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# Strengthening the EU-Vietnam Partnership

Financing a Green and Just Energy Transition

*Lin GOETHALS*

*Director, EIAS*

*Jutaporn SINGCHUM*

*Junior Researcher, EIAS*

*Eirini BOULIA*

*Junior Researcher, EIAS*

*Simmi SAINI*

*Junior Researcher, EIAS*

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## Financing a Green and Just Energy Transition

Vietnam is one of the [fastest growing economies in Southeast Asia](#), expected to become one of the world's top 20 leading countries by 2050. The country's export-oriented economy and [efforts to transform Vietnam into a manufacturing hub](#), make it well-placed to [keep on attracting trade and investment](#) from external partners from within and outside the region. Yet, despite its climate ambitions and corresponding engagements, Vietnam is also one of the most vulnerable countries in terms of facing high risk disaster levels. [Ranking 91 out of 191 countries](#) by 2019, it particularly faces extreme exposure to natural hazards such as floods, drought and tropical cyclones. In this regard, the country will need to adapt to climate change in order to maintain its economic resilience and competitiveness.

It was against this background that Vietnam approved its [National Strategy on Climate Change \(NSCC\)](#) in July 2022, in order to mitigate the impact from climate change by 2050. The strategy not only aims to effectively reduce GHG emissions with the goal to achieve a net-zero target by 2050, but also to work with international partners to develop adaptation techniques. Following the country's commitment to the fight against climate change in the international arena, [Vietnam has pledged its commitment to the climate case at the 2021 Glasgow summit \(COP26\)](#). Hanoi took this opportunity to highlight the importance of clean energy installations and the reduction of coal-fired power installations at the world leaders' stage, in tandem with emphasising the need for financial, technological, and expertise support from global investors to achieve its clean energy targets.

To power its commitments, Vietnam has [gradually shifted towards renewable energy sources](#), notably solar, wind, biomass, and hydropower, to meet the escalating demand and to increase its energy supply through alternative power generation, as Vietnam's economy continues to grow rapidly. In 2021, the country required approximately 60 GW of power to be generated, which is expected to see a dramatic increase up to 97 GW in 2025. While Vietnam's dedication to the climate case is clear, the funding of its implementation remains a challenge and a major topic of discussion in its partnerships with other global actors like the European Union.

## Just Energy Transition Partnerships

One example of such financing mechanisms are the [Just Energy Transition Partnerships](#) (JETPs). JETPs are climate finance agreements that seek to support emerging economies in their transition towards a greener and cleaner future. JETPs have [three goals](#), notably to (1) *facilitate* the early decommissioning of coal-fired power plants, (2) *mobilise* private sector capital to finance decarbonisation efforts, and (3) deliver a “*just transition*” for citizens. Ultimately, these so-called “country platforms” seek to go beyond individual projects and focus on addressing the countries’ energy systems as a whole.

The JETPs attracted worldwide attention at the COP26 in Glasgow following the announcement of [South Africa’s JETP](#) –an 8.5 billion USD agreement– with France, Germany, the European Union (EU), the United States (US) and the United Kingdom (UK). Since then, a number of other countries have shown interest in a JETP of their own, including Indonesia –which [announced](#) the completion of its JETP at the G20 Bali Summit in November 2022– as well as India, Vietnam and Senegal, which are currently in different development stages. Overall, the JETPs represent a promising model for long-term collaboration between emerging and developed economies to tackle the climate crisis.

## COP27

Furthermore, the resolutions resulting from the COP27 in Sharm-el-Sheikh showed the European Union’s (EU) determination and dedication to play a leading role in climate action and mitigation. More specifically, the EU pushed for “climate justice”, by urging developed nations to pay their fair share in compensating those most vulnerable to climate change. Additionally, the EU agreed to establish the so-called “Loss and Damage Fund”, a fund offered by developed nations to those heavily struck by climate change, like Vietnam. Another important European contribution to COP27 lies in encouraging more countries to make significant commitments to the fight against climate change, such as phasing out all fossil fuels to keep the Paris Agreement goals within reach. Interestingly, the European Union appeared rather disappointed when the countries pledged only to *phase down* coal, an important difference and downgrading of the proposed *phasing out*.

The EU already proposed to offer cheap loans, in addition to a number of side grants to assist Vietnam in gradually phasing out coal. The proposed terms were not compelling enough for Hanoi and did not offer sufficient guarantees to sustainably fund its energy

transition by utilising that capital. Thus, the staying out of a deal has pushed back its agenda of replacing coal with clean energy. As energy prices have skyrocketed globally, Vietnam will need access to cheaper energy to cover its rising production needs in the short-term. Consequently, further implementation of its green energy agenda has been slightly delayed.

The EU, which had expressed interest in Hanoi's ambitious green plans, had even considered -together with G7 nations- a deal to be possible at the COP27 summit. However, a difficulty in understanding that Vietnam would like to have more liberty in how to distribute the attributed funds, with a preference for grants instead of loans, created a stand-off. Loans would expand Vietnam's national debt, bringing forth financial uncertainty. Moreover, the country is hesitant to give up critical energy infrastructure to foreign investors, which is making it difficult to secure private capital. Taking its socio-economic reality into consideration, it is essential for Vietnam to maintain its energy independence, while ensuring true growth for Vietnam will require sustainable green energy funding. However, the different approaches between the two partners have so far made it complicated for them to finalise a deal.

Moving forward, more work will need to be done by next year's COP28 in Dubai. Overall, the EU will have to push for more substantial measures, so as to avoid environmental doom. Since the 1990s, the EU has already come a long way in transitioning to a greener, more sustainable production model. Yet, it cannot advance alone. Cooperating with climate vulnerable countries in Asia and setting realistic goals —while encouraging their green development plans to move forward by linking their progress level with additional financing— would assist in making green initiatives more wide-spread globally. Given its vulnerable position, climate cooperation with Vietnam will need to be realised swiftly. Related specific initiatives include realising the “[EU-Vietnam Joint Declaration on reinforced cooperation in the field of sustainable energy](#)”. Mobilising the Joint Declaration and exchanging good practices with Vietnam, especially in the field of concrete legislation and implementation by the state, would assist the Vietnamese in setting out a more concrete plan of action. Fortunately, cooperation between the two partners has been evident in past agreements as well. EU-Vietnam initiatives already in place include the “[Vietnam Energy Partnership Group and Policy Dialogue](#)” and the “[EU-Vietnam Partnership and Cooperation Agreement \(PCA\)](#)”. Elaborating and further expanding these initiatives would advance their partnership and boost their level of cooperation. Alternative ways of funding for sustainable investment infrastructure in Vietnam should thus be secured by the EU.

## **An Offshore Wind Roadmap for Vietnam**

Vietnam has generated its own green transition ambitions and plans. As an economy heavily reliant on coal, its need for investments in green energy is high. As a result, it has come up with its “Offshore Wind Roadmap for Vietnam”. This plan of action aims at utilising wind energy as a new incentive for power generation, since “[just one 8 megawatt turbine is able to power annual electricity consumption corresponding to more than 43,000 Vietnamese households](#)”.

What is needed for the successful implementation of this Roadmap is an adapted legal framework to encourage investments, long-term and consistent capacity deployments of targets to boost incoming investments in infrastructure, supply chains and technology and the deployment of one sole agency to coordinate the actions required to implement the projects. It is vital for the government to continue its commitment to the cause, and to assist investors to resolve bureaucratic matters. The establishment of a specific agency dedicated just to this will serve as a major support, so as to be able to deliver the projects timely. Setting up a framework adequate to fulfil this mandate will be one of the most crucial challenges to realising the Offshore Wind Roadmap for Vietnam. One way for the EU to assist Vietnam would be the exchange of best practices and know-how, especially since Denmark is a well-known pioneer in the field.

## **The EU-Vietnam FTA as a mechanism to drive the green transition**

The EU-Vietnam partnership in energy transition is paramount. Brussels and Hanoi have a consistent carbon neutrality goal by 2050 as reflected in the ‘[European Green Deal](#)’ landmark agenda and Vietnam’s [NSCC milestone strategy](#). The EU and Vietnam are important trading partners, as Vietnam is the [EU’s 15th largest trading partner](#) in goods and [the most important partner in ASEAN](#) in terms of exporting goods to the EU, while the [EU is also one of the largest trading partners for Vietnam](#). As a result, ‘[Vietnam is now part of a club of 77 countries](#)’ that bilaterally trade with the EU under agreed preferential conditions. Under the EU-Vietnam FTA (EVFTA), both sides have committed to implement the Paris Agreement and other international environmental agreements to set high environmental standards to promote trade and attract investment.

In the [EVFTA bilateral agreement](#), one chapter dedicated to non-tariff barriers to trade and investment in renewable energy generation has been included, which highlights cooperation

to promote, develop and increase the generation of energy from renewable and sustainable sources. Vietnam could take this golden opportunity to utilise the FTA as a pathfinder and take advantage from the successful experience and know-how of the EU in combination with its great potential in renewable energy transition. An excellent example that could be of consideration is [Marine Renewable Energy](#) as it has made a significant contribution to Europe's energy mix and road towards a carbon free society. Interestingly, Vietnam's geographic location has brought up the great potential of offshore wind and ocean energy since the country has a [long coastline of 3,260 km](#) with its territorial waters in the Eastern Sea, extending to the East and Southeast, including the continental shelf, islands and archipelagos.

The strengthening of this energy partnership could be advanced to the point that the EU and Vietnam jointly enact the first Energy Partnership in ASEAN to ensure access to affordable, sustainable and modern energy services in line with the [UN's SDGs](#).

Vietnam's increase in renewable energy and success in green transition would not only make Hanoi one of the most competitive economies in the region, especially in trading with the EU, which values sustainable development standards the most when it comes to trade. Moreover, it would also drive Vietnam to reign in the clean energy leader in the Southeast Asia region, where Hanoi could use the ASEAN platform to export its clean energy norms and values to cooperate with other ASEAN Member States later.

### **Further action**

Vietnam could become a frontrunner amongst ASEAN countries to raise concerns over the need for financial support for clean energy infrastructure from developed countries. This with the freedom of regulation through related international fora Vietnam is part of, such as the UNFCCC, the COP, and the G77, in order to push its agenda to maintain developing countries' interests as per receivers and freedom to regulate the funds internally. This would not only benefit Vietnam's interests in the long term, but it will also enhance Vietnam's spearheading role to voice out concerns from the global south regarding the issue. Taking this even further, enhanced engagement with regional players, such as ASEAN states could improve Hanoi's negotiating position. Vietnam and other developing economies in the region could thus raise their concerns accordingly and try to work out better deals with developed countries and international organisations [e.g International Monetary Fund (IMF), Asian Development Bank (ADB), World Bank]. In that way, this united front will enable them to

promote their common interests in the most effective way, especially in international groups and fora.

The EU should also consider finding alternative ways of assisting to finance Vietnam's green transition. One way could be for EU industries to establish even more active partnerships, so as to give Vietnam more liberty and decision-power to develop and implement its green transition policies. In turn, this adjustment could serve as a positive tool to strengthen the EU's actions and enhance its partnership with Vietnam and ASEAN.

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European Institute for Asian Studies – EIAS a.s.b.l.  
26 Rue de la Loi, 10<sup>th</sup> Floor  
B-1040 Brussels

Tel.: +32 2 230 81 22  
E-mail: [eias@eias.org](mailto:eias@eias.org)  
Website: [www.eias.org](http://www.eias.org)

LinkedIn: European Institute for Asian Studies  
Facebook: [EiasBrussels](https://www.facebook.com/EiasBrussels)  
Twitter: [@EIASBrussels](https://twitter.com/EIASBrussels)