

# Dragoman Digest

## Japan opts to maintain position in Russian oil and gas projects

*Energy security trumps alliance politics*

**Japan** announced that it “does not intend to withdraw” from key oil and liquified natural gas projects (LNG) in **Russia**. The Sakhalin-2 project is the source of nearly [10 percent](#) of Japan’s LNG imports, while Sakhalin-1 accounts for around 3 percent of the country’s crude oil imports. Japan’s SODECO holds a [30 percent](#) stake in the Sakhalin-1 project, while Mitsui and Mitsubishi hold 12.5 percent and 10 percent of Sakhalin-2, respectively. Japan’s approach – the decision was considered too important to be left to individual companies – contrasts to that taken by Western majors. Shell and Exxon both withdrew from their respective 27.5 percent and 30 percent stakes in Sakhalin-1 and Sakhalin-2.

The political focus on energy security has been sharpened after Tokyo faced the threat of blackouts late [last month](#), forcing authorities to release a power-supply warning. Japanese officials have also expressed concern that their withdrawal could open the door to **China** – which is already looking to buy [additional Russian LNG spot cargoes](#) at a discount. The Japanese bureaucracy was reportedly burnt after US pressure to pull out of **Iran’s Azadegan oil field** 12 years ago ultimately saw the stake purchased at a discount by China National Petroleum Corporation. With **EU** sanctions targeting Russian coal for the first time following the horrors of Bucha, pressure will mount to ditch Russian energy. Japan faces a tight balancing act in maintaining energy security whilst also playing its role as the **US’** “indispensable Asian ally”.

## Indonesia delays implementation of carbon tax

*The latest postponement comes against a backdrop of generally sluggish progress on climate goals*

**Indonesia’s** Ministry of Finance recently announced that the start of the country’s carbon tax scheme would be delayed by 90-days, amid surging commodity prices and rising inflation. “Ensuring [the] welfare and purchasing power of the public” were cited as key justifications. The tax was scheduled to come into effect on April 1 after having been passed by parliament in October last year. Under the policy, a carbon tax of [30,000 rupiah](#) (US\$2.09) per tonne of carbon dioxide equivalent (CO<sub>2</sub>e) will be imposed on emissions from coal-fired plants exceeding 100MW capacity. This includes those operated by independent producers, and PLN – the state-owned corporation holding a monopoly on electricity distribution and Indonesia’s largest power producer. The tax will also be extended to smaller plants (over 25MW) next year.

The tax is intended to serve as a trial run leading up to full implementation [by 2025](#). It is anticipated that PLN – which is currently under considerable financial strain – will be subsidised by the government for extra costs incurred during the tax trial. The delay of a tax which analysts have identified as having no impact on inflation does not augur well for the overall delivery of a more material and consequential scheme by 2025. The carbon tax was aimed at providing a fillip for decarbonisation efforts that have been lagging amidst pushback by vested political-business interests. It is anticipated that Indonesia will fall well short of its 23 percent renewable target by 2025 – potentially only reaching as high as [12 percent](#).

However, with **President Widodo** looking to prioritise Indonesia’s green credentials as part of his agenda in hosting the G20 and the release of a “New and Renewable Energy law” expected in the foreseeable future, the delay of the carbon tax could yet prove to be just a bump along the road.

## **President Xi's directive to green China's Belt and Road Initiative remains shrouded in ambiguity**

*Recent guidelines provide little clarity on overseas projects currently under construction*

On 28 March, four ministries including **China's** chief economic planning agency, the National Development and Reform Commission (NDRC), released details intended to clarify President **Xi Jinping's** [pledge](#) to stop the construction of any new coal-fired power projects overseas. The [NDRC](#) document reiterates the Xi's pledge and advises companies to proceed "cautiously" with projects already under construction. What this means in practice is unclear and there may be exceptions to the rule.

For example, it is very likely that the 1520 MW "power island" project on **Indonesia's** Obi island will involve a captive [coal-fired](#) power plant. While Obi now falls into the category of 'projects currently under construction', works actually began in February – five months after Xi's initial pledge.

Industrial zones like Obi are vital to Indonesia's push to capture downstream value from the country's natural resources including nickel and aluminium. However, observers have [warned](#) that (mostly Chinese funded) energy-intensive industrial parks may hinder Indonesia's renewable targets. China's overseas coal pipeline is big enough to produce [300 million](#) tonnes of carbon per day if all projects are built. What proceeding "cautiously" means in practice and what exactly counts as a coal-fired plant will materially affect the emissions trajectories of Indonesia and other developing economies.

## **Australia-India free trade agreement set to double bilateral trade over the next 5 years**

*The agreement comes as both countries endeavour to ease reliance on China*

On April 2 **Australia** and **India** signed a major free-trade deal valued at more than A\$24 billion – marking an important, incremental step in Australia's move to reduce its economic dependence on **China**. The economic agreement will strip tariffs on 96 percent of Indian imports into Australia, and 85 percent of Australian exports – eventually rising to 91 percent over the next 10 years.

Whilst India shielded the politically sensitive dairy industry, the Australian resources sector was a clear winner. Under the agreement, tariffs will be removed for coal, alumina, and critical minerals including titanium, lithium, cobalt and zirconium, as well as copper and nickel. Many of these raw inputs will be critical to India's manufacturing goals. India has, for example, set a [target to](#) develop 50 GWh of cell manufacturing capability by 2025. It also approved an incentive scheme in September last year worth approximately US\$3.5 billion over five years to bolster the country's production of battery-electric and fuel-cell vehicles.

India has long been recognised as a significant untapped market for Australian exporters. It remains to be seen whether [recent talk](#) of a US\$100 billion trading relationship by 2030 – up from US\$27.5 billion currently – is realistic.

## **Battery storage prices hit home as commodity prices soar**

*Tesla price hike illustrates some of the challenges inherent in reaching net zero*

The electric vehicle (EV) battery market has been hit by shortages of key components and a rise in lithium prices, driven by high demand and sticky supply due to mine development lead times. One recent example of this is the [A\\$950](#) jump in the cost of Tesla's Powerwall 2 batteries in Australia. The cost of a 13.5kWh battery is now A\$13,700, a record high. Prices have oscillated in the last few years, while trending upwards overall. The Powerwall 2 is now around 50 percent more expensive than when it first hit the local market five years ago. This

trend is in tension with the widely assumed [premise](#) – central to the economics of the energy transition – that the costs of batteries and battery storage will reduce consistently over time as technology matures and economies of scale are achieved.

[IHS Markit](#) estimates that lithium-ion battery prices won't fall until 2024 due to rising metal prices, increased demand, and **China's** unequalled foothold in the market. Fleet-footed policymaking will be needed to keep costs at manageable levels and facilitate energy transition.