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Lithium OPEC in Latin America - another futile populist idea

If lithium is the oil of the 21st century, as its largest consumer Elon Musk said, then why shouldn't its biggest producers have their own OPEC?

Some Latin American leaders follow this logic. They have been seeking a model that would bring benefits from the exploitation of the much sought-after metal to their economies. To their satisfaction, estimates say they have the largest reserves in the world.

”We must be united in the market, in a sovereign manner, with prices that benefit our economies, and one of the ways, already proposed by (Mexico's) President Andrés Manuel López Obrador, is to think of a kind of lithium OPEC”, said Bolivian President Luis Arce, referring to the earlier idea of his Mexican counterpart.

There is no doubt that the leaders of the so-called Latin American triangle, which consists of Bolivia, Argentina, and Chile, like the idea of controlling the production and price of lithium, like OPEC in the case of oil. But making a copy of the oil cartel seems to have more obstacles than benefits.

Copying the idea of oil and OPEC to Latin American ambitions with lithium primarily comes from significant reserves. In the "triangle" alone, lithium reserves amount to almost 60% of world reserves, and with the inclusion of Brazil and Peru, up to 75%.

From that point of view, the Latin OPEC has more justification than the oil model, whose members today control about 40% of global supply.

Technological barriers

The parallel with OPEC makes sense in the countries considered future cartel members. They want to control the level of production, particularly price fluctuations, which in the case of lithium could be very significant.

However, the fact that the reserves in the Latin American lithium triangle are undoubtedly huge will not be enough to produce the effect that political leaders are hoping for.

The technological aspect is perhaps one of the minor obstacles to the lithium OPEC, but it is enough for the whole idea to collapse.

If the trio were to start a lithium cartel, they need to coordinate their production in terms of technology and joint industrial policies.

However, there are significant differences. For example, Bolivia, which has the largest reserves within the trio, has at the same time by far the weakest economic and technological infrastructure, thus the most unfavourable conditions for investment.

Lithium is not rare

An even bigger problem, and the biggest difference compared to the real OPEC, is the low "blackmailing capacity" of the Latin American lithium barons on the rest of the market.

”Lithium is not rare. Lithium is abundant and every time producers or actors tried to think of lithium like that, they made strategic mistakes that were costly for these countries”, said Ana Cristina Cabral-Gardner, CEO of Sigma Lithium Resources, a Canadian lithium giant.

Lithium exploitation in Latin America is cheaper but requires more time since lithium is obtained from salt brine, unlike Australia, the global leader in production, where lithium is mined from rock.

Along with environmental risks, which are much higher in Latin America, technological limitations weaken their attractiveness to investors.

After all, between the desires of lithium-rich Latin American countries to extract as much from their rich deposits as possible, and the real possibility of controlling the global market, there is an almost insurmountable political-economic obstacle.

Populism - the main driver for the creation of cartels

In the background of lithium OPEC is a feeling of political and even ideological closeness of the ruling groups, whose populism seems to be a better driver for the formation of the cartel than its economic effect.

They believe they have to take advantage of the chance. In 2025 lithium demand will exceed the supply and economically support their populist policies.

Whether they are nationalists or left-wing populists, most regimes in Latin America tend towards state control of mineral resources, which facilitates their mutual agreement.

Ultimately, this political closeness made the idea of a lithium OPEC popular and widely accepted across the region.

However, their intention to nationalise mineral resources, particularly "golden goose" substances such as lithium, is a double-edged sword.

In Bolivia, for example, the majority participation of foreign companies in the exploitation of lithium is prohibited. Last year, in Mexico, the nationalisation of the developing lithium industry was approved for the "benefit of the Mexican people".

Investors run from such economic environments, reluctant to enter into joint arrangements with state entities because they do not feel their investment is safe.

Chinese influence and the US response

Investing in lithium exploitation is expensive, and research takes a long time, so it is challenging for stock owners to enter projects without the support of foreign and multinational companies and their funds.

s plenty of capital chasing lithium. So "There" any exclusionary initiative tends to punish those who are in the initiative because if we end up doing such a thing as an OPEC, it's born out of the assumption that we are the only ones who have it, which is a colossal mistake", said Cabral-Garnder.

As the largest global producer of lithium batteries for electric vehicles, China is most interested in Latin American deposits, and it enters these markets strongly relying on its ideological closeness to domestic regimes.

However, even the Chinese attitude towards the possibility of making lithium OPEC is not necessarily patronising.

Although it has an advantage over Western mining giants in making deals with Latin American partners, Chinese producers do not want a potential lithium OPEC in the form Latin American leaders imagine, to have the last word on the price and volume of production.

The current regime is almost ideal for Chinese investors. It was described well by General Laura Richardson, head of the US Southern Command: "they don't invest, they extract".

"China's actions could hamper conditions for private investment", said Richardson at a congressional hearing last March, as a clear expression of US dissatisfaction with trends in its southern neighbourhood regarding one of the critical raw materials for its economy.