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Collaboration or conflict: can heat pumps avoid a trade war?

Two years ago, I moved house, from Ireland to Belgium. It involved quite a lot of packing boxes and driving. It also involved a classic new home activity: going to buy furniture at the nearest Ikea store.

Ikea is a European company, from Sweden, which is active in China, where it set up in the 1990s and despite some store closures earlier this year, is going strong. It has employed local people and uses mainly local supply chains, helping the economy.

That's one example of a European business working with China to the benefit of both areas, but there are more, from Danfoss to Alfa Laval to Volkswagen.

The point is: Europe and China can build a productive trade relationship that is mutually beneficial when it's done right.

Until now it's been similar for heat pumps, which are a growing market in Europe, with sales increasing 13% last year across 21 countries, reaching 2.9 million residential units sold. The majority of air to water heat pumps are assembled in Europe but some components are made elsewhere, including here in China. It's a good example of a supply chain that is working globally.

But it's not the same story for all sectors. In Europe we had a strong shipbuilding industry. We led the way on solar power. Now, these industries have sailed away from Europe and here to China.

This has created fear in the minds of many in Europe.

Many European industries are being eroded by global competition and this impacts everything.

Many politicians feel that this is not done fairly: that China is not following World Trade Organisation rules.

What's more populist, far-right politicians are taking the genuine fears and grievances caused by shuttered factories and jobs losses and blaming it all on China. They say that because China is gaining ground on clean tech and renewable energy, supporting clean tech and renewable energy is anti-European and unpatriotic.

This hurts the heat pump industry, and is based on lies.

To protect European jobs and livelihoods, politicians argue for stricter trade rules, that are similar to China. This is fair and reasonable. However some, populist far right politicians, not in government, are advocating Trump style trade barriers. This is clearly a terrible idea.

It's thanks to China and China's innovation and leadership that we have competitive technology like batteries for cars. Where scale was created by Chinese demand, that allowed companies innovate at scale.

What does Europe want? Europe wants companies to localise, just like China has asked European companies to do. We have learned from you. As an example, I went to visit Midea yesterday. Midea itself has a European headquarters in Germany. They manufacture in Europe, train up installers in Europe, are active in European trade bodies.

Why does this matter? Because a heat pump is not a smart phone. A heat pump has to be chosen usually with specialist help. It has to be installed properly. It has to be serviced. Done properly, it will last you 20 years or more. You will get to know your service people. It is a relationship with an object, with a person, with a brand.

That's why for heat pumps, engagement matters. Knowing the local market, having local people on your team - that matters.

You won't get far in the European heat pump market without doing that, no matter how good and how affordable your product is.

But if you do – if we work together – the results can be immensely powerful. Brands like Midea, Haier and others, even beyond China like Panasonic, Mitsubishi, Daikin and others have successfully set up factories in Europe, creating local jobs and gaining wide acceptance and popularity.

Most current EU leaders know and understand this is key.

That's why the European Commission has proposed new rules to support European manufacturing in a global market.

The aim of these rules – the EU 'Industrial Accelerator Act' is to ensure that any European public subsidies given for clean tech are re-invested in Europe. On heat pumps, it means all subsidised heat pumps will have to be 'of European origin'. This will mean that at least 45% of the value of the finished product as it leaves the factory will have to contribute to the European economy.

The Act should not be seen by China as a new wall to trade with Europe, but rather as a differently shaped door to access the European market.

It is in the interest of Chinese Companies to make this a mutual success to prevent further trade restrictions. European legislators will continue to put up new doors until they are sure that European industry is strong and safe from perceived unfair competition.

But there is a key, that opens the door. That key is collaboration.

What does this mean in practice for Chinese heat pump players?

That you should collaborate with European companies; manufacture in Europe; invest in Europe.

Look at Haier, which is doing just that, very successfully. It shows that it works!

So join the European Heat Pump Association, join the relevant national heat pump associations. Support the market growth and engage and train installers.

If we succeed in avoiding a trade war, The result will be a stronger global heat pump sector, with both China and Europe reaping the benefits.

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