

CED Public Policy Watch
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1. DEVELOPMENTS ON UKRAINE

The key city of Sieverodonetsk was the site of extremely fierce fighting that Ukrainian President Zelensky [described](#) as among the “most brutal” Europe had ever seen, and [all three bridges](#) linking the city with Lyzychansk were destroyed. In Sieverodonetsk itself, hundreds of civilians are estimating to be sheltering in the bunkers beneath the Azot chemical plant; Ukraine is seeking a humanitarian corridor for them other than through Russia. The US [said](#) that Russia was likely to take all of Luhansk in the coming weeks, as Ukraine’s total front in the north, east, and south extended 2500 kilometers.

Ukraine has [asked](#) for additional long-range weapons with “the range we need to reduce the advantage of the Russian Federation’s equipment.” Germany [expects](#) that seven Panzerhaubitze 2000 artillery, with a range of 25 miles, should arrive in Ukraine soon. The US undersecretary of defence for policy, Colin Kahl, [said](#) that the four High Mobility Artillery Rocket Systems (HIMARS) the US has sent are an “initial tranche”; the US will “provide the weapons the Ukrainians need to prosecute the targets inside Ukrainian territory.” Kahl [also said](#) that he believes Russian President Putin still “has designs on a significant portion of Ukraine, if not the whole country. That said . . . I do not think the Russians have the capacity to achieve those grandiose objectives.” President Biden [announced](#) an additional \$1 billion in [weaponry](#) for Ukraine, including 18 more howitzers and 36,000 rounds of ammunition for them as well as two Harpoon coastal defense systems and an additional \$225 million in humanitarian assistance.

Amid concerns that Europe’s support for Ukraine was weakening in the face of continued war and inflation, a high-level delegation including French President Emmanuel Macron, German Chancellor Olaf Scholz, Italian Prime Minister Mario Draghi, and Romanian President Klaus Iohannis [met](#) in Kyiv with President Zelensky. Former Russian President Dmitry Medvedev termed the visit of “zero use” and [insulted](#) the leaders, calling them “European fans of frogs, liverwurst, and spaghetti.” Visiting Irpin, the site of an earlier battle near Kyiv, Chancellor Scholz spoke of the “unimaginable cruelty of the Russian war, of senseless violence” and [promised](#) continued financial, humanitarian, and military support “as long as it is necessary for Ukraine’s fight to defend itself against Moscow.” Earlier in the week, the head of the finance committee of the Ukrainian Rada (Parliament) [said](#) that the country has to borrow \$5 billion per month to pay expenses, even as tax collection has continued at high levels.

The UK announced new [sanctions](#) targeted to the “barbaric treatment of children” in Ukraine, including against Maria Lvova-Belova, Moscow’s childrens’-rights commissioner, for the “forced transfer and adoption” of 2,000 Ukrainian children. In addition, the UK [sanctioned](#) Patriarch Kirill, the head of the Russian Orthodox Church, for “his prominent support of Russian military aggression in Ukraine.” Kirill had been excluded from the EU’s sanctions last week because of Hungary’s objections. Germany is [tightening sanctions enforcement](#) by establishing a register of assets that are subject to sanctions or may be subject to sanctions if ownership can be proved.

Showing Europe’s continuing reliance on Russian energy, Finland’s Center for Research on Energy and Clean Air issued a [report](#) estimating that Russia earned €93 billion in revenue from fossil fuel exports, with 61 percent of the exports delivered to members of the European Union, which remained Russia’s largest export market. The researchers estimate Chinese purchases at \$13 billion, closely followed by Germany at \$12.6 billion, with France the largest importer of liquified natural gas (LNG) and Germany the largest purchaser of pipeline gas. Volumes of sales [declined in May](#), with some companies purchasing Russian LNG and crude oil on the spot market. The report covers the first 100 days of the war. Russia [reported](#) a budget surplus for 2022 to date, reflecting higher energy revenues.

Twice this week, Russia has [cut gas deliveries](#) to Europe via the Nord Stream 1 pipeline, reducing volumes by about 25 percent, claiming problems with turbine repairs, even as Russia’s ambassador to the EU said that a total gas cutoff would be a “catastrophe” for Germany. The head of Ukraine’s gas transit company [termed the cuts](#) “blackmailing of the EU.”

Ukraine [released](#) new figures this week showing it has lost a quarter of its arable land, mostly in the south and east. However, the Ukrainian Ministry of Agriculture notes that “Crop planting this year is more than sufficient” and the loss “does not pose a threat to Ukraine’s food security.” Similarly, the Kyiv School of Economics [issued](#) a study claiming \$4.3 billion in damage to farmland, machinery, and livestock since the invasion.

For countries depending on Ukrainian grain exports, food security remains a serious concern. Turkey [proposed](#) hosting a meeting with the UN, Russia, and Ukraine to set a plan for Ukrainian grain exports through passages that do not involve de-mining ports; Foreign Minister Mevlüt Çavuşoğlu remarked that “[s]ince the location of the mines is known, certain safe lines would be established at three ports [.]” Without a solution permitting grain exports, Ukrainian Agriculture Minister Mykola Solskyi [warned](#) the situation would impact three years of crops: “we cannot take out last year’s crop, we cannot harvest and take out the current one, and we do not particularly want to sow the next one.” President Biden [proposed](#) building [grain siloes](#) on the Ukrainian borders with the EU to assist with grain exports by rail; the siloes are necessary to transfer grain given the difference in Ukrainian and EU railway gauges.

2. FED RAISES INTEREST RATES

Following reports that the US producer price index rose 0.8 percent in May and 10.8% for the past year, the Fed [raised its benchmark interest rate](#) .75 percent on Wednesday, its largest increase since 1994. “Core” inflation, excluding food, energy, and trade rose 6.8% year-over-year. Fed Chair Jerome Powell [said](#) in a news conference following the Fed’s decision that “[w]e thought that strong action was warranted at this meeting. . . . The current picture is plain to see: The labor market is extremely tight and inflation is much too high.” Focusing on the labor market, Powell [remarked](#) that “We don’t seek to put people out of work, of course. We never think too many people are working and fewer people need to have jobs. But we also think you really cannot have the kind of labor market we want without price

stability.” Powell added that he expects another 50-75 basis point increase in July. In its report accompanying the meeting, the Fed reduced its estimate of economic growth this year to 1.7 percent and predicted inflation of 5.2 percent at the end of the year, with Powell stating that avoiding a recession “is not getting easier,” stating that “many factors that we don’t control are going to play a very significant role in deciding whether that’s possible or not.”

[Retail sales](#) fell 0.3 percent in May, the first decline in five months, but adjusting for inflation, the figure fell by 1 percent. Excluding vehicle sales, however, unadjusted retail sales rose 0.5 percent.

3. UNEMPLOYMENT CLAIMS ESSENTIALLY FLAT

[Initial claims for unemployment insurance](#) stayed flat at 229,000 (the previous week’s level was revised upwards to 232,000), and claims decreased 3,000 from that level. The Labor Department reported that the four-week moving average of claims was 218,500, an increase of 2,750. Continuing claims fell by 1,441 to 1.282 million.

4. CHINA AND JAPAN HOLDING FEWER US TREASURIES

Data [released](#) Wednesday indicate that China’s holdings of Treasuries, at \$1.003 trillion, have fallen to their lowest level since May 2010, while Japan’s holdings, at \$1.218 trillion, are at their lowest level since January 2020. Japan’s holdings [may have been lowered](#) by sales prompted by the falling yen, while China’s may result from attempts to diversify China’s foreign exchange holdings as well as rising US interest rates. Lower foreign holdings are likely to raise yields for Treasuries, which rose about 55 basis points in April to 2.9375 percent.

5. BIDEN LETTER TO REFINERS WARNS OF FURTHER ACTIONS

On Wednesday, the President [sent](#) a letter to seven oil companies with refinery capability (BP, Chevron, ExxonMobil, Marathon Petroleum, Phillips 66, Shell, and Valero) declaring that “[r]efinery profit margins well above normal being passed directly onto American families are not acceptable” in “a time of war” and stating that the “administration is prepared to use all reasonable and appropriate federal government tools and emergency authorities to increase refinery capacity and output in the near term, and to ensure that every region of this country is appropriately supplied [.]” The letter, which included a graph of recent producer profits, requested “explanation of any reduction in your refining capacity since 2020 and any concrete ideas that would address the immediate inventory, price, and refining capacity issues in the coming months -- including transportation measures to get refined product to market.” In pointed language, he also wrote that “[your companies need to work with my Administration to bring forward concrete, near-term solutions that address the crisis [.]”

6. US, CHINA MEET AT SHANGRI-LA CONFERENCE

At the Shangri-La Dialogue on Asia-Pacific security over the weekend, US Secretary of Defense Lloyd Austin and Chinese Minister of National Defense General Wei Fenghe [met](#) in person for the first time, airing their differences on Taiwan and regional security issues but agreeing to hold further meetings as part of Austin’s request to “responsibly manage competition and maintain open lines of communication” between the countries’ armed forces” and hold “substantive dialogue on improving crisis communications and reducing strategic risk.” Wei’s spokesman [reported](#) Wei telling Austin that “[i]f anyone dares to split Taiwan from China, the Chinese army will not hesitate to fight at any cost to

crush any attempt of Taiwan independence [.]” Each defense minister also delivered an address to the assembly with competing visions of the Pacific future. The Australian and Japanese Defense Ministers held a trilateral meeting with Secretary Austin, reinforcing cooperation among the Pacific members of the Quad group of countries. Japanese Prime Minister Fumio Kishida also addressed the conference, supporting an expanded security role in Asia for Japan, including deeper ties with ASEAN countries, and [stating](#), in a veiled reference to Taiwan, that “Ukraine today may be East Asia tomorrow. I will seek to build a stable international order through dialogue, not confrontation. At the same time, however, we must be prepared for the emergence of an entity that tramples on the peace and security of other countries by force or threat without honoring the rules.” Kishida promised to give at least \$2 billion over the next three years to help [regional countries improve maritime security](#).

7. NEW ENERGY STANDARDS FOR FURNACES

The Energy Department is [proposing](#) new energy-efficiency standards for residential gas furnaces designed to reduce greenhouse gas emissions. Under the proposed rule, non-weatherized gas furnaces would have to achieve annual fuel utilization efficiency of 95%, which would promote the use of condensing furnaces using a secondary heat exchange to capture excess heat. The proposed rule would go into effect in 2029. The Energy Department claims the change would reduce carbon emissions by 373 million metric tons over 30 years and save consumers \$1.9 billion annually. However, condensing furnaces are more expensive than standard furnaces, which could [push](#) more homes towards use of electric heat. This week’s action followed a [request for information](#) the Energy Department issued on January 28. The Administration also proposed new energy conservation standards for [direct heating equipment](#) such as gas fireplaces.

8. SEC PROPOSED RULE ON ESG FUNDS

Citing the rapid growth of investment funds focusing on Environmental, Social, and Governance (ESG) practices and the “significant inflows of capital to ESG-related services and investment products,” the SEC [proposed](#) a rule to require that registered investment advisers and other funds which market products under ESG or related criteria to provide additional information regarding their ESG investment practices “to facilitate enhanced disclosure of ESG issues to clients and shareholders” and develop “a consistent, comparable, and decision-useful regulatory framework for ESG advisory services and investment companies to inform and protect investors while facilitating further innovation in this evolving area of the asset management industry.” Absent the rules, the SEC is concerned that “a fund or fund or adviser’s actual consideration of ESG does not match investor expectations.” The proposed rule includes enhanced quantitative data for environmentally-focused funds “where methodologies for reporting emissions metrics are becoming more standardized.”

The SEC believes that while it “has not generally prescribed specific disclosures for particular investment strategies,” in the case of ESG-focused funds, descriptions of the funds as “green” or “sustainable” may “cause investors to believe they are investing in—and potentially are paying higher fees for—a “sustainable” strategy that may actually vary little from ones without such a label.” Thus, the rule seeks greater disclosure of actual fund strategies, greater uniformity in the use of terms, and help for “the investor understand the relationship between ESG-related objectives and financial return objectives.” The SEC cited figures showing that the value of US “sustainable” assets under management rose from \$639 billion in 1995 to \$17.1 trillion in 2020, about one-third of total professionally managed US assets.

9. PRESIDENT'S UPCOMING VISIT TO MIDDLE EAST

The President will [visit](#) the Mideast in July, including stops in Israel for a state visit, the West Bank, and Saudi Arabia. During the Saudi visit, the President meet with both King Salman and Crown Prince Mohammed bin Salman “to discuss areas of bilateral cooperation as well as joint effort to address regional and global challenges,” according to an announcement from the Saudi Royal Court. The trip will also apparently [include](#) a virtual summit with India, Israel, and the United Arab Emirates. As India has longstanding ties to Iran, the virtual summit, at which Iran will likely be discussed, could be significant.

10. NEW YORK STATE OIL AND GAS EMISSIONS

EPA [approved](#) New York State’s implementation plan to comply with the “reasonably available control technology” (RACT) requirements under EPA’s 2016 Oil and Natural Gas Industry Control Techniques Guidelines. EPA had previously found New York, Pennsylvania, Connecticut, California, and Texas noncompliant under the regulation for failure to submit a plan. New York has [banned](#) high-capacity hydraulic fracturing (fracking) since 2015; the state codified the ban and [permanently banned](#) fracking in its 2021 budget. Without EPA’s approval, the state risked losing some Federal highway funds.

11. PANDEMIC NEWS

As of Sunday, June 12, international travelers [no longer](#) have to show proof of a negative test before flying to the US. The decision to drop the testing requirement for inbound air travelers from abroad ended one of the longest-running travel restrictions of the pandemic. The travel industry had repeated [urged](#) dropping the requirement; the action “will welcome back visitors from around the world and accelerate the recovery of the US travel industry,” said Roger Dow of the US Travel Association.

On Wednesday, an FDA advisory panel [voted unanimously](#) to recommend the Pfizer and Moderna vaccines (to be given in considerably smaller doses) to the youngest Americans. Moderna’s vaccine is for children ages six months to five years, while Pfizer’s is for children ages six months to four years. The [decision](#) will now go to the FDA, which is expected to grant Emergency Use Authorization for this group in the coming days. States have already ordered millions of pediatric doses, and the Administration says shots will begin rolling out as early as next week.

A new [test](#) can help doctors gauge how much protection an individual has against COVID-19, according to a [study](#) published in *Nature Biotechnology*. The test focuses on the part of the immune system that confers long-term protection by prompting the body to “remember” the virus. The test, which measures the activation of T cells, predicts immunity regardless of whether someone has developed protection from infection or vaccination. Researchers believe the blood test will allow for large-scale monitoring of the magnitude and duration of functional T cell immunity to SARS-CoV-2, thus helping to prioritize revaccination strategies in immunocompromised and other vulnerable groups.

The [positivity rate](#) has soared in Miami-Dade County, representing a four-fold increase since April. Experts believe that this high percentage of positive tests would be even higher if not for unreported at-home testing. On June 6, Miami-Dade reported a seven-day average positivity rate of 22 percent, up from 5 percent on April 8. As of last week, 86 percent of Miami-Dade’s population is fully vaccinated.

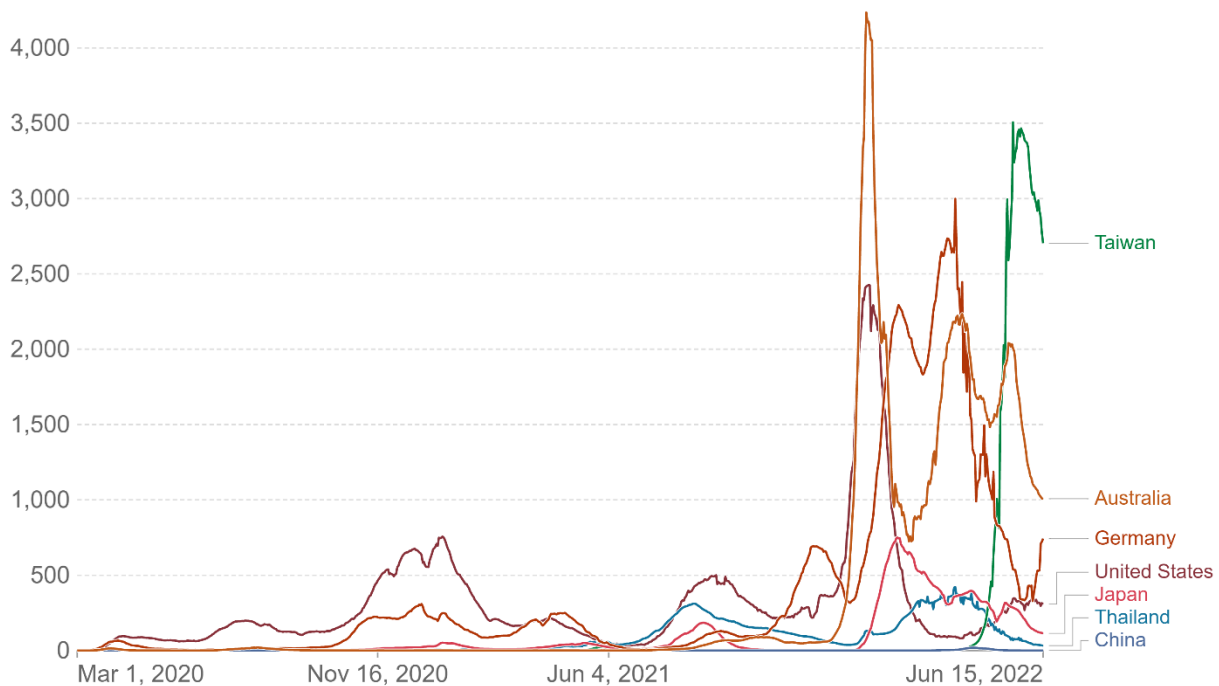
12. COUNTRY SPOTLIGHT: TAIWAN

On Monday, Taiwan reported its [first cases](#) of the BA.4 and BA.5 Omicron subvariants. Omicron BA.4 and BA.5 were first identified in South Africa in January and February respectively, and the subvariants now account for over 21 percent of new cases in the US, according to [CDC estimates](#) as of June 11. The subvariants evolved from the [Omicron lineage](#) of the virus to become even more contagious, and according to experts can bypass immunity from vaccination or past infection – even infection from earlier Omicron strains. During the press conference on Monday afternoon, Philip Lo, Deputy Head of Taiwan’s Central Epidemic Command Center’s medical response division, announced that the infected individuals entered Taiwan between June 2 and June 7; two cases of BA.5 were from the US, one from Turkey, and one from Poland, with a BA.4 case from Chile. The individuals tested positive upon entry. During the press conference, Lo noted that serious illness caused by the Omicron subvariants is unlikely; however, the new subvariants are highly contagious, and the vaccination rate should continue to be increased. Taiwan has been dealing with a [surge in cases](#) since late April, making it the largest spike since the beginning of the pandemic. On Saturday, authorities reported 79,598 new cases, 446 of which were severe.

Daily new confirmed COVID-19 cases per million people

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

Our World
in Data



Source: Johns Hopkins University CSSE COVID-19 Data

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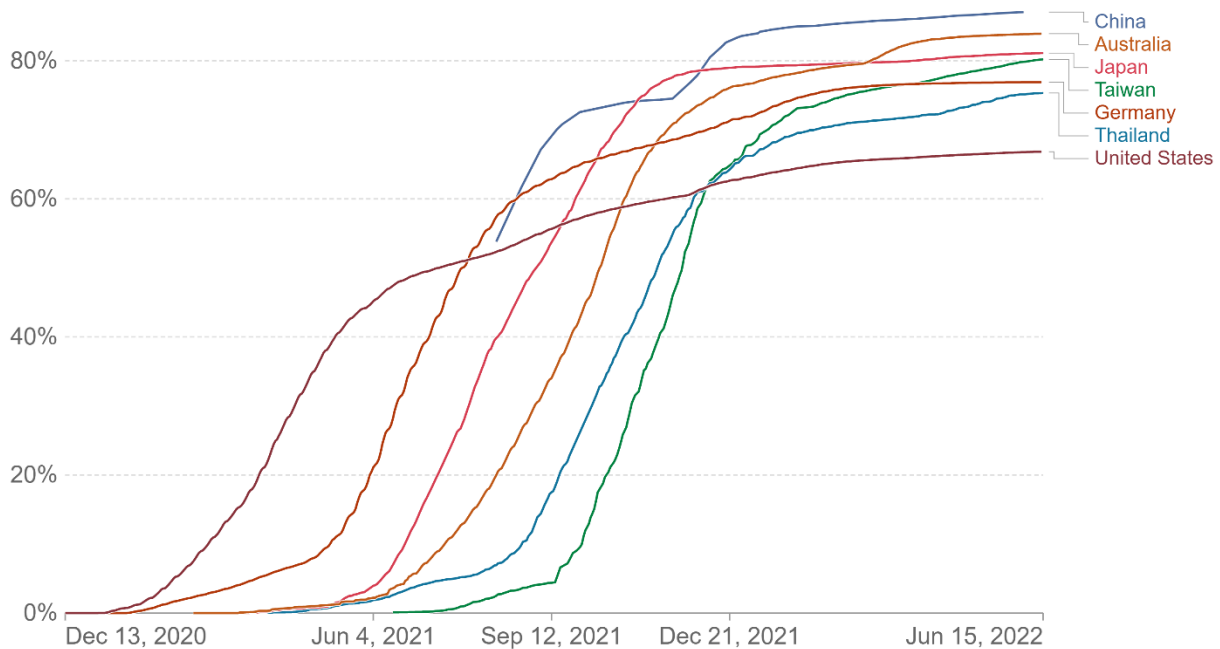
Taiwan recently ended its zero-COVID strategy and claims it will not lock down the island even as cases rise. The island is beginning to gradually open up and relax travel restrictions. As of Wednesday, travelers can now [transit](#) through Taiwan Taoyuan International Airport before flying to a third country; the transit service had been suspended for over a year. Upon disembarking, transit passengers are guided by airline crew to a security checkpoint and then wait for reboarding in a designated area. Transit passengers would need to wear a designated sticker and a mask, disinfect their hands, and have airport personnel read their temperature.

Entry rules were eased for arrivals, who can now travel to the island with a [shortened](#) three-day quarantine period, cut from seven days. Arrivals must present a negative PCR test result within two days of flying to Taiwan, and must take a special quarantine taxi if not being picked up by friends or family. There is an initial cap of 25,000 arrivals per week.

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.

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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.

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