Governing ‘White Gold’ during a ‘Pink Tide’: The Political Economy of Chile’s National Lithium Strategy

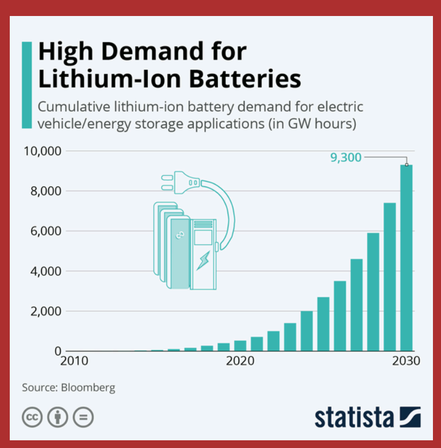
Vivian Yellen

LAIDLAW SCHOLARS

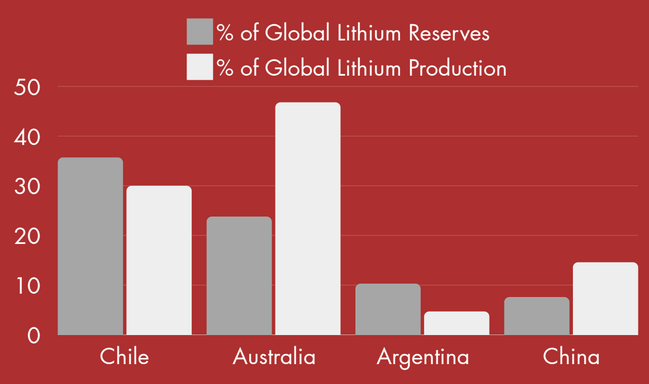
CORNELL UNIVERSITY FOUNDED A.D. 1865

Lithium aka ‘White Gold’

Lithium is a critical component of renewable batteries, electric vehicles (EVs), smartphones, and other clean technologies. As global green transitions intensify, demand for lithium is projected to skyrocket by 965% by 2050. Yet, the global lithium sector is on track to face an expected 12.5% supply deficit by 2030. Global lithium supply will have to increase sevenfold in order to successfully meet climate goals and limit warming to 1.5 degrees by 2030.



Chilean Lithium



Source: Lithium can be extracted from hard rock deposits or salt flats—abundant throughout Chile

Global Dominance: Chile is the world's 2nd largest supplier of lithium metal. Chile is also one of the only countries to extract lithium carbonate from salt-flat brine deposits. Chile accounts for 61% of global lithium carbonate output.

Industry Actors: Due to outdated mining laws, two companies, SQM and ALB, dominate the lithium industry, creating a duopoly.

Untapped Potential: Significant production capacity remains underutilized as output lags behind global demand. Chile exports mostly raw lithium and has yet to innovate or produce value-added goods.

Research Question

To what extent will Boric's National Lithium Strategy be able to transform Chile's lithium industry while balancing competing political interests in order to strengthen progressive movements and promote sustainable development?

Historical Overview

- **1932** — **Chile's first mining code** establishes lithium as concessionable to private enterprises
- **1971** — **Salvador Allende nationalizes copper** creates the state-owned company COLDELCO
- **1973** — **Military coup erupts, placing military general Augusto Pinochet in power**
- **1970s** — **Chicago Boys begin to influence Pinochet and Chilean policy** Chile becomes a laboratory for neoliberal economic policy
- **1974** — **Decree-law 600** to promote foreign capital (FDI) flows, granting foreign companies legal security, preferential pricing, and lowering tax and royalties
- **1979** — **Decree-Law 2.886** categorizes lithium as a “strategic resource” therefore granting the state complete ownership over lithium exploitation
- **1980** — **Pinochet enacts a new constitution** cements neoliberal ideals and prompts the reprivatization of nearly every state-owned industry except for copper
- **1982** — **The New Organic Constitutional Law On Mining Concessions** restricts lithium production to state institutions unless companies are granted administrative concessions / special operation contracts
- **1997** — **Plebicide removes Pinochet from office and begins Chile’s transition towards democracy**
- **2009 & 11** — **Penguin Revolution and Chilean Winter** Chile’s student movement launches large-scale protests over neoliberal policy, some sparking violent police responses
- **2012** — **Piñera creates Special Lithium Operating Contracts (CEOLs)** that grant private actors permission to develop lithium. The first tender process is initiated but falls though
- **2016** — **Bachelet creates the National Lithium Commission** to draft policy recommendations for Chile’s lithium industry
- **2019** — **2019 Protests** Waves of mass protests erupt, gaining unprecedented traction. Protestors demand the government develop a new constitution
- **2021** — **Gabriel Boric is elected as President of Chile**
- **2022 & 23** — **Failed constitutional reforms** two attempts fail to to gain popular support and are not approved
- **2023** — **Boric announces the National Lithium Stratagy**

The National Lithium Strategy (NLS)

Objectives:

- Sustainable development of lithium production potential
- Social and environmental sustainability
- Technological and supply chain development
- Chile’s participation in lithium revenue streams
- Fiscal sustainability
- Diversification of industry players
- Contribution to economic diversification and growth potential

Pillars:

- Public Private Partnerships
- Capacity Building
- Involvement of the State throughout the industrial cycle
- Institutional Framework
- Community Engagement

Milestones:

- Public Technology and Research Institute for Lithium and Salt Flats
- Strategic Lithium and Salt Flats Committee
- Stakeholder engagement and participation
- National Lithium Company
- Network of Protected Salt Flats
- Modernization of the institutional framework
- Involvement of the State in Atacama Salt Flat production activities.
- Prospecting in other salt flats

Implications for Key Actors

People & Environment

Establishes a Network of Protected Salt Flats that intends to increase the proportion of salt flats under official environmental protection to 30%

Facilitates extraction that pollutes and depletes up to 65% of local water resources, harming Indigenous communities and the environment

Mandates for all new lithium extraction projects to use direct lithium extraction (DLE) methods, which significantly reduce land, energy, and water use

Incorporation of Indigenous perspectives into decision-making & increase local communities' share of mining profits

Investment & Industry

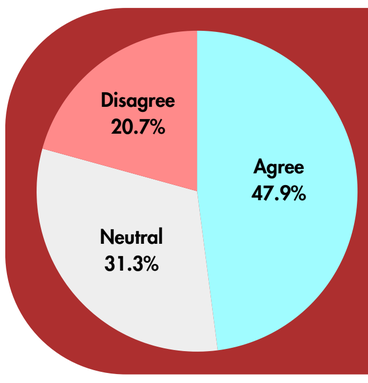
The NLS’s announcement unnerved investors -- stock prices for ALB and SQM temporarily plummeted

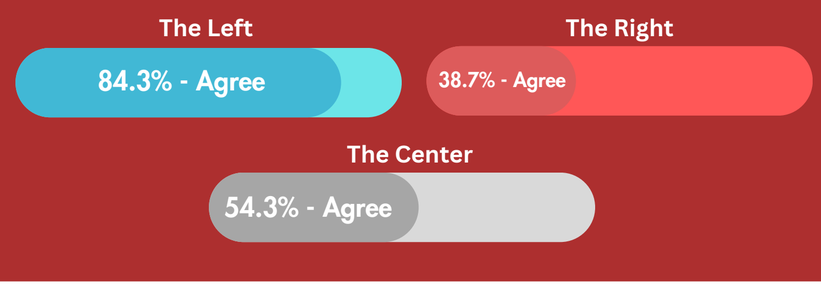
Extends new industrial opportunities to private producers + creates official procedures for CEOL acquisition -- fifty companies submitted eighty-eight proposals for new projects

Could increase regulatory costs and confusion OR increase transparency and clarify vague, or contradictory laws

Plans to incentivize and promote innovation and added-value production, increasing profit opportunities

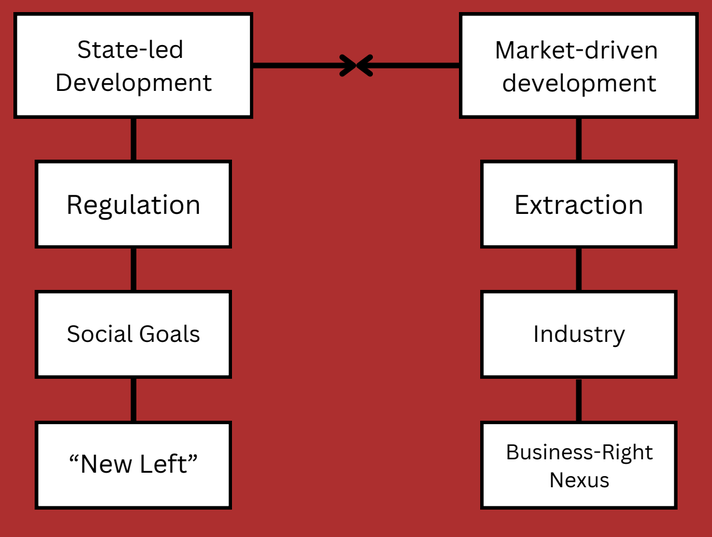
Public Opinion: Of a National Lithium Company





A New Development Model

“Extraction-Oriented Developmentalist State”



Tensions within the National Lithium Strategy illustrate a new type of *"extraction-oriented developmentalist state”* that:

1. Anchors development around natural resource extraction
2. Expands the roles of both the state and the private sector
3. Creates new opportunities for extraction while establishing stricter regulations
4. Uses state influence to promote contemporary social and environmental objectives

Boric's model could be a potential blueprint for similar countries on how to encourage resource-led development while balancing economic, social, & environmental goals.