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Chinese energy investments in Europe: An analysis of policy drivers and approaches

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HIGHLIGHTS

- A timeline of Chinese energy investments in Europe, 2008–2015, is presented.
- Two tables dividing Chinese investments by sector and company type are presented.
- Most Chinese investments concentrate on shares of Europe's fossil fuel sector.
- Chinese investments rest on bilateral agreements with EU members.
- Chinese investments in EU serve 'internationalization' of Chinese companies.

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ABSTRACT

Enhancing the understanding of China-EU energy relations, the article examines Chinese energy investments in Europe from 2008 to 2015 and analyzes the energy interests and policy approaches underpinning them. Analysis of this data shows that within the EU, 30 Chinese investments largely focused on the oil and gas sector, especially through the acquisition of company shares. Chinese energy investments in Europe reflect a clear political and commercial strategy that addresses the PRC's need to balance supply chain security of fossil fuels, environmentally friendlier energy production and use as well as to enhance the market position and energy-industrial capabilities of Chinese state-owned or state-supervised energy companies. Based on a comprehensive set of domestic incentives for international investment the Chinese penetration of the European energy sector is embedded within two levels of political cooperation. The first level revolves around bilateral investment agreements between China and 27 EU member states. On the second level, China and the EU have established a variety of formats that guide their energy cooperation. The conclusion of the proposed bilateral investment agreement between the PRC and the EU would create a uniform investment environment across the continent and facilitate mutual economic benefits for both parties.

1. Introduction

In its 12th Five-Year Plan (2011–2015), the People's Republic of China (PRC) aimed to reconcile short-term economic growth with a more sustainable long-term approach to economic, social and environmental development. The 13th plan (2016–2020) points in a similar direction as it suggests a stronger focus on sustainable growth, environmentally friendlier industrial infrastructure development and a lowered dependence on carbon-emitting fuels and technologies (Xinhua, 2015a, 2015b, 2016; Kennedy and Johnson, 2016).

Against this backdrop, Chinese investments in the European Union's (EU) energy sector need to be understood as part of a broader strategy that aims to consolidate the PRC's energy needs with economic and environmental goals. Based on data compiled in the China Global Investment Tracker provided by the American Enterprise Institute and the Heritage Foundation (2016), between 2008, when the first investment occurred, and 2015 China invested US$ 28.2 billion the EU's energy sector. Measured as a share of all global Chinese energy investments between 2008 and 2015, Europe[1] accounted for 6%. Adding to the vast literature on Chinese energy policy and security, this article analyzes the Chinese energy investments in EU member states from 2008 to 2015 as well as the

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[1] As this article focusses on Chinese investments within the European Union as well as energy and investment relations between the PRC and the EU more generally, the term ‚Europe' is used in reference to the member states of the EU throughout the text.

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energy interests and policy approaches in which they are embedded. Thus enhancing the understanding of Chinese energy interests with regard to Europe, the central questions addressed in this article are: How can general Chinese energy interests and specific Chinese investments in Europe's energy sector be understood, what political drivers underpin them and what is their political context within wider EU-China energy and investment relations?

In order to answer these questions, the following analysis will consist of three parts. First, China's energy requirements will be examined and its energy-related political priorities will be linked to theoretical approaches to energy security. Second, on the basis of the data provided by the American Enterprise Institute and the Heritage Foundation all Chinese energy-related investments within the EU from 2008 to 2015 are thoroughly assessed. Third, the 'toolkit' of government policies and political instruments in place to foster Chinese investments in Europe and structure energy policy relations with the EU will be discussed in order to demonstrate the political context in which they are embedded and supported.[2]

Overall, the paper finds that the Chinese penetration of the European energy sector serves both political and commercial purposes. Supported by a set of domestic incentives the investments reflect the broader energy policy strategy of the PRC as they address the need to balance supply chain security of fossil fuels, environmentally friendlier production techniques as well as increased shares of renewable energy and energy efficiency. Commercially they provide ample opportunity to improve the market position and energy-industrial capabilities of Chinese energy companies. The international political framework that surrounds these investments is largely based on bilateral investment agreements between China and 27 EU member states and increasing energy cooperation between China and the EU as a whole.

2. Methodology

Chinese energy interests are examined in two ways. First, data on the energy use within the PRC as well as with respect to existing import dependencies, human health and environmental concerns will illuminate China's basic energy situation. Second, drawing on conceptualizations of various energy security dimensions this data is then linked to theoretical concepts of energy security in order to illustrate the underlying energy security interests resulting from this energy situation and to provide for an analytical framework in which Chinese energy investments in Europe can be understood. This is done by employing a general distinction between impacts *on* the energy supply chain and impacts *of* the energy supply chain put forward by Winzer (2012) as well as the energy security approach developed by Sovacool and Brown (2010) and the industrial and energy efficiency dimensions of energy security as presented in the "Routledge Handbook of Energy Security" (Pakiam, 2011; Trudeau and Taylor, 2011). These are all discussed in more detail in Section 3.

As Chinese investments have increased worldwide over the past decade, a number of different sources have assembled data collections that provide the basis for further analysis. Official government data about Chinese foreign direct investment (FDI) in Europe is published by the PRC's Ministry of Commerce (MOFCOM) and by the EU's statistics agency Eurostat, which assembles information on FDI in the European Union by collecting data from its member states. Using MOFCOM data Lv and Spigarelli conducted an in-depth study of Chinese foreign direct investment in the European renewable energy sector (Lv and Spigarelli, 2015). In 2012 The Rhodium Group, a U.S. based company specializing on economic research, published a comprehensive report on Chinese FDI in Europe (Hanemann and Rosen, 2012) and in 2015 (Rhodium Group, 2015), partnering with the German think tank Mercator Institute for China Studies (MERICS), put out another study on Chinese FDI in Europe and Germany (Hanemann and Huotari, 2015). A similar report on Chinese overseas direct investment in Europe was published by Jia (2015).

Other data collections include the 2012 report by the Europe China Research and Advice Network, a project funded by the EU from 2011 to 2014, a report by the Antwerp Forum (2013), a platform to foster business relationships between Europe and China, as well as a report by EU SME Centre (2014), an EU initiative that helps small and medium-sized enterprises in preparing business operations in China. All these datasets, and others, differ on the definitions of the investments they cover, the scope of their specific time frames and the inclusion of the types of investments, energy sectors and countries.

In Section 4 data extracted from the Chinese Global Investment Tracker provided by The Heritage Foundation and the American Enterprise Institute, two U.S. think tanks, will be used for further analysis. They have collected a comprehensive set of data covering 2000 successful and 170 troubled worldwide Chinese investments in various economic sectors from 2005 to 2015. Without further analysis this data does not differentiate between different sources of investment, but it lists different types of investments including direct take-overs of other companies, acquisition of shares, and agreements on construction contracts in various energy subsectors. To limit errors and omissions all investments listed in the data set have been carefully proved. Selecting all Chinese investments within the EU, the data presented in the three tables below allows for cross-referencing between various types of investments, investors, energy sectors and countries and therefore provides a fruitful basis for analysis. In order to determine the policy framework underpinning these investments, Section 5 relies on documents about domestic Chinese incentives to invest overseas, energy and investment agreements between China and Europe as well as literature on EU-China relations more generally.

3. China's energy interests

Before assessing China's investments in Europe's energy sector it is equally important to address the question of what China's energy interests are and what it does *not* seek in Europe on the one hand, and to put this in the context of the vast literature on energy security on the other. China's economic transformation, the pace of its growth and the need to sustain and increase it, have enormously transformed the country's energy use, the structure of its energy economy and thus respective policy drivers and approaches. Apart from being the world's most populous nation and its second largest economy, China is also the largest energy consumer worldwide. The PRC's energy consumption consists of coal (66% in 2012), oil (20%), hydroelectric power (8%) natural gas (5%), renewable energy (1%) and nuclear energy (less than 1%) (U.S. Energy Information Administration, 2015). The consumption of fossil fuels thus makes up nearly all of the energy consumed in China. Shares of renewable energy are significantly lower than in European countries or the United States. According to data provided by the International Energy Agency, the PRC is the largest coal consumer, producer and importer worldwide in absolute numbers (International Energy Agency, 2015). In 2009 China became a net importer of coal, mostly from Australia and Indonesia

[2] For an overview of the institutional framework and the interplay of various bureaucratic actors of Chinese energy policy making and investments more generally see Jiang and Sinton (2011, 25–27), Sauvant and Chen (2014) and Xuantong Zhu (2015, 16, 62, 63).

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