Dragoman Digest

ExxonMobil's Blue Whale South China Sea project reportedly back on track
ExxonMobil pushes forward with its project despite previous hesitancy

ExxonMobil is set to make a final investment decision on its long-delayed Ca Voi Xanh (Blue Whale) offshore natural gas project, located in **Vietnamese** waters in the South China Sea. While the Blue Whale hosts an estimated 150 billion cubic metres in natural gas reserves, financing for the project has become increasingly challenging amid pressure from investors to limit fossil-fuel investment.

In mid-2019 there were reports that ExxonMobil was attempting to sell the project due to disagreements with the Vietnamese government. **China** had also pressured Hanoi to terminate the project due to its location in the South China Sea. Blue Whale is not the only gas project to face pressure from China. PetroVietnam's Block B project was sidelined in 2020 whilst **Spain's** Repsol pulled out of two joint venture projects in 2018.

In October 2021, ExxonMobil board members were considering whether to invest in new oil and gas projects amid rising ESG pressure and calls to align its operations with the Paris Agreement. This, combined with Vietnam's recent and more ambitious climate commitments at COP26, makes it somewhat surprising that the project is moving forward. The exact reasons for ExxonMobil's apparent about-face are unclear. It may be due to the **US** government's increase in supporting the rights of claimant states within the South China Sea to fish and drill for oil and gas. Hanoi may also view gas as an increasingly important transition fuel as it seeks an early exit from coal.

If ExxonMobil's project goes forward it will be a significant win for Vietnamese efforts to exercise sovereign rights over its waters. Whether or not Beijing will be willing risk a confrontation with Vietnam (and likely the US) over Blue Whale will be an important gauge of how far it will go to assert its sweeping maritime claims.

US changes tune on carbon border adjustment mechanism

Shift in rhetoric may be driven by the failure of Biden's 'climate club' to materialise

When asked earlier this year whether the **US** would consider adopting the **EU's** proposed carbon border adjustment mechanism (CBAM), President Joe **Biden**'s Special Envoy for Climate John Kerry, described the mechanism as a "last resort". Kerry cited concerns that the CBAM could harm multilateral efforts to encourage countries to strengthen their own climate policies. This week however, Kerry reversed his previous statements, now describing the CBAM as a "legitimate tool" that the US was exploring for implementation "in the near term".

It is unclear what shape a US CBAM would take. However, its objectives would probably be like the EU's CBAM and expand over time to target high-emissions exports from 'climate laggards.' From 2023, the EU's CBAM will cover iron and steel, aluminium, cement, organic basic chemicals, fertilisers and electricity.

The EU and the US jointly implementing a CBAM scheme would force numerous countries to scale up their emission reductions or risk being at a competitive disadvantage to 'greener' alternatives that may emerge. It remains uncertain whether a CBAM would be able to be legislated in the US, with Biden still needing the support of moderate Democrats. With mid-term elections approaching, the plan could be controversial amongst many democrats who represent oil and gas producing areas. A poor performance for the Democrats at the mid-terms – an outcome that is looking increasingly likely – would also limit President Biden's ability to push through his programme. A key factor in Biden's favour is that **China** would be a big loser from a joint US-EU scheme. However, this by itself may not be enough to convince Congress.

Nord Stream 2 certification halted amid increasing tension between Russia and Ukraine

European gas futures prices surge as the Nord Stream 2 pipeline is blocked by Germany

Germany's Foreign Minister, Annalena Baerbock, announced on Monday that the Nord Stream 2 pipeline will not be certified in its current form. Baerbock stated that the pipeline does not currently meet the requirements of EU energy law, with its ownership structure failing to comply with the EU's gas directive. She also cited increasing tensions between **Russia** and **Ukraine** as affecting the pipeline's approval.

Germany is in an unenviable position. There is a clear expectation in the **US** that Germany will limit Russian gas exports to Europe in the event of Russian aggression against Ukraine. This comes amid wider, pre-existing concerns that the project will further the EU's energy dependency on Russia, from which it currently imports 40 percent of its gas. At the same time, Nord Stream 2 is needed to ease Europe's gas shortages. Following the halt, Europe's gas futures prices climbed nearly 10 percent to a high of **€**115.5 (approx. US$130) highlighting the impact of the announcement. Kremlin spokesperson, Dmitry Peskov told reporters that Gazprom was "working with the regulator and fulfilling all of its demands" to finalise the project. Despite its completion against significant odds, the future of Nord Stream 2 remains uncertain if military escalation continues along the Russia-Ukraine border.

China's pressure on Lithuania a test case for others

China experiments with a new method of economic coercion following the opening of a Taiwanese representative office in Vilnius

China's trading partners are undoubtedly watching the recent coercive tactics used by the country following **Taiwan**'s opening of a representative office in Vilnius. In response to the opening of the de facto embassy, **China** recently removed **Lithuania** from its customs registry. The office was Taiwan's first new post in Europe in 18 years. While the unofficial ban on Lithuanian exports has now been lifted, the delisting of Lithuania is an unprecedented move by China and may serve as a precedent. China observers have described the delisting as "the most serious trade sanction" that the country can apply.

In a further ground-breaking move, China this week urged multinational companies to cut trade ties with Lithuania. It also threatened to shut countries trading with Lithuania out of the Chinese market. These tactics have been criticised strongly by the **EU,** which stated that such actions are in breach of the World Trade Organisation's rules. It is unclear how far China will go in pushing its third-party boycott strategy, or if it would ever consider employing such tactics against a larger economy. Nonetheless, China is clearly actively experimenting with new methods to apply pressure.

EU unveils proposed alternative to China's Belt and Road Initiative

EU commits €300 billion to its 'Global Gateway Program', signalling a serious step forward in Western infrastructure efforts

The **EU** outlined its 'Global Gateway Program' earlier this month. The program comes amid increasing concerns over the dominance of China's global Belt and Road Initiative (BRI) infrastructure package, and concerns over the impact that associated BRI debts will have on financially fragile economies. The Global Gateway's financing structure involves member states, the private sector, and the European Investment Bank. The Global Gateway aims to invest across the digital, climate and energy, health, and transport sectors.

Like the **US**' 'Build Back Better World' initiative (B3W) – announced at G7 meetings earlier in the year – the EU scheme also places emphasis on 'values'. The European Commission President Ursula von der Leyen stated that the project will be "values-based", "transparent" and "democratic", referencing China in her announcement. However, unlike the US – which has yet to put a dollar figure on its B3W initiative – the EU has committed to invest or mobilise **€300 billion** between 2021 and 2027.

Critics have observed that a 'values-based' approach may hinder the EU program, with a 'strings-attached' style making it less desirable to some economies. Given the US' slow progress in formulating a tangible B3W financing structure, the EU's project nonetheless signals a more serious step forward in the West's bid to dilute the dominance of the BRI.