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Southeast Asia Economic Strategy to 2040 Secretariat

Office of Southeast Asia

Department of Foreign Affairs and Trade

To whom it may concern,

Climateworks Centre submission on Southeast Asia Economic Strategy to 2040.

Climateworks Centre welcomes the opportunity to respond to the public consultation on Southeast Asia Economic Strategy led by the Department of Foreign Affairs and Trade. Climateworks specialises in accelerated climate transitions for Australia, Southeast Asia and the Pacific in line with a 1.5°C limit on global warming. An independent non-profit organisation, Climateworks was co-founded in 2009 by the Myer Foundation and Monash University and works within the Monash Sustainable Development Institute.

As one of a very small group of Australian headquartered climate organisations with a Southeast Asia focus and presence, Climateworks welcomes the Australian Government's strategic thinking on the importance of Southeast Asia. Drawing on our six years of engagement in the region, Climateworks recognises the opportunities for collaboration between Australia and Southeast Asia to accelerate economic cooperation towards the low carbon transition, while contributing to limiting global warming to 1.5 degrees.

Submission summary

There are significant opportunities for Australia to increase economic cooperation with Southeast Asia in the next decades. In order to realise these opportunities, Climateworks recommends the Australian Government:

- Strengthens green economy partnerships with Southeast Asia.
- Develops cohesive low-carbon technology export promotion strategies nested in existing national initiatives, including Australia's international clean energy partnerships.

- Scales concessional financing and de-risking support to reduce costs of Southeast Asia's energy transition, and supports policy development that enables more climate financing deployment in the region.

- Expands knowledge transfer, capacity building and technical assistance initiatives centred on strengthening institutional capacity for governing and financing energy transition.

Context

The economic prospects of a comprehensive low-carbon transition in Southeast Asia are vast. Varying estimates place the region's green economy potential at up to US$1 trillion by 2030 and US$28 trillion by 2070, while formulating stronger policies around the region's abundant natural capital can yield substantial social and economic benefits. For example, analysis co-developed by Climateworks finds high comparative advantages across low-carbon value chains that can be seized by Indonesia, the Philippines and Vietnam.

Shaping the economic relationship between Australia and Southeast Asia into clean economy cooperation is important for Australia to ensure a long term, sustainable and prosperous partnership with the region.

Recommendation 1: Strengthen green economy partnerships with Southeast Asia

The recently announced Green Economy Agreement between Singapore and Australia, together with the ongoing discussion on the Indo Pacific Economic Framework (IPEF), provide great momentum for cooperation between Australia and Southeast Asia towards low carbon transition. Continuing this momentum at a faster scale will position Australia as a trusted partner in the region for green growth cooperation.

Deepening green economy cooperation and helping businesses to thrive in the region will require concerted efforts to mainstream climate diplomacy in international engagements and build strong partnership and alliance. The EU, for example, through the promotion of the EU Green Deal overseas, has played a crucial role in facilitating the green value chain and increasing low carbon trade links. In 2021 the EU, its member states, and the European Investment Bank (EIB) provided more than €23 billion in public climate finance to developing countries. At the same time, the EU is increasingly integrating climate action into official development assistance and applying EU taxonomies to scale up quality infrastructure investment globally, through initiatives such as the Global Gateway. These policy ambitions have been reflected strongly in EU engagement with ASEAN and Southeast Asia countries, and have resulted in the establishment of platforms such as the EU-ASEAN energy dialogue, which strengthens policy dialogue, promotes business and industry exchanges, and informs cooperation programmes in the energy sector.

Environmental, climate and energy transition is also an important part of the ASEAN UK Plan of Action. The G7 countries, the EU and several other European countries have formed an important alliance of the International Partnership Group to establish the Just Energy Transition Partnerships in Indonesia and Vietnam, which will fundamentally enable low carbon transition at a faster pace.

Being among the earliest to join and a strong ASEAN dialogue partner, Australia has significant leveraging opportunities to embed green economy cooperation in engagement agenda with the region, at ASEAN level or ASEAN member state level.

Recommendation 2: Develop cohesive low-carbon technology export promotion strategies nested in existing national initiatives, including Australia's international clean energy partnerships.

As codified in the Paris Agreement, low-carbon technology (LCT) transfer is a vital driver of an accelerated transition, and relies on strong bilateral and multilateral relationships that foster mutually beneficial trade and foreign direct investment (FDI) terms.

Export promotion incentives can encourage both. As Southeast Asia's energy demand is projected to outpace the global average, increasing by 80% by 2040, the enhanced facilitation of Australia's clean energy and energy efficiency LCT - relating to power, buildings and industrial sectors in particular - will present sizeable economic opportunities while also contributing to an expedited transition for the region.

In this regard, expanding cooperation with key Southeast Asian partners to co-define key areas of LCT trade and FDI cooperation aligned with priorities of the Australian Government's trade and development objectives can set the frame for the development of strategically integrated export promotion strategies at a national level that take a long-term view to strengthening both Australia's LCT competitiveness, and the government's diplomacy with the region.

Ancillary to this will be the facilitation of strengthened bilateral private sector relationships, legal and technical cooperation, and capacity building to enhance the effective diffusion, and operation and maintenance of LCT deployment.

Recommendation 3: Scale concessional financing and de-risking support to reduce costs of Southeast Asia's energy transition, and support policy development that enables more climate financing deployment in the region.

The provision of concessional loans and de-risking support are important contributors to accelerating Southeast Asia's energy transition due to the region facing capital costs far higher than in industrialised contexts. The IEA estimates that the cost of capital for a solar PV plant in 2021 in key emerging economies was between two and three times higher than in advanced economies, while recent analysis by the Oxford Sustainable Finance Group finds that private renewable electric utilities in ASEAN face average debt capital costs approx. 38% higher than fossil fuel or mixed utilities - making it one of only a few regions with this disparity - and approximately 82% higher than comparable renewable utilities in the EU.

As a key determinant of the levelised cost of electricity, capital costs play a sizeable role in determining project attractiveness. In this context, the deployment of catalytic concessional capital and credit enhancement instruments serve to crowd-in private sector investment, improve the viability of clean energy projects, and strengthen local capital market maturity.

Credit enhancement instruments, such as partial credit guarantees and first-loss provisions, do not represent a panacea for the variety of risks underpinning heightened capital costs,

spanning political risks, technology risks, currency risks, and market risks among others. To enable finance flow in the region, Australia also needs to support Southeast Asia countries to remove barriers stemming from incoherent energy, industry, trade and market policies. Such challenges are among key factors in increasing project risk and reducing project financial viability. It is also important to strengthen sustainable finance policies such as ASEAN Taxonomy, increasing 1.5 degree aligned TCFD and ESG reporting standards, and other reform industry policies which hinder trade and investment in green industries. These efforts are necessary to complement other de-risking instruments.

The Australian Government has flagged support for the region's energy transition as a priority, and the strategic deployment of capital to both ends has catalytic potential, and can complement broader foreign policy objectives. There are a variety of vehicles through which financing can be channelled, including through collaboration with multilateral development banks that provide credit enhancement support, and cornerstone or anchoring investments in green bond issuances to improve credit ratings. Similarly, the Southeast Asia Energy Transition Partnership, Asian Development Bank's Energy Transition Mechanism, and the nascent Just Energy Transition Partnerships with Indonesia and Vietnam all represent avenues for stronger and highly visible support. Additionally, concerted efforts to promote Australian private sector investment in such activities can serve to strengthen economic and financial integration with the region.

Recommendation 4: Expand knowledge transfer, capacity building and technical assistance initiatives centred on strengthening institutional capacity for governing and financing energy transition.

The enhancement of policy, regulatory and capital market frameworks is a necessary complement to incentivise accelerated clean energy deployment in Southeast Asia, and is a key contributor to supporting the reduction of capital costs for clean energy projects. The IEA estimates, for example, that the levelised cost of energy of solar PV in Indonesia could decline by approximately 40% if investment and financing risks were comparable to advanced economies. While some Southeast Asian nations have taken significant steps toward regulatory, market and financial market restructuring, the possibilities for enhanced Australia-ASEAN capacity building, knowledge transfer and technical assistance are broad and significant.

As the bulk of future emissions growth across Southeast Asia will be concentrated in energy end-use sectors, the opportunities for Australian energy sector knowledge transfer can be particularly valuable. Australia is a leader in managing geographically dispersed grid and a world leader in rooftop solar PV deployment, and has strong emerging expertise in wind power project development. These represent significant but largely unrealised opportunities across Southeast Asia.

Additionally, with one of the most liberalised and increasingly transparent electricity markets in the world, the Australian Government and broader energy sector have deep expertise relating to contracting and procurement, electricity market reform, integrated energy system planning, market regulation and multi-level governance.

In parallel, the Clean Energy Finance Corporation and Australian Renewable Energy Agency are best-practice examples of how governments can harness financial resources to catalyse market-led innovation and clean energy developments, constituting a valuable source of knowledge and experience for Southeast Asian nations aiming to do likewise.

Climateworks Centre, in collaboration with DFAT's Partnerships for Infrastructure and the ASEAN Centre for Energy, has delivered capacity building workshops to this effect, and can attest to the value expressed by government participants regarding these knowledge sharing processes.

Lastly, it is Climateworks' position that private entities should have credible, science-based targets, and offset credits should complement rather than serve as a substitute for operational scope 1, 2 and 3 emissions reductions. However, where Australian private entities choose to engage in voluntary carbon markets in Southeast Asia to complement their emission reduction targets, the integrity of offset credits and the linkages with national emissions reductions should be taken into consideration under the principles and mechanisms of Article 6.2 and 6.4 frameworks of the Paris Agreement.

Climateworks' existing expertise in establishing good practices on corporate net zero emissions plans and policy framework for voluntary carbon markets in Indonesia attests that building market mechanism frameworks that prioritise integrity, and environmental and social safeguards will be crucial to enabling a true and meaningful partnership between Australia and Southeast Asia.

Thank you for taking the time to consider our submission. We would welcome an opportunity to brief your team should you wish to explore our responses in further detail.

Yours sincerely,

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