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Europe's climate package proposes fundamental transformations of industry

Restrictions on most polluting sectors set to be gradually tightened over the next decade

The European Commission's newly unveiled climate package is set to profoundly alter the trajectory of polluting industries. Companies in the crosshairs of the package will be required to navigate more stringent regulations and emissions standards, reporting guidelines and carbon pricing and taxes.

The bloc's Emissions Trading Scheme (ETS) will now capture the shipping sector alongside steel manufacturers and the power sector. Previously, shipping had been exempt. By 2023, intra-EU shipping and 50 percent of shipping routes outside the EU will be covered by the ETS, but it is unclear which shipping routes will be targeted. Free carbon credits awarded to steel and cement manufacturers and airlines will be phased out over three years from 2023. A smaller ETS will be set up to capture transport and construction from 2026. Around €72.2 billion from the scheme will be redirected to vulnerable countries to help address energy poverty. Under the Carbon Border Adjustment Measure (CBAM), exporters of steel, cement, aluminium, and fertilisers – including **Australia**, **Russia** and **Turkey** – will be under pressure to accelerate the decarbonisation of their production processes and supply chains. The bloc's renewable energy target will be raised to 40 percent of its total energy mix by 2030, up from the current target of 30 percent. That is accompanied by targets that effectively ban the sale of new petrol and diesel cars by 2035. For the first time, aviation and maritime fuels will also be penalised.

Fierce negotiation is likely from member states, industry, and the World Trade Organisation due to the political sensitivity and impact of these wide-ranging measures. However, the direction is clear – energy-intensive industry will come under increased pressure to decarbonise. Concessions given to those companies in the past will be reduced and ultimately phased out.

China changes tack in climate battle

Beijing has come full circle in returning the climate portfolio to the NDRC

Chinese officials interviewed by Bloomberg have revealed that the National Development and Reform Commission (NDRC) has been put in charge of doing the heavy lifting of decarbonising China's economy. The NDRC, China's top economic planning body, previously had climate change as a responsibility until 2018, when the portfolio was transferred to the Ministry of Ecology and Environment (MEE). Under the new arrangements, the NDRC will chart economy-wide and sectoral level decarbonisation plans, whilst the MEE will oversee emissions reporting, international cooperation, and China's carbon market.

Until recently, the MEE appeared to be growing in stature, having previously been considered one of China's least powerful ministries. In March, the Central Environment Inspection Team – which sits under the MEE – gave the National Energy

Administration (itself an agency of the NDRC) a dressing down for its failure to limit the expansion of coal-fired stations. In March, MEE minister Huang Runqiu's visit to the steel-hub of Tangshan resulted in 30-50 percent steel production cuts being ordered.

It is difficult to assess whether this latest move will aid China's transition. The NDRC has at times prioritised economic over environmental goals. For example, the NDRC recently won out over the MEE in limiting the scope and ambition of China's emissions trading scheme to prioritise growth. Yet, the NDRC overall is still a more powerful body than the MEE, possibly suggesting that for a variety of economic, diplomatic and domestic political reasons, climate has become a more important priority for Beijing. As a nation-wide economic planner, the NDRC is also better positioned than the MEE to induce structural change. China's climate policy in the lead up to COP26 will serve as an important bellwether as to whether this latest move is motivated more by climate action, economic growth imperatives or bureaucratic turf wars. The restoration of climate policy to NDRC may well reflect the primary drivers in China's policy, namely energy security, industrial transformation and innovation.

Japan gears up to fight for Taiwan

Tokyo is increasingly serious about coming to Taipei's aid

Japan has always had many reasons to dread a situation in which **China** successfully invades **Taiwan**. For one, Beijing officially considers the Japanese-controlled Senkaku islands to be a part of Taiwan. Control over Taiwan would also put Beijing in touching distance of the Ryukyus, which some in China also claim, albeit unofficially. Waters adjoining Taiwan are key shipping routes for Japan and its access to broader Asia. Moreover, the maintenance of Taiwan's de facto sovereignty is increasingly seen as a vital acid test of the **US**' staying power in Asia. Yet until now, Tokyo has often stayed silent on the issue. As well as wanting to maintain a solid working relationship with China, Japan has been constrained by its pacifist Constitution. Until former Prime Minister Abe's constitutional reinterpretation in 2015, Japan had very limited ability to come to the aid of allies.

However, with paramount leader **Xi Jinping**'s increasing bellicose rhetoric, things are beginning to rapidly change by Tokyo's standards. In recent key bilateral meetings with the US and **Australia**, Japan highlighted the importance of maintaining "peace and stability" across the Taiwan Strait. This was a first for a meeting with Australia and the first time since 1969 that Taiwan has been mentioned in a US-Japan Summit Communique. More recently, Japan's (admittedly somewhat gaffe prone) no.2 Taro Aso suggested that Japan would help defend Taiwan in the event of a "major incident".

Importantly, Tokyo is also backing up its words with actions. Japan has been undertaking Taiwan-related contingency drills with the US and is beefing up military facilities on or near the Nansei Islands and Miyako Strait. Both areas will be key to any Taiwan-related crisis. In a further sign of its serious intent, Japan reportedly requested to view the Pentagon's plans to defend Taiwan. For China, the combined might of Tokyo and Washington would be a significantly different prospect to facing the US alone.

Carbon Tracker predicts a bevy of stranded coal assets

Report argues that coal's economics are increasingly fragile

A report by London-based NGO Carbon Tracker paints a stark future for coal, particularly throughout Asia. The report argues that on some crucial metrics – specifically levelised cost of energy versus long run marginal cost –- new renewable energy is cheaper to operate than 77 percent of the world's existing coal-fired power fleet. By 2026, this figure is set to rise to almost 100 percent. The cheaper costs of renewables have in turn helped catalyse a situation where up to 27 percent of the world's coal fleet is currently unprofitable. Carbon Tracker argues that a further 70 percent of the world's coal stations are reliant to "some degree" on subsidies or policy support.

The negative implications of these figures are particularly acute in Asia. **China**, **India** and the **ASEAN** nations collectively account for 75 percent of existing coal capacity globally and 80 percent of planned projects. There is therefore clearly a significant risk of stranded assets. If the world is to keep temperature increases to below 2 degrees, US$220 billion of operating coal assets would become stranded when compared to a business-as-usual approach. On Carbon Tracker's count, companies that have the most to lose in terms of stranded assets include India's NTPC (US$19.1 billion), Adani Group (US$12.01 billion) as well as **Indonesia**'s PLN (US$15.4 billion). **Japan**'s TEPCO's stranded asset risks are assessed as being US$6.9 billion. The tight nexus between coal and political elites – particularly in Indonesia and India – will not make decarbonisation easy. What gives Carbon Tracker's report extra credence is that it foresees a future for coal not dissimilar to the forecasts of the International Energy Agency.

Russia faces an aggressive third wave of COVID-19

The upsurge in cases carries little immediate political risk for President Putin

Despite President **Vladimir Putin** describing the pandemic as "under full control", confirmed cases of COVID-19 in **Russia** are averaging 25,000 per day – an increase of 38 percent from last week. Confirmed deaths are around 722 per day, up 33 percent from last week. A low testing rate of around 3500 tests per million suggests actual cases may be higher.

The Kremlin has pinned its hopes on countering rising infections through the use of three domestically produced vaccines. It has set a target of vaccinating 60 percent of the population ahead of the state Duma elections scheduled for September. Measures to drive vaccine uptake have had little impact. Several provinces have introduced mandatory vaccination for certain workers and in Moscow, restaurants are restricted to those that are fully vaccinated. There is reportedly an emerging black market for fake vaccination certificates. Only around 10 percent of Russia's 146 million population are fully vaccinated. According to the Levada Centre, 62 percent of Russians do not plan to be vaccinated and 55 percent are not afraid to contract the virus.

According to the Levada Centre, support for Putin's party United Russia is at 15 percent – down from 27 percent in March. A sharp economic contraction caused by a protracted lockdown would challenge the party's election campaign. Already rallies and petitions demanding increased financial assistance have been held online – although largely on a small scale. Putin's dependence on personal popularity, repression and propaganda makes him somewhat vulnerable, as do United Russia's dismal ratings. However, with de facto opposition leader Alexei Navalny's movement facing increasing repression, an opposition campaign that meaningfully challenges Putin's presidency remains unlikely in the short-term. Over the longer-term however, a low turnout in September and poor success in controlling the pandemic may yet gradually undermine Putin's legitimacy.