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Dragoman Digest

US to review cost of China tariffs amid soaring inflation

Pressure mounts to cut levies as inflation hits a 40-year high

The **Biden** administration is deciding whether to reduce tariffs on **China** to help ease soaring cost-of-living pressures. The **US** Trade Representative (USTR) announced on May 4 that it will conduct a statutory four-year review of the initial 'Section 301' tariffs imposed on certain Chinese exports. Businesses that want current tariffs to continue have until July 6 to notify the USTR that they want them to remain in place.

US Deputy National Security Adviser Daleep Singh has openly linked easing tariffs on non-strategic goods with lowering inflation. The US' consumer price index (CPI) rose 8.5 percent in March. The Peterson Institute for International Economics echoes Singh's assessment. It estimates that repealing the Trump-era tariffs on Chinese (and other) imports could lower CPI growth by 1.3 points. However, this view is not uniformly shared. US trade representative Katherine Tai pointedly labelled the Peterson Institute study as being "something between fiction and an interesting academic exercise". Further, a poll conducted last month by Morning Consult found that 71 percent of registered US voters support continuing tariffs on China. With midterms fast approaching, Biden's need to be perceived as tough-on-China ultimately means a wholesale repeal of the tariffs is unlikely.

Kishida's economic security policy push continues with new bill

Ensuring the security of supply chains for 'strategic goods' remains a top priority

On April 7, **Japan**'s Lower House passed an economic security bill that aims to shore up supply chains for critical technologies and better safeguard the country's intellectual property. The bill promises to make public funding available for cutting edge technology and for companies producing "strategically important goods". Such goods include semiconductors, batteries and rare earth minerals. The bill would also introduce a two-year prison sentence penalty or fines of up to 1 million yen (approximately US$7800) for leaking information on patents.

The bill is a further plank of Prime Minister **Fumio Kishida**'s economic security push. Last year, Kishida established a dedicated economic security minister post – the first of its kind in Japan. Kishida's administration has also moved to guarantee Japan's semiconductor production capabilities, allocating US$5.2 billion in November to support advanced manufacturers. **Taiwan** Semiconductor Manufacturing Co has been the primary beneficiary, with plans to build a chip plant in southern Japan. The new bill and major government investment indicates that Kishida is embracing a form of industry policy. Allocating public money to companies could risk a return to a 'picking winners' style industrial policy, which has historically resulted in significant wastage in Japan.

Vietnam looks to LNG as transition solution

LNG provides a short-term avenue for lowering emissions

Vietnam's ambitious COP-26 pledge to achieve net-zero carbon emissions by 2050 faces the difficult task of weaning the country off coal. Vietnam currently relies on coal for approximately 50 percent of its energy supply. Renewables are a big part of this solution and have been pursued vigorously by Hanoi in recent years. Aided by a solar feed-in tariff scheme, in 2020, Vietnam installed the third-largest solar capacity globally, at a peak of 12.7GW.

However, progress has since stalled after the tariff scheme expired in 2021. Solar and wind companies have complained of considerable policy uncertainty. The soaring cost of coal, which recently threatened to cause power shortages throughout Vietnam, is another complicating variable.

Amid this context, Hanoi is pivoting to LNG as a short-term solution, reportedly having more than 20 LNG power plants in the pipeline. In March, Samsung won a contract for the country's first LNG fuelled powerplant, which is set to come online in 2025. The facility – to be operated by PetroVietnam Power – will have over 1500 megawatts in capacity. However, LNG is hardly a silver bullet given the soaring cost of gas, with Asian LNG spot prices having surged approximately five-fold in the past year. In the longer term, Vietnam's energy transition will inevitably require efforts to address policy uncertainty in the renewables space.

US review of Obama-era tariff scheme threatens to hinder energy transition

The review is already causing major import delays

In April, at the request of a small solar panel manufacturer, Auxin Solar, the **US** Department of Commerce opened a probe into **Chinese** solar imports. Specifically, the review will examine whether Chinese solar-companies are evading decade-old tariffs by effectively re-routing exports via Southeast Asia. The tariffs were initially imposed by President Obama's administration and were designed to prevent Chinese companies from dumping heavily government subsidised solar materials into the **US** market. The effect of these tariffs was that by 2021, **Malaysia**, **Thailand**, **Cambodia** and **Vietnam** produced (at least notionally) nearly 50 percent of the cells and 80 percent of the panels imported by the US.

The probe could arguably not have come at a worse time for the US' renewable sector. Overseas manufacturers have restricted their supply of materials in response to the investigation, concerned they could be hit with retroactive duties. According to one recent survey, since the announcement of the review, 83 percent of US solar companies have reported being notified of cancelled or delayed panel exports. One report by US trade group Solar Energy Industries Association, estimate these delays could lower projected solar deployment by 46 percent this year. This is already causing flow-on effects. NiSource, an Indiana utility company, has delayed the retirement of two coal plants by two years, citing a projected delay of approximately 6 to 18 months for its solar projects. Biden's objective of a 100 percent renewable-powered grid by 2035 could well be at odds with the desire to tackle perceivably unfair Chinese trade practices.

ISSB releases prototype global sustainability and climate-risk disclosure frameworks

The drafts will establish basic principles that can be adapted to different regulatory regimes

On March 31, the International Sustainability Standards Board (ISSB) released the long-awaited drafts of its sustainability and climate-risk disclosure standards. The ISSB was established at COP-26 by the International Financial Reporting Standards (IFRS), which sets global accounting standards in over 140 jurisdictions. The two drafts – the 'General Requirements for Disclosure of Sustainability-related Financial Information' and the 'Climate-related Disclosures' – provide the first global baseline for sustainability disclosures. Common factors in both standards are transition planning (including for a carbon price), climate resilience, and reporting on Scope 1, 2 and 3 emissions. The ISSB goes further than the widely adopted Task Force on Climate-Related Financial Disclosures (TCFD) framework in requiring rigorous scenario analysis, standard governance, strategy, risk management, and metrics. The standards are set to be finalised by the end of 2022.

The ISSB will consolidate the landscape of reporting frameworks, including TCFD and the most used Global Reporting Initiative. It will establish underlying principles whilst still allowing for jurisdictional flexibility. **Japan**, **China**, the **EU**, **US**, and **UK** have already agreed to work toward aligning their established reporting standards with the ISSB's global baseline.