POLICY BRIEF

Shifting investment away from fossil fuels in Southeast Asia

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Introduction

Southeast Asia is a region at crossroads and a global hotspot of risks from continued investments into fossil fuels. While countries and investors around the world are starting to move away from coal, Southeast Asia is still expanding coal-fired power generation.

Stopping the expansion of coal and phasing out coal for power generation is the single most important step towards achieving the Paris Agreement temperature limit and avoiding the catastrophic climate change impacts that threaten Southeast Asia's ability to reach the Sustainable Development Goals.

The good news is that renewable energy, particularly solar and wind, are becoming increasingly competitive. So, too, is a range of storage technologies, especially batteries, along with other options to enhance the uptake of variable renewable energy, including electric vehicles. These options offer multiple benefits: avoided air pollution, regional sustainable employment creation and access to modern affordable clean energy, including for rural and remote areas that do not yet have access to electricity.

But while the region is making encouraging progress with the uptake of renewable energy, and while expansion plans for coal are increasingly being questioned or partly cancelled with revised power sector plans, current trends and targets in the region are still far from consistent with the Paris Agreement or a sustainable pathway towards net-zero emissions.

Even with the economic case for keeping new and existing coal use gradually dwindling in Southeast Asia, there are still strong drivers prevalent that shield this region against the global coal divestment trend. Importantly, even where divestment is starting to happen, policy uncertainty and other barriers are prompting investors to move to other regions; those countries may also lose out on the benefits from increased investment in renewable energy.

In this policy brief, we summarise the key findings and policy recommendations based on our study Shifting Investment away from Fossil Fuels in Southeast Asia.

Key Findings

Southeast Asia is still a hotspot for expansion of coal-fired power, driven by vested interests, subsidies, and foreign financial support

While Southeast Asia only has around 4 per cent of the global coal capacity, a full 15 per cent of the global coal pipeline (power plants in construction, planned and announced) is located in the region and its policy direction still follows a fossil fuel-intensive pathway.

With the high growth in demand and the strong focus on fossil fuels, especially coal, as well as the strong and continuing support for it, the narrative of supposedly "cheap" coal and the need to provide "baseload power" to address the growing energy demand remain dominant in the region and are kept alive by vested interests largely favouring coal.

Inconsistent policy signals and targets and uncertainty regarding long-term goals as well as complex energy policy responsibilities within governments, coupled with a strong influence from state-owned enterprises are leading investors in Southeast Asia to hold back. This is in contrast with other regions, such as India.

These strong vested interests have led to a delay in developing the policies and energy plans needed to overcome the barriers to faster expansion and integration of larger shares of renewable energy, particularly solar and wind. For example, the need to develop transmission grids to accommodate renewable energy needs consistent long-term planning and policy support (Fuentes and others, 2019; Fuentes and others, 2018). Vested interests lead to overinvestment in electricity capacity in some regions, resulting in high reserve capacity, justified by overestimated demand increases, while other regions still do not have access to reliable electricity.

By comparison, while India still relies strongly on coal for power generation, coal-fired power generation has decreased, and the pipeline is also shrinking. With strong policies and ambitious targets to enhance renewable energy uptake, including addressing barriers such as the need to develop transmission infrastructure, has led to renewable energy costs dropping faster than in Southeast Asia. And there is now potential for India to move away from coal faster.

Indonesia, as one of the major coal exporting countries of the world, supports its coal mining and production industry with a range of subsidies and public finance. It is also one of only a few countries globally to start new coal plant construction in 2020. There is a risk that economic recovery efforts as a result of the coronavirus pandemic may push the country towards further fossil fuel investment, risking even more stranded assets.

Vietnam's electricity generation is increasingly fossil fuel-heavy, and policies and plans show this will continue into the future, despite recent movements focusing more on renewable energy (Climate Action Tracker, 2020f). Fossil fuels represented about two thirds of Vietnam's power mix in 2019, with 46 per cent coal. Installed solar capacity increased from negligible levels in 2017 to more than 5 GW by 2019, and Vietnam is meeting its 2025 solar target years in advance (Climate Action Tracker, 2020f), showing the impressive interest of investors if the incentives are set right.

Thailand is another fossil fuel-dominated economy but is more reliant on gas than coal. There are strong ties between the government and the gas industry.

Despite policies to support renewable energy, progress in the Philippines is slow and only 1.9 GW of renewable energy capacity was installed between 2010 and 2018 (IRENA, 2020a). The renewable energy share is declining in power generation as fossil fuel growth, especially coal, outpaces renewables growth (Climate Action Tracker, 2020e).

An area of underinvestment in Southeast Asia is the electrification of transport, is not making much progress in Southeast Asia, with the partial exception of two- and three-wheelers. Compared with other countries in Asia, such as China or India, there are no strong policies to support electric mobility, which would reduce air pollution and support the integration of greater shares of renewable energy.

Public finance from China, Japan and South Korea has been an important source of funding for coal capacity in the region. Governments or government-owned financial institutions or utilities in these three countries are strongly supporting coal expansion in the Asia–Pacific region, with countries in Southeast Asia and South Asia the main recipients of this support (Gençsü and others, 2019). Indonesia and Vietnam receive the largest financial support from public finance (in the form of loans, insurance or guarantees) from foreign countries for global coal capacity, as well as for upcoming coal projects in the pipeline. However, there are signals of change, including announcements that China, Japan and South Korea are adopting mid-century net-zero emissions goals.

Subsidies have been key to incentivizing investment in coal-fired power generation. Coal producing countries, such as Australia, India and Indonesia, support their coal production sector. Indonesia also provides significant fiscal support for domestic coal use for power generation, and these subsidies are a major source of financing for coal (Gençsü and others, 2019). In Vietnam, domestic coal prices are kept artificially low through subsidies (Dorband and others, 2020). This creates an uneven playing field and therefore a barrier for faster expansion of renewable energy.

Global divestment movement starting to get traction in Southeast Asia

There are signs of a movement away from plans to increase coal capacity and generation. Vietnam saw a record increase in solar capacity in 2019 and the first half of 2020 (Chaturvedi, 2020) and the Philippines announced a moratorium on new coal in October 2020. This moratorium could become a game changer, if it includes the coal plants already committed and planned.

The fossil fuel-divestment movement has been gaining pace globally, and pressure mounts to remove financial flows from fossil fuels. Awareness of the negative impacts of the fossil fuel industry on climate and the environment has influenced individuals and organizations to pressure institutions to divest. Investment trends in Southeast Asia have not been as strongly influenced by this movement because of a lower level of awareness of the climate-related risks as well as a lower level of transparency in investment decisions (Johnson and others, 2020).

The international divestment movement is fast gaining momentum and beginning to have an impact on Southeast Asia through international asset management firms. But it is not necessarily leading to a shift in investment in the region in countries where, for example, there are barriers to investing in renewable energy in a suitable time frame (Johnson and others, 2020).

How to reverse the trend to achieve Paris Agreement consistent benchmarks

Based on the analysis of the global and regional pathways that are consistent with the Paris Agreement 1.5oC temperature limit, the following benchmarks have been identified for phasing out coal for power generation in Southeast Asia (Climate Analytics, 2019):

- Coal-fired power generation needs to be reduced from a share of 43% today to 5-10% by 2030 and phased out by 2040.
- Renewable energy generation needs to be ramped up from currently only 23% (mostly hydro) to more than 50% and up to 85% in 2030, aiming to achieve 100% by 2050 (mostly solar and wind).

To achieve these benchmarks and step onto a Paris Agreement-consistent pathway, the scenario literature shows that global investment in low-carbon energy and end-use energy efficiency needs to be scaled, and divestment away from coal needs to start immediately.

Key Recommendations

The following general policy recommendations were drawn from our analysis and other assessments that we reviewed addressing national governments in Southeast Asia:

- Bring to light and remove fossil fuel subsidies and introduce carbon pricing. This would enhance the signal to investors that economical and financial equation favours a fast transition away from fossil fuels and towards clean efficient energy systems.
- Address policy inconsistencies, lack of clarity on targets and complex energy policy governance structures with a high influence of incumbents and vested interests through state-owned utilities. Collaboration between stakeholders should assess and develop pathways to remove these barriers.
- Tailored incentives are needed to enhance investment both in large-scale renewable energy projects as well as into distributed prosumer energy and storage, for example auctioning for large scale and keeping feed-in-tariffs for small scale prosumer energy.
- Power systems and market design need to adapt to the reality of an increasing share of variable renewable energy and making this objective. This requires clear, consistent long-term planning and appropriate investments in grid infrastructure, transmission lines, introducing energy storage, demand side management and other flexibility options.
- Increase awareness of the benefits of a road map to an overall clean energy system through electrification of end use sectors, such as transport, buildings and industry, and planning for an integrated energy system, thus enhancing benefits beyond just the power sector.
- Change the narrative around so-called "clean" and "cheap" coal and the need for baseload power. This narrative continues to gain traction and is supported by highly influential vested interests, despite the clear economic and financial benefits sending a completely different message.
- Encourage financial support to develop national and regional scenarios and detailed roadmaps on how a transition to 100% renewable energy and zero carbon emissions with involvement of a broad range of stakeholders (key academic and research institutions, think tanks, as well as civil society and trade unions).
- A moratorium on new coal and the development of national transition plans to phase out existing coal-fired power generation by 2040, in line with the Paris

Agreement, is an imperative for all countries in Southeast Asia, combined with Just Transition plans to address regional and local needs where employment in fossil fuel production and use is an important factor.

- Avoiding investments into expanding gas infrastructure is key to avoid creating future stranded assets, given the renewable energy and storage technologies.

- COVID-19 recovery and stimulus packages are a unique opportunity to direct and incentivize investments into this energy transition and attract green finance for these investments. Tapping into opportunities for green investment and changing public financing flows, including those from China, Japan and South Korea, would imply supporting regulatory reform in the financial sector, in particular the requirement of banks and investors to disclose climate risk.

- Dialogue with donor governments, multilateral development banks, private sector finance and philanthropy can focus on identifying needs for support and finance to implement these steps and recommendations and accelerate the need to shift investments.

Our analysis has shown that all of the general recommendations offered here are relevant for both the Philippines and Vietnam, but there are country-specific aspects that need to be addressed in the national context and through national stakeholders and civil society groups.

Vietnam

- Vietnam has specific challenges with an extremely high growth in demand, along with the central role of the government-owned utility and its dependency on foreign funding. Vietnam can build on its successes and therefore aim for more ambition and a leadership role in the region. Moving to clear, ambitious targets and policy signals would be critical to shift investment and dependency from foreign public funding that currently dominates the energy sector.

- While power system planning is already changing and adapting, there is much room for improvement by ensuring consistent long-term planning, transparency around assumptions and clarity on long-term goals—and how these translate into midterm targets and milestones. This is particularly important for phasing out coal, avoiding investment in gas and expanding renewable energy capacity, in particular solar and wind at scale. It would build on the recent success with the country's installation of 5 GW of solar energy within just one year. The need to invest in appropriate transmission grids has already been recognized as a critical element of an investment shift and acceleration strategy.

The Philippines

- For the Philippines, combining the energy transition with the enhancement of resilience, both against climate change and other disasters, such as the COVID-19 pandemic, can be a pivot to align government and stakeholder awareness. A relevant theme for the Philippines is the need to move away from its inflexible, expensive coal import-reliant system that is harming particularly vulnerable consumers and tax payers.

- Another theme is the importance of attracting investment into flexible off-grid and microgrid renewable energy and storage solutions to provide remote areas and islands with access to clean energy. The lack of long-term and integrated planning and transparency is particularly important for the Philippines.

- Finally, given the high climate vulnerability of the Philippines and its communities, an approach to working on connecting COVID-19 recovery, disaster preparedness and resilience with the need to shift investment into renewable energy and providing access to clean energy for all communities is a particularly important theme when it comes to changing the narrative and engaging the wider public and stakeholders towards the necessary shift in investment.

Thailand

- Thailand is an example of a country at risk of relying on gas, which is a barrier to any aim for a transition and shift of investment into renewable energy. The close ties between the gas industry and the government is a key factor impeding a decisive and proactive move towards an energy transition and the shift in investments that is needed for this. It is also an example of the lack of consistent planning and policy signals, despite some progress in adoption of policies and early deployment of renewable energy—but which is nowhere near the scale needed.

Indonesia

- Indonesia has a unique situation in many ways as a globally significant exporter of coal and as a Group of 20 country. The deeply entrenched strong influence of incumbents, the damaging dominance of mining and coal power industry interests and the scale of subsidies for fossil fuels, especially coal, are particularly daunting. Removing fossil fuel subsidies and creating transparency about the role of these interests is a critical step to enable change in the country and would enable tapping into the vast renewable energy resources.

Role of civil society organisations

Civil society organizations can be crucial for changing the narrative by enhancing awareness of the vulnerability of countries in the region to climate change and the benefits of achieving the Paris Agreement 1.5˚C limit, both in terms of avoiding catastrophic impacts in a highly vulnerable region as well as in terms of benefits for sustainable development.

Civil society organisations can assist in disseminating robust findings and translating them into clear demands on objectives and goals for national and subnational governments, as clear policy signals are critically important as a signal to national and international investors about the high priority to shift investments at scale and within a timeframe consistent with the Paris Agreement, in particular

- Calling for moratorium on new coal, and development of phase out plans including just transition plans for coal workers and their families to achieve a phase out of coal by 2040 to maximize climate protection and minimize the risk for workers.
- Demand the development of a holistic vision and roadmap to 100% renewable energy, integrating the transport and industry sectors as well as social aspects.
- Calling for a moratorium on investment in large-scale gas infrastructure and demand a clear assessment of options.
- Calling for renewable energy targets for 2030, 2040, and 2050 that are consistent with a Pathway to 100% renewable energy.

In dialogue with key stakeholders, and with support from e.g. international foundations, civil society groups can support independent analysis and dissemination of key insights building on these.

About the authors

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