

SQM's lithium mine expansion suffers setback after court ruling

Chilean group aims to increase production to meet demand for electric car batteries

A visitor walks past a brine lake at an SQM lithium mine in the Atacama Desert © Bloomberg

Harry Dempsey and Neil Hume DECEMBER 30 2019

The lithium market has received a boost after a court ruling in Chile plunged into doubt an expansion project by the world's second-biggest producer.

An environmental court in Antofagasta late last week upheld a complaint made by local communities about the use of water by Sociedad Química y Minera de Chile (SQM) in the [Atacama Desert](#).

The court said its decision was based on the ecosystem's "special condition of fragility" in Atacama, where more than a third of global lithium carbonate supply is sourced. The court cited the high level of scientific uncertainty surrounding the impact of lithium mining on water in the region.

The accusations centre around SQM's extraction of brine — or salt water — that is rich in lithium and found below the arid desert, which is then pumped to the surface and left to evaporate.

The ruling by the First Environmental Court calls into question SQM's \$380m plans to expand lithium production to meet rapidly growing demand for the material used in electric vehicle batteries.

The complaint was made by indigenous communities in the municipality of San Pedro de Atacama. It follows a ruling in March by the Chilean environmental regulator, SMA, allowing the expansion to go ahead. Water is becoming a flashpoint between miners and local communities in arid regions such as the Atacama.

SQM's current annual production capacity at the refinery in Atacama is 70,000

tonnes of lithium carbonate and 13,500 tonnes of lithium hydroxide. However, it wants to lift production to 120,000 tonnes of lithium carbonate and almost 30,000 tonnes of lithium hydroxide by the second half of 2021 and eventually to 160,000 tonnes of lithium carbonate by the end of 2023.

Jake Fraser, a lithium consultant at Roskill, a metals research company, said the main uncertainties surrounding SQM's expansion plan now concerned its scale and the timeframe. Delays could arise depending on how quickly the company was able to satisfy the Chilean environmental authority, he said.

“Although unlikely, under a worst-case outcome, where SQM's planned expansions of lithium compound production are prohibited, the market would be starved of a significant chunk of additional capacity,” he said.

SQM, along with other lithium producers, has been hit hard by a decline in the metal's price, which is down more than 50 per cent from a year ago, owing to [oversupply](#) in anticipation of battery-powered vehicles going mainstream.

However, the world's largest battery companies and lithium producers are still keen on securing lithium supplies to meet demand from carmakers as they roll out new electric models in the next few years.

SQM said it “regrets” the decision and was convinced its compliance plan protected the environment. It added that it had not adjusted its production or sales plans due to the ruling.

Albemarle, a US-based producer that also produces lithium carbonate in the Atacama Desert, has been competing with SQM for brine resources.

Shares in SQM edged up 0.1 per cent to \$26.85 in morning trade in New York, having fallen almost 5 per cent on Friday.

