

Reckless Decisions May Wreck the OEM Automotive Industry

written by Jack Lifton | January 6, 2023

A decision to support alternate non fossil fueled energy technologies, which has been made by ideologically driven politicians reacting to voter polls, flawed models and end-of-the-world enthusiasts is upending the world's largest manufacturing industry, [OEM automotive](#), and the financializers taking advantage of the turmoil have thrown the retail commodity metals markets into chaos. This cannot end well.

Should we accept the incompetence of those who ignore foreseeable consequences and are "surprised" and call them unintended consequences? Expertise is not just detailed factual knowledge of a subject; it is also the ability to reason out the consequences of ignoring that factual knowledge when planning.

Thus, the global "reserve" of lithium is not the amount of lithium in the earth's crust (so-called "earth abundance, a measure of availability wrongly used by many academics). It is that amount of [lithium](#) accessible to us **economically** as defined by current and foreseeable exploration, environmental, and technological capabilities of the mining and refining industries, globally.

You may have noticed that as the necessity for lithium has increased so has its price. Yet, all we hear from the "experts" is that the cost of lithium-ion batteries must and will decline as their use scales upward. The experts tell us that the lithium price increase is only a temporary effect caused by a temporary imbalance between supply and demand. The price, the experts tell us, reflects the high cost of opening new lithium sources, but it, the price, they assure us, will sharply decline when the

supply meets the demand. The negative effect that this prediction has upon mining finance, and thus commodity production and supply, seems to have been overlooked by the “experts.”

The Chinese domestic economy accounts for 82% of the production of lithium-ion batteries and 60% of the global processing of lithium for all purposes. The price of lithium is thus set by [Chinese demand and supply](#). Mining finance is thus dependent on Chinese industry to value the target product and revenue from a lithium mine and refinery, but the Chinese economy is based on a detailed and well-articulated industrial policy, which prioritizes government goals through subsidies and cheap loans to targeted industries. Thus, Chinese lithium prices are not market-driven, so that dependence upon them for investment planning by non-Chinese institutional investors is extremely risky. It is the same for any commodity under Chinese control.

This year, 2023, we will be told by the experts that any reduction in the lithium price is proof of the rebalancing of supply and demand, but, in fact, it is more likely that it is a move away from lithium as an asset class by financializers souring on commodities and returning their complex trading to the traditional usual “experts traders.” Chinese entities and their government are notoriously opaque about production levels, inventories and balance sheets. Mandarin fluent experts make their living by reading Chinese “official” statistics and speculating from those along with fantasizing what’s in the minds of Chinese officials who plan and execute industrial policy without any interest whatsoever in the welfare of the non-Chinese world.

An oxymoronic named “Intelligence” group of self-described “analysts” has “studied” the situation and has now decreed that 300 new lithium mines will be needed to reach the EV production

goals set by (well-named) “green experts” for 2030. Perhaps these “expert analysts” know so little of natural resource economics, mining costs and the staffing of mining companies that they believe that this is possible. It is not. Existing mines have lifetimes. Their output declines with age. New discoveries take decades to bring into production and are limited to lifetime output declines. It will take an enormous outlay of capital to increase annual lithium production much beyond current outputs and an enormous amount of capital to maintain that output. Does this bode well for decreased lithium pricing?

A sharp decrease in lithium pricing will mean not that supply and demand have balanced due to increasing demand but that miners have determined that demand is peaking, or, worse yet, that future demand goals cannot be reached and so that further discovery and development is a waste of shareholder value (I think that ESG was devised and has been adopted by financiers to head off this very issue).

For American durable goods manufacturing companies facing deglobalization, regionalization, and even national re-focusing on supply chains the real question is: Can the EV and magnet industries be vertically integrated within the political unit in which they operate? I’ll save the acne-challenged experts the trouble of studying this complex question. The answer is assuredly NO. As usual, the markets will determine who are the winners and losers. The US government, also, as usual, can be counted upon to make uninformed, anti-free market, and poor choices.

Market Bullishness on Lithium has eyes on Critical Elements Lithium

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The world is going to need a lot of lithium over the next several years if it wants to come anywhere near the goals being set by most G7 governments. The math is staggering as clearly defined by Jack Lifton in this great [InvestorIntel article](#). So today we are going to look at one of the purest lithium deposits globally, the Rose Lithium-Tantalum project in Quebec. The project is owned and operated by [Critical Elements Lithium Corporation](#) (TSXV: CRE | OTCQX: CRECF).

Rose Lithium-Tantalum Project:

The Rose Lithium-Tantalum property comprises 473 claims spread over a 24,654 ha area located in northern Québec's administrative region, on the territory of Eeyou Istchee James Bay approximately 40 km north of the Cree village of Nemaska. The property is accessible by road via the Route du Nord, usable all year round and is 80 km south of Goldcorp's Éléonore gold mine, 45 km northwest of Nemaska's Whabouchi lithium project and 20 km south of Hydro Québec's Eastmain 1 hydroelectricity generating plant. In essence, excellent access to infrastructure including roads, low-costs (low carbon – 93% hydroelectricity) power and skilled labor.

On November 27, 2017, the Company filed a [National Instrument 43-101 technical report](#) for the feasibility study of the Rose Lithium-Tantalum project.

Highlights are as follows:

- Average annual production of 186,327 tonnes of chemical grade lithium concentrate
- Average annual production of 50,205 tonnes of technical grade lithium concentrate
- Average annual production of 429 tonnes of tantalum concentrate
- Expected life of mine of 17 years
- Average operating costs of \$66.56 per tonne milled, \$458 (US\$344) per tonne of concentrate (all concentrate production combined)
- Estimated initial capital cost \$341.2 million before working capital
- Average gross margin 63.6%
- After-tax NPV of \$726 million (at 8% discount rate), after-tax IRR of 34.9% and price assumption of US\$1,500 per tonne technical grade lithium concentrate, US\$750 per tonne chemical grade lithium concentrate, US\$130 per kg tantalum pentoxide

To summarize, the deposit is a hard rock resource that hosts high purity lithium material with low iron and low mica content with full support and cooperation from the Québec government, First Nations and local communities. The economics and quality of this project have been proven to be very lucrative.

With a market cap of roughly \$305.6 million, based on 183 million shares outstanding at yesterday's three year high close of \$1.67, CRE is not an inexpensive, undiscovered micro-cap. However, you are getting a project that is on track to be fully permitted and start construction in 2021 with first production in 2023. It is located in a politically safe and supportive jurisdiction and with the increasing emphasis on supply chain certainty there is a lot of potential value simply as a result of the location of the Rose project. Not to take anything away from the quality or robust economics surrounding Rose as well.

Looking at the chart, CRE appears to be breaking out from a five month sideways channel ranging from approximately \$1.20 to \$1.55. It has traded above \$1.60 for the last five days on above average volume, closing above the \$1.60 level twice in that span. Whether this is being driven by their recent news that the company had received [UL ECOLOGO® Certification](#) for Mineral Exploration, anticipation of the decision statement on the environmental assessment from the Impact Assessment Agency, which is due imminently, or simply a result of general bullishness surrounding lithium, the chart looks very constructive from a technical perspective.



All in all, Critical Elements Lithium represents a potential world class lithium mine (and a meaningful rerating opportunity that goes with that) plus speculative upside from the companies [eight other projects](#). Would it have been nice to discover this gem a year ago when it was trading closer to \$0.30 yet still had far less risk than a pure exploration play? Absolutely, and congratulations if you are a long term holder of CRE shares. However, if you are as bullish on lithium as Jack Lifton is you may want to take a closer look at Critical Elements Lithium Corporation.