crucially, these benchmarks are not binding.<sup>186</sup> Net-zero technologies are defined in Article 4 of the Act and include solar, wind, battery and energy storage, heat pump, hydrogen, hydropower, electricity grid, nuclear energy and CO2 transport and utilization technologies.

One of the most significant struggles of net-zero projects is the obtaining of the necessary licences and the long permitting procedures. To alleviate these concerns the Net-Zero Industry Act sets limits to the duration of the permit-granting process of maximum 12 months for investments of less than 1 Gigawatt and 18 months for larger projects.<sup>187</sup> The Net-Zero Industry Act also requires that Member States designate a single point of contact responsible for facilitating the permitting procedure.<sup>188</sup> If the project is a "net-zero strategic project", i.e. investments contributing to addressing the EU's high import dependency, or that provide access to best available technologies or improved environmental sustainability,<sup>189</sup> it will benefit from shorter permitting deadlines and must be recognized as of the highest national significance possible under national permitting procedures.<sup>190</sup> Because of their contribution to the security of supply of net-zero technologies in the EU, such projects are considered to be in the public interest. This entails that net-zero strategic projects may be considered to have an overriding public interest and to serve the interests of public health and safety provided and therefore do not need to comply with stringent EU environmental approval requirements.<sup>191</sup>

The Net-Zero Industry Act also intends to encourage demand for sustainable and resilient net-zero technologies through public procurement procedures, auctioning and other forms of public intervention.<sup>192</sup> For public contracts with net-zero technologies contracting authorities and contracting entities must apply minimum mandatory requirements regarding environmental sustainability, either as part of the technical specifications or as contract performance clauses.<sup>193</sup> Through public procurement, the Net-Zero Industry Act hopes to ensure that public spending boosts demand for net-zero products in a structured manner.<sup>194</sup> Furthermore, the Non-Zero Industry Act requires the use of resilience criteria in public procurement procedures for clean technologies and in auctions to deploy renewable energy sources. The resilience contribution will be applied if there is a third-country dependence of more than 50% for a specific strategic net-zero technology. If this is the case, there is an obligation for the duration of the public contract not to supply more than 50% of the value of the net-zero technology from that third country and that no more 50 % of the value of the main specific components of the specific net-zero technology originates from the third country.<sup>195</sup> In essence, the sustainability and resilience criteria will incentivize EU Member States to purchase of EU-manufactured clean

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<sup>185</sup> Article 5 Net-Zero Industry Act.

<sup>186</sup> A. Boute, "Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act", 62 *Energy Strategy Reviews* 2025, 5, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

<sup>187</sup> Article 9 Net-Zero Industry Act.

<sup>188</sup> Article 6 Net-Zero Industry Act.

<sup>189</sup> Article 13 Net-Zero Industry Act.

<sup>190</sup> Article 16 Net-Zero Industry Act.

<sup>191</sup> Article 15 (3) Net-Zero Industry Act.

<sup>192</sup> Article 1 (1)(c) Net-Zero Industry Act.

<sup>193</sup> Article 25 (1)-(4) Net-Zero Industry Act.

<sup>194</sup> Recital 55 Net-Zero Industry Act.

<sup>195</sup> Article 25 (7) Net Zero Industry Act.

technologies.<sup>196</sup> Contractors that fail to comply with this diversification requirement face a penalty of minimum 10 % of the value of the specific technology in the public contract. Nonetheless, the Net-Zero Industry Act provides for an important exception: contracting authorities are allowed not to apply the resilience requirements if no suitable tenders were submitted in a previous procedure.<sup>197</sup>

Despite the EU's insistence that the dominance of China in the green technology sector is caused by that country's subsidies, the Net-Zero Industry Act does not address this issue and provides only limited resources in the form of a Net-Zero European Platform. This Platform may examine the financial needs of strategic projects in the clean technology sector, but has only an advisory competence on how to coordinate EU and national financing and recommendations on funding.<sup>198</sup> For the remainder, the Net-Zero Industry Act provides for the possibility of concluding Net-Zero Industrial Partnerships with like-minded third countries, as part of the Green Deal Industrial Plan.<sup>199</sup>

This overview demonstrates that the Net-Zero Industry Act does not intend to completely sever the EU from Chinese green technology. Rather, the Act's object and purpose is to set up a stronger manufacturing base to ensure access to green technology and to prevent supply disruptions.<sup>200</sup> However, it is unlikely that the Act would succeed in this, since its benchmarks are not strictly binding. More crucially, the EU does not provide sufficient financial resources to establish a secure manufacturing base. A focus on accelerated permit procedures, while useful, is woefully inept to establish a manufacturing base within the EU or to prevent supply disruptions in the near future.<sup>201</sup>

Where the Net-Zero Industry Act seems to have more teeth is in the introduction of sustainability and resilience requirements for public procurement. The Act even applies a charge of minimum 10% of the value of the specific technology in the contract. However, the end result may well be that green technology becomes more expensive and therefore that the transition to green technology is delayed. Given the price discrepancies of Chinese green technology, contracting authorities will have to choose between either the more expensive European technology or the cheaper Chinese option, with the payment of the 10% charge. Since the cost gap of Chinese producers with the rest of the world is in the range of 30 to 50%,<sup>202</sup> it will be less expensive to pay the 10% charge. The end result will be more expensive public contracts, which goes against the object and purpose of procurement law, without addressing the underlying issue of dependency on Chinese green technology.<sup>203</sup>

Furthermore, the Net-Zero Industry Act can be faulted for taking a protectionist route by substituting imports by European made green technologies. This may well make green technology in the EU more expensive and less competitive, thereby endangering the achieving of decarbonization. Instead, the EU could have opted to avoid being reliant on one provider by

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<sup>196</sup> A. Boute, "Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act", 62 *Energy Strategy Reviews* 2025, 5, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

<sup>197</sup> Article 25 (9) Net-Zero Industry Act.

<sup>198</sup> Article 38 Net-Zero Industry Act.

<sup>199</sup> Recital 155 Net-Zero Industry Act.

<sup>200</sup> A. Boute, "Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act", 62 *Energy Strategy Reviews* 2025, 8, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

<sup>201</sup> G. Claeys, "The Net-Zero Industry Act Puts EU Credibility at Risk", Bruegel, 17 March 2023, available at: <https://www.bruegel.org/first-glance/net-zero-industry-act-puts-eu-credibility-risk>.

<sup>202</sup> J. Cornille, J. Delbeke, P.P. Raimondi, and S. Tagliapietra, "Framing the EU Challenge to Deal with 'China Shock 2.0' in Clean Tech", EUI School of Transnational Governance, 2026/15, June 2026, available at: <https://cadmus.eui.eu/server/api/core/bitstreams/1f0ef5cd-d6c2-47f0-8fd1-0806ebd4f8a8/content>.

<sup>203</sup> A. Boute, "Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act", 62 *Energy Strategy Reviews* 2025, 7, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

focusing on diversification. Therefore, it has been argued that the Net-Zero Industry Act's approach does not address the real challenges of high energy prices and the absence of a genuine single market due to the lack of a capital markets union.<sup>204</sup> In addition, the Net-Zero Industry Act by substituting imports and by making a distinction between "reliable countries" and others most likely violates WTO law.<sup>205</sup> The Net-Zero Industry Act seems therefore primarily be concerned with giving the EU "a dominant role in the strategic parts of the global value chain"<sup>206</sup> and with generating "strong opportunities for the expansion of the Union's net-zero industry"<sup>207</sup> than with the concern of access to competitive green technologies. Towards China, the EU gives the signal that the EU dependency on Chinese green technology is a threat instead of an opportunity for further negotiations and cooperation and chooses a confrontational approach.<sup>208</sup> Even if in the current geopolitical climate, cooperation may not be likely, a more balanced approach focused on granular risk analysis, EU comparative advantages in certain areas of green technology, coexistence with China in green technology under clear conditionalities, and on prioritizing the diversification of supply chains with international partners may well be more desirable.<sup>209</sup>

## CONCLUSION

The research has indicated that China and the EU still have a robust cooperation with regard to environmental matters, in line with the 50 years of interaction between China and the EU. These long-lasting relations are now more in flux than ever before. Part of the reason is that trade and environmental matters have become more intrinsically intertwined. The importance of reaching climate change goals has made green technology and products an important economic sector in its own right. Furthermore, the research has demonstrated that, at least for the EU, trade with third parties now also routinely covers sustainable development goals. Because of the exclusive competence of the EU in the common commercial policy, the EU and not the Member States individually or collectively plays the primary role and can influence the policy-making towards China. In this regard, the EU, mostly driven by the European Commission, has adopted a firmer approach towards China in recent years with regard to perceived imbalances in their trade relations involving green technologies and products. In addition, the EU has employed the EU CBAM, an environmental mechanism to address carbon leakage, to offset the negative consequence of its ETS system for companies in the EU, which in the long run could have a significant impact on Chinese manufacturing.

Nonetheless, these developments do not necessarily impact the collaborative dynamic between China and the EU. After all, China and the EU had and have long-lasting trade-related disputes that were managed through negotiations and the WTO dispute settlement system. Concerning EU CBAM, China and the EU have opened negotiations on this topic. China also has experience with its own ETS and this could lead to an exemption of Chinese producers from the EU CBAM. Furthermore, the EU CBAM does have a primarily environmental goal, even if it would offset carbon leakage. In sum, the adoption of EU CBAM did create tensions, but would not

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<sup>204</sup> N. Poitiers et al., "The EU Net Zero Industry Act and the Risk of Reviving Past Failures", Bruegel, 2023, available at: <https://www.bruegel.org/first-glance/eu-net-zero-industry-act-and-risk-reviving-past-failures>.

<sup>205</sup> A. Boute, "Clean Energy Supply Security and the International Trade Regime: A WTO Law Analysis of the EU Net-Zero Industry Act", 62 *Energy Strategy Reviews* 2025, 9, available at: [www.elsevier.com/locate/esr](http://www.elsevier.com/locate/esr).

<sup>206</sup> Recital 20 Net-Zero Industry Act.

<sup>207</sup> Recital 5 Net-Zero Industry Act.

<sup>208</sup> J. Cornille, J. Delbeke, P.P. Raimondi, and S. Tagliapietra, "Framing the EU Challenge to Deal with 'China Shock 2.0' in Clean Tech", EU School of Transnational Governance, 2026/15, June 2026, available at:

<https://cadmus.eui.eu/server/api/core/bitstreams/1f0ef5cd-d6c2-47f0-8fd1-0806ebd4f8a8/content>.

<sup>209</sup> *Ibid.*

have necessarily derailed China-EU cooperation in trade or the environment. Rather, it could have been the anvil on which a new compromise would be struck.

Nonetheless, the adoption of EU CBAM did not occur in a vacuum. At the same time, the EU CBAM was launched, the EU started its strategy of de-risking from China, which consist of a battery of new tools to address the EU's dependency on China in a number of sectors, including green technologies. De-risking has become the new hammer in the EU's toolbox through which it intends to shape its strategy towards China, even if currently this approach through the Net-Zero Industry Act lacks teeth with regard to addressing the EU's reliance on Chinese green technology. Rather, it serves as a signal to China that even in the field of the environment, where China was traditionally regarded as a partner, China may well be a competitor (as well). Thereby the EU gives China is no longer a trusted partner in environmental matters, where cooperation in green technologies is a mutually beneficial endeavour, but a risk that needs to be managed. That does not imply that the dependency is not real, but dependency is what China and the EU makes of it. It also does not mean that the EU has no good reasons to be concerned about its dependency of China in light of the prevailing geopolitical situation. Nonetheless, questions need to be asked if a confrontational approach through the adoption of the Net-Zero Industry Act would be the right policy decision. The Net-Zero Industry Act in particular will have limited impact in solving the dependency on green technology and may even undermine the ultimate goal of decarbonization. Consequently, the returns of the confrontational approach through the Net-Zero Industry Act are meagre.

However, the de-risking strategy of the EU is here to stay, as is evidenced by the adoption of a multitude of measures, which, while framed neutrally, in reality are addressing EU dependencies on China. China also has moved towards de-risking through the adoption of its own Made in China 2025 strategic plan and industrial policy that, like the Net-Zero Industry Act, focuses on import substitution. These developments indicate that the change in perception of the role of China and the EU between them has fundamentally changed which will lead to less cooperation in the future on environmental and other matters. However, perceptions do not last forever, after all international competition and cooperation is what China and the EU make of it.