The Indo-Pacific Economic Framework for Prosperity

Recommendations for Delivering a Decarbonization Agenda

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Introduction

In May 2022, the Biden administration announced the launch of the Indo-Pacific Economic Framework for Prosperity (IPEF), the hallmark of its economic policy in Asia. Australia, Brunei, Fiji, India, Indonesia, Japan, the Republic of Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and Vietnam announced their interest in the IPEF and signed onto the framework. The joint statement underscored that “this framework is intended to advance resilience, sustainability, inclusiveness, economic growth, fairness, and competitiveness for our economies. Through this initiative, we aim to contribute to cooperation, stability, prosperity, development, and peace within the region.”

As currently envisioned, the IPEF will serve as an umbrella under which separate negotiations on specific policy pillars will be conducted. Although negotiating goals will be identified in a forthcoming ministerial, slated to occur during the summer of 2022, the IPEF will consist of four primary policy pillars:

- **Connected Economy** covers fair and resilient trade topics, including the seven subtopics of labor, environment and climate, digital economy, agriculture, transparency and good regulatory practices, competition policy, and trade facilitation (led by the Office of the U.S. Trade Representative, or USTR);
- **Resilient Economy** covers supply chain resilience topics (led by the Department of Commerce, or DOC);
- **Clean Economy** covers infrastructure, clean energy, and decarbonization topics (led by the DOC); and
- **Fair Economy** covers tax and anti-corruption topics (led by the DOC).
Although it is not yet clear which pillars each country plans to participate in, U.S. secretary of commerce Gina Raimondo anticipates that most of the participants will join most of the pillars. As CSIS research has repeatedly underscored, participants in the framework above all seek “tangible benefits,” which largely translates to market access. However, the administration has repeatedly made clear that the IPEF will not constitute a traditional free trade agreement, referring to it as an administrative arrangement that will not offer market access. USTR general counsel Greta Peisch said that the benefits for IPEF participants will come as “incentives and opportunities” rather than tariff liberalization, although what the United States can offer as incentives and opportunities remains an open question. This paper fills in some of those contours, evaluating what the U.S. government can—and should—pursue with respect to decarbonization as IPEF talks advance.

This paper assesses the two pillars that most closely relate to climate change objectives: the DOC’s clean economy pillar and the “environment and climate” sub-pillar of USTR’s connected economy initiative. In evaluating pillars relevant to climate change mitigation, this paper outlines the negotiating objectives the United States should establish as it pursues deeper collaboration with regional partners. Establishing clear goals at the outset provides greater clarity on which policies would be best suited to achieve those goals and is also instructive in helping the administration avoid duplicating efforts already underway elsewhere, including in Conference of the Parties (COP) negotiations and other multilateral fora. Furthermore, it is important to pursue goals that are politically attainable domestically, appeal to partners abroad, and advance ambitious decarbonization efforts. Following interviews with current and former U.S. government officials, regional government officials, and a wide range of private sector and civil society experts both in the United States and throughout the Indo-Pacific region, this paper evaluates opportunities to use trade and investment policy to exact more ambitious climate outcomes within the IPEF that avoid duplicating existing efforts.

Key Takeaways from Interviews

The authors of this study conducted interviews with representatives of the U.S. government, regional governments, and civil society stakeholders, including green finance and climate change experts. Overall, several themes emerged from interviews. First, almost everyone interviewed agreed that, since market access is off the table, the most fundamental value-add for the IPEF will be to leverage U.S. private sector know-how and investment while understanding that early-stage projects require significant de-risking, which the U.S. International Development Finance Corporation (DFC) can accomplish.

De-risking is the use of public finance to reduce the perceived risk and instability of an investment so that it becomes more attractive to private financing and capital. De-risking can take many forms, including price signal alignment, loan guarantees, co-investment, taking a major equity stake in an investment to demonstrate commitment, or leveraging below market-rate finance. De-risking is therefore a way to try to make a dollar of public financing go further by bringing in the private sector and attracting ensuing rounds of investment. As the total amount of public funding available for the IPEF is likely to be limited, the use and success of de-risking measures will be critical to the overall success of the framework.

Second, interviewees had differing views on whether the United States should pursue liquefied natural gas (LNG) as part of its economic strategy in the region. Environmental stakeholders were opposed, instead favoring investment in renewable power infrastructure and new technologies that would help decrease emissions. On the other hand, some officials from the U.S. government indicated a strong interest in new investments that would increase the trade of LNG while simultaneously investing in methods and promulgating standards to ensure a reduction in associated methane emissions.
Third, interviewees believed that investing in decarbonization enhances the competitiveness of regional exports. While most interviewees expressed the desire to see market access offered as an incentive for regional concessions, they regarded significant investment in decarbonization, coupled with the promulgation of regional standards, as a next best option. Drawing on these takeaways, this paper focuses on recommendations for how the administration should proceed in the region.

A fourth theme emerged surrounding the tension between duplicating existing frameworks or creating a new economic architecture. One question that repeatedly surfaced in interviews for this research is whether the IPEF should avoid duplicating objectives of other initiatives, such as goals established at COP26 or ongoing efforts through U.S. agencies and multilateral development banks. Some experts interviewed for this paper argued that combating climate change requires the international community to do everything in its power; therefore, duplicative efforts are unlikely to cause more harm than good. As an interviewee said, one side argues that countries should “take no flower out of the garden, because it all needs to grow.” One interviewee said, “If the climate scenario is as bad as they say, we need all hands on deck.” However, several experts also cautioned against overloading the international system with too many climate initiatives that “morph into an unmanaged garden,” creating an unwieldy environment that can hamper the attainment of strategic objectives.

Taking into account these themes, the administration can enhance the chances for the IPEF’s success by pursuing the following policies:

- **Align decarbonization objectives** by prioritizing decarbonization and emissions reductions, using Paris Agreement and COP26 targets as benchmarks;

- **Focus on financing** by leveraging private sector expertise to ensure that government funds achieve maximum potential;

- **Promulgate standards** through targeted projects;

- **Maximize trade tools** to grow the trade of environmental goods and services and build more resilient supply chains in clean energy and technology sectors; and

- **Build an affirmative and durable agenda** that addresses existing goals and minimizes duplicative decarbonization efforts.

### Align Decarbonization Objectives

**EXISTING INITIATIVES**

The U.S. government is pursuing many international initiatives to combat climate change. At the ASEAN-U.S. Special Summit in May 2022, ASEAN partners made several declarations to address climate change. They agreed to promote investment in low-carbon and climate resilient infrastructure, continue to advance each country’s nationally determined contribution (NDC) as stated in the Paris Agreement, and protect regional biodiversity and reverse critical ecosystem degradation. Participants also recognized the need to hasten clean and renewable energy development and identified public-private collaboration through blended finance as a tool to enhance available capital, particularly as it relates to the ASEAN Plan of Action for Energy Cooperation. Other initiatives include the Blue Dot Network, Build Back Better World, and First Movers Coalition, among others.
**BLUE DOT NETWORK**
The Blue Dot Network (BDN) is an initiative launched jointly by the United States, Japan, and Australia in 2019. By approving and certifying potential infrastructure projects in developing and emerging economies, the countries hope to attract private capital investment in such projects. The BDN thus represents an attempt at a blended finance model, as it strategically uses public development finance to bring in additional private funds. One of the stated goals of the BDN is to promote sustainable, resilient projects that align with the Paris Agreement, meaning there is potential overlap with the IPEF’s goals on climate. Existing BDN financial infrastructure, such as established clear data requirements and the streamlining and promotion of standards backed by the Organization for Economic Cooperation and Development (OECD) and G7, could be utilized to increase total financing in the Indo-Pacific with limited public money. However, the BDN has not yet certified any projects and is still working to finalize the framework of its certification process.

**BUILD BACK BETTER WORLD**
Build Back Better World (B3W), announced at the G7 summit in June 2021, incorporates many of the same features and goals as the BDN, although B3W was designed largely as a Western equivalent of China’s Belt and Road Initiative (BRI). B3W is an initiative by the United States and G7 partners to use public funding to mobilize private sector financing for investment in infrastructure in low- and middle-income countries. The DFC, U.S. Agency for International Development (USAID), U.S. Export-Import Bank (EXIM Bank), and U.S. Trade and Development Agency (USTDA) are the intended funders of the initiative. Through these and other G7 public funds, B3W aims to catalyze hundreds of billions of dollars for infrastructure investment around the world. Furthermore, like the BDN and IPEF, B3W also highlights the importance of climate-friendly financing. One of its guiding principles is that investment be consistent with the goals in the Paris Climate Agreement. However, given that the U.S. domestic equivalent package, Build Back Better, has stalled in Congress, B3W is undergoing a rebrand, and it remains unclear in what form it will advance.

**FIRST MOVERS COALITION**
The First Movers Coalition (FMC), which the United States announced at COP26, is a global platform for companies to leverage purchasing power to decarbonize seven “hard to abate” industrial sectors that together account for 30 percent of global emissions. These include aluminum, aviation, chemicals, concrete, shipping, steel, and trucking. The FMC aims to create demand and accelerate innovation in technologies that will reduce emissions. The International Energy Agency predicts that half of the technologies needed to reach net-zero carbon emissions by 2050 are still in early stages of development, and the FMC hopes to ensure that these technologies become commercially viable. Corporate commitments made through the FMC could be coupled with projects backed by the IPEF to help accomplish the decarbonization pillars. However, the commitments announced so far by the FMC do not involve purchasing or implementation of new green technologies until 2030, the deadline for climate action, meaning the agreements are largely commitments for future action.

**CLEAN ENERGY DEMAND INITIATIVE**
Along with the FMC, at COP26 the State Department also launched the Clean Energy Demand Initiative (CEDI), which serves as a platform to connect companies with countries seeking to increase their renewable energy procurement. It also provides a platform for companies to signal their growing demand for clean energy. Through this platform, 75 companies have indicated interest in green investment opportunities across 14 countries, including many IPEF partners, that could unleash up to $100 billion for clean energy infrastructure. The CEDI platform also works in tandem with numerous other State
Department, DFC, and USTDA initiatives to facilitate private investment in climate-friendly opportunities abroad. Thus, the CEDI can be leveraged together with the FMC, BDN, and other like-minded initiatives to attract further private capital into clean energy and green infrastructure projects. Particularly since there is overlap among the goals set forth by these initiatives, the value-add from the IPEF is that it should cut through this overlap and create a clear channel for achieving these goals.

**UN FRAMEWORK ON CLIMATE CHANGE CONVENTION AGREEMENTS**

The most ambitious and comprehensive set of goals were identified in UN Framework on Climate Change Convention (UNFCCC) negotiations, including at COP26 in Glasgow in 2021. Several experts interviewed for this paper argued that IPEF and other international partners would welcome advancements and follow-through on already established goals, particularly those set forth in Glasgow, rather than layering new initiatives on top of existing ones that were not yet adequately funded or achieved.

The state of play of IPEF countries’ NDCs under the Paris Agreement provides a sense of where decarbonization efforts are advancing and where they lag. The map in Figure 1 illustrates where countries, including IPEF participants, stand on their NDCs. The Indo-Pacific region stands out as largely lagging. In particular, Indonesia, Thailand, Vietnam, and Australia have not released plans to enhance their NDCs. This suggests a relatively unambitious approach to climate change mitigation but simultaneously underscores the substantial benefits from increased action in the region. A primary goal of the IPEF should thus be to advance progress on four COP26 agreements: (1) to halt and reverse deforestation by 2030; (2) to cut emissions of methane to 30 percent of 2020 levels by 2030; (3) to shift away from coal; and (4) to mobilize $130 trillion in private sector funding.

**Figure 1: County NDC Updates since the Paris Agreement**

![Map illustrating country NDC updates since the Paris Agreement](https://climateactiontracker.org/climate-target-update-tracker/)


**DEFORESTATION**

IPEF partners have made varying degrees of progress on the three primary climate commitments established at COP26. Of the 10 countries with the greatest tree cover loss between 2001 and 2021, four (the United
States, Indonesia, Australia, and Malaysia) are participating in the IPEF. Indonesia has had the second-greatest loss of tropical forest in the last 20 years, behind only Brazil. The IPEF thus has the opportunity to make significant progress in accomplishing this goal by targeting deforestation in select countries.

**THE GLOBAL METHANE PLEDGE**

The Global Methane Pledge announced at COP26 is a set of voluntary commitments with buy-in from over 100 countries to reduce methane emissions in line with 1.5-degree goals. IPEF countries account for roughly 25 percent of all methane emissions and 30 percent of all coal consumption, underscoring the significant climate potential that the IPEF offers. Some energy experts have called for expanding LNG in the Indo-Pacific, although natural gas is a major source of methane emissions. Methane, according to the U.S. Environmental Protection Agency (EPA), is 25 times more potent than carbon dioxide, meaning mitigating these emissions will be crucial to achieving climate objectives. Reconciling goals established in the Global Methane Pledge with an accelerating LNG market in the region will be difficult for the parties. The United States is a major supplier of LNG, and the Indo-Pacific is the primary market for LNG, meaning disentangling climate ambitions and energy trade could prove particularly complex. Furthermore, the previous U.S. administration, through its Asia EDGE effort, identified natural gas as a way to diversify the energy mix in the Indo-Pacific and counter Chinese influence in the region.

**COAL TRANSITION**

Announced at COP26, the South African coal deal is a multilateral project to provide funding to hasten South Africa’s coal phaseout and provides an example on how to achieve these decarbonization goals. The United States, France, the United Kingdom, and the European Union announced an $8.5 billion package to support the closure of coal power plants in South Africa and shift to clean alternatives. This initiative is one of the first of its kind—involving a developing country that is heavily dependent on coal—and thus could be used as a template for coal phaseouts in comparable IPEF participating countries, particularly India and Indonesia. However, one expert interviewed for this paper cautioned that there is a prevailing view among regional governments that they have already made sufficient climate commitments, such as the coal deal, and are waiting for increased financial and technical assistance from advanced economies. In other words, developing countries have made the concessions they are politically able to make and are now waiting for sufficient funding to combat climate change.

While the goals of these initiatives are laudable, funding them has been a persistent challenge, weakening their overall integrity while diluting the ability of the U.S. government to provide concrete outcomes when it comes to decarbonization. As one diplomat interviewed for this project said, there is an ongoing concern that funding will not be sufficient to “turn heads.” Another interviewee echoed these concerns, arguing that the United States would achieve buy-in from regional partners if IPEF countries perceive the deal as being in their interest. As that person cautioned, “These little bits and bobs of money wouldn’t do it.” Understanding that unlocking additional financing will be difficult, if not impossible, within the IPEF, it is important to leverage existing green finance tools to make available funds go further.

**Focus on Financing: The Clean Economy (DOC)**

**ASSESSING AVAILABLE FUNDS**

A persistent problem when it comes to combating climate change has been the ability of governments to mobilize an adequate amount of capital—in this case, green financing. Green financing, defined most broadly by the World Economic Forum, is “any structured financial activity that’s been created to ensure a better environmental outcome.” Green financing is critical to achieving the goals set out in the Paris
Agreement and COP26 but has historically failed to reach the requisite amounts agreed to in negotiations. In 1992–1993 at the UNFCCC, developed countries agreed to send funds to developing nations to offset costs they incurred in complying with their environmental obligations. At COP15 in 2009 in Denmark, wealthy nations agreed to send $100 billion annually by 2020 to developing nations to fight climate change. However, so far, developed nations have failed to meet this goal. In 2019, developed nations sent $79.6 billion to developing nations, up from $78.3 billion in 2018, but still below target. The United States has been notably short in providing sufficient financing.

In this context, as the Biden administration and its regional partners build out the contours of goals for forthcoming negotiations, the Biden administration should evaluate how much funding it can make available for the IPEF. As of the writing of this paper, the only pillar likely to attract eventual funding is the decarbonization pillar overseen by the DOC, although interviewees for this project indicated that it remains unclear which U.S. agencies will be able to free up necessary money to finance IPEF climate efforts.

A comparative analysis of climate- and development-focused agencies sheds light on what may and may not be possible within the IPEF. USAID, which oversees foreign development projects, has an outsize budget of $27.7 billion for fully or partially managed funds in 2022. However, it is unlikely that USAID will play a significant role in the IPEF, meaning budget estimates for the IPEF will rely on significantly smaller pools of financing, primarily through other agencies.

It is most likely that funds from the United States for the IPEF will come primarily from three organizations: the DFC, EXIM Bank, and USTDA, although interviewees for this project largely agreed that the DFC would constitute the primary funding vehicle for the IPEF decarbonization initiative. In 2022, the DFC budget totaled $748 million, while the USTDA’s requested budget was $80 million. Meanwhile, in 2022, the EXIM bank requested a budget of $124 million that would support roughly $9.5 billion in total commitments for credit and insurance, through direct loans, loan guarantees, and export credit insurance. For 2023, the DFC, EXIM Bank, and USTDA each increased their requested budget between 23 and 33 percent. Combining these budgets, roughly $950 million is available in 2022 and potentially over $1 billion is available in 2023, with the majority coming from the DFC budget each year. However, these agencies have many active projects outside the scope of the IPEF, and so their total budgets will not go to new investments solely in IPEF countries. In other words, the sum total of available funding for IPEF is likely to be magnitudes smaller than funding available through multilateral development banks (MDBs).

The DFC is a development wing of the U.S. government. Authorized in 2018 by an act of Congress, the DFC is an independent agency formed by merging the Overseas Private Investment Corporation (OPIC) with the Development Credit Authority of USAID. The purpose of the DFC is to provide loans, guarantees, investments, political risk insurance, and technical assistance for projects that are led by the private sector. The DFC has a total investment cap of $60 billion, more than double OPIC’s $29 billion investment cap. The DFC currently operates in 24 countries in the Asia-Pacific region but does not operate in all IPEF countries. The DFC primarily focuses on emerging economies and is currently authorized to work in seven IPEF countries: Fiji, India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam. This excludes Australia, Brunei, Japan, the Republic of Korea, New Zealand, and Singapore, although this does not necessarily preclude the DFC from pooling financing from middle-tier and advanced economies.

To approve funding for a specific proposal, the DFC vets potential projects, assessing their objectives, financial projections, personnel, and other factors related to the project such as environmental and social impact, development impact, human rights, and worker rights. If this review and clearance process is completed, then a credit memo and term sheet is prepared for DFC management. The CEO of the DFC can
directly approve financing, political risk insurance, and equity projects for less than $50 million and grant financing under $5 million. For projects larger than these amounts, approval must come from the DFC board, which includes the secretaries of state, treasury, and commerce.

The DFC does not need congressional approval to fund projects under $10 million but must routinely notify and report its actions and obligations to Congress, specifically the House Foreign Affairs, House Appropriations, Senate Foreign Relations, and Senate Appropriations Committees. The DFC must submit an annual report to these committees detailing the social and economic impact of the projects that it supports. Additionally, the DFC must notify these committees of any financial commitment above $10 million at least 15 days prior to the execution of the commitment. Leveraging DFC funding can play an important role in de-risking projects that help promote new renewable energy deployments and can send an important signal to the private sector that projects are ready for increased investments. However, the total amount of financing available for IPEF initiatives remains unclear, particularly if funding will come from multiple U.S. agencies and multiple governments.

MAKING FUNDING GO FURTHER
Since providing market access concessions to IPEF partners is not under consideration, all interviewees for this paper underscored the importance of financing as a means of achieving IPEF goals. The Biden administration has indicated it does not intend to seek approval from Congress for an eventual IPEF agreement. If that also means not seeking additional funding from Congress, the IPEF will face serious budget constraints. It is therefore vital that U.S. agencies involved with executing IPEF goals leverage available capital to maximize investment potential. One way to do this is for relevant U.S. agencies, such as the DFC, to (1) identify and certify green investment opportunities, (2) de-risk green investment opportunities, and (3) create a consistent and uniform climate accounting and regulatory system for the region. This approach also broadly complements the U.S. government’s attempts at scaling up early-stage project developments.

Another way to leverage capital is to pool funding with other advanced economies within the IPEF, including Australia and Japan. However, past trilateral efforts to mobilize funding offer cautionary advice for IPEF financing. In 2018, the United States, Japan, and Australia announced the creation of a trilateral partnership to promote and mobilize investment in the Indo-Pacific. This partnership utilizes the resources of Australia’s Department of Foreign Affairs and Trade as well as the Export Finance and Insurance Corporation, Japan’s Bank for International Cooperation, and OPIC (now a part of the DFC). The first project successfully funded was the building of an undersea fiber-optic cable to Palau. Valued at $30 million, Australia contributed $10 million, with the United States, Japan, and Palau also providing contributions. However, this was still the only project successfully funded three years into the partnership. The three countries have also identified an LNG project in Papua New Guinea for joint financing of over $1 billion, but the exact details of the financing and the project have yet to be announced.

One reason for the lack of funding success has been the inability to convince and entice private partners to invest in politically risky projects. Three major factors have led to private industry hesitance, namely the perceived high risk of investments, lack of available and reliable data, and a poor track record of previous similar government initiatives and projects. For the DFC, lack of clear communication and a generally inaccessible website have been identified as hurdles facing business involvement. Lack of data surrounding project pipelines, particularly Australian-led pipelines and the GI Hub, has been identified as a further factor inhibiting business involvement. If these allies, which are broadly aligned and share similar economic profiles, have struggled to achieve tangible outcomes in development finance, it is likely that institutionalizing a multi-government financial structure within the IPEF would be even more difficult.
Another way the IPEF can finance its climate objectives is by leveraging another agreement laid out at COP26. The agreement by the Glasgow Financial Alliance for Net Zero (GFANZ), a global coalition of over 400 financial firms across 45 countries, seeks to align $130 trillion with the climate goals established in the Paris Agreement. The IPEF, through initiatives such as the BDN, could create and identify investment opportunities in the region to facilitate the deployment of some of this private capital.

**ASSESSING WHICH PROJECTS TO FUND**

Of the $1.3 trillion that developing countries sought at COP26 on an annual basis from developed countries, finding that funding has been onerous, highlighting how a persistent problem has been mobilizing capital and determining where it should be allocated. Following the announcement of the South African deal, for example, it became clear that not enough work had been done on the back end to onboard sufficient energy capacity to replace coal. One expert interviewed indicated that international partners are determined not to make the same mistake going forward, underscoring that for countries such as Indonesia that “for every coal megawatt we take off, we want to make sure there’s a renewable alternative being thought of as a replacement for that.” The IPEF decarbonization pillar, coupled with targeted trade tools, can help facilitate the onboarding of adequate renewable energy supplies.

Regardless of the ultimate size of green financing made available through IPEF architecture, the Biden administration, in concert with regional partners, should work to identify probable areas that would—and should—receive this financing. In addition to taking a needs-based approach, one way to narrow down which projects should receive funding is to provide financing to middle- and low-income countries to decarbonize sectors that would be implicated by the European Union’s carbon border adjustment mechanism (CBAM).

Under this approach, the United States should begin by targeting hard-to-abate sectors covered by the CBAM, which include iron and steel, aluminum, fertilizers, and cement. South Korea and India are the sixth- and seventh-largest exporters of steel to the European Union, respectively, and their combined total value of steel exports totals nearly $5 billion. Vietnam is the third-largest cement exporter to the European Union, and Malaysia is the eight-largest, with total cement exports valued at roughly $27 million. Targeting these CBAM sectors in these countries would thus be an effective way to address decarbonization while promoting economic growth. Furthermore, not only would financing for these sectors promote buy-in from a host of developing countries—thereby enhancing credibility of the CBAM—but it would signal to the European Union a willingness to work jointly on climate change mitigation despite serious domestic political constraints in the United States.

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In addition to initially targeting the CBAM sectors, the United States and its partners should work to scale up investments in member countries with existing solar and other renewable energy industries (e.g., Malaysia and Vietnam) and spur the indigenous creation of renewable energy markets in other countries. For example, the Indonesian government has identified geothermal, hydropower, tidal, and solar as the most promising for investment, particularly geothermal, as the country accounts for 40 percent of the world’s geothermal reserves. In Vietnam, hydropower and wind make up the largest share of renewable energy. Solar power is thought to have the most potential in Malaysia, while strengthening forest management and promoting public transportation also could have important decarbonization effects. Accelerating indigenous renewable energy industries can also help promote long-term growth in trade of environmental goods, in line with objectives from the 2022 World Trade Organization (WTO) Trade and Environmental Sustainability Structured Discussions.
PROMULGATING STANDARDS THROUGH PROJECTS
Another mechanism by which the United States can help advance climate objectives through the IPEF is to promulgate standards related to decarbonization. These include standards on green procurement as well as a methodology for calculating embedded emissions. To catalyze clean energy deployment and green technology development, the Biden administration, in its Executive Order on Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability, laid out five goals around federal government procurement. These goals include a 65 percent cut in emissions from federal operations by 2030, net-zero electricity for federal consumption by 2030, and net-zero federal vehicles by 2035, among others. The administration believes it can accomplish these goals through its annual purchasing power of $650 billion; it also believes that by playing a leading role in clean energy and technology demand, it will accelerate growth in these industries, which in turn will provide a foundation for American businesses to compete and win globally in the new clean energy economy. The Biden administration should work to establish similar standards for green procurement with IPEF partners.

Maximize Trade Tools for a Connected Economy (USTR)

TAKEAWAYS FROM THE U.S.-EU TRADE AND TECHNOLOGY COUNCIL
The U.S.-EU Trade and Technology Council (TTC) is another bilateral initiative that in some way mirrors the ambitions of the IPEF since it is also primarily consultative and does not negotiate market access. The primary objectives of Working Group 2 within the TTC are promoting green public procurement policies (in concert with policies outlined in the working group on global trade challenges), aligning methodologies for embedded emissions, and advancing e-mobility and smart grid interoperability. In the joint statement, the parties acknowledged the role that emerging technology can play in advancing decarbonization goals, specifically referencing the role that blockchain, artificial intelligence and machine learning, and internet of things goods can play in measuring emissions. Next steps for the parties within the TTC are to accelerate the deployment of green technology; align technical guidelines for electricity vehicle charging stations; enhance transparency and information sharing regarding green public procurement policies; work toward a common methodology for greenhouse gas emissions assessments; and empower complementary private sector initiatives, including the FMC.

Within the context of the IPEF, the Biden administration should build on these goals for cooperation and seek a greater level of policy specificity as it establishes the IPEF agenda. Furthermore, given the historic difficulty of mobilizing sufficient capital to combat climate change, a major facet of the IPEF should be the establishment of common standards. Promoting convergence among standards can help facilitate trade of environmental goods and services, enhance predictability for international businesses, and incentivize deeper decarbonization of heavy industry.

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BEYOND THE TTC: SPECIFICITY AND STRUCTURE
As the G7 moves forward on the potential creation of a climate club and other administrative agreements advance, such as the Global Arrangement on Sustainable Steel and Aluminum, the United States should
pursue policies that can reduce trade frictions over time by ensuring that traded goods are decarbonized, which in turn enhances their competitiveness.1 One diplomat interviewed likened the lack of regional standards to a trade barrier. Another regional diplomat argued that building stronger standards could enhance trade over time, saying that “Offering . . . an opportunity to help meet a standard over time . . . would change IPEF into a market access agreement while meeting the political constraints of the administration.”

As the United States builds out the details of its climate and trade objectives in the IPEF, it should work to promulgate standards on green procurement and, perhaps most foundationally, advance a common methodology for measuring life-cycle emissions. To promote a virtuous circle, whereby trade tools facilitate increased global climate commitments, countries should work in concert toward baseline methodologies for determining harmonized, product-specific carbon life-cycle assessments (LCAs). A standard methodology would also provide a more comprehensive and accurate picture of the carbon intensity of goods traded, from fertilizers to bicycles, and would therefore help incentivize industries to pursue deeper decarbonization and to do so with more urgency. It would also inhibit protectionism and reduce long-term trade frictions. If countries and companies alike know that their goods will be affirmatively recognized as low-carbon-content goods, they are more likely to undertake policy changes to decarbonize production.

One way the Biden administration can work with allies to promulgate a common LCA methodology is to incentivize greater grid granularity and traceability of renewable power. Greater granularity also helps to avoid a sectoral approach to calculating emissions, whereby averages are applied to firms, which can disincentivize the adoption of renewables in the long run. For example, if a producer has already made strides in decarbonizing their products, it does not make sense for those exports to be treated the same as similar goods made with a higher percentage of energy derived from fossil fuels. To advance greater granularity and traceability in green energy procurement, the United States should work together with the UN 24/7 Carbon-free Energy Compact. Google has already piloted a new tool that takes a more granular approach to traceability, which involves Time-Based Energy Attribute Certificates (T-EACs). While these goals are global, pursuing them regionally may afford the parties increased agility and may be the best approach until multilateral initiatives gain momentum. An organization such as the DFC could help propel this type of initiative via the IPEF.

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Having national grid operators adopt 24/7 granularity for renewable energy procurement could send price signals for a carbon-free grid all day, every day. The hurdles to overcome center around data quality and the tools required to collect better data, such as smart meters. Helping to support existing standards such

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1 The G7 Climate, Energy and Environment Ministers’ Communiqué from May 27, 2022, indicates a desire among the parties to advance the creation of a climate club. Point 57 of the communiqué lays out this goal: “We had a first discussion on the Climate Club proposal and look forward to intensifying our discussions and expanding consultations, including with G20 partners and other developing and emerging countries. In our discussions, we focused on a Climate Club’s potential contribution to promoting ambitious climate action, including by serving as a forum for discussion and coordination; on its relationship to the Paris Agreement; on participation; and on a Club’s potential role in inter alia accelerating decarbonization, sharing best practices regarding the comparability among and efficacy of various mitigation efforts and outcomes, and addressing risks of carbon leakage, while complementing our internal policy approaches.”
as this and others could offer benefits at a low cost as part of the climate and decarbonization efforts of IPEF and underscore the need for the DOC and USTR to collaborate on policies that relate to both the decarbonization and green trade pillars.

**TARIFFS: EXISTING RATES AND FEASIBILITY OF A PEACE CLAUSE**

The administration’s reluctance to pursue market access, although primarily motivated by domestic political constraints, assumes that existing U.S. tariffs on goods exported from IPEF countries are sufficiently low to not constitute a trade barrier. As USTR Katherine Tai said during testimony in the U.S. Senate about the lack of market access within the IPEF, “We’re actually living in a pretty tariff-liberalized world as it is.” A closer look at data from IPEF country imports provides a more nuanced picture. Data from the U.S. International Trade Commission illustrates that many IPEF exports to the United States do face relatively low tariff rates. However, most goods do not enter the United States tariff-free, and in some instances tariffs on goods from IPEF countries are relatively high. For example, tariff peaks on Vietnamese sports footwear are 48 percent in some cases, while Indonesian sweaters face tariff rates of over 16 percent. While tariff rates are generally low, they are greater than zero in many instances. Reducing tariffs could entice partners to make policy changes and would also provide evidence that the United States itself is willing to make concessions. The USTR should therefore reconsider its position against using trade liberalization as leverage in negotiations.

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Another question around tariffs that has gained some currency is the use of a “peace clause”—an agreement not to retaliate against trading partners for violating subsidy rules if the subsidies conferred are intended to combat climate change. Ahead of the recent TTC ministerial, Brussels attempted to include a peace clause in the final joint statement, although the United States ultimately prevailed and no peace clause was included. In the U.S. context, this is likely because the application of a peace clause is impossible in practice because the executive branch does not have the statutory authority to prevent the application of anti-dumping or countervailing duties resulting from an investigation, as demonstrated by the ongoing investigation of solar panel imports from Cambodia, Malaysia, Thailand, and Vietnam.

Nevertheless, the U.S. government could agree not to self-initiate trade cases against green subsidies, although that would not preclude private parties from seeking to initiate an investigation, either on dumping and subsidization or on other provisions of trade law such as Sections 301, 201, or 232. Section 201 safeguard petitions would be particularly problematic because they are often global in nature since the petitioner is alleging generalized harm from imports but not due to any unfair act. Distinguishing in that situation between imports from one country and imports from another would be challenging and would also raise WTO issues. However, the application of tariffs under those sections of law is discretionary with the president, and they could commit not to apply new tariffs. Furthermore, the parties could also commit not to bring WTO complaints against each other’s spending on climate mitigation policies. Overall, proponents of a peace clause argue that, instead of giving the other countries benefits to entice them into an agreement, promises not to make things worse via trade remedies are incentive enough.

The legal contours of a peace clause become even more muddled in the context of the IPEF. If the United States agrees not to pursue litigation against IPEF members’ green subsidies at the WTO, then it would essentially constitute a plurilateral agreement. It is unclear why the United States would offer this
plurilateral only to IPEF members and not to other allies such as the European Union. On the other hand, an open plurilateral would reduce the integrity of the IPEF as a standalone agreement overall and would make the lack of U.S. action in other environmental plurilaterals in Geneva even more curious.

**INSTRUCTIVE INITIATIVES IN TRADE POLICY**

New Zealand, an IPEF partner and leader on sustainable trade, launched the Agreement on Climate Change, Trade, and Sustainability (ACCTS) in 2019 along with Costa Rica, Fiji, Iceland, and Norway. ACCTS seeks to leverage trade rules to tackle climate change. Unlike the IPEF, countries participating in ACCTS aim to remove tariffs on environmental goods, make new commitments on environmental services, establish binding rules to eliminate fossil fuel subsidies, and develop voluntary eco-labeling guidelines. The effort also aims to build on stalled G20 and Asia-Pacific Economic Cooperation commitments to remove fossil fuel subsidies. The United States and China have not planned to join, but it would be wise for the United States to do so. However, short of joining, the United States should recognize growing momentum behind using trade as a tool to combat climate change and reconsider its opposition to market access.

In February 2022, the United Kingdom and New Zealand signed a comprehensive free trade agreement that contains a high level of commitment to environmental trade. The agreement includes an extensive environmental chapter that reinforces commitments to the Paris Agreement and COP26. Sustainability goals are embedded across the free trade agreement, such as promoting sustainable procurement. The agreement provides a list of environmental goods and services, underscoring that sufficient political will can produce tangible outcomes relating to definitions of environmental goods and services and the resulting liberalization of tariffs on entry on a wide range of products from electric vehicles to wind turbine parts. According to the UK Department for International Trade, this is “the most comprehensive list of environmental goods with liberalized tariffs in a trade deal to date.”

Another useful template for crafting policies and initiatives that simultaneously promote trade and development as well as environmental protection is the United States-Peru Trade Promotion Agreement (PTPA), concluded in 2009. The PTPA changed the criminal code to create harsher penalties for illegal logging and wildlife trafficking, adopted new laws to comply with the Convention on International Trade in Endangered Species of Wild Fauna and Flora, and set up an independent forest oversight body to ensure compliance and adherence to the agreed provisions and laws. These legal and regulatory provisions were coupled with U.S. investments that aimed to protect the environment by supporting and strengthening Peru’s local and regional governments and institutions, developing forest management plans, and creating Peru’s National Forestry and Wildlife Information System, which uses data to track the origin and custody of timber harvested from Peru’s forests. Even though monitoring and enforcement of illegal deforestation has remained a problem since the PTPA was created, the agreement shows how trade deals can include and be structured around environmental issues.

**Build an Affirmative Agenda and a Durable Architecture**

Overall, the United States’ approach in the Indo-Pacific region fits into a foreign affairs approach that relies on “minilateralism” rather than multilateralism. In an article written in 2016, Stewart M. Patrick of the Council on Foreign Relations described these alternative engagement frameworks as a “bewildering array of flexible, ad hoc frameworks whose membership varies based on situational interests, shared values, or relevant capabilities.” These regimes can be defined, according to Patrick, as frameworks that “are often ‘minilateral’ rather than universal; voluntary rather than legally binding; disaggregated rather than comprehensive; trans-governmental rather than just intergovernmental; regional rather than global; multi-level and multi-stakeholder rather than state-centric; and ‘bottom-up’ rather than ‘top-down.’” Existing
examples of these regimes include the G7, G20, and ASEAN. In the design of the IPEF thus far, it is clear that the Biden administration is seeking to reconcile the political need for institutional flexibility with the need for greater policy convergence throughout the region.

The most effective way for the Biden administration to ensure that the IPEF succeeds is to build an affirmative agenda that partners can execute through a durable architecture. When it comes to determining which type of institutional architecture to pursue, the administration has three primary options:

1. Use existing U.S. agencies, such as the DFC, as primary vehicles for IPEF financing and project execution;
2. Create a new multi-government financing entity that would mirror an MDB; and
3. Establish the IPEF Coordinating Council (IPEF-CC), a new administrative body.

U.S. agencies face significant budgetary constraints and are also obligated to execute projects outside the scope of IPEF countries. Finding sufficient financing for the IPEF would require individual agencies to seek appropriations from Congress, a lengthy and potentially politically costly endeavor. Therefore, using existing agencies such as the DFC is not the best option.

Creating a shadow MDB also is not a viable option. An IPEF-focused bank would require the establishment of a secretariat, which would be both cost and time intensive and invite a host of governance questions. A bank would also struggle to attract financing that would allow it to compete with development institutions such as the Asian Development Bank, the Asian Infrastructure Investment Bank, or broader geopolitical strategies such as China’s BRI. In other words, were the parties to create this type of financial institution, it would likely be far weaker than other comparable entities that are already active in the region. Furthermore, the IPEF is not designed as an inherently development-driven organization; it is the economic pillar to a much broader geostrategic agenda for the region.

The third option, establishing a new administrative body for the IPEF, is therefore the best option, although it invites a series of considerations for negotiators. One element countries need to determine is whether the administrative body would emulate the structure of the G20, which does not have staff or a permanent secretariat (although the chair establishes a temporary secretariat each year), or if it would function more like the TTC, where diplomats convene in specific working groups, which function more like a committee. Assuming the structure functions similar to the G20, which also has a distinct finance track, countries should consider creating a specific subsidiary of the IPEF-CC that would provide project financing. This subsidiary could be comprised of representatives from IPEF finance ministries. Creating a separate subsidiary for project financing would provide an additional layer of accountability and professional expertise.

**Establishing a new administrative body for the IPEF is therefore the best option, although it invites a series of considerations for negotiators.**

Another question is who would staff the IPEF-CC. Rather than functioning as an independent entity like a bank, this body could be staffed by high-level representatives of the 13 governments and could have its own structure. That it could be staffed with existing personnel from participating governments means the costs incurred could be kept relatively low. In the U.S. context, this would allow existing staff from the National Security Council, for example, to function as sherpas to the IPEF entity, while officials from
agencies such as the Departments of Commerce, State, and Treasury could assist in carrying out financing objectives. This approach has added transparency benefits since agency appointees can be called to Congress to testify.

Another question regards the mandate of the body. Although it would maintain the function of allocating financial support, it would be tasked with more responsibilities than funding decarbonization projects alone. For example, the IPEF-CC could also host a supply chain monitoring group that could play a key role in discovering blockages, mitigating supply chain disruptions, and facilitating regional trade. Another role it could play is to host a committee on harmonization of standards among members.

Another element of the body’s remit could be to host an information-sharing platform whereby countries can more effectively communicate their infrastructure and decarbonization needs, making it clearer which projects deserve priority funding. In other words, the foundational purpose of the body would be to effectuate joint projects and create clearer communication channels. This would create a more robust and longer-term ability for a country to flag a particular investment need. For example, if an IPEF country seeks technical assistance on building more resilient and flexible electricity grids, it could raise this need within the IPEF-CC, through which the country could then attract project financing and early-stage de-risking through the competent authorities in individual member states. This structure has the added benefit of permitting countries to shop their needs around while also allowing funder governments to work within a flexible framework. These are considerations that negotiators should keep in mind as a ministerial approaches.

Whether or not countries should seek to establish a formal secretariat is another question for negotiators to consider. When ASEAN was established in 1976, it maintained a secretary general, three bureau directors, a trade and economic officer, an administrative staff, a public information officer, and an assistant to the secretary general. However, if the administration intends to pursue an approach similar to the IPEF in other regions, for example, in the Western Hemisphere via the Americas Partnership for Economic Prosperity, then standing up these secretariats throughout the world is probably not the best allocation of resources. Nevertheless, given the geostrategic importance of the Indo-Pacific region, creating a formal structure for the endeavor would help ensure that it remains durable over time.

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Another option for this body is to create an advisory committee of private sector leaders. This would have the dual effect of creating additional buy-in from the private sector and establishing a longer-term consultative process through which to leverage funds. This advisory committee could provide non-binding but tangible recommendations for U.S. decarbonization and green financing in the IPEF. The establishment of a permanent advisory structure would leverage private sector knowledge of green finance and investing in the region while providing the dual benefit of ensuring that the government continues to move forward on aggressive de-risking and climate investment plans. This advisory committee would also be able to create its own funding tool for decarbonization initiatives, potentially spurring the deployment of climate capital that otherwise may not have shifted into these projects.

Regardless of how the administration ultimately decides to structure the IPEF, having a clear form and function—an identified leadership structure with clear negotiating goals—should be a primary objective of negotiators as they prepare for forthcoming ministerials. Creating a firmer architecture through
which to effectuate closer international collaboration on extremely complex issues will also enable the administration to avoid some of the drawbacks to its “minilateralist” approach in the region.

 REGARDLESS OF HOW THE ADMINISTRATION ULTIMATELY DECIDES TO STRUCTURE THE IPEF, HAVING A CLEAR FORM AND FUNCTION—AN IDENTIFIED LEADERSHIP STRUCTURE WITH CLEAR NEGOTIATING GOALS—SHOULD BE A PRIMARY OBJECTIVE OF NEGOTIATORS AS THEY PREPARE FOR FORTHCOMING MINISTERIALS.

Conclusion

The Biden administration’s IPEF is an ambitious framework, the launch of which exceeded expectations, given the large number of founding partners. In fleshing out the details, the administration has the opportunity to advance consequential and long-lasting policy changes throughout a region of increasing strategic importance.

Interviews for this paper demonstrated the core belief that a fundamental value-add for the IPEF will center around bolstering U.S. private sector know-how and investment in the region while understanding that early-stage projects require significant de-risking. While the DFC can help de-risk some projects, it is not by itself sufficient for decarbonization efforts in the region, which will require much broader buy-in from other U.S. agencies and IPEF partner governments. Another common belief among interviewees is that efforts to decarbonize goods in IPEF countries will enhance the competitiveness of these goods over time. If the partners can focus on decarbonizing heavy industry, including industries potentially implicated by the EU CBAM, the net effect will be to drive emissions down while increasing economic competitiveness.

Aside from these themes, a core tension emerged among experts surrounding the question of whether or not the IPEF should duplicate existing climate and trade efforts or whether it should seek to make progress on existing goals in a more agile and targeted framework. The Paris Agreement targets should serve as the penultimate goal for decarbonization efforts within the IPEF, whether infrastructure projects under the DOC pillar or environmental trade efforts under the USTR pillar. The United States should leverage the agility of the IPEF structure to pursue targeted efforts to reduce deforestation, accelerate compliance with the Global Methane Pledge, and make good on promises to developing countries to hasten their transition away from coal. In complementing but not duplicating other initiatives, the Biden administration should clarify what its ultimate strategy is, which will in turn bring the overall objectives of the IPEF into focus.

Taking into account these major themes, the administration can enhance the chances for the IPEF’s success by pursuing the following policies:

1. The administration should align decarbonization objectives by prioritizing decarbonization and emissions reductions, using Paris Agreement and COP26 targets as benchmarks. In some cases, IPEF countries have already made the commitments they are politically able to make and are preparing for follow-through on these commitments.

2. The United States, together with key allies in the IPEF, should focus on financing. By designing a unique and agile financing mechanism, the countries can leverage private sector expertise and capital to ensure that modest government funds achieve maximum potential.
3. IPEF partners should work to **promulgate standards** through projects. These standards include green procurement transparency and efforts to harmonize methodologies for measuring life-cycle emissions.

4. The administration should **maximize the use of trade tools** to incentivize the growth of climate-friendly industry. The United States could pursue a plurilateral negotiation to liberalize tariffs on environmental goods, or it could include in the IPEF negotiating agenda a statement that all parties affirm support for a multilateral environmental goods agreement within WTO frameworks.

Overall, through these efforts the administration can **build an affirmative agenda** that minimizes the duplication of other decarbonization efforts while simultaneously creating a durable policy throughout the region.

A persistent problem when it comes to combating climate change has been the ability of governments to mobilize an adequate amount of capital—in this case, green financing. The creation of a coordinating council would create a new democratic and transparent mechanism through which to provide green financing. It would also signal to partners that the initiative itself is here to stay. Nevertheless, several questions remain that negotiators will have to consider. These include the structure of the council, whether or not to create a formal secretariat, how to staff it, and how wide the scope of its remit should be.

Given the administration’s ongoing reluctance to pursue market access, the burden falls on the United States to determine what it can offer so that the IPEF does not function as a litany of U.S. requests in the region. U.S. private sector expertise, coupled with government-backed de-risking initiatives, can help accelerate decarbonization and environmental trade efforts throughout the region. Furthermore, designing an institutional structure to complement the initiative can help ensure that these efforts endure.

The Biden administration has a historic opportunity to build a robust regional arrangement that is not duplicative but is a complementary framework that will reinforce existing commitments while increasing ambition and follow-through on decarbonization efforts. The diversity of IPEF partners underscores what a unique opportunity the Biden administration has created to forge new partnerships, promulgate new standards, and set an affirmative agenda in a region of vital strategic importance to the global economy. The IPEF can produce a greener and more prosperous future for all. It is now up to the administration to deliver on its ambitious agenda.

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