Dragoman Digest

Biden's climate ambition stymied in landmark court ruling

The Environmental Protection Agency will need to pursue a narrower reform agenda

The result of last week's Supreme Court ruling, which limits sector-wide regulation of **US**' energy sector, leaves the **Biden** administration more reliant on the states and Congress to pass climate policy. The Supreme Court ruled 6-3 that the authority to regulate emissions from the power sector at a system-wide level lies with Congress, not the Environmental Protection Agency (EPA). The EPA will however retain the power to regulate at the point source, and impose efficiency improvements and technology requirements, such as carbon capture technology. The case was brought forward to decide how broadly the EPA could interpret the 1970 *Clean Air Act*, which was set to be used as the basis for establishing a cap-and-trade system during the Obama administration. President Biden had not announced plans to put the legislation into effect.

The decision may not necessarily constrain Biden's ambitions as much as some have assumed. The ruling notably stopped short of stripping the EPA's authority to regulate carbon emissions altogether. The EPA will still have the power to regulate other sources of emissions, such as those from industrial plants and transport, as well as methane emissions from the oil and gas sector – which account for around 11 percent of all US emissions.

Nonetheless, it is now up to Congress to regulate energy sector emissions. This will hardly be encouraging for Biden. Congress has been in a gridlock over many of the President's big-ticket climate policies, including around US$555 billion in clean energy spending set aside under the *Build Back Better Act*. It looks unlikely that the Democrats will be able to form a coalition to pass the entire package. Ultimately, the ruling will likely result in an even more fragmented approach to policy, increasing costs and slowing the transition.

Xinjiang import bans influence shift of solar PV supply chain toward other regions

Other factors, including access to renewable energy and policy incentives, are also at play

US sanctions on goods from the Xinjiang region and changing energy economics are reshaping **China**'s solar photovoltaic (PV) supply chain. The addition of all four Xinjiang-based polysilicon giants to the US Entity List in June 2021 and the recent coming into effect of the *Uyghur Forced Labor Prevention Act* has reduced Xinjiang's appeal as a solar export manufacturing hub. The Act contains a "rebuttable presumption" that all goods from Xinjiang are made with forced labour. The onus will be on companies to have robust supply chain visibility. In 2020, China produced nearly 76 percent of global polysilicon output. A large chunk of this production was concentrated in Xinjiang.

Sanctions are clearly driving the shift from Xinjiang. Hoshine Silicon Industry, which is on the Entity List, intends to build a new US$5.5 billion silicon materials project in Ganquanbao, just north of Xinjiang. However, other factors are also limiting Xinjiang's competitiveness. Output in China's southwestern and northern provinces will soon surpass that of Xinjiang, thanks to lucrative government incentives and the advent of low-cost, renewable-powered manufacturing options. New and expanded manufacturing facilities in Yunnan, Ningxia, and Inner Mongolia are expected to produce more than 850,000 tonnes of polysilicon annually – likely eclipsing Xinjiang's total production. China has also recently introduced a new plan targeting the full automation of its PV supply chain by 2025.

Yoon targets nuclear renaissance

South Korean president has grand plans for nuclear energy despite strong political opposition

In lead up to March's election, then-presidential candidate and now President **Yoon Suk Yeol** pledged to turn **South Korea** into a "nuclear energy superpower". As part of his plans, Yoon wants to expand the Shin Hanul nuclear plant, which has a nameplate capacity of nearly 6 GW, and extend the operating life of another 18 nuclear power plants. If everything goes to plan, nuclear will account for 35 percent of Korean energy consumption by 2030, up from 26.5 percent today.

Exports are also a big part of Yoon's 'superpower' plan. Yoon has set a target of 10 new foreign nuclear plant deals by 2030. Korean companies have previously built a US$20 billion nuclear plant in the **UAE** and have been involved in the construction of a smaller facility in **Ukraine**. Korean delegations are believed to be targeting **Saudi Arabia** and **Finland** – the latter of which plans to nearly double nuclear power to 60 percent of its energy mix to help wean itself off **Russian** gas.

Yoon's nuclear pivot faces numerous headwinds, both at home and abroad. Support or opposition to the nuclear industry is so neatly split down party lines that it has been used by Korean political surveys as a barometer for determining political affiliation. Yoon's predecessor, Moon Jae-in cancelled planned expansions of nuclear plants and retired two plants during his term in office. Moon's Democratic Party still controls the country's National Assembly. Overseas, Seoul will face fierce competition from **China** and **Russia**, who unlike Korea, will not be bound by stringent, best practice **US** anti-proliferation regimes. At the same time, cooperation with the US on developing and exporting next-generation small modular reactors could pay off over the longer-term.

Chinese fund to invest US$3 billion in Indonesia's sovereign wealth fund

Silk Road Fund joins several other development funds in pledging INA investments

China's state-owned Silk Road Fund announced on Monday that it would invest US$3 billion in the INA – **Indonesia**'s sovereign wealth fund. In a joint statement, the two sides declared that they had signed "an investment framework agreement" for potential deals spanning "various asset classes and funds". Set up in February 2021, the INA was formed to help obviate typical investment hurdles faced by foreign investors in Indonesia. It offers the opportunity to invest across sectors including infrastructure (INA's primary focus), energy, tourism, healthcare and logistics. For its part, the Silk Road Fund has a mandate to help catalyse greater investment along China's Belt and Road.

The Silk Road Fund investment comes after similar investment pledges from entities including the Abu Dhabi Growth Fund, the Abu Dhabi Investment Authority (ADIA), the GIC (**Singapore**'s sovereign wealth fund) and **US** and **Japanese** development banks. Though well over US$20 billion has been pledged in this fashion, it is currently unclear how investment has actually been realised. The most encouraging sign for the INA to date was the May 2021 US$3.75 billion toll road investment deal comprising the ADIA and private players – the **Netherland**'s APG Asset Management and **Canada**'s Caisse de dépôt et placement du Québec. Getting cash invested into profitable projects will be key to maintaining INA's momentum.

Congress considers restricting market access to Southeast Asian exporters
Moves come as the Indo-Pacific Economic Framework fails to offer expanded market access
The **US**' General System of Preferences (GSP) – its longest-running preferential trade program – officially expired almost 18 months ago. Established in the 1970s, the GSP reduces tariffs on up to 5,000 products for exporters from 119 countries. Renewal lags are not uncommon, with the GSP having lapsed and been renewed 14 times throughout its history. The GSP renewal is currently contingent on the passage of the US *Innovation and Competition Act*, which itself has competing House and Senate versions that are currently being reconciled.

Though there is bipartisan support to renew the GSP, several members of Congress have proposed adding clauses to the GSP around labour rights, environmental laws, anti-corruption, rule of law and poverty reduction. Depending on the final wording and its interpretation, some of these clauses could, in extremis, require the removal of "almost all of the low-income countries based on a lack of government capacity".

The GSP's delay and the possible addition of extra criteria comes at an unfavourable juncture for US trade policy. Former president Trump restricted **Thailand**'s access to the GSP, kicked **India** off the program and conducted reviews into **Indonesia** and **Laos**' eligibility. The US' Indo-Pacific Economic Framework (IPEF) will not directly offer expanded market access to participants. Even if lower tariffs are off the table, Thailand, Indonesia, **Cambodia** and the **Philippines** will want reassurances that the GSP will be continued. The four countries are amongst the GSP's top-five beneficiaries globally. Circumscribing access to the GSP would risk further reducing the US' economic clout at the same time as **China** is undertaking significant tariff reductions through RCEP.