

Dragoman Digest

Chinese EV battery company targets US\$2.36 billion site in Michigan

Major Chinese investment in a “strategic” sector in the US

Chinese-owned battery manufacturer Gotion, which counts **Germany**'s VW as its largest shareholder, has [announced](#) plans to build a US\$2.36 billion electric vehicle (EV) battery plant in Michigan. Set to open in 2024, the site will process lithium, nickel and cobalt into cathode and anode material required for EV batteries. The facility is expected to produce up to 150,000 tons of cathode and 50,000 tons of anode material annually. Gotion aims to sell the material to battery manufacturers in the US and Canada. The Michigan government has pledged US\$715 million towards the project, including US\$175 million in performance-based grants and US\$540 million in tax incentives over 30 years. Michigan aims to become an EV manufacturing hub.

President **Joe Biden** has been focused on easing the US' reliance on China for EV batteries. China [controls](#) 70 percent of global cathode and 85 percent of anode production capacity. Gotion's investment is a tacit admission that it will be difficult, if not impossible, for the US to totally exclude China from its battery manufacturing sector.

Canada orders Chinese companies to divest minority stakes in lithium companies

Decision follows national security review into the sector

The **Canadian** government took the unprecedented step last week of instructing three **Chinese** companies to [divest](#) their stakes in local lithium companies. Specifically, Sinomine Resource Group, Chengze Lithium International and Zangge Mining Investment have been ordered to divest their respective stakes in Power Metals Group, Lithium Chile and Ultra Lithium. The Chinese companies each own a non-controlling minority stake in the respective lithium explorers. The divestment orders follow a review of the *Investment Canada Act* in late October. The review concluded that transactions by state-owned enterprises can only be approved under “exceptional” circumstances. This could preclude most Chinese companies given the heavy presence of SOE resource companies and the growing state influence over ostensibly private companies. China controls 58 percent of the world's lithium processing capabilities.

Canada and other Western countries seek to reduce dependency on China for lithium processing and critical minerals. In June, ten countries including Canada, the **US**, the **UK** and **Australia** [announced](#) the Minerals Security Partnership. The initiative aims to develop critical mineral supply chains, particularly for electric vehicles, that are independent of China. Increased government support will be required to develop these supply chains, particularly if Chinese capital is to be wholly excluded.

Japan budgets US\$2.4 billion for joint semiconductor research hub with Washington

Japan and the US are pooling resources to remain at the forefront of emerging technologies

Japan and the **US** are activating plans to collaborate in development of next-generation semiconductors. This week, Japan announced that it had budgeted [US\\$2.4 billion](#) towards an initiative, initially announced in [May](#), to cooperate with the US in rebuilding both countries' advanced semiconductor manufacturing capabilities. In 1988, Japan's share of global chip production was over [50 percent](#). It now sits at around 10 percent. The move is also driven by concerns of overreliance on an increasingly vulnerable **Taiwan**, which manufactures 65 percent of global chips.

The US\$2.4 billion has been specifically earmarked for the establishment of a joint Japan/US research hub by the end of the year, which aims to produce 2 nanometre (nm) semiconductors by the latter half of the decade. 2nm chips are the most advanced chips on the market. The hub places both countries in direct competition with Taiwan's TSMC which also intends to manufacture [2nm](#) chips by 2025. **South Korea's** Samsung intends to produce even more advanced 1.8nm chips by late 2024.

The hub also marks a step-change away from traditionally fierce US-Japanese competition in advanced technology. Earlier in 2021, US **President Joe Biden** and then-Japanese Prime Minister Yoshihide Suga, agreed to jointly invest [US\\$4.5 billion](#) for the development of "beyond 5G" technologies. In May this year, Japan and the **EU** formed a [Digital Partnership](#), pledging collaboration on 6G and semiconductors. Japan and the US are eager to leverage alliances – something that China notably lacks – to rebuild and maintain leading technological capabilities.

Japan set to sign military pact with UK amid China threat

Deal to promote joint military exercises in the Indo-Pacific

Japan and the **UK** are poised to [sign](#) a major defence pact in December. The *Reciprocal Access Agreement (RAA)* is a bilateral defence and security agreement for joint military exercises and logistics cooperation. It will set a legal framework to simplify administrative procedures for the entry of troops into each other's countries. The military pact [follows](#) Japan's inking of an RAA with **Australia** in January after over seven years of negotiations – and Japan's first outside of its alliance with the **US**. Commencing formal negotiations in September 2021, the UK-Japan deal took close to a year to finalise.

Japan's signing of another RAA is part of its strategy to build security partnerships that are less dependent on the US whilst remaining within the US alliance network. This month, Japan and **Germany** [agreed](#) to negotiate a defence cross-servicing pact. Japan is also [currently](#) in the preliminary stages of negotiating an RAA with the **Philippines** in the face of China's expansive maritime claims in the **South China Sea**. Japan's series of defence pacts and quasi-alliances signals to China that the web of US alliances in the region is tightening.

EU suppliers withhold gas supply

Withheld gas reserves threaten to push up gas prices and further harm Europe's economy

Some **EU** suppliers – having been instructed to fill storage facilities before the onset of winter – are now withholding supply from reserves after a fall in wholesale gas prices. During summer, gas is typically injected into storage by utilities and energy traders when prices are lower, and sold back into the market in winter when prices rise. This year, early winter prices have fallen. In August, Europe's main benchmark for natural gas prices, the Dutch Title Transfer Facility (TTF), was trading above €340/MWh. Prices have now [fallen](#) more than 70 percent to below €100/MWh for the first time since June. Several factors – including warmer weather, a reduction in industrial gas demand, and high storage levels (approximately 92 percent) – are expected to place [additional downward](#) pressure on prices.

Dutch TTF gas futures for February 2023



Europe has few options to incentivise suppliers to sell stored gas. Just 10 percent of the stored gas is under control of the government through national strategic reserves. Governments may force some recently nationalised utilities – such as **Germany's** Uniper and **France's** EDF – to re-sell expensively bought gas at a loss. As a last resort, a state of emergency could be called which would allow authorities to mandate the release of reserves. This would force utilities to accept losses on some of the gas they stored at far higher prices.