

Copper, Lithium, and a Presidential Election in Chile, why does it matter?

Now that COP26 has concluded perhaps some other items will begin to show up in the news cycle. However, unless you dig deep you may not be aware that on November 21st Chileans go to the polls to elect a new president. You may be wondering why I picked an election in Chile as something to pay attention to given all the things going on in the world today. I have to admit that I'm a little concerned about the build-up of Russian troops on the Ukrainian border in response to complaints of increasing NATO activity in the region. And you just never know what's going to happen when the Chinese and U.S. get together to discuss economic and military tensions. Yet despite all that I think the Chilean election could have greater global ramifications depending on the outcome...or it could be a non-event.

The reason for having a look under the hood at Chile's election is two-fold. One is that the leading candidates in the polls are currently from the far left and the far right, neither are from Chile's mainstream political parties. The second is Chile's contribution to two very top-of-mind commodities at present: copper and lithium. Has this information started to pique your curiosity? If it hasn't then it should and here's why.

In today's economic reality, as we move towards a cleaner, greener world with less carbon emissions, we are going to need a lot of copper to build out all the electrical infrastructure and of course lithium has been termed as the gasoline of the future. We've covered the macro necessity of both these commodities enough at InvestorIntel, so I won't get into the weeds on everything regarding copper and lithium. However, I

will say that Chile is the world's largest miner of copper by a long shot. Mine production in Chile is approximately 28% of all copper mined in the world and the country is estimated to contain 23% of global copper reserves. Those are the kind of numbers copper investors need to pay attention to.

As for lithium, it's almost as impressive with Chile being part of the renowned Lithium Triangle. The Lithium Triangle is a lithium-rich region in the Andean southwest corner of South America, spanning the borders of Argentina, Bolivia, and Chile. Roughly 58% of the world's lithium resources are found in these three countries, according to the 2021 USGS Mineral Commodity Summary. Although Chile only accounts for an estimated 11% of global lithium resources, they are currently the world's second-largest producer with approximately 22% of the world's lithium production. Again, this is enough material so that any sort of disruption to order or rule of law could have serious ramifications that ripple around the world.

As much as I like to brag about Canada being rich in commodities, Chile is knocking it out of the park when it comes to copper and lithium. Hence the reason I'm paying attention to this election given the importance to a nation's commerce of an orderly transfer of power.

Now let's take a closer look at the background heading into this election. This is the first election since widespread protests over inequality rocked Chile in 2019. Some of those protests turned violent, with riots, arson attacks, looting and violent clashes with police, all sparked after the government increased public transportation fares. Things were bubbling below the surface for a while and this was the ignition point. Needless to say Covid impacts to the economy and its people further exacerbated these issues. This led to Chileans voting in a referendum in October, 2020 to rewrite Chile's constitution which appeared to be the writing on the wall for the center-right coalition government that is currently in power. Then in May of this year, Chileans voted

again in an election for delegates who would rewrite the constitution. The ruling coalition failed to pick up the one-third of seats necessary to block radical changes to the constitution. Meanwhile, the center-left, which has dominated politics since the end of Augusto Pinochet's 1973-1990 military dictatorship, garnered less support than leftists who have been pushing for wholesale change to the 'Chilean model' that has been credited with fomenting growth, but also with deep inequality.

That's the macro reasoning but layered on top of that are a couple of micro issues that investors should also be aware of. The country is debating a controversial mining royalty bill which could sharply hike tariffs on the sector. The royalty bill, under discussion in Congress, could shut down the country's private miners by slapping a 3% royalty on sales of copper with a sharp escalator as copper prices rise. As well, there is a new glacier protection law, which could impact some key mines.

The people of Chile want change and it looks like they will get it with the polls being led by far left hopeful Gabriel Boric and ultra conservative front-runner, Jose Antonio Kast. Thus far both candidates have kept their powder dry on mining during the campaign. Left-wing candidate Boric has discussed royalties while Kast has proposed vague changes to mining property law to rev up the sector, including opening up state miner Codelco to more private investment. At this point, it's difficult to understand what either candidate could mean to Chile's future as a mining powerhouse. Nevertheless, investors should be putting this election on their radar as there is potential for a lot more downside than upside, in my opinion. With that said, my hope is that this election is a non-event and results in an orderly transfer of power from one democratically elected party to another.

It should be noted that if no candidate gets a simple majority this coming Sunday, the top two will compete in a head-to-head

ballot on Dec. 19. The polls suggest this is likely the next date you'll have to mark in your calendar if you feel, as I do, that it could be important to know who is the next President of Chile.