



July 23, 2018: Glass Houses – You May Be Right

Note to Self:

**Proverb:** People who live in glass houses shouldn't throw stones

*Meaning: Do not criticize others if you have similar weaknesses yourself.*

Dear Morgan Stanley:

You may be right  
I may be crazy

You may be wrong for all I know  
But you may be right



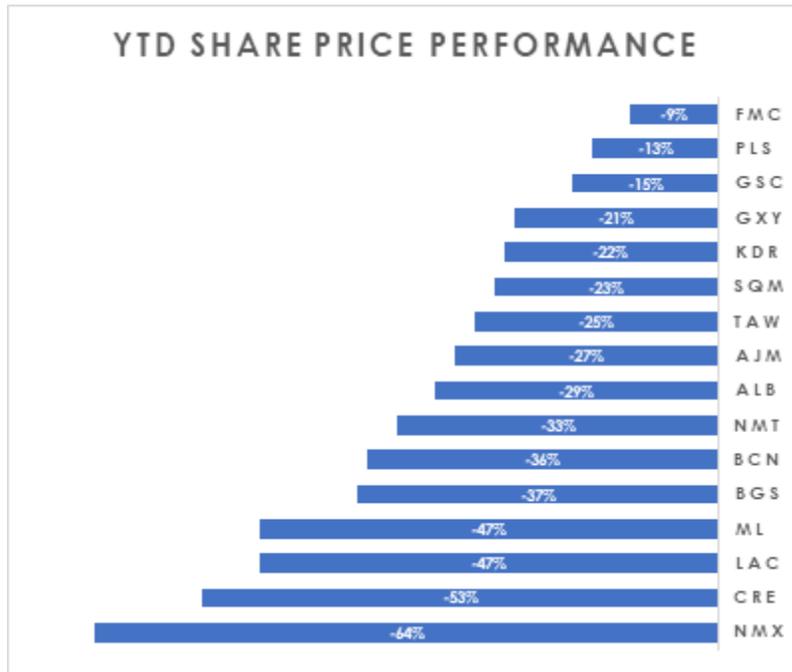
Click Here:

Billy Joel - You may be right: <https://www.youtube.com/watch?v=ilsv0C1-aBw>



Assume, for a moment, that **Morgan Stanley** is right about SQM's abilities and intentions to exert lithium market and price dominance by emulating Saudi Arabia's swing producer role at OPEC.

Mr. Market seems to believe it, reflected in year-to-date lithium equity trading.



And SQM is feeding the flame.

**SQM seeks Chile's approval for \$450M lithium plant expansion ...**  
<https://seekingalpha.com/.../3371292-sqm-seeks-chiles-approval-450m-lithium-plant-...>  
 1 day ago - Chilean miner Sociedad Quimica y Minera (SQM) begins the process of seeking government approval for a \$450M expansion of its Salar del ...

For much of this year Mr. Market wondered if the two next lithium cabs off the rank – **Nemaska** and **Bacanora** - DFS level projects in North America - would get fully funded. Nemaska struggled, was delayed, but, ultimately raised capital with quality brand name partners who extracted a high cost.

At the end of the day, Nemaska's Whabouchi is a very good hard rock deposit. Like most plain vanilla hard rock deposits, Nemaska has optionality at relatively low risk to make and sell a profitable product – 6% spodumene concentrate. In Quebec, a Tier One Sovereign Jurisdiction. And, of course, NMX's huge prize is 25-30K tons hydroxide in several years' time, using a disruptive new technology that is scaleable.

Clay-in-Mexico Bacanora wasn't so lucky, pulling a large financing last week due to "market conditions".

**SQM and Chile - Big Story #1 in #Lithium 2018...**

**...and likely much longer.**



Recall this caveat from the Morgan Stanley note?

**Where could we be wrong?** (i) A change in control at SQM's board could impact the criteria defining the price strategy, (ii) A negotiated extension of SQM's lease in Atacama beyond 2031 could postpone the pressure on lithium prices, but would be even more bearish for prices medium term.

**Tianqi** largely controls production decisions at the best hard rock mine in the world, **Greenbushes**, as 51% owner of the Talison JV. Greenbushes' expansion underway will bring its production capacity to **160K tons by 2021**.

**SQM** largely controls production decisions at the best brine in the world, **Salar da Atacama**, the best Tier One greenfield brine, **Cauchari**, in Argentina and the best Tier One greenfield hard rock, **Mt. Holland**, in Western Australia. In total, SQM's announced capacity by 2021:

- ~180K Atacama, Chile
- ~40K Mt. Holland, Australia
- ~25K Cauchari, Argentina

**SQM** will control production decisions of **245K Capacity** + **Tianqi** controlling production decision of **160K tons** = **405K capacity controlled largely by two entities – Julio Ponce and Tianqi**.

In 2021, lithium demand is expected to be about 450K according Goldman Sachs' latest note, so **SQM and Tianqi's 405K announced capacity would equate to ~90% of 2021 lithium demand**.

More important than Ponce though, is the heavy hand of the Chilean government which really controls SQM. And Tianqi, though private, like so many Chinese companies knows, to borrow a 1950's metaphor - *What's Good for GM is Good for America* - **What's Good for China is Good for Tianqi**. China desperately wants security of lithium supply.

This is as much a China/Chile story as it is a Ponce/Tianqi story. A **MADE IN CHINA 2025** story.

**Tianqi: China's largest lithium company +**

**CORFO/Ponce: Royalty King & Chilean oligarchopolist =**

**Cornering the lithium market?!**

...Enabled by blue-chip USA investment bank Morgan Stanley's excellent advisory on behalf of Tianqi.

Reprise **Alanis Morissette**, don't you think?

**Ironic** - <https://www.youtube.com/watch?v=Jne9t8sHpUc>

And **Jimi Hendrix**...



### Voodoo Chile



Click here! <https://www.youtube.com/watch?v=IZBlqcbpmxY>

*I believe US and/or EU anti-trust authorities should examine this deal, not just Chilean ones.*

Chilean-born and California-based corporate governance expert Evan Epstein writes articulately about...

#### ***The \$4.1 Billion Lithium Deal That is Flying Under the Radar of U.S. Regulators***

<https://www.linkedin.com/pulse/41-billion-lithium-deal-flying-under-radar-us-ewan-epstein/>

I agree with him that the **FTC, DOJ, CFIUS** or other US enforcement body have ground to pursue a case involving NYSE-listed Nutrien and SQM.

Business • Analysis

## The Lithium Cartel Should Be Stopped

By David Fickling | Bloomberg May 18

The world doesn't like its essential commodities being controlled by a small group of producers.

When Arab members of Opec resolved to cut their oil exports in response to U.S. involvement in the 1973 Arab-Israeli war, the situation was rightly deemed a global crisis.

Less than a year after BHP Billiton Ltd. announced plans to merge its iron ore operations with those of Rio Tinto Group in 2009, the proposal was dropped amid expectations that regulators in Europe and Asia would oppose the deal on antitrust grounds.

So why is there so little noise about the emerging oligopoly in one of the hottest elements on the periodic table, lithium?

**Why indeed.**



**O.P.A.Q. - Keiretsu with Chinese Characteristics**

Like Saudi/Russia in O.P.E.C....

**OPEC: Saudi Arabia and Russia's 'unparalleled' oil deal wins approval**

<https://www.cnbc.com/.../opec-saudi-arabia-and-russias-unparalleled-oil-deal-wins-ap...>

Mar 28, 2018 - Saudi Arabia and Russia are ironing out the details on an unprecedented pact to extend controls over major exporters for decades to come.

...I see the already opaque lithium industry under Tianqi/Ponco, China/Chile as **O.P.A.Q.**

**Oligarch. Panda. Antitrust Questions**

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kei-ret-su

noun

*(in Japan) a conglomeration of businesses linked together by cross-shareholdings to form a robust corporate structure.*

**Keiretsu with Chinese Characteristics**

Mostly Red China locking up lithium off-take...

Producers		Off-takers		Estimated Max. offtake volume per year by 2025	
AUS	MIN/Ganf/Neo – Mount Marion	Producing	Spod. Ganfeng	CHN	
AUS	Tawana/AMAL – Bald Hill	Producing	Spod. Burwill Commodity	HK	
			Spod. General Lithium	CHN	
			Spod. Ganfeng	CHN	
AUS	Pilbara Minerals - Pilgangoora	Producing	Spod. Great Wall Motors	CHN	
			DSO Atlas Iron/SinoSteel	CHN	
			DSO Tinci Mining	CHN	
			Spod. Posco	SK	
AUS	Altura Mining - Pilgangoora	Construction	Spod. Lionergy Limited	CHN	
			Spod. OptimumNano	CHN	
AUS	Kidman Resources - Kwinana	Planning	LiOH Tesla	USA	
AUS	Core Exploration	Exploration	DSO Yahua	CHN	n.a
ARG	Lithium Americas – Cau/Olaroz	Construction	Li2CO3 Ganfeng	CHN	
ARG	NRG Metals – Hombre Muerto	Exploration	Li2CO3 Bangchak Petroleum	THA	
			Li2CO3 Chemphys	CHN	n.a
			LiChem Johnson Matthey	UK	
			Li2CO3 FMC	USA	
CAN	Nemaska - Whabouchi	Construction	LiChem Softbank	JPN	
			LiOH Northvolt	SWE	
			LiOH LG Chem	SK	
CAN	Sayona - Authier	Feasibility	Spod. Huan Changuan Lico	CHN	
MEX	Bacanora Minerals - Sonora	Feasibility	Li2CO3 Nextview New Energy Lion	CHN	
			Li2CO3 Hanwa Co	JPN	
ZWE	Prospect Resources - Arcadia		Rock Sinomine	CHN	n.a
MLI	Kodal Minerals - Bougouni		Rock Suay Chin	SGP	n.a
		Exploration	Rock Guangzhou Tinci	CHN	n.a
DRC	AVZ Minerals - Manono		Rock Beijing Nat Batt Technology	CHN	n.a
NAM	Desert Lion Energy - Rubicon		DSO Jiangxi Jinhui Lithium	CHN	n.a

Source: forgive me, I misplaced where I found this on LinkedIn!

China-Free **Nemaska** is not enough.

Congrats Guy Bourassa and team, BTW, for another Tier One Brand **LG Chem!**



It's hard to keep up with the many Dramas in the Atacama that Google Translate does a poor job helping me understand, but there's clearly a lot of noise around lithium and SQM. Chile is certainly paranoid to ensure ALB and SQM pays every single cent of royalty. And socialist Dr. Bitran is being given a hard time for not achieving near nationalization of SQM lithium – at least that's my interpretation based on comments on the **Lithium Podcast** episode 15.

Tianqi has been sniffing around SQM a long time. They bought 2% stake from California-based fund manager Sailingstone in 2016 at a premium. Rio Tinto - which knows Chile very well - very publicly had a look at SQM and, like everyone else, took a pass on the Nutrien block. It's hard to find a Board of any Western company that could justify a \$4-5B non-control minority investment to lease an asset for 12 years.

Supporting **Made in China 2025**, Tianqi very likely thinks different – and not in a Steve Jobs sort of way.

Why Tianqi would seek \$4B in cash – 40% of its market cap -- not to grow much needed lithium supply, but to purchase 3 board seats, raises eyebrows. Morgan Stanley's almost surely advising Tianqi how to raise that cash, but almost equally surely various government **Belt and Road** entities could be brought in. Note **CITIC**, which is making a large investment for 19.9% of **Ivanhoe Mines**, No Doubt to help enhance China government strength in the **Rumble in the Jungle** that is **Kabila's Kongo**.

It is my sense that Julio Ponce would prefer not to have Tianqi in SQM. But I'm guessing he's smart and strategic enough to accept the benefits if such an outcome is allowed to happen.

**Tianqi/SQM/Nutrien should be examined by US anti-trust regulators!**



*Disclaimer*

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