Dragoman Digest

US backs Australian graphite miner in bid to reduce reliance on Chinese supply
President Biden appears serious in his intent to secure alternate supply of key minerals

Last week, the **US** Department of Energy (DOE) announced that it will provide a conditional loan of up to US$107 million (approx. A$145 million) to **Australian** graphite miner Syrah Resources. This loan is a broader part of an emerging strategy to dilute dependence on **China** – which currently supplies 85 percent of the world's battery-grade graphite. The loan was drawn from a US$25 billion fund to support the growth of a low emissions vehicle manufacturing industry in the US. Graphite is one of the 50 minerals recently listed by the US as being "critical to national security and economic growth". Syrah will specifically use the loan to fund expansion studies for its Louisiana processing plant. It aims to produce up to 11, 250 tonnes of battery-grade graphite a year by 2023, and quadruple production to 45,000 tonnes a year by 2026.

The announcement comes amid increasing US support for Australia's critical minerals sector. Last year, Lynas was awarded a US$30 million subsidy from the US Department of Defence to build a light rare-earth separation plant in Texas. The US Commerce Secretary Gina Raimondo and Australian Trade Minister Dan Tehan also committed in March to breaking down regulatory hurdles preventing Washington's export financing arms from funding Australian critical mineral projects.

Nonetheless, the results of these incremental steps should not be overstated. Even by 2026, the Louisiana plant will only supply between 12 and 15 percent of forecasted American demand. Massive investment in multiple sources of supply will be necessary to displace China's stranglehold on graphite production.

China announces massive expansion of wind and solar capacity
Whilst promoting coal in the short-term, Beijing is simultaneously moving to minimise its reliance on fossil fuels

Despite reporting its highest monthly coal output of 395 tonnes in March this year – up 15 percent from a year ago – **China** is set to install a record amount of wind and solar power this year. On April 15, the National Development and Reform Commission (NDRC) announced that China will add 140 gigawatts (GW) of capacity from clean energy sources in 2022, more than the rest of the world combined in 2020. According to official announcements, 70 to 75GW of solar will be installed this year, rising to 100GW a year by 2023. A further 100GW of offshore wind capacity is projected to be installed by 2025, according to five-year plans released by coastal provinces in February. Beijing itself is targeting that renewables will "become the main power source" by 2035, according to its 14th Five Year Plan.

While China targets a record renewables influx, energy security has also been elevated as a strategic priority. This is against a backdrop of blackouts in September last year, energy market dislocation caused by **Russia**'s invasion of **Ukraine**, and the 20th Party Congress coming up later this year. As part of this drive, three coal mines, worth cumulatively almost US$4 billion were greenlighted in February this year. However, this ramp-up may simply be a short-term policy adjustment. Though China still relies on coal for more than half its power, the planned influx of renewables suggests that China has not jettisoned longer-term ambitions.

Private sector conglomerates caught in the crosshairs of Vietnam's latest corruption crackdown

Parallels drawn with China's anti-corruption campaign

There are signs that **Vietnam**'s Politburo may be shifting the target of General Secretary **Nguyen Phu Trong**'s ongoing anti-corruption campaign. As of 2020, nearly 12,000 cases had been investigated, with more than 800 people convicted – mainly public sector officials and senior ranking military officials. So far, private conglomerates have been less exposed to Trong's campaign. However, on March 29, Trinh Van Quyet – Chairman of property firm FLC and Bamboo Airways – was arrested on allegations of stock market manipulation. Then on April 5, chairman of real estate development Tan Hoang Minh Group, Do Anh Dung, was arrested on allegations of fraudulent appropriation of property.

The arrests have sparked concern within Vietnam's business community that Trong may be emulating **Chinese** President **Xi Jinping**, who has of late extended his anti-corruption campaign to target the private sector. Despite divergent strategic interests, the Chinese and Vietnamese communist parties continue to enjoy a close party-to-party relationship.

The crackdown has left business officials anticipating what sector may be next. Conglomerates such as Vingroup and FLC, for example, have benefited from their close ties with the CPV, having successfully moved into the manufacturing and aviation business – even outperforming state-owned companies. It is ultimately too early to tell whether the latest arrests are isolated cases, or signs of a Chinese-style crackdown. Increased exposure to the anti-corruption campaign may make private companies more wary in their dealings with the government.

Le Pen and Macron set out two separate visions for France's future energy mix

The two leaders diverge over the extent to which nuclear and renewables should power France

The result of the **French** presidential election – scheduled to be held April 24 – will have major consequences for the direction of the country's energy policy. The public will decide between incumbent pro-EU **President Macron**, and National Rally right-wing challenger Marine Le Pen, who lost to Macron in 2017.

For his part, Macron has pledged to build 50 new wind farms by 2030 with a cumulative output of 40GW, equivalent to 20 percent of France's national energy consumption. Contrastingly, Le Pen intends to stop subsidies for solar and wind power, and begin dismantling turbines that have already been built – though the specifics of this plan have not yet been released. A Le Pen presidency would also see France leave the **EU**'s "Green Deal" – the bloc's ambitious plan to reduce emissions by 55 percent by 2030 on 1990 levels, and achieve net zero by 2050. Macron's advocacy was pivotal for the deal's adoption.

Macron has committed to build at least six nuclear reactors by 2050, with the option for another eight. The programme could lead to the total commissioning of 25GW of nuclear capacity by 2050. Le Pen, on the other hand, has pledged to construct 20 new nuclear plants by 2036. Experts have expressed scepticism regarding the feasibility of the deadline, with the first of the new nuclear reactors unlikely to be delivered before 2035-2040.

Latest polls following the presidential debate this week estimate a 55.5 percent win for Macron, much thinner than his 66.1 percent victory against Le Pen five years ago. Assuming victory, Macron's ultimate ability to pass his energy package will hinge on the result of legislative elections due in June.

Indonesia's sovereign wealth fund announces substantial toll road investment involving SOEs

The latest announcement intends to promote perceivably safer asset classes

On April 14, **Indonesia**'s sovereign wealth fund (INA) signed two agreements to invest in toll roads in Sumatra and Java. INA will provide more than 39 trillion rupiahs (US$2.7 billion) to develop parts of the Trans-Sumatra and Trans-Java toll roads. Three parts of the Trans-Sumatra toll road are being built by state-owned construction company Hutama Karya, while the Trans Java toll road is being developed by Waskita Toll roads, a subsidiary of the indebted Waskita Karya. This marks a major step up in the fund's asset recycling strategy in a bid to encourage domestic and international investment.

Asset recycling strategies, such as the acquisition of the toll roads, enables public agencies to lease out existing infrastructure assets and use the proceeds to fund new infrastructure investments. President **Widodo** is no doubt aware that the perceived risk of investing in an existing asset with a proven revenue history is lower than investing in greenfield projects. There has been clear foreign and private sector interest in toll road investments through INA. This was evidenced when **Canada**'s pension fund Caisse de Dépôt et Placement du Québec, its **Dutch** counterpart, APG Asset Management, and a subsidiary of the **Abu Dhabi** Investment Authority announced in May 2021 a co-investment of up to US$3.75 billion in Indonesian toll roads. Nonetheless, high-profile foreign interest in INA appears to have stagnated since this time. It remains to be seen whether this latest investment will revive interest in the INA.