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THE POLITICS THAT MATTERS TO BUSINESS

Growing green energy across Asean

Considerable funding as well as cooperation between governments are essential to achieve this. BY SIMON TAY

TALK has grown about an energy grid that will link up across borders in our region. The recent Asean meetings in Vientiane asked energy ministers to prioritise the initiative. Back home, during the Singapore International Energy Week, headlines heralded the official go-ahead given to deliver energy all the way from Australia by undersea cable.

A power grid to transmit electricity across distances would connect countries with surplus renewable energy to those with higher demand, reaching many more consumers and creating a large and more efficient market. To some, the proposal is a vision whose time has come.

However, there are challenges, and not just in terms of technology.

Considerable funding is needed and cooperation between governments is essential to create stable conditions for investment. As with many infrastructure megaprojects, there is politics that matters to business.

A regional power grid will help meet the increasing demand for electricity. Energy consumption in Asean is projected to grow by 3% each year through to 2030 and could treble from current levels by 2050. PHOTO: BT FILE

Old idea, new need

Plans for an Asean power grid were announced back in 1997, as part of Asean Vision 2020. Yet overall progress has been slow and, to date, just half of the 18 planned interconnections are completed. Most are across land borders between Laos and Thailand. Little has been done to connect southwards and across the seas.

Why then is the idea again attracting attention and headlines?

The fundamental reason is that demand for energy is increasing rapidly. Energy consumption in Asean will grow by 3 per cent each year through to 2030 and could treble from current levels by 2050. This is driven by overall economic growth.

A spike also comes from the fast-growing digital economy. Data centres that underpin this sector and artificial intelligence already account for some 7 per cent of electricity consumption in Singapore. Across Asean as a whole, data centres will grow by two or three times by 2030.

The second factor for a regional grid comes from climate concerns. Asean governments have made commitments under the Paris Agreement and will be expected to make every effort to meet them, even as energy use rises, and not increase their dependence on carbon-based energy.

At the Asean leaders' summit, Singapore's Prime Minister Lawrence Wong emphasised cross-border energy trade and an Asean grid as essential elements for the region to drive economic growth with less emissions.

A power grid across the region can link to countries that have the land and other conditions to produce renewable energy, such as solar and hydropower, at scale. Through cross-border trading, it can also help energy producers reach a broader range of buyers and therefore obtain better market pricing and profits.

Pressures to shift to renewables will also come.

One early example of this is the European Union's regulation to impose a carbon border adjustment mechanism on imports from countries that do not have an adequate mechanism to ensure that manufacturers account for the cost of carbon.

Going bigger, moving faster

Asean governments are now negotiating to update and strengthen their earlier memorandum of understanding into a framework agreement for a regional power grid, set to be signed in 2025. Asean is also working to create a framework for subsea power cable development by the end of this year. Yet while signs are positive, the path ahead can prove long and not without twists and turns.

Governments will need to do more than shake hands and issue broad statements. Work is needed to come to a common understanding as a foundation for cooperation, with clear regulatory and commercial frameworks for cross-border energy trade.

In this context, early initiatives must be encouraged and supported as pathfinders. Consider the proposed Australia-Singapore link. To connect with solar farms in the Northern Territory, the cable will need to span some 4,300 km, at an estimated cost of S$31 billion.

Speaking at the inaugural Singapore Green Dialogue organised by the Singapore Institute of International Affairs last week, Australia's Minister for Climate Change and Energy Chris Bowen believes that shifting to export solar power is expensive, but can be done. Australia has always been an energy exporter and must move from oil and gas to green and renewable energy that the world wants for the future.

Additionally, initiatives are also moving with Indonesia, focused on islands just south of Singapore.

Seven large-scale energy import projects have been announced, which could bring a total US$20 billion in investment to Indonesia.

This is not only for the construction of the solar farms and cable connections themselves, but also to boost Indonesia's domestic solar technology capabilities, including the manufacturing of batteries for energy storage.

The second Indonesia International Sustainability Forum in September 2024 highlighted these projects, with then coordinating minister for maritime affairs and investment Luhut Pandjaitan as their champion.

Yet the projects remain at varying stages of licensing and approval. With the recent change of government in Jakarta, they will need a champion to keep them moving to completion and set the path for more projects to come under the new administration of President Prabowo Subianto.

Other possibilities could link Singapore with the Malaysian states of Johor and Sarawak. The newly established Energy Exchange Malaysia Platform will soon be auctioning off a total 100 megawatts of electricity to Singaporean buyers. There may be limits to increasing this further, however.

While Johor is geographically proximate and a Johor-Singapore Special Economic Zone (SEZ) will increase links, there may be reluctance to sell more energy. The state plans to increase its capacity to generate solar energy to develop itself as a hub for data centres and manufacturing, and this needs more energy capacity. A successful SEZ with Singapore might, ironically, lead Johor to earmark green-power capacity for its own growth, rather than for cross-border sale.

In comparison, Sarawak is ready and willing to supply Singapore but this will require the construction of a 720 km subsea power cable. This is not only a technical challenge, but also investment-intensive, with an estimated cost of S$8 billion.

Financing partners will be an advantage

As with the even more expensive Australia-Singapore link, no single government can meet this. Nor, unless energy prices are sky-high, can a purely commercial approach work. Singapore's government has suggested that Asean must work together with the World Bank, Asian Development Bank, and other external partners to bring in financing.

Additionally, many pundits suggest bringing in private capital, especially funds that target supporting the green transition. Still, the projects proposed for funding must be "bankable", to deliver real profits, and have lower risks. This has been a problem across the region to date, even for national-level projects in renewable energy.

Some suggest that philanthropic funding can help unlock the current impasse as part of "blended finance", combining with public funding, to accept lower returns. This could create a lower-cost base, on top of which private capital could come in.

Much of this will focus on energy imports into Singapore, due to the island republic's limited space and potential for renewables.

Singapore, moreover, has a propensity to pay, that can help make the grid commercially attractive, and spur more investment for energy generation.

Yet for the Asean grid to gear up and go green, there needs to be win-win for all countries in the region. Otherwise, hopes for a regional energy grid will remain a vision, and not a realisable investment.

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The writer is chairman of the Singapore Institute of International Affairs. The SIIA has released a report *Powering the Digital Future: Renewable Energy for Businesses in Asean*, in conjunction with the institute's inaugural Singapore Green Dialogue on Oct 22, 2024.