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PRESS RELEASE

LITHIUM: LARGE-SCALE INDUSTRIAL OPPORTUNITIES BUT LIMITED MEDIUM-TERM SUPPLY

Paris, October 24, 2022 – With the conversion to electric or hydrogen vehicles under greater scrutiny than ever, lithium is making its mark as a strategic raw material of vital importance. The first lithium mine is due to come open in France in 2027. Like copper and a number of other ores, production and demand for white metal depends largely on macroeconomic trends and global growth opportunities. However, although most metal prices have dropped since early summer, the price of lithium is holding up and is still high. This trend is especially noteworthy given that the client sectors, in particular the automobile industry, have very mixed short-term prospects.

A key role, high demand and a supply that is not keeping pace

Lithium is a vital component for decarbonising the economy: the batteries used in electric vehicles are made mainly of white metal. This resource, which is difficult to replace, returned to the fore in the early 2000s due to the challenges involved in storing energy. Supply is currently too limited to meet demand and is under duress owing to a lack of investment. Western economies have paid little attention to their mining supplies for many years. In addition, the fact that the low-carbon mobility sector is backed by governments seems to protect lithium from the ups and downs of global growth. Lastly, worldwide demand should continue to rise in the medium and long term with the transition to low carbon.

Highly-concentrated resources and production chain

Argentina, Bolivia, and Chile are responsible for 58% of the world's resources – a much higher concentration than for other base metals. By way of comparison, 13 countries account for 75% of the world's identified copper reserves. Furthermore, global lithium production is also very concentrated, dominated by the triumvirate of Australia, Chile and China, which accounted for 90% of global production in 2021. The value chain is even more concentrated downstream: in 2021, China refined 60% of the world's lithium, representing 77% of global battery cell production capacity and 60% of the worldwide manufacturing of battery components.
The challenge now is to acquire and maintain skills with high added value that ensure a country's industrial sovereignty alongside a strong technological comparative advantage for companies.
The Association of European Automotive and Industrial Battery Manufacturers predicts that the European battery market will be worth 35 billion euros in 2030, with lithium-ion accounting for around half of this figure. Europe aims to be self-sufficient in battery production by 2030 but will not be able to rely exclusively on national mining projects. Australia appears to be its trump card in the medium term.

Uncertainties

The high volatility of raw materials and metals in particular could end up affecting the trend in lithium prices. This volatility can be explained inter alia by the uncertainty of demand linked to the difficulties in the Chinese property sector. These headwinds will have an impact on the price volatility of lithium.

In addition, mining companies are in the process of reverting to strategies that are based on value rather than volume. After seeing their profitability increase thanks to the hike in prices in the first half of 2022, the drop in metal prices and high energy costs have prompted mining companies to cut back on investment. As a result, lithium companies should bank on price levels to maintain their profitability while limiting investment in the context of a global recession in 2023. Exploring new sources of lithium can take three to five years – plus two to three years for setting up ore processing; this will inevitably have an impact on supply volumes in the medium term.

Any support given by China to the battery industry could also increase pressure on production volumes and drive up lithium prices. In spite of the pessimism regarding the economic outlook in China, the country's determination to maintain its comparative advantage in the lithium-ion battery segment is not in doubt. If China puts financial leverage in place to support the lithium-ion battery sector, it will lead to a spontaneous increase in demand.

Last of all, there is a great deal of uncertainty about the future of the lithium sector in Europe. The 2035 ban on selling vehicles powered by internal combustion engines is based on immature reindustrialisation programmes: mine projects and gigafactories. Mining projects in Europe may be hotly contested, which increases the pressure on car manufacturers and their dependence on countries that produce lithium and batteries. In the medium term, this means there will be heightened vulnerability to crises in the supply chain – including logistics – between the mines and battery manufacturers.

MEDIA CONTACTS

COFACE MEDIA RELATIONS
Corentin Henry: +33 1 49 02 23 94 – corentin.henry@coface.com

RUMEUR PUBLIQUE PR AGENCY
Taline Sarkissian: +33 6 13 36 70 23 – coface@rumeurpublique.fr