BlackRock signals shift in climate voting strategy

Balancing energy security with decarbonisation is now front of mind

Amid sharply rising short-term energy security needs, the world's largest asset manager, BlackRock, has flagged a change in its approach to shareholder resolutions. BlackRock said in a statement last week that it would avoid more 'prescriptive' environmental and social shareholder proposals. These proposals may include motions to decommission existing projects, halt the financing of fossil fuel assets, or impose investment policies strictly in line with a 1.5 degrees warming scenario. In shifting its approach, BlackRock cited underinvestment in traditional and renewable energy sources. The effects of underinvestment have become more acute due to energy market dislocation caused by Western sanctions in response to **Russia**'s invasion.

BlackRock is already acting on this new approach. On April 13, it voted against the Bank of Montreal's proposal to ensure the bank's financing was consistent with the International Energy Agency's Net Zero Emissions by 2050 scenario. The scenario assumes that no new oil and gas fields or coal mines are required. BlackRock said that this proposal was "overly prescriptive and unduly constraining" on management and board-decision making. The proposal did not pass, with 92 percent of shareholders voting against the motion.

Instead of divestment, Blackrock is advocating for a strategy of active engagement. In many cases, this will mean maintaining stakes in carbon-intensive incumbents. Advocates of this approach point to lessons learnt from Shell, Total and Eni's Umuechen oilfield sale in 2021 to Trans-Niger Oil and Gas. Trans-Niger, a private company, has made no commitments to cutting emissions, with a report finding that flaring activity increased 700 percent after the deal was completed. Energy market turmoil and the shortcomings of strict negative screening have evidently forced a recalibration of ESG investment strategies.

G7 expands partnership to accelerate transition in developing countries

Initiative appears to be broadly modelled on South Africa partnership

Over the weekend, the Group of Seven (G7) expanded the Just Energy Transition Partnership (JETP). **Indonesia**, **Vietnam**, **India** and **Senegal** will be the first to receive support under the initiative. An agreement on the support provided to each economy is set to be reached as early as late May. The **US** and **Japan** will be the main funders of JETP in Indonesia. The **EU** and **UK** will lead on Vietnam, while the US and **Germany** will support India. The JETP will also tap into the Asian Development Banks Energy Transition Mechanism.

Though the exact details of how the JETP will function are still being fine-tuned, recent funding to **South Africa** likely provides some clues. Launched at COP26 last year, JETP's initial pledge was to provide US$8.5 billion to aid South Africa's energy transition. The funds will be provided through a mix of concessional loans and grants. Capital will be directed towards either (or indeed a combination of) electric vehicles, hydrogen, and state-owned utility unit, Eskom Holding's, renewables expansion.

Lack of international support has been a persistent grievance of developing countries throughout the entire COP process. Some, such as Indonesia and the **Philippines** have explicitly made higher targets conditional on increased international assistance. The G7 initiative could thus go some small way in helping to plug this gap and spurring more ambitious targets.

China's lockdowns hit supply chains for critical medical goods

The geographic concentration of manufacturing in China remains a risk for many sectors

China's zero-COVID strategy continues to have ripple effects across the global economy. In April, China's industrial output fell 2.9 percent from a year earlier. Approximately 373 million people – 25 percent of China's population – have been affected by covid-related lockdowns in recent weeks. Supply chains are feeling the consequences. After Tesla's plant in Shanghai shut down for three weeks in April, it shipped just 1,512 vehicles for the total month, down from its usual 60,000.

One under-reported industry that has been affected recently is healthcare. The closure of a GE Healthcare factory in Shanghai has restricted the global supply of an iodine solution, crucial in CT scans, X-rays and MRIs. GE's sales represent one-third of the global market share for the iodine solution, with a representative from one **US** hospital saying they only have about five days worth of supply on hand. The iodine solution is not the only critical medical product with highly concentrated manufacturing in China. Approximately 40 percent of the world's Active Pharmaceutical Ingredients (APIs) are manufactured in China. **India**, often seen as an alternative supplier of pharmaceuticals, depends on China for more than 70 percent of its APIs.

With no clear end date for China's zero-COVID strategy, the shortage of the iodine solution could augur what is to come. Last week, Beijing pulled out of hosting the June 2023 AFC Asian Cup – a strong signal that lockdowns could be on the cards for the foreseeable future.

India halts wheat exports, moving to prioritise domestic supply

India is not the only country to have recently enacted export controls

On May 14, after explicitly promising not to, **India** implemented a ban on wheat exports citing domestic inflation and food security concerns. Earlier this month, India's Ministry of Consumer Affairs, Food and Public Distribution said that it did not see a case for controls on wheat exports. On May 3, **Prime Minister Modi** boasted that the farmers of India have "stepped forward to feed the world". As the world's second largest wheat producer, the country had been enjoying windfall profits by filling the supply gap left by **Ukraine**.

However, this approach became increasingly untenable as Indian food inflation rose 8.3 percent in April. This, alongside severe heatwaves, forced New Delhi to change its tune. Because of the heatwaves, India's wheat output is expected to fall to 105 million tons in 2021-2022, down from a previous 111 million forecast. While exports will still be permitted to countries based on request and food security needs, all other shipments will be banned.

India's volte-face builds upon a myriad of protectionist measures implemented in response to rising commodity prices. In April, **Serbia** and **Kazakhstan** imposed quotas on grain shipments. **Indonesia**, which previously temporarily banned coal exports, recently banned the export of crude palm oil. Whilst such measures are understandable, they have the potential to set a damaging precedent. Indonesia, for example, is particularly reliant on wheat imports, whilst India imports most of its oil and gas.

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Possibility of political instability looms as rumours abound about the future of Nguyen Phu Trong

A clear successor to Trong has not yet emerged

Rumours have begun to circulate that General Secretary of the **Vietnam** Communist Party (VCP) **Nguyen Phu Trong** may step down before the expiration of his current term in office in 2026. Trong's ill health following a stroke in 2019 has led to speculation that the Party was considering a change to its rulebook in case Trong was to become incapacitated or die whilst in office. It is not yet clear whether these changes were made at the fifth plenum of the 13th Party Central Committee – which occurred last week.

Vietnam may face a messy leadership transition if Trong steps aside prematurely. Trong's attempts to groom Tran Quoc Vuong as a successor failed last year, with Vuong's involvement in coordinating the Party's anti-corruption campaign reportedly detracting from his popularity. Another complicating factor comes from the Party's own rules, which require would-be General Secretaries to have served a full five-year term on the Politburo. This requirement, and the 'mandatory' retirement age of 65 may not be strictly followed. Theoretically, however, they preclude 11 out of 18 current Politburo members from running.

Trong, 78, is already serving an unprecedented third term in office. Little recent information on his health is publicly available. What the Party ends up deciding in terms of a successor or emergency procedures will have an important bearing on Hanoi's future political stability. Such stability, a key drawing card for foreign investors, should not necessarily be taken for granted.