CED Public Policy Watch
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1. **DEVELOPMENTS ON UKRAINE/NATO SUMMIT/LNG FOR EUROPE**
2. **FURTHER SANCTIONS ON RUSSIA**
3. **POWELL ADDRESSES INTEREST RATES**
4. **UNEMPLOYMENT CLAIMS FALL FURTHER IN "UNHEALTHY" LABOR MARKET**
5. **DURABLE GOODS ORDERS FALL**
6. **SEC CLIMATE CHANGE DISCLOSURE RULE**
7. **SEC CYBERSECURITY RISKS DISCLOSURE RULE**
8. **OSHA PROPOSAL ON COVID-19 IN HEALTHCARE SETTINGS**
9. **PANDEMIC NEWS**
10. **COUNTRY SPOTLIGHT: ISRAEL AND NEW VARIANT**

1. DEVELOPMENTS ON UKRAINE/NATO SUMMIT/LNG FOR EUROPE

NATO leaders met this week and, after hearing an appeal from President Zelensky for additional support, announced new steps to address Russia's invasion of Ukraine. The alliance will offer additional military systems and equipment but reiterated that NATO troops will not deploy in Ukraine "because the only way to do that is to be prepared to engage in full conflict with Russian troops," according to NATO Secretary General Jens Stoltenberg. The alliance will put 40,000 additional troops under direct NATO command and set up four new multinational battlegroups in eastern members – Slovakia, Romania, Bulgaria, and Hungary – three of which border Ukraine, as a "strong signal that will collectively defend and protect every inch of NATO territory" and promised to "develop plans for additional forces and capabilities" by the June NATO Summit. Even "in light of the gravest threat to Euro-Atlantic security in decades," NATO believes that its "measures remain preventive, proportionate, and non-escalatory." NATO leaders also called on "all states," specifically mentioning China, "to abstain from supporting Russia's war effort in any way, and to refrain from any action that helps Russia circumvent sanctions."

The EU and US announced a new partnership to reduce European use of Russian oil and gas. Notably, German Chancellor Olaf Scholz announced his intention to end German use of Russian oil and gas by mid-2024. This announcement is highly significant, as Germany is among the countries most dependent on Russian energy supplies. (The announcement also effectively puts an end to the NordStream 2 pipeline, already suspended in response to the invasion of Ukraine.) The US set a goal of increasing liquified natural gas (LNG) exports to Europe by "at least 15 billion cubic meters this year," with larger shipments in the future. (For comparison, this is about double US LNG exports to Poland in December 2021). At the same time, both the US and EU want to keep a focus on climate, as the President said, "[w]e're going to have to make sure the families in Europe can get through this winter and the next while we're building the infrastructure for a diversified, resilient and clean energy future."

2. FURTHER SANCTIONS ON RUSSIA

During President Biden's trip to Europe, the US announced new sanctions on Russia, including 328 members of the State Duma (lower house of the Russian Parliament) for their support for violating Ukrainian sovereignty. (The EU had already adopted similar sanctions.) The sanctions also cover additional members of the Russian elite, members of the boards of Russian banks, and dozens of Russian defense companies, now cut off from the US financial system, to produce a "deep and long-lasting effect on Russia's defense-industrial base and its supply chain." As the Administration stated, "in no other circumstance have we moved so swiftly and in such a coordinated fashion to impose devastating costs on any other country. The ruble has depreciated substantially, and is expected by markets to weaken further. The Moscow Stock Exchange closed for weeks. The Central Bank of the Russian Federation has doubled interest rates to 20 percent and companies are being forced to turn over foreign exchange for rubles to provide the Russian Government hard currency. The economy is forecast to contract as much as 15 percent or more in 2022."

3. POWELL ADDRESSES INTEREST RATES

In his first major appearance since the Fed raised interest rates last week, Fed Chairman *pro tempore* Jerome Powell (his term has expired and he has not yet been reconfirmed) took a hawkish stance on inflation while noting the Fed's dual mandate to promote both maximum employment and stable prices: "The labor market is very strong, and inflation is much too high. . . . There is an obvious need to move expeditiously to return the stance of monetary policy to a more neutral level, and then to move to more restrictive levels if that is what is required to restore price stability."

Powell highlighted the drop in labor force participation as an important factor in labor market tightness, commenting that "[o]ur monetary policy tools cannot help with labor supply in the near term, but in a long expansion, the factors holding back supply will likely ease. In the meantime, we aim to use our tools to moderate demand growth, thereby facilitating continued, sustainable increases in employment and wages." On inflation, Powell declared that the outlook has "deteriorated significantly, even before Russia's invasion of Ukraine." Addressing questions of why the Fed changed its outlook relatively quickly, he suggested that "forecasters widely underestimated the severity and persistence of supply-side frictions, which, when combined with strong demand, especially for durable goods, produced surprisingly high inflation."

Powell concluded by stating that "the economy is very strong and is well positioned to handle tighter monetary policy" and emphasizing that "we will use [our tools] to restore price stability" – signaling that the Fed could raise rates even more quickly than it announced last week: "f we conclude that it is appropriate to move more aggressively by raising the federal funds rate by more than 25 basis points at a meeting or meetings, we will do so. And if we determine that we need to tighten beyond common measures of neutral and into a more restrictive stance, we will do that as well."

4. UNEMPLOYMENT CLAIMS FALL FURTHER IN "UNHEALTHY" LABOR MARKET

Initial claims for unemployment insurance (UI) fell by 28,000 to 187,000 for the week ending March 19 (last week's claims were revised up by 1,000). The level of new claims is the lowest on record since the late 1960s. In a press conference on March 16, Federal Reserve Chairman *pro tempore* Powell referred to the labor market as being "tight to an unhealthy level." Currently there are 1.7 job openings for each unemployed person according to data from the Bureau of Labor Statistics. Anecdotally, employers are experiencing labor shortages across all industries of the economy. Continuing UI claims (on a one-week reporting lag) also dropped by 67,000 to 1.35 million.

5. DURABLE GOODS ORDERS FALL

New orders for manufactured durable goods—goods intended to last three or more years—decreased $6.0 billion, or 2.2%, in February, according to the Census Bureau. This decline followed four consecutive months of increases. The biggest decline occurred in the volatile transportation equipment category, which includes airplanes and automobiles. Core capital goods, which exclude transportation equipment and defense goods and is used as a gauge to measure planned business investment, decreased by $0.3 billion, or 0.3%, the first decline in a year. While the decline is small, headwinds grow with potential supply chain issues from the war in Ukraine and the COVID-related closure of factories in China, inflation, and the first interest rate hike since December 2018.

6. SEC CLIMATE CHANGE DISCLOSURE RULE

The SEC voted, on a 3-1 party line vote, to approve a proposed rule that would dramatically expand the disclosures that public companies would be required to make about climate-related financial risks in both new securities offerings and annual reports. Drawing heavily on disclosure frameworks such as the Task Force on Climate-Related Disclosures and the Greenhouse Gas Protocol, companies would be required to disclose information about their Scope 1 and 2 emissions (direct greenhouse gas emissions and indirect emissions from purchased energy, including carbon offsets) and Scope 3 (upstream and downstream activities in its value chain) "if material or if the registrant has set a [greenhouse gas] emission target or goal that includes Scope 3 emissions" (either publicly or through participation in a group such as the Science-Based Targets Initiative). For some companies, statements regarding Scope 1 and 2 emissions would require an independent attestation. In addition, companies would be required to disclose information about governance policies regarding climate-related risks, the impact of those risks on consolidated financial statements, and how climate-related risks are likely to affect corporate strategy, business model, and outlook. Compliance would be phased in over time for different filers, with some companies beginning disclosures in their 2023 reports if the proposal is adopted soon.

In supporting the proposed rule, SEC Chairman Gary Gensler stated that "investors representing literally tens of trillions of dollars support climate-related disclosures because they recognize that climate risks can pose significant financial risks to companies, and investors need reliable information about climate risks to make informed investment decisions." The proposal will almost certainly receive many comments from businesses and may face a lawsuit from West Virginia Attorney General Patrick Morrisey. Comments on the proposed rule are due to the SEC by May 20.

7. SEC CYBERSECURITY RISKS DISCLOSURE RULE

Continuing a busy week, on Wednesday the SEC issued a proposed rule on "Cybersecurity Risk Management, Strategy, Governance, and Incident Disclosure" that will require public companies to make more rapid and uniform disclosures of material cybersecurity incidents. The Commission was motivated, in part, by the staff's review of "cybersecurity incidents that were reported in the media but that were not disclosed in a registrant's filings [.]" Disclosure of material cybersecurity incidents – covering both information systems and the information stored on them – would generally be required within four business days of management's discovery of the incident, with detailed (and broad) descriptions of what constitutes a material incident for disclosure purposes. The proposal would also require disclosure of governance policies in this area; notably, it would mandate disclosure of management's oversight of cybersecurity risks and the board of directors' expertise, if any, in cybersecurity. Comments on the proposed rule are due to the SEC by May 9.

8. OSHA PROPOSAL ON COVID-19 IN HEALTHCARE SETTINGS

The Occupational Safety and Health Administration published a proposed rule on "Occupational Exposure to COVID-19 in Healthcare Settings," a further response to its Emergency Temporary Standard from June 2021 and an essential step before OSHA promulgates a final standard.

The most important development is that despite the Supreme Court's decision in *Becerra v. Louisiana* that permitted HHS to require vaccination against COVID-19 for workers in facilities receiving Medicare and Medicaid funding, "OSHA is *not considering at this time* requiring mandatory vaccination for employees covered by this standard" (their emphasis). OSHA also noted that under the Court's broad decision,"[t]he majority of healthcare employees. . . are subject to the CMS requirements." The agency is considering "providing a 'safe harbor' enforcement policy" for employers "in compliance with [applicable] CDC guidance [.]" Beyond this, OSHA seeks comment on a wide variety of issues, including

- whether the definition of "fully vaccinated' would include booster shots recommended by CDC,
- whether requirements for vaccinated workers (such as removing masks) should be different
- whether levels of community transmission (as measured by CDC) should trigger enhanced control strategies
- additional data regarding the effects and impact of the Delta and Omicron variants on healthcare workers
- "clinical indicators that will reliably predict the degree of protection afforded by prior infection (*i.e.,* infection-acquired immunity), and how long such protection lasts," and
- ongoing costs to employers.

The regulatory process here is somewhat complicated. Comments on the rule are due April 22. In addition, OSHA will conduct a formal hearing before beginning on April 27 an administrative law judge, in which interested parties may seek to participate; following the formal hearing, there is a post-hearing comment period for the submission of "final briefs . . . and additional data [.]"

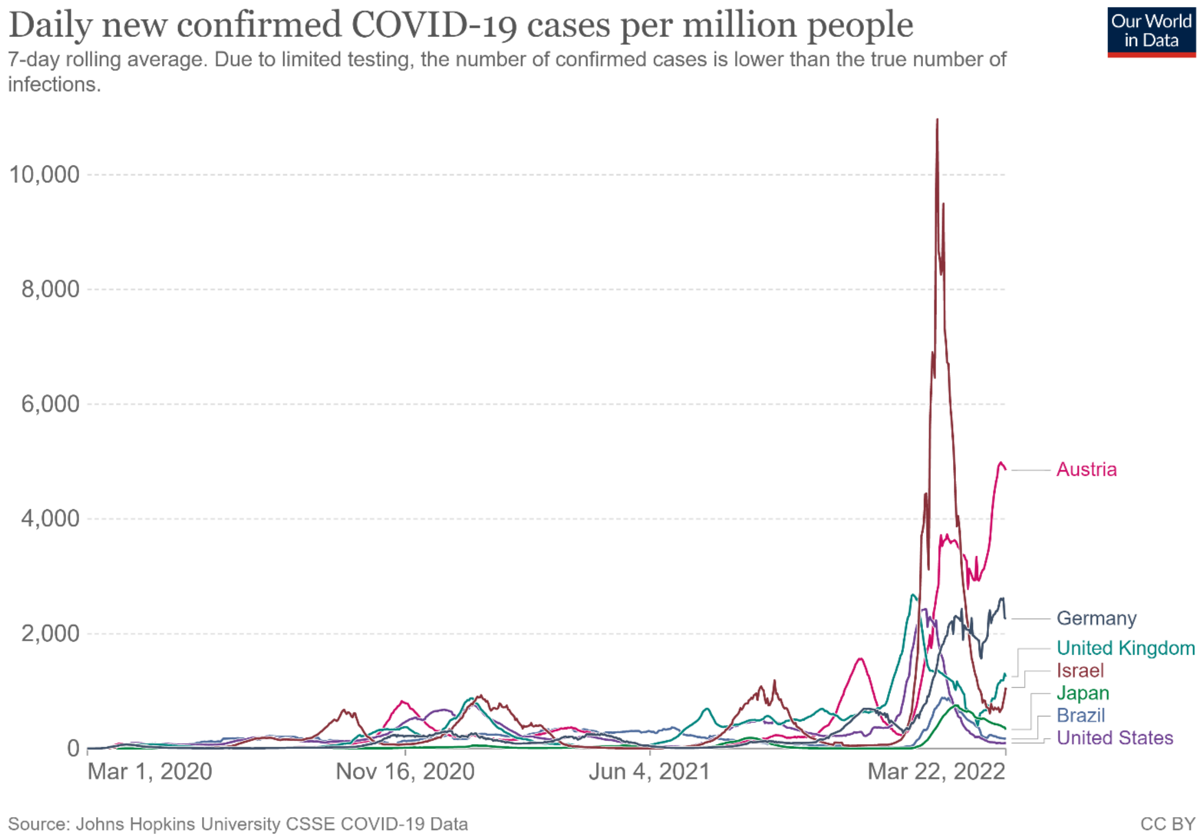
9. PANDEMIC NEWS

In a statement on Wednesday, Moderna announced it plans to seek emergency use authorization of a low-dose COVID-19 vaccine for children ages six months to under six years of age within the next few weeks, after testing supported that pediatric doses "showed a robust neutralizing antibody response" similar to adults' doses, with a "favorable safety profile." Of the 6,700 study participants, an efficacy of 43.7 percent was reported in children six months to two years, and 37.5 percent in children from two years to under six years. No severe cases of COVID-19 were reported among study participants.

10. COUNTRY SPOTLIGHT: ISRAEL AND NEW VARIANT

The Israeli Ministry of Health announced last week that a new COVID-19 variant was discovered during routine PCR testing of travelers at Ben Gurion Airport. Analysis of the novel variant revealed a unique genetic signature that combines mutations originating in the Omicron BA.1 and BA.2 strains. According to the Health Ministry, the two infected individuals had light symptoms, including fever, headaches, and muscle aches, and did not require specialized care. The Ministry did not disclose whether the individuals were vaccinated (vaccination is required for travel to Israel). While such mutations are to be expected, "[a]s long as it does not make up a significant part of new infections, it will not be defined as a variant of concern and has little significance," Hadassah Medical Center Professor Dror Mevorach commented.

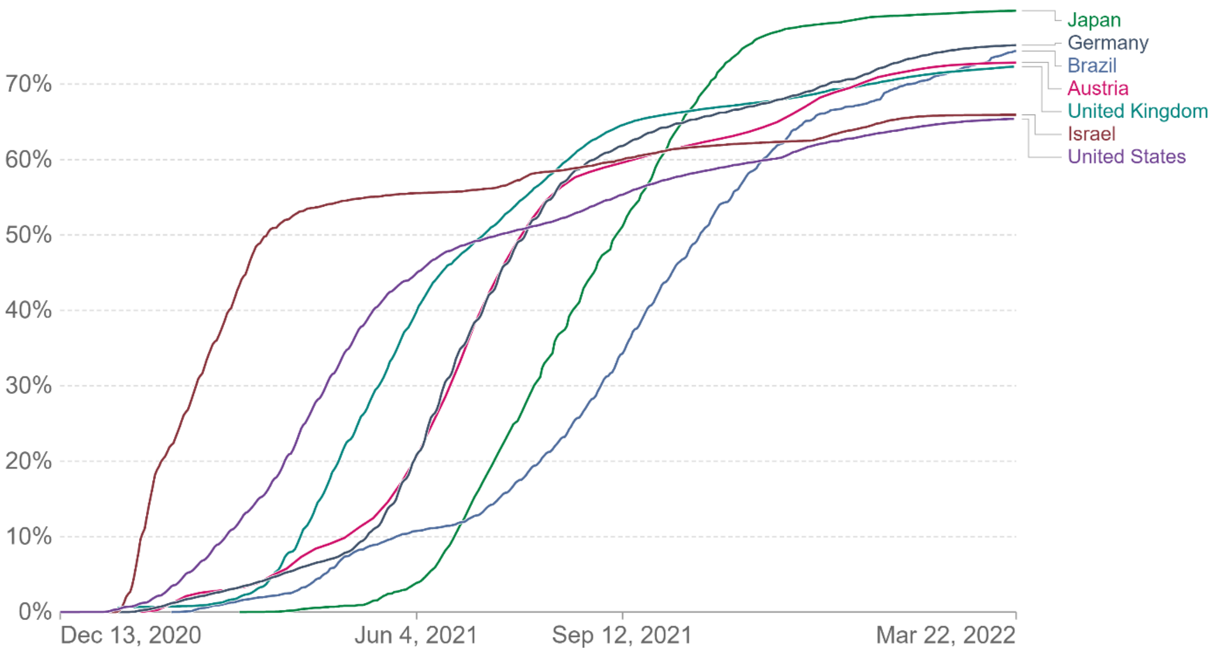
While the discovery of the novel strain is not putting Israel on high alert, Omicron BA.2 itself has health experts concerned. Omicron BA.2, first detected in Europe in late January, is sending case numbers skyrocketing. According to Israeli data, 12,869 new COVID-19 infections were reported on Sunday, double last week's daily average. The R number (the average number of people each COVID-19 carrier infects) was 1.39 by Tuesday. Experts say that Omicron BA.2 is similar to Omicron BA.1 but 30 percent more infectious. The Health Ministry estimates that BA.2 accounts for 60 to 70 percent of new cases in Israel, while some experts believe the number to be as high as 80 percent. A study confirmed that, although rare, Omicron BA.2 has the ability to infect people after an initial case of Omicron BA.1. Vaccination, along with previous infection of Omicron BA.1, appears to provide abundant protection against BA.2. Most of Israel's remaining COVID-19 restrictions were removed in late February. As of now, there is no discussion of reintroducing restrictions amid the current spike in case numbers.



Israel's rising case numbers did, however, revive controversy over the question of a fourth vaccine dose. In early January, when Omicron BA.1 was raging, the Health Ministry recommended fourth doses to high-risk groups and those over age 60 and later expanded eligibility to everyone above 18. To date, only approximately 741,000 Israelis have received fourth doses, as many were skeptical of a second booster. However, many Israelis are rethinking the issue. A study released last week conducted by Sheba Medical Center concluded that while a fourth dose of mRNA vaccine did reduce symptomatic illness and increase antibody levels, it was not effective at preventing infection by Omicron strains.

Share of people who completed the initial COVID-19 vaccination protocol

Total number of people who received all doses prescribed by the initial vaccination protocol, divided by the total population of the country.



Source: Official data collated by Our World in Data

Note: Alternative definitions of a full vaccination, e.g. having been infected with SARS-CoV-2 and having 1 dose of a 2-dose protocol, are ignored to maximize comparability between countries.