

Tesla Lithium Foray Is Sign of Robust Demand, Top Producer Says
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By Yvonne Yue Li and James Attwood

(Bloomberg) -- Rather than a threat to existing producers, Tesla Inc.'s push into lithium mining is a sign of future demand strength, according to the largest producer of the key ingredient in batteries for electric vehicles.

"They're kicking the industry in the pants," Eric Norris, head of lithium at Albemarle Corp., said in an interview. "The market interpreted it as a strong signal of value erosion, but I view it differently. It's a sign of what needs to come to drive the vision they have for 2030."

Tesla's foray into mining is at the center of the carmaker's plan to cut battery costs and deliver on a promise to bring a \$25,000 electric vehicle to market. Elon Musk told investors last month that Tesla has secured access to 10,000 acres of lithium-rich clay deposits in Nevada and planned to use a new, "very sustainable way" of extracting the metal. That news helped send lithium-producer shares tumbling, with Albemarle falling 16%, the the most on record.

Lithium is a key element in cathode materials that make up 50% of battery cell costs, according to BloombergNEF analyst Sharon Mustri. "To make batteries cheap, we need cheap and abundant lithium," Mustri said in a report Thursday.

But producing lithium from clay has so far proved difficult and costly, with no company yet producing it in commercial quantities. Still, all different types of projects are needed and Tesla is saying to the industry: "If you're not going to do it, we're going to do it," said Norris.

NOTE: Europeans Buying Electric Cars Seen Buoying Weak Lithium Market

For now, pricing remains a major hurdle for any kind of capacity expansion in the lithium industry even though the long-term demand outlook remains bright.

"In order for the expansion -- the kick in the pants -- to make sense for anybody, be it the industry behemoth, or a small junior miner, the economic values" need to be there, Norris said. "Pricing is too low in the market place, it's below marginal cash cost, well below incentive margin."

BloombergNEF's Mustri expects lithium demand to quadruple by 2030, driven by the rise of lithium-ion batteries in electric vehicles and stationary storage.

The outlook that Tesla delivered at presentations last month on the number and cost of electric vehicles as well as the amount of lithium in batteries was actually more bullish than Albemarle's own estimates, Chief Executive Officer Kent Masters said.

"We'll have to take a look at that and see if we want to adjust our forecasts," he said.

While Musk touted the sustainable way of extracting lithium from clay deposits in Nevada, the cleanest lithium production available today probably is brine, Masters said.

In Chile's northern desert, Albemarle and local rival SQM pump up mineral-laced liquid from beneath salt flats, which then sits in evaporation ponds to be later processed. That technique is also the cheapest form of lithium extraction, according to BloombergNEF.

Albemarle also has access to Nevada clay deposits, which the company sees as uneconomical without some technological innovation.

"Tesla can be very innovative so we are not discounting what they said, but it's not something that is available with current technology," Masters said.

For now, Albemarle is focused on its own "fairly aggressive" expansion plans to help meet rising demand for lithium, the CEO said. Still, he doesn't rule out an acquisition if the right opportunity came along.

If it "makes more sense to buy it than make it, then we'll do that," he said.

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