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**Panel 3 – Indo-Pacific Economic Recovery: Energy  
Transition**

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FEATURING  
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*Under Secretary for Economic Growth, Energy, and the Environment, U.S. Department of State*

**Lesley Bearman Lahm**  
*Representative, North American Representative Office, Asian Development Bank*

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Jane Nakano: Thank you so much, Dr. Hamre. That was a fantastic way to, really, for all of us to get ready for the second day of discussion, looking at this – one of the most dynamic regions in the world. And I have the pleasure to moderate this panel on energy transition.

My name is Jane Nakano. I'm a senior fellow with the Energy Security and Climate Change program here at CSIS. And, you know, I've been – I'm an energy person as opposed to more of a regional person, but I've been, you know, looking at how this region has been going through a lot of challenges, but then also really seizing on many opportunities the last two and a half decades. And it's an interesting time, a challenging time, but also an exciting time.

And I'm just pleased to be joined by these excellent three speakers representing different facets of the society. I mean, you've got, you know, U.S. government, multilateral development bank world, then think tank.

And what I'm going to do is, you know, I think we're all here to really hear from the three experts. So let me invite our three speakers first, and then I'll do a moderated Q&A just a bit, and then – and then also invite those of you in the audience to ask some questions at the end.

But so, without further ado, Undersecretary Jose Fernandez. Thank you so much for being here and the floor is yours.

Jose Fernandez: Thank you so much. I should tell you that my talking points said thank you for that warm introduction. But –

Ms. Nakano: Oh, sorry. Since you're, you know, well known, I just – I'm going to skip, in the interest of time. (Laughter.) I apologize.

Mr. Fernandez: Wonderful. Thank you. Thank you so much for the introduction. (Laughter.)

And thank you, John – where are you? Somewhere out there – for talking about those four tectonic changes, and that's an understatement. We've seen some really major changes that are, frankly, going to change our careers and our lives for many years to come. Thank you, also, to CSIS and the U.S.-ASEAN Business Council, for organizing the event.

And what I'd like to do is just touch upon three items very briefly in the – in the five or six minutes that I've – that I've been asked to speak: Number one, how we maintain energy security for each of our nations in the region; number two, how we can meet growing demands to fuel our economies; and third, how we do both of these things, while at the same time, tackling climate change.

On energy security: If we ever needed a reminder, Russia's attack on Ukraine has brought to the forefront the importance of energy security globally. Energy fuels our economies, and when prices increase, or we can't get the energy, our economies have suffered, and we've seen that. Today, the world is feeling the impact of Russia's actions, but we're also – and this is the good news – we're also finding new ways to come together, and to support each other. John talked about sanctions, but we've seen many nations, also in the Indo-Pacific region, that have come to the aid of the European nations as well, and Ukraine – and for example, Japan, diverting LNG shipments from Japan to Europe. And that was something that we were very grateful for.

But it's not just Putin's war of choice that's creating concerns. The other good news here is that if you look at our recovery, our economic recovery, we've had – we've had a success, in terms of coming back from the pandemic. The demand never fell; and if anything, our demand has increased. What has suffered is the supply chains, and that's something, obviously, that we're – we need to work on. Along with the geopolitical events, rapid economic recovery, and growth, is resulting in increased energy demand. And that's why it's critical that we work with our Indo-Pacific allies and partners, including those of you in the private sector, to build a better climate future, mitigate near-term energy disruptions and deepen our economic engagement.

This connection between the region's economic and climate future is why President Biden held a summit with leaders from Australia, India, and Japan – what we're calling the Quad – in March of last year, and established a climate change working group. Quad partners are working to accelerate the clean energy transition in our own economies, by advancing low emissions technology solutions, such as clean hydrogen, that will allow us to decarbonize sectors like shipping, and to promote reduction in methane emissions.

Quad members are also working together to advance our shared values in supporting the region's clean energy transition. For example, Australia, which is a member of the Quad, will host an Indo-Pacific clean energy supply chain forum later this year, to support responsible and clean energy supply chains. And Quad partners are also working with ASEAN through the East Asia Summit Energy Cooperation Task Force, and other venues, to support clean energy goals.

We also realize that we need to bring regional organizations on board to encourage collective action. That's why we welcome ASEAN's leadership in Southeast Asia's clean energy transition. And that's why we're working with ASEAN to support the norms and principles in its – in its strategic vision

statement, what they – what they’re calling the ASEAN Outlook on the Indo-Pacific – and also to align Quad efforts, where feasible.

So what we’re going to do is remain committed to strengthening our longstanding cooperation with ASEAN, while – you know, while launching new high-level engagement on climate change, the environment and energy. And we are very proud to hold the first U.S.-ASEAN ministerial meeting on energy last year that was led by Secretary Granholm. And we look forward to having many more of those meetings going forward.

But as I – as John mentioned, and as we all realize, we really can’t talk about energy without recognizing the impact that Russia’s aggression has had on the global economy. Russia’s further invasion of Ukraine has disrupted oil and gas supplies, and increased energy costs. These are disruptions that affect not just Europe, but also the ASEAN region. And that’s what we’ve worked tirelessly – and we will continue to work tirelessly – with partners around the world to include – to increase transparency, and to reduce uncertainty in the crude oil markets.

At the end of March, March 31st, President Biden announced the release from the U.S. strategic petroleum reserve of an amount equivalent to 1 billion – 1 million, I’m sorry – 1 million barrels of oil, per day, for the next six months. Additionally, IEA members agreed to a second collective release of oil a couple of days later. These are releases that will be in addition to, and considerably larger than, the 63 million barrel collective release of oil that was announced earlier in March.

So, if you take one thing away from my talk today, is this: We are prepared to use every available tool to limit disruption to global energy supplies, and you’re seeing it already. And we will also continue, at the same time – I mean, this is not, you know, contradiction – a contradiction – we will also continue our efforts to continue the – and accelerating the diversification of energy supplies and supporting the clean energy transition, so that we can ensure the Indo-Pacific’s long-term energy security.

Thank you, and I look forward to your questions.

Ms. Nakano: Thank you so much, Undersecretary.

And I – (laughs) – I apologize. I think I completely skipped your title, since, you know, I’m so focused on wanting to welcome you to the stage. (Laughs.) But you know, as you may know, he’s the undersecretary for economic growth, energy, and the environment at State Department.

I think it’s – I’m just really glad that you highlighted all these – so, obviously, you know, Dr. Hamre talked about sort of four more overarching sort of

challenges, things that are – that are developing. But even within this energy and climate and energy transition arena, there are so many things that are happening, and in, also, what the United States government is trying to do.

But let me save my questions until everyone else is done. But next, let me welcome Leslie Bearman Lahm. She's the representative of the North America Representative Office of the Asian Development Bank, here in Washington, D.C. Would you like to go to the podium, or what – whatever works for you.

Leslie Bearman Lahm: I'll just stay here, if that's OK.

Ms. Nakano: Yep, perfect. Yep, thank you, Leslie.

Ms. Lahm: Thank you, Jane.

Good morning, and thank you for having me here today.

I wanted to – I've been asked to talk about the energy transition from the perspective of a multilateral development bank. And since we're a regional development bank focused in the Asia-Pacific region, makes sense that I can talk about this.

So, I think we have to start from the premise that the battle against climate change will be won or lost in Asia. I think that's just a fact that we all have to recognize. Asia-Pacific region accounts for more than 50 percent of all global greenhouse gas emissions, and since we're a development bank, we need to be cognizant of the fact that the climate change has eroded many of the gains that the Asia-Pacific countries have made in recent decades.

So from our perspective, accelerating the energy transition in the Asia-Pacific region is vital to meeting the goals of the Paris Agreement. However, we need to ensure that the transition is just, inclusive, and sustainable. So, with the current COVID-19 crisis, and the energy crisis that Undersecretary Fernandez spoke about, many of our developing member countries are struggling to realize their climate ambitions, as well as maintain energy security.

So, our bank has a central role in supporting our countries' efforts to meet these challenges. And we're developing a number of innovative solutions to try to address these challenges as part of our strategic response. So just to list a few, ADB raised its climate ambition to \$100 billion of climate finance cumulatively from 2019 to 2030. We've also committed to fully align our operations to the Paris Agreement by 2023 for our sovereign operations, and 2025 for non-sovereign or private sector operations.

We've also recently adopted a new energy policy, which we formally withdraw from financing of new coal-fired power plants. We hadn't actually financed anything since 2013, but we formalized that policy.

But the unfortunate fact is that the legacy coal-fired power plants remain the single source of – single largest source of greenhouse gas emissions. And in Asia, we face a situation where these plants are relatively young. They're – and newly – have newly come online. So if they're not retired from operation, they're going to continue for decades. They're going to continue polluting, and they'll block meaningful pathways to develop – reduce emissions and develop new sources of renewable energy.

So, one of the initiatives ADB has undertaken is what we call the energy transition mechanism, or ETM, if I can call it that. Basically, when we're talking about energy transition, we're referring to the structural change, from a model of energy production based on fossil fuels, to one based on renewable and other zero-carbon energy sources. But the speed of the transition will differ, depending on a country's level of development, their national resource endowments, the strength of their capital markets to attract private finance. So it's not going to be consistent across the region.

So, we launched the energy transition mechanism at COP-26, together with the Philippines and Indonesia, and we're very pleased that we received strong support from Secretary Yellen. What is it? So, it's a vehicle that has two main goals. The first is to reduce greenhouse gas emissions by the early retirement of coal, and the second is to facilitate new investments in renewable and sustainable energy sources. And we feel that this is a way to solve the problem of how to retire young coal-powered – coal-fired power plants. We think it has enormous potential to catalyze private investments and will be ultimately, hopefully, a game changer in the region.

So what we're doing is, in the near term, we're looking at five to seven pilots, and these will be across Indonesia, Vietnam and the Philippines. And what we're going to do is repurpose these plants, convert them to either renewable energy, or they'll be converted to alternative uses. Just to give a sense of perspective and scale – so, if we retire 50 percent of these coal-fired power plants in these three countries over the next 10 to 15 years, we could cut 200 million tons of CO2 emissions a year, which is roughly the equivalent of taking about 61 million cars off the road.

We're a development bank, so we don't just do financing; we do policy work. And it's important to recognize that the ETM will align with our ongoing work to support policy reforms and regulations that support a permanent shift to clean energy, while also addressing energy needs and energy security. We will prioritize, also, a just transition that alleviates the potential

environmental and socio-economic impacts of the – of the ETM for affected communities and individuals.

We're also – in addition to the ETM, we're developing several other innovative solutions. We have established mechanisms for mobilizing private finance through blended finance vehicles, project preparation facilities, SDG bonds and credit enhancement products, et cetera. So, a real full array of options.

So, as I said, we're committed to supporting our developing member countries. We – acting as Asia's climate bank, and we look forward to working with our partner governments, with the private sector and with our other stakeholders to help achieve a just transition in the Asia-Pacific region.

Thank you.

Ms. Nakano: Fantastic. Thank you so much, Leslie.

Without further ado, Courtney Weatherby is – she's the deputy director of the Southeast Asia program over at Stimson Center. Yeah, the floor is yours, thanks.

Courtney Weatherby: Thank you.

So I'm delighted to be here today. And I'm really going to focus my comments on the – sort of the challenges with the renewable energy transition. I think we've heard very clearly that there is an impetus to move forward with the clean energy transition, to transition away from fossil fuels. But as we know, many developing countries in the Indo-Pacific regions are facing this dual challenge, not only of needing to transition the energy supply, but also to expand it.

Electricity demand is rising very rapidly for countries in the region. I'm going to focus on ASEAN, both because of its centrality to the Indo-Pacific, as well as because electricity demand in ASEAN is rising at about 4 percent annually, which is nearly double that of most of the rest of the world. So these countries are all facing this dual – this dual challenge of needing to build out a massive amount of new power generation capacity and transmission infrastructure, while also transitioning the type of power mix that they are basing their energy supply off of. Now, obviously, the key priority for policymakers, when they're doing energy plans, is to ensure that they have reliable, affordable, and secure electricity. So this really provides sort of a challenging context.

When you look to ASEAN, the ASEAN countries do have a shared target for renewable energy. They aim to get 23 percent of the electricity mix coming

from renewable energy sources by the mid-2020s. Some countries are ahead on this target, but many countries in ASEAN are lacking. When you look at the previously published power development plans for most countries in the region, if you actually look at the power mix, it's expected to increase the role of fossil fuels, rather than decrease it.

This is something that is changing. Many of these countries regularly revise their power development plans, and I think over the last few years, we've seen the political will coming through in commitments and pledges to work towards carbon neutrality, that shows that there is an interest in transitioning to renewable energy. But that has yet to be reflected in many of these official targets and power development plants.

Historically, the key reason for this was really price. When you talked to policy makers five years ago, when many of these plans were being published, the price of electricity from renewable energy sources, particularly solar and wind, in Southeast Asia was still perceived to be relatively high. They hadn't seen some of the price drops that we've seen globally, that have brought solar and wind and other alternative energy sources into competition with fossil fuels. That has drastically changed in recent years, in part, due to support from the Asian Development Bank, and other development partners, with pilot projects to really show how these projects can work when you have the right financing and regulatory policies in place. And many of these countries have adjusted their targets.

But that's not yet reflected in reality. There's still a number of sort of regulatory obstacles in place, related to things like power purchase agreements, zoning regulations. And there's also a great deal of uncertainty, on the part of utilities and national ministries of energy that are doing the planning, about how certain they are that they can swiftly transition and integrate all of this variable renewable energy as an alternative to sort of fuel-driven hydropower or fossil fuel plants, where they can turn things on and off as needed. So this really has caused a lot of uncertainty.

And I think Vietnam is a great case study here, where you look at the rollout that they've had with renewable energy. So, Vietnam went from having almost no solar in its grid in 2017, to having more than 16,000 megawatts in its grid as of late 2021. That's about 20 percent of the total installed capacity. And it's obviously a success case, in the sense of rolling out renewable energy, and showing how swiftly things can move.

But at the same time, there are major challenges with integrating all of this effectively. Vietnam, like many other developing countries, has somewhat underinvested in the transmission and distribution system. It wasn't ready to really integrate and manage these various sources of solar, where they don't produce consistently, because of the way that the plants work. And

developed grids and utilities that have the capacity to integrate this, that's less of a problem, even when you hit 20 percent of installed capacity. But it serves as somewhat of a bellwether for countries in the region, where there really needs to be further development on the part of the utilities and the national governments, to be able to accommodate these changes.

So I think this provides an obvious opportunity for the United States and other development partners to continue not only supporting investment, but providing technical capacity-building on how to integrate this renewable energy. This is not necessarily a distant experience for us; we also have struggled with these challenges of integrating renewable energy, and working through a lot of the kinks in this process. So I think there's a number of relatively low-hanging fruit in terms of capacity-building, and technical assistance that can be provided before we even get into the sort of physical infrastructure investment challenges, although, obviously, those are also very needed.

So, a few specific examples in this space could be, for instance, digitalization of the energy sector, improving the level of monitoring, improving load demand forecasting, improving weather forecasting as well. With additional resources and expertise in this area, it can be much easier to sort of adjust quickly, and integrate solar and wind and other variable sources that are going to be the backbone of the future energy supply.

At the same time, there's opportunities sort of in the energy efficiency space. You know, when you're looking at these – rapid electricity demand growth in the region, whatever we can do to shave that will allow a little bit more flexibility and management on the part of the utilities, and the power generators in the region, to effectively ensure liability for the systems. So improving energy efficiency is another key opportunity here.

And then, obviously, we're looking at also opportunities with future technologies that are just emerging – which we are rolling out and utilizing here in the United States, but which are still very early in pilot phases in the region. There are things like battery storage, or other types of energy storage, that can, again, help to alleviate some of these challenges in the transition away from sort of on-demand fuel-based electricity types, to production that's coming from renewable energy sources.

So I'm going to stop there, so that we can get to our discussion.

Ms. Nakano: Yeah. Yeah, no, that was great. Thank you, Courtney.

So you – I think, you know, the – as the region – you know, we talked about how, you know, there's still a lot of energy demand growth, et cetera. But, you know, and as, you know, the undersecretary sort of highlighted – it's,

you know – in, you know, in light of the war, that’s really starting to push up the energy prices at the moment. And it’s not just that it’s going, you know, up, but it’s also, you know, it’s a time when we’re seeing a lot of volatility.

For a region that really needs to be balancing not just decarbonization goals, and not just the economic sort of security goals, but also, you know, trying to meet more energy access goals, that’s not just quantitative, but it’s a qualitative energy access issue, you know, it’s just a very challenging time.

And one of the concerns that I have is how, to some extent, how the European commitment to rapidly reduce reliance on Russian, you know, natural gas is starting to, you know, sort of, you know, tighten the gas market, more than even before the war. And it was already starting to be pretty tight. And you know, we’ve seen some of the Indo-Pacific economies finding it too expensive to afford LNG. And some of them have then decided to, you know, turn back to, you know, more coal use, through more coal consumption. And that’s really one of the key downsides for, you know, the problems of, you know, what – or the challenges of what the region is trying to sort of navigate through.

So, I wanted to get, just, I guess, you know, thoughts from all three of you, from sort of different perspectives. But first, to Undersecretary Fernandez, you know, you’ve already talked about, you know, like SBR, and the U.S. SBR use, and et cetera. But you know, what are, you know, some of the particular ways that the U.S. government can be helping the region navigate, that’s, I guess, perhaps, like, unique to that region, as opposed to – I think, you know, SBR has benefit to the entire world, if you will. If you could share that with us, that would be fantastic.

Mr. Fernandez: Thank you.

That’s a great question, and it’s one that we wrestle with a lot these days, obviously. Look, the first piece of good news is that U.S. LNG producers are stepping up. Our exports of LNG are at record levels, just to give you a couple of – one example, one factoid: In February, over 50 percent of European imports of LNG were from the U.S. That’s a huge shift. And I can tell you that in the last couple of weeks, I’ve seen – I’ve talked to U.S. LNG producers. They think they can do more. It’s going to take them a little bit of time to ramp up. And there are a number of European countries that are – actually have come to the U.S., and are on their way to Houston, to try and see if they can secure more supplies. So one piece in the – one piece of the puzzle is, in the short term, U.S. LNG producers.

In the longer term, certainly in Europe, the crisis is accelerating the shift to clean energy. And that was – and I can tell you from personal experience, having served on the company board that basically does renewable energy –

in many parts of Europe, renewable energy is cheaper today than fossil fuel-based energy.

So the harder part is Asia, and some of that is because of its dependence on coal. But I do think there are a couple of things that we can do. One is, you know, we will – the administration will announce our infrastructure initiative, B3W. You've heard about it. It's been in the works for a while. The IPEF also includes an energy piece. We are going to do all that we can to try and improve the infrastructure in – and it's not just power plants. It's transmission lines; it's also the regulatory framework that makes it quite, quite slow in many cases to do this.

And the last piece that I would talk about is, I think, you know, we're seeing – we're seeing already investments in India, for example. The Development Finance Corporation announced a \$500 million loan to do that. So I think we are – we are moving fast on the – on the European side because of the crisis, but I think in the medium term, you'll see many more – hopefully, you'll see many more developments on the Asian side. And that's going to be a harder nut to crack, but I think we are making progress. And we have to do more.

Ms. Nakano: Thank you.

So, Leslie, from the ADB perspective, how does this, you know, period of sort of high-end volatile energy market sort of affect the way you could, you know, really work with the regional partners in, you know, carrying out your mission and priorities?

Ms. Lahm: Yeah, obviously, that's something we wonder about as well.

I think in Asia, as I indicated, we have tremendous diversity of countries. You have some countries where, you know, that's going to – that are facing balance of payment problems, and they're – you know, they have these high import costs – it's going to impact them tremendously. We have other countries – not in the Indo-Pacific region, but you know, in Central Asia, which are part of our group of countries – who are going to benefit, because they're net exporting.

So, it really depends on which country. But if we're looking at the Indo-Pacific region, I think, you know, you have to remain optimistic. And I think you also have to recognize that, you know, you – we have a tremendous number of tools at our disposal to support these efforts. We have very generous donors, who are really helping us develop innovative tools to be able to mobilize private capital, get the investment in that's necessary to undertake this transition. We have – we have policy loans, which also provide budgetary support, which can help alleviate some of the balance of payment issues that these countries are experiencing. You know, countries

have their NDCs, they have their objectives, and the question is, how can we best support them in meeting those objectives? And I think, you know, we're seeing with the ETM, we're seeing a number of other vehicles, we're seeing that support continue.

And also, there's tremendous political will. Indonesia, Vietnam, Philippines – you know, it's a lot of political will to do this. And as long as you can support those efforts – I think it might be slower than we'd like – but I think it will happen.

Ms. Nakano: Yeah, great. Thank you, Leslie.

I think we are – let me invite – I'm sorry. I think we just have a couple of minutes left, from what I – according to the cue that I just got. But Courtney, you know, if you could add some thoughts as to how we should be working with other countries, perhaps, or, you know, non-U.S. partners in, you know, making sure that the, you know, Indo-Pacific region can successfully navigate this, you know, dual – or three, you know, the challenges – challenging environment, that would be great.

Ms. Weatherby: Yeah, sure.

So I'll just briefly comment on that. And I do think that, obviously, you know, as was discussed, this is really sort of a medium- to long-term challenge for the Asia-Pacific. It's an acute crisis, but it's also a long-term crisis, and so staying the course on providing the technical assistance, the capacity-building assistance, the technology transfers that are necessary, some of the things I mentioned before.

But also, I think there are real opportunities for further investment from the United States and partners in sort of flagship projects, that can really show the effectiveness of some of these emerging technologies, and really help build capacity locally. So, there's been a long pull for further investment from the United States. I think this would be a great time, as this infrastructure initiative rolls out, for a flagship DFC project on renewable energy and effective electricity trade in ASEAN to help meet those goals. So you know, whether that's solar – obviously, that's a little difficult. But there's a plethora of renewable energy technologies, looking at wind, geothermal, modern biomass, things where the United States can effectively compete and pull on its own supply chains to support investment in this space.

Ms. Nakano: Fantastic.

It was a short, but very rich conversation. And I can't be more thankful for the three excellent speakers. Please join me in thanking the panelists, and

I'm sorry we didn't have time to take your questions from the audience, and also in sort of the online world.

But please join me in thanking them. (Applause.)