



CENTER FOR ENERGY, ECOLOGY,
AND DEVELOPMENT

POSITION PAPER ON AIIB Energy Sector Strategy

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Nearly a year since the Asian Infrastructure Investment Bank (AIIB) initiated the update process of its Energy Sector Strategy, the Bank has finally published the final version of its [Energy Sector Strategy](#) (2022 ESS) on November 22, 2022. This update supposedly intends to reflect the latest sectoral and institutional context in the region, the Bank's Corporate Strategy including its climate finance target and commitment to Paris alignment, and the diverse needs of the public and its member states.

As the world confronts a global energy crisis that is unprecedented in terms of depth and complexity, the Center for Energy, Ecology, and Development (CEED) finds that this strategy update could not have come at a better time. However, it is disappointing that the AIIB utterly missed the opportunity to drastically re-think and recalibrate its strategy to respond to the significantly different energy landscape today compared to when the first iteration of its draft ESS was released. While the AIIB reflects improvements in the final strategy paper from earlier versions, it completely turns a blind eye to the energy crisis that has increasingly burdened Asian peoples this year.

In its ESS, the AIIB depicts a global energy landscape removed from the ongoing Russia-Ukraine conflict, and absolutely out of touch with reality of people on the ground who are suffering from higher electricity tariffs, fuel and power shortages, and massive blackouts. European countries are now in direct competition with Asia's largest importers of fossil gas, following supply cuts of Russian gas to Europe. As the conflict caused an even tighter supply in fossil gas, and prices rallied to new highs, more than the least developed and developing countries in Asia are willing or able to pay for. The harrowing experiences on energy supply shortages and power outages in countries such as Bangladesh¹ and Pakistan² offer hard-learned lessons for the rest of Asia.

In Pakistan, the skyrocketing prices of electricity brought by imported liquified natural gas (LNG) resulted in massive protests amid soaring inflation.³ Without affordable LNG and the proposition of renewable energy solutions, the country is confronted with blackouts that reach as far as 16 hours while battling scorching heat waves. In Bangladesh, blackouts are foreseen for the next three years as it struggles to secure LNG in the spot market.⁴

¹ Reuters, *Analysis-Fuel crisis cuts electricity in Bangladesh, sparking energy debate*, accessible at <https://www.reuters.com/article/bangladesh-energy-politics-idUSL8N2YZ1A2>

² Forbes, *Pakistan's Deluge Is Deepening Its Longstanding Energy Crisis*, accessible at <https://www.forbes.com/sites/arielcohen/2022/09/22/pakistans-deluge-is-deepening-its-longstanding-energy-crisis/?sh=b621e175a5dahttps://www.energyintel.com/00000182-fcb0-dd1c-ad83-fefab3320000#:~:text=India's%20plan%20to%20expand%20LNG,getting%20pushed%20to%20next%20year>.

³ The Express Tribune, *Inflated Electricity Bills Trigger Huge Protest*, accessible at <https://tribune.com.pk/story/2372989/inflated-electricity-bills-trigger-huge-protest>

⁴ Koh, A., *Global Gas Crunch Leaves Bangladesh Facing Blackouts Until 2026*, published August 1, 2022 accessible at <https://www.bloomberg.com/news/articles/2022-08-01/global-gas-crunch-leaves-bangladesh-facing-blackouts-until-2026?leadSource=verify%20wall>

The conflict has also put into question whether investing in fossil gas infrastructures makes financial sense. Several major fossil gas projects across Asia have been delayed including those in China⁵, India⁶, and Vietnam⁷, and the Philippines.⁸

Despite all this, AIIB leaves its door open for fossil gas investments. It maintains its position that fossil gas is a transition fuel.⁹ Despite climate scientists' concerns over growing methane emissions, a greenhouse gas that stays in the atmosphere shorter than CO₂, but contributes almost three times more to global warming than CO₂ over the course of 20 years alone.¹⁰

While its ESS incorporates far more stringent criteria for investments in this type of fuel, AIIB, an infrastructure investment bank that still allows for exceptions, sends a dangerous signal to the world market—fossil gas investments can still be good investments. This is alarming considering that massive fossil gas infrastructures are being peddled across Asia. In Southeast Asia alone, there is approximately 138 GW of fossil gas power plant capacity and 118 LNG terminals being proposed.¹¹

Abandoning fossil fuels and turning to genuine and sustainable solutions that offer clean, affordable, and reliable renewable energy should have been central to the AIIB's Energy Sector Strategy. As for the rest of the policy, much is still to be desired as far as restrictions and mechanisms that would contribute to more ambitious climate goals, the specifics of which are further elaborated below.

1. **Stricter language on coal weakened by indirect financing and transition mechanism loopholes.** In a direction that's long-overdue for all multilateral development banks, the AIIB makes use of stricter language on coal financing, removing the loophole that would have allowed it to support investments in and efficiency improvements of power and heat distribution networks which rely on coal.¹² It is alarming, however, that AIIB continues to ignore its coal exposure incurred through its indirect investments and makes no mention of phasing out current exposure. Furthermore, the AIIB retained the provision allowing it to engage in an energy or coal transition mechanism, with no caveats or limitations for when such mechanism should be

⁵ S&P Global, *High LNG prices dampen China's buying interest; winter could be a swing factor*, accessible at <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/lng/090922-high-lng-prices-dampen-chinas-buying-interest-winter-could-be-swing-factor>

⁶ Energy Intel, *India's new LNG Regas Terminal Delayed to 2023*, accessible at <https://www.energyintel.com/00000182-fcb0-dd1c-ad83-fefab3320000#:~:text=India's%20plan%20to%20expand%20LNG,getting%20pushed%20to%20next%20year.>

⁷ Mekong Eye, *Rising Gas Prices hit Vietnam's LNG power plans*, accessible at <https://www.mekongeye.com/2022/07/04/rising-gas-prices-hit-vietnams-lng-power-plans/>

⁸ Reynolds, S., *Delays of LNG terminals in the Philippines reflect supply and cost uncertainties*, published on September 23, 2022, accessible at <https://ieefa.org/resources/delays-lng-terminals-philippines-reflect-supply-and-cost-uncertainties>

⁹ Asian Infrastructure Investment Bank (AIIB), *Energy Sector Strategy (2022 ESS)*, published on November 22, 2022, accessible at https://www.aiib.org/en/policies-strategies/strategies/sustainable-energy-asia/.content/index/download/AIIB-Energy-Sector-Strategy-Update_Final_Nov-2022.pdf

¹⁰ Center for Energy, Ecology, and Development (CEED), *Greening the AIIB*, published in July 2022, accessible at: <https://ceedphilippines.com/wp-content/uploads/2022/07/Greening-the-AIIB-1.pdf>

¹¹ Center for Energy, Ecology, and Development (CEED), *Financing a Fossil Future*, published in June 2022, accessible at: <https://ceedphilippines.com/wp-content/uploads/2022/07/Greening-the-AIIB-1.pdf>

¹² AIIB, 2022 ESS, par. 54

applied.¹³ The phrasing of this provision also alarmingly allows for the project to transition from coal to another fossil fuel such as fossil gas. AIIB should discontinue financing for all new fossil gas projects and exit financing fossil gas, diverting funding into replacement renewable energy sources in order to ensure a just transition into a fully-decarbonizing energy sector by 2050.

2. **Refusal to align to a more ambitious Paris goal.** While the ESS recognizes that there are multiple targets and pathways within the Paris Agreement, it does not in any clear terms commit to aligning with the Paris Agreement goal of limiting the global average temperature increase to 1.5°C above pre-industrial levels, and specifically the recommended P1 Scenario of the Intergovernmental Panel on Climate Change's (IPCC) Special Report on Global Warming of 1.5°C.

It is apparent that AIIB has yet to grasp the full urgency of the climate crisis that threatens human and environmental ecosystems, settlements, and infrastructures. Extreme weather phenomena due to climate change is worsening in Asia every year. According to a [report](#) released by the Asian Development Bank (ADB), people in Asia and the Pacific were displaced more than 225 million times due to disasters triggered by natural hazards from 2010 to 2021.¹⁴ In September 2022, more than 1,500 people died in Pakistan due to extreme flooding brought by record breaking monsoon rains and glacial melt in the country's northern mountains; Pakistan's federal minister for climate change called it a "climate catastrophe."¹⁵ [According to IPCC's sixth assessment report on climate change](#) (IPCC AR6), the weather extremes brought by climate change triggers abnormal rise of temperature which adversely affects terrestrial and marine ecosystems and the livelihoods that are dependent upon it. Moreover, extreme weather and climate events have exposed millions of people to acute food insecurity and reduced water security.¹⁶ As mentioned by [IPCC's fifth assessment report](#), climate change is an additional burden to people in poverty, and it will force the poor from transient into chronic poverty and create the "new poor."¹⁷ IPCC AR6 also mentioned that climate change is one driver among many that challenges livelihoods of the rural poor, including economic transitions associated with industrialization and urbanization, and also governance failures such as unclear property rights and civil conflict.¹⁸ Evidently, the climate crisis transcends environmental issues as it tackles a wider spectrum of issues that affects all peoples - especially the disadvantaged. Time and time again, we would like to remind the AIIB the very essence of the Paris Agreement - to avoid irreversible and irreparable harm posed by climate change by aligning policies towards limiting Global Warming to 1.5 °C.

¹³ Ibid.

¹⁴ Asian Development Bank, *Disaster Displacement in Asia and the Pacific: A Business Case for Investment in Prevention and Solutions*, published on September 2022, accessible at <https://www.adb.org/publications/disaster-displacement-asia-pacific>

¹⁵ Bloomberg, *Pakistan Flood Death Toll Passes 1,000 in 'Climate Catastrophe'*, accessible at <https://www.bloomberg.com/news/articles/2022-08-29/floods-ravage-pakistan-passing-1-000-dead-10-billion-in-damage#xj4y7vzkg?leadSource=uverify%20wall>

¹⁶ Intergovernmental Panel on Climate Change (IPCC), *Summary for Policymakers*, published on April 2022, accessible at: https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_SPM.pdf

¹⁷ Intergovernmental Panel on Climate Change (IPCC), *Climate Change 2014: Impacts, Adaptation, and Vulnerability. Part A: Global and Sectoral Aspects. Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change*, published in 2014, accessible at: https://www.ipcc.ch/site/assets/uploads/2018/02/WGIIAR5-Chap13_FINAL.pdf

¹⁸ Ibid.

3. **Continuing to allow false solutions such as carbon capture storage (CCS), carbon capture, utilization, and storage (CCUS), and hydrogen as false solutions.** In this ESS, AIIB now acknowledges the limitations of CCS/CCUS as not yet technologically mature and lacking commercial incentives for implementation.¹⁹ However, AIIB will still support creating readiness for future CCS technologies in its natural gas projects.²⁰ This creates a loophole in AIIB's energy policy, where it remains open to false solutions that can crowd out investments on renewable energy, instead of focusing resources on genuine solutions.

AIIB also commits to exploring the development of transformative but still high-cost technologies, such as low- or zero-carbon hydrogen production.²¹ Hydrogen, in its extracted form, is touted as one of many alternatives for fossil fuels, but may be considered as another false solution. Ironically, [in a report by the IEA](#), grey hydrogen is responsible for emitting 830 Million tonnes of Carbon Dioxide per year²² - making it less likely to be a key alternative for decarbonization and a solution to the looming climate and energy crisis.

4. **Low standards for carbon pricing.** Despite the fact that the High Level Commission on Carbon Prices has already published a study finding that the explicit carbon price level consistent with achieving the Paris 2°C temperature target is at least USD 50–100/tCO₂ by 2030, the AIIB refused to adopt a more ambitious shadow carbon price. In CEED's *Greening the AIIB* report, we recommended at least 100 USD/tCO₂ by 2030 as the baseline, with a determined faster and higher rate of increase until 2050, to approximate the cost that is closer to achieving the 1.5°C goal. The AIIB refuses to impose a stringent carbon cost on fossil fuels but rather commits to only apply “a shadow cost of carbon **consistent with its peer MDBs**, and which relies on an extensive review of studies valuing these costs.”²³
5. **Insufficient transparency and monitoring of climate and energy finance.** There was no significant improvement to its transparency and monitoring measures. As discussed in the *Greening the AIIB* report, for AIIB to lead in efforts which do not sacrifice mitigation goals and social responsibility for the sake of development, it must ensure strict implementation and further improvements of its own policy safeguards and Paris Alignment for all projects.²⁴ The AIIB should stipulate in its contracts with Financial Intermediary clients that the latter must publicly disclose all AIIB sub-investments at the earliest stages. It must also ensure that FI sub-projects remain accountable to AIIB oversight and due diligence at all stages of the project cycle. Lastly, it must adopt MDB's common principles on climate mitigation and adaptation finance tracking and reporting.
6. **Lack of restrictions on high emission and resource intensive renewable energy projects.** The 2022 ESS does not prioritize nor add restrictions for eligibility for specific types of renewable energy projects. For example, the Strategy states that AIIB will continue to support hydropower and geothermal resources, with no clear criteria to

¹⁹ AIIB, 2022 ESS, par. 59

²⁰ Ibid.

²¹ AIIB, 2022 ESS, par. 52

²² International Energy Agency (IEA), *The Future of Hydrogen*, published on June 2019, accessible at:

https://iea.blob.core.windows.net/assets/9e3a3493-b9a6-4b7d-b499-7ca48e357561/The_Future_of_Hydrogen.pdf

²³ AIIB, 2022 ESS, par. 64

²⁴ CEED, *Greening the AIIB*, p. 41

efficiently mitigate the risks of projects of this scale.²⁵

In a study published by BioScience analyzing more than 250 dams and bubble-based emissions, it was found that hydroelectric dams emit a billion tonnes of greenhouse gasses a year, which represents 1.3% of total annual anthropogenic global emissions.²⁶ When considered over a 100-year timescale, rotting vegetation in the dams would produce more methane than rice plantations and biomass burning. New roads and infrastructure built for new dams can cause further carbon emitting deforestation.²⁷ Furthermore, given the expansive space required, large scale RE sources like hydropower and geothermal are often described as resource intensive.²⁸ Drying riverbeds and flash floods in areas that rely on dams for power have already caused havoc, and in cases when a dam overtops, downstream communities suffer devastating consequences.²⁹

The AIIB's vision of becoming a *Lean, Clean, Green* bank can only come to fruition if it is grounded on the reality of Asian peoples. CEED challenges the AIIB to produce an energy sector strategy that would drive Asia to an energy secure and sustainable future. AIIB must advance renewable energy, especially distributed and community-based renewables, following stringent safeguards to prioritize the well-being of the environment and affordability of energy for all.

²⁵ AIIB, 2022 ESS, par. 52

²⁶ CEED, *Greening the AIIB*, p. 30-31

²⁷ Ibid.

²⁸ Ibid.

²⁹ Ibid.

ABOUT CEED

The Center for Energy, Ecology, and Development is a think-do institution that conducts research and advocacy, and partners with communities in promoting transformative energy, ecological justice, and people centered development.

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