

Dragoman Digest

Russia poised to gain gas export market share from Iran

Export competition adds to an already complicated relationship

With Europe purchasing less **Russian** gas, Russia has begun to offer steeply discounted gas to markets traditionally served mostly by **Iran**. Tehran has contracts with neighbouring states including **Afghanistan, Pakistan, Iraq** and **Turkey**. With cheap Russian gas readily available, Afghanistan is reportedly looking to re-negotiate its Iranian gas contract prices down from approximately US\$650 to US\$450 per ton. There is [speculation](#) that Iraq will be the only country to remain a major Iranian customer in the long term. Russia renting Turkish gas reservoirs for the next three years is a clear sign of intent.

Gas market competition adds to pre-existing complications in the bilateral relationship. In [March](#), Russia demanded that a revived Joint Comprehensive Plan of Action (JCPOA) deal guarantee its right to trade and invest freely with Iran. Though these tensions have now largely been [resolved](#), the use of the JCPOA (Russia is one of the deal's guarantors) was perceived poorly in Tehran. While it would be an exaggeration to talk of a major split between the two countries, there is more daylight between Russia and Iran than commonly assumed.

Japan turns to vocational education to bolster decarbonisation and innovation agendas

Tokyo intends to create 2.3 million digital workers over the next five years

Japan is shifting the emphasis of its public vocational training programs to address a lack of skilled tech professionals and promote its decarbonisation efforts. It intends to [increase](#) the ratio of its digital related courses from the current 20 percent to 30 percent by fiscal 2024. For the first time, Japan will also establish courses related to renewable energy technologies, and ESG investing.

Japan has been a laggard when it comes to digital skills and adoption. The pandemic exposed Japan's fledgling digitisation progress with government employees using fax machines to report new cases. Government officials themselves have [noted](#) that the lack of skilled IT staff is the biggest obstacle to Japan's digital transformation. It has also struggled in its green agenda, remaining [88 percent](#) reliant on fossil fuels, and generating only [11 percent](#) of its electricity from renewables.

Thus, the new courses align neatly with Tokyo's digital agenda, alongside the establishment of a Digital Agency in [2021](#) to bolster the government's digitisation progress. It is also in lockstep with the [US\\$16 billion](#) Green Innovation fund announced in April, and the [US\\$155 billion](#) Green Transformation Fund announced in May which will direct investment toward green technology. **Prime Minister Fumio Kishida's** changing of the vocational education structure is further tangible evidence of Japan's serious – if not belated – attempts to restructure its economy.

Automotive companies consider shift towards alternative battery technologies

No silver bullet to resolve electric vehicle commodity issues

Surging commodity prices and supply chain disruptions are pushing automotive companies to consider alternative battery chemistries. Nickel-cobalt-manganese (NCM) batteries have long been the [dominant](#) battery used in electric vehicle (EV) production. However, cobalt prices have risen over 70 percent in the past year with NCM battery prices increasing [152 percent](#) to approximately US\$75/kwh in February. This comes amid growing ESG concerns over the mining of cobalt in the Democratic Republic of Congo. Subsequently, there has been a shift to the lithium-ion-phosphate (LFP) battery – favoured by **China** – providing a lower-cost commodity blend. Last year, [Volkswagen](#) announced it would shift to using LFPs in its cheaper models. However, since the start of 2021, lithium has surged over 700 percent pushing up the prices of LFP batteries by 581 percent to nearly US\$36/kwh. LFP's are also no longer as cost competitive compared with NCM's, and require more frequent charging.

Sodium-ion batteries (Na-ion) have been held up as a potential solution, as they do not strictly require lithium, cobalt, copper or nickel in their chemical makeup. The cost of extraction and purification of sodium is significantly lower and has a much lower carbon footprint. The batteries could [cost 3 to 50 percent](#) less than lithium-ion batteries. CATL [announced](#) plans in July last year to launch this cheaper alternative by 2023, as a less power dense alternative to Li-ion batteries. However, the energy density of Na-ion batteries is around 70-160 Wh/kg compared with up to 275 Wh/kg for NCM's. Without a clear innovative short-term alternative, the consequence will likely be the uptake of two separate, but higher cost EV battery chemistries selling at a significant premium in the near term.

China unveils new 'transition' bond for heavy industry

Transition bonds represent an addition to China's financial toolkit in net zero push

On June 6, **China** launched a pilot program for 'low-carbon transition bonds' to help heavy industry fund their decarbonisation efforts. According to China's regulatory organisation, the National Association of Financial Market Institutional Investors (NAFMII), companies in eight 'hard-to abate' sectors will be able to raise up to US\$2.9 billion using the bonds. The eight sectors are electricity, steelmaking, construction materials, nonferrous metals, petrochemicals, chemicals, papermaking and civil aviation. Capital raised will go towards transition projects, such as increasing the efficiency of existing coal-fired power plants, the use of natural gas, and renewable generation capacity. Issuers must comply with strict disclosure rules and specify where and how the funds will be allocated. Companies will also be encouraged to hire accredited third parties to audit the use of the funds. On May 24, Baosteel issued China's first transition bond, raising US\$75 million.

Transition bonds will supplement China's 'green bonds'. These bonds cover for example, renewables, pollution control, recycling and climate change adaptation. Transition bonds have drawn a degree of scrutiny because of pre-existing concerns over supposed 'green' bonds. In 2021, over 30 percent of China's near US\$100 billion green bonds were [classified](#) as non-aligned with international standards. Nonetheless, the creation of the pilot program provides a further line of capital to heavy industry, where the cost of abatement is often far higher.

No clear solution for the movement of key agricultural goods out of Russia and Ukraine

It remains unclear whether governmental assurances will be enough to convince insurers
Buyers' fear of sanctions and shipping restrictions have stalled the supply of agricultural commodities out of **Russia** and **Ukraine**. Approximately [20 million](#) tonnes of grain is reportedly stuck in Ukraine, and Russian fertiliser exports have fallen 24 percent so far this year.

Efforts to address these two issues have faced headwinds. Despite both the EU and **US** having exempted the purchase and trade of Russian fertiliser from sanctions regimes, businesses are not willing to risk falling afoul of the rules. To restart exports by sea, representatives from Kyiv and **Turkey** met last week to [discuss](#) a deal that would allow Turkish ships to move vessels – inspected by Russian forces – through the Black Sea, in a bid to bring grain out of Ukraine. This would require de-mining naval corridors and Russia promising not to attack ports.

There is no guarantee that government pledges will convince insurers. Shipping companies are unable to sail without insurance, with insurers have already lost an estimated [US\\$5 billion](#) as a result of attacks and damages from the ongoing conflict. Without a resolution, [food insecurity](#) will likely worsen, particularly in import dependent countries such as **Egypt** and **Indonesia**. This has potential implications for social stability, which could place even more pressure on the viability of current sanctions regimes.