

From Coal to Clean: Towards a Phased and Just Energy Transition

The shift from coal to clean energy is no longer a distant ambition. It is already underway, and the pace of change is accelerating. However, this pace is uneven. While developed economies are accelerating their exit from coal through robust policy support, well-developed capital markets, and technological readiness, many developing countries are being left behind, constrained by financial barriers, locked-in infrastructure, and the need to balance climate goals with energy access and economic growth. This growing disparity poses a serious risk, not just to individual countries but to global climate targets. Bridging this gap will require coordinated action particularly in unlocking large-scale financing solutions to support early coal retirement and clean energy deployment in emerging economies.

A closer look at Pakistan's energy sector shows how these dynamics are playing out on the ground. While Coal-Fired Power Plants (CFPPs), many financed and constructed under the China-Pakistan Economic Corridor (CPEC), have played an important role in enhancing energy availability, they now pose significant economic, environmental, and policy challenges. The dilemma lies in coal's dual burden: imported coal inflates Pakistan's import bill and exacerbates circular debt, while domestic Thar coal remains technologically and environmentally unviable.

In [FY2024-25](#), Capacity Purchase Price (CPP) payments in Pakistan's CPPA-G system reached approximately PKR 1,806 billion, equivalent to about 61% of total power purchase costs. CFPPs accounted for approximately PKR 669.8 billion of these payments, comprising PKR 256.1 billion for Thar coal plants and PKR 413.8 billion for imported-coal plants. Most of these CFPPs operate under long-term Power Purchase Agreements (PPAs) with sovereign guarantees. These financial arrangements insulate CFPPs from market forces, increasing inefficiency and creating long-term liabilities for the national exchequer. Their high financial returns and strategic relevance make early retirement economically and politically complex. However, given China's shift towards greening the Belt and Road Initiative (BRI) and its recent declaration to halt overseas coal financing, a timely and coordinated transition away from coal in Pakistan offers both a necessity and an opportunity.

In recent years, we have seen the emergence of viable business models that make early coal plant retirement feasible. These models are designed not only to reduce emissions but also to support workers, protect communities, and ensure a just and inclusive transition. Yet despite this progress, one critical piece remains elusive: scaling finance. In this context, a strategically planned and economically feasible phase-down of coal power generation becomes imperative, not only for fiscal stability, but also to align with global decarbonisation trends and tap into emerging climate finance opportunities.

This high-level policy dialogue will bring together key stakeholders from Pakistan, China and international institutions. The dialogue aims to promote a collaborative and

solutions-oriented discussion that advances the early and managed retirement of CFPPs in Pakistan. Recognising the economic, environmental, and strategic interests of both countries, the dialogue will focus on identifying mutually beneficial pathways that support Pakistan's clean energy transition while aligning with China's green investment agenda under the BRI. Specific objectives of the discussion will include:

- Assessment of shared challenges by examining Pakistan's coal power landscape and the financial, technical, and regulatory barriers to early coal retirement, alongside China's evolving green finance policies and their implications for CPEC investments.
- Identification of financial and policy opportunities by exploring financing mechanisms such as debt-for-climate swaps, carbon credits, and blended finance, and assessing necessary policy reforms to enable clean energy investment and coal phase-down.
- Identifying shared priorities such as climate goals, financial stability, and sustainable development, and how both countries can benefit from a managed transition.
- Co-developing solutions that reduce Pakistan's fiscal burden while allowing China to meet its green investment objectives through responsible transitions.
- Looking at how coal retirement can support affected workers and communities and include both countries' commitment to fairness and climate responsibility.
- Facilitating long-term collaboration to build the foundation for sustained bilateral cooperation in clean energy, including technology transfer, investment, and joint research.

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