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Editorial

Chinese investments in Europe's energy sector: Risks and opportunities?

HIGHLIGHTS

- Private enterprises account for a growing share of Chinese FDI in Europe's energy sector.
- Increasing Chinese investment in southern and central Europe.
- Inflow helps to address underinvestment in European infrastructure.
- Subsidization of Chinese companies challenges the rules of fair competition.
- Risks relate to possible infringements of national security.

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ABSTRACT

This paper analyses recent trends in Chinese investment in the European energy sector. These investments have increased in size, targeted a wider number of countries and entered multiple energy sectors, in particular fossil, renewable energies and energy infrastructure. We highlight the significant opportunities for, as well as the political and economic risks of, Chinese investments in the European energy sector. On the one hand, the benefits can be substantial, as China's new role as a global investor offers substantial economic benefits and political partnership. Further benefits might potentially emerge from backward linkages of Chinese investments to improve access to China's restricted markets. Yet, our findings also point to growing concerns among policymakers and business managers in Europe, ranging from worries about unfair competition and economic risks to concerns about national security. We conclude with policy recommendations for the European Union and its member states.

1. Introduction

Since 2011, Europe has witnessed an astonishing surge in Chinese foreign direct investment (FDI), which hit a high in 2015 as Chinese investments totalled more than EUR 20 billion (Baker, 2016; Hanemann and Huotari, 2016). The wave of Chinese investment extends broadly across European countries and their economic sectors. There are no signs of this trend abating anytime soon. The new phenomenon of large investment flows from China to Europe has fundamentally altered the Sino-European economic relationship. And while Chinese investments are in many cases welcome and beneficial, the increasing number of Chinese acquisitions have also raised legitimate concerns. European decision makers in both business and politics are confronting a new reality to which they will quickly have to adjust. In order for Europe to seize the great opportunities provided by Chinese investments while reacting to the attendant risks, there has to be a thorough analysis of the facts and the multifaceted implications of Chinese FDI in the region. This special issue provides detailed information regarding Chinese FDI in one specific economic sector: Europe's energy sector.

China's significance as an investor in Europe's energy sector has grown very rapidly in recent years. Chinese companies have invested in every part of the energy market, including power grids in various European countries, traditional energy generation infrastructure, renewable energy companies and, most recently, Europe's nuclear power sector. Landmark deals in the renewable energy sector include China National Building Materials Group Corporation's (CNBM) takeover of solar photovoltaic producers Avancis and CTF Solar in 2012 and German Solibro's acquisition by Hanergy in 2014. In the wind industry, Xinjiang Goldwind bought a 70% stake in the German wind-turbine manufacturer Vensys in 2008 (Gippner and Rabe, 2016). In the nuclear sector, state-owned China National Nuclear Corporation (CNNC) and China General Nuclear Power Group (CGN) obtained a considerable number of shares in the French company Areva (Thomas, 2017), and CGN bought a 33.5% stake in the British

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Hinkley Point nuclear power station (Gippner and Torney, 2017; Thomas, 2017; Rabe and Gippner, forthcoming). Further significant acquisitions include the USD 3.3 billion purchase of a 30% equity stake in the exploration and production division of GDF SUEZ, a French multinational energy company, by China Investment Corporation (CIC), a sovereign wealth fund (Kaminski, 2017).

The substantial size of such investments in the European energy sector has triggered debate about whether they are a blessing or a curse for Europe. Responses have been mixed: some policymakers and business managers have raised concerns over the implications of such investments for national security and the creation of an unequal playing field, while others stress mutual economic benefits and the value of a long-term partnership. To counter potential misconceptions in this tense atmosphere and get a more nuanced picture of Chinese investments in the European energy sector, this special issue addresses three main research questions: first, what are the facts and underlying recent trends of Chinese investments in the European energy sector? Second, with respect to Europe, what are the benefits and risks of Chinese investment in the European energy sector? And third, how can Europe maximize the benefits and address these concerns in the future?

The nine papers included in this special issue analyse Chinese investments through a variety of methods that include survey analysis, content analysis, interviews and in-depth case studies of different energy sectors and regions in Europe. Gippner and Torney (2017) offer a conceptual basis to explain particular investment trends across European countries and sectors. Liedtke (2017) studies the drivers and motivations behind Chinese energy investments. Kaminski (2017) studies Chinese sovereign wealth funds' investments in the European energy and natural resources sector. Sector case studies in this special issue look at the industry distribution of these investments and include an analysis of Chinese investments in Europe's nuclear energy (Thomas, 2017) and renewable energy (Curran et al., 2017; Rabe et al., 2017; Vaccarini et al., 2017) sectors. The special issue also looks at the geographical dispersion of these investments by studying Chinese investment in Germany (Vaccarini et al., 2017), central Europe (Turcsányi, 2017) and southern Europe (Pareja-Alcaraz, 2017).

By studying Chinese investments in different parts of the energy sector and in different European countries, the contributions shed light on the benefits and costs of Chinese investment in this sensitive sector. On the one hand, the benefits can be substantial, as China's new role as a global investor offers significant economic benefits and political partnership. Chinese FDI provides a unique opportunity to attract capital to Europe, helping to "re-start investment and economic growth" (Hanemann and Huotari, 2015). Further benefits can potentially emerge from backward linkages of Chinese investments to provide improved access to China's restricted markets. In addition, the track record of Chinese FDI in Europe, for example in terms of retaining local employment, has been positive thus far (Hanemann and Huotari, 2015). Yet, the findings also point to growing concerns among policymakers and business managers in Europe, ranging from worries about unfair competition and economic risks to concerns about national security. This paper concludes with policy recommendations for the European Union and members states.

2. Recent trends in Chinese investments in the European energy sector

Chinese annual investment in the member states of the European Union (EU) has soared from almost nothing in the mid-2000s to a record-high investment of EUR 20 billion in 2015 (Hanemann and Huotari, 2016). The main targets of Chinese investments were the automotive, real estate, food and agriculture and energy sectors, with the energy sector receiving the highest amount of Chinese FDI: 28% over the past five years (Hanemann and Huotari, 2015, 2016; Liedtke, 2017). Within the energy sector, investments have targeted fossil fuel assets and renewable energy projects, as well as electricity infrastructures and utility assets that were being privatized.

The reasons behind rising Chinese investments in the EU's energy sector are varied. Existing studies highlight a range of investment drivers behind Chinese investments in Europe, including technology transfer from European companies, market-seeking and other commercial benefits for investing firms, as well as the acquisition of other intangible assets like branding and marketing knowledge (Buckley et al., 2007; Cheung and Qian, 2008; Hurst, 2011; Kolstad and Wiig, 2012; Curran and Thorpe, 2015). The papers in this special issue find that many of these factors also play an important role in Chinese investment decisions in Europe's energy sector. In particular, motivations behind investments in the renewable energy sector have been shaped by market-seeking and technology-seeking factors (Curran et al., 2017; Pareja-Alcaraz, 2017; Rabe et al., 2017). Curran et al. (2017) argue, for example, that investments in the European renewable energy sector are market-seeking because of saturated markets and overcapacity in the home market. Gippner and Torney (2017) highlight the significance of trade disputes concerning solar panels and the ensuing anti-dumping measures as an investment driver. Facing the EU's anti-dumping measures against solar photovoltaics, Chinese companies can effectively circumvent restrictions through FDI (Gippner and Torney, 2017). Liedtke (2017) adds that there are strong political interests behind China's energy investments in Europe, such as enhancing the supply chain security of fossil fuels, securing more environmentally friendly energy production and developing Chinese state-owned or state-supervised energy companies' global presence.

Finally, the contributions to this special issue analyse important changes in Chinese investment activity over the past decade. First, mostly private-owned enterprises account for a growing share of Chinese FDI in the European energy sector. In the first phase of China's overseas investment, the main actors were Chinese fully state-owned enterprises (SOEs), such as PetroChina, Sinopec and the China National Offshore Oil Corporation (CNOOC), as well as China's sovereign wealth funds (SWFs). State-owned investment accounts remain dominant, accounting for approximately 60–70% of Chinese investments in the European energy sector (Hanemann and Huotari, 2016; Kaminski, 2017).[1] In his analysis of 34 transactions by Chinese SWFs in the European energy and natural resources sector between 2007 and 2014, Kaminski (2017) shows that during this period SWFs invested a total of USD 34 billion in the EU, the largest share of these investments being in the energy and materials sector (49%), followed by investments in the real estate (19%) and financial sectors (13%). The papers in this special issue highlight that privately owned Chinese companies have also started investing in Europe's energy sector (Curran et al., 2017); however, ownership structures and investor networks behind investments of Chinese private companies often remain opaque. At times, state-owned financing vehicles play a major role in such investments behind the scenes.

Second, the papers show that target countries have become more diversified. Traditionally, larger and wealthier European countries such as Germany, France and the UK have been key destinations for Chinese FDI in the energy sector (Hanemann and Huotari, 2015, 2016). However, we also see increasing interest in southern and central Europe. Pareja-Alcaraz (2017) shows that between 2000 and 2014, countries in southern Europe–Portugal, Spain, Italy and Greece – attracted 24% of the overall Chinese

[1] For instance, the total share of SOEs Chinese investments accounted for 62% and 70% in 2014 and 2015, respectively (Hanemann and Huotari, 2016: 5). Interviews with experts suggest similar shares for Chinese FDI in the European energy sector.