Dragoman Digest

EU proposes legally binding biodiversity restoration targets for member states

Frameworks are yet to be defined for reporting progress and determining eligibility of biodiversity financing instruments

Late last month, the **EU** adopted a proposal to establish legally binding biodiversity targets. The proposal is motivated by a recognition of the risk of ecosystem degradation to GDP and the capacity of robust ecosystems to sequester carbon. If adopted, the *Nature Restoration Law* will establish an obligation for member states to conserve and restore ecosystems including wetlands, marine areas, forests and grasslands. The proposal sets several broad targets, including an "overall increase" in blue and soil carbon, and a reversal of soil erosion and pollination insect decline. The overarching aim is to restore at least 20 percent of the EU's ecosystems by 2030 and for all ecosystems to be actively being restored by 2050.

The proposal is vague on two fronts. Firstly, while member states would be required to measure and report on progress, standardised metrics are yet to be defined. Secondly, although around €100 billion will be made available over an unspecified period to fund initiatives, guidance or standards for biodiversity financing instruments (such as 'biodiversity bonds') remain nascent. There are several emerging frameworks, including from the International Finance Corporation (IFC) that intend to fill this gap. The IFC bases eligibility on the extent to which the project addresses drivers of biodiversity loss. Overall, however, the EU's directive is an early milestone in the emergence of natural capital as an asset class.

Price-sensitive economies lose out on LNG imports amid insufficient supply

Limited additional export capacity and the EU's surging demand raises risk of prolonged disruption

The **EU**'s commitment to phase out **Russian** liquified natural gas imports (LNG) is contributing to a redirection of cargoes. Energy import-dependent economies, including **Bangladesh**, **India** and **Pakistan,** are having to reduce LNG import volumes as they struggle to compete with the EU and Northeast Asia for limited supplies. Gas import shortages are forcing countries to switch fuels or – failing that – impose blackouts on industry. This month, the Japan Korea Market (JKM) has hovered around US$39/MMBtu. From the start of the year to 19 June, the EU's LNG imports have increased by 49 percent. China's imports are down by 21 percent and Pakistan and India by around 15 percent over the same period.

The problem is particularly acute for Pakistan where recent deliveries under long term contract have not been fulfilled, despite penalties. Pakistan recently tendered 10 cargoes – a total of 1.4 million cubic meters, worth over $1 billion total – for delivery from July to September but received no offers.

In the short term, global LNG demand is set to increase further, increasing uncertainty for import-dependent markets. The EU is rushing to fill storage in preparation for winter, at the same time as tight supply conditions are exacerbated by a 10-day scheduled shutdown for maintenance of the Nord Stream 1 gas pipeline. With relatively little free supply coming online until 2025-2026, gas shortages are will likely continue to weigh on the industrial output of emerging, energy-poor economies.

Vague draft tech standards to create headaches for multinationals in China

Rules appear to seek to create self-contained supply chains of strategic goods

Draft **Chinese** national technology standards mark an escalation in Beijing's pursuit of self-sufficiency and the viewing of supply chains through a security lens. The standards have been under consideration since April. Under the new standards – which are likely to be first felt in the office equipment sector – products purchased by providers of "critical information infrastructure" will need to be designed, developed and manufactured in China. Critical information infrastructure providers refer to a broad array of industries including telecommunications, energy, transportation and finance. The Standardization Administration and the State Administration for Market Regulation will look to implement the new standards by 2023.

The proposed new standards leave few good options for foreign multinationals, particularly **Japanese** players which dominate the provision of multifunction copiers. Restrictive and often unofficial government procurement rules often shut out foreign tech suppliers. These rules could effectively require multinationals to transfer technology and/or vital design details, or face having even more restricted access to the Chinese market. These proposed rules come amid a recent campaign to force central government agencies and key SOEs to replace foreign computers within two years. Part national security and part industry policy, these types of tech standards and policies could yet be expanded to China's ever-increasing array of industries in which Beijing seeks self-sufficiency.

US ups the ante in campaign to restrict semiconductor exports to China

Pressure on Dutch giant ASML goes beyond previous focus on cutting-edge technologies

Bloomberg reports suggest that **US** officials are actively lobbying their **Dutch** counterparts to bar industry leader ASML from selling some of its older deep ultraviolet lithography (DUV) chip-making machines to **Chinese** customers. This issue featured in supply chain security talks between US Deputy Commerce Secretary Don Graves and his Dutch colleagues during late May and early June. During his trip, Graves also met with ASML CEO Peter Wennink.

Under a pre-existing agreement with the US, ASML is already unable to sell its most advanced extreme ultraviolet, or EUV, lithography systems to China. ASML is fiercely resisting US efforts to expand the scope of its export restrictions campaign. ASML's China based operations account for approximately 15 percent of the company's revenue. US officials are also understood to be pressuring **Japan**'s Nikon to stop shipping DUV products to China. Whilst any export restriction strategy can only work with international collaboration, the US approach risks giving a further fillip to China's own self-sufficiency efforts and eroding allies' good will.

Tunisia's President Saied seeks enhanced presidential powers in constitutional revamp

Tunisia had been seen the only Arab Spring country to complete a successful democratic transition

In late June, **Tunisian** President **Kais Saied** released a draft of a new constitution that opponents allege will greatly expand his powers. The push to revise the constitution comes after Saied's July 2021 suspension of parliament and dismissal of Prime Minister Hichem Mechichi. Saied has effectively ruled Tunisia by decree since.

The draft Constitution, which was drawn up with little input from civil society, would empower Saied to present draft laws, have sole responsibility for proposing treaties and drafting state budgets, appoint or sack government ministers and appoint judges. Most significantly, the Constitution would give the president unfettered power to dissolve the Parliament and to extend term limits in the event of an "imminent danger" to the state. Saied's push for a new Constitution comes after he faced mass strikes last month over his decision to freeze wages and cut subsidies. His decision was part of the government deal to secure a US$4 billion loan from the International Monetary Fund.

Tunisia faces inflation of above 8 percent, and it may be that Saied is banking on citizens being too distracted by economic necessities to protest. Voters will be asked to approve the constitution in a July 25 referendum which will have important implications for the health of democracy in the broader Middle East.