

INTERVIEW: Orocobre Leads Lithium Charge In Argentina Salars

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BUENOS AIRES (Dow Jones)-- With demand for lithium expected to surge over the next years, Australia's Orocobre Ltd. (ORE.AU) is leading a pack of companies racing to develop mines in the high salt flats of Argentina's northwest.

Orocobre hopes to be pumping out 15,000 tons of lithium a year from its Olaroz project by 2012. The company is focusing on producing the feasibility study, environmental impact statement and obtaining permitting through 2010, with construction to kick off in 2011 if all goes smoothly, the company's chief executive, Richard Seville, said in an interview with Dow Jones Newsires Thursday.

That would add almost 15% to current world production, which totaled 118,600 tons in 2008. Sociedad Quimica y Minera de Chile S.A. (SQM) and Chemetall Foote Corporation produced almost half of that from mines in Chile, Australia's Talison Minerals Corp. produced 28,200 tons, while U.S.-based FMC Corp. (FMC) kicked out 16,600 from its Argentine mine, according to Roskill of London.

But demand for lithium looks promising said Hallgarten & Company analyst Christopher Ecclestone, who rates Orocobre as a speculative long.

Lithium prices have remained high in recent years and many expect prices to continue to rise as more manufacturers of batteries for electric cars turn to the lightweight metal with its higher ability to hold a charge.

"Korea, Japan and China have left the world behind in battery technology, but now the U.S. and E.U. are trying to catch up," Seville said.

Earlier this year, U.S. president Barack Obama announced \$2.4 billion in stimulus spending on advanced battery technology, much of which will go to the carmakers to build electric cars.

The speculation has fueled a rush to exploit the massive lithium brine deposits in the Puna plateau which straddles the highlands of Argentina, Chile and Bolivia. As much as 90% of the world's known lithium brine, which is in liquid state rather than locked in stone, is said to be in the region's salars, or salt lakes.

The salars were formed in large basins created by Andean mountain building which then filled with erosional sediment. Mineralized hot spring water was trapped and concentrated in these basins and over time resulted in the highly concentrated brine.

It's the unique liquid suspension of the lithium which makes it so much easier and cheaper to get at compared with other methods. The process involves extracting the brine from bores, evaporation and then concentrating the lithium through chemical precipitation.

But despite the expectations for strong demand, some worry that a flood of new suppliers rushing to get lithium to market may drive down prices.

Orocobre expects many to drop by the wayside when the excitement of the current boom fades.

"I don't think there is any risk of oversupply, as most of the projects [being talked about now] won't end up going into production," Seville said.

In addition, Orocobre has a head start, buying the exploration and mineral rights covering about 10,000 hectares at Olaroz three to four years ago.

So far, they've confirmed 1.5 million tons of lithium carbonate resources and 4.4 million tons of potash, a mineral commonly used as fertilizer. About 60% to 70% of revenue is expected to come from lithium, while 20% to 30% should come from potash, Seville said.

The company is currently looking for partners to obtain the estimated \$80 million to \$100 million needed to develop Olaroz.

Orocobre went public with a listing on the Australian Securities Exchange two years ago and has financing to complete the feasibility study. Now the company is looking for partnerships with end users willing to back the project in exchange for supply deals, Seville said.

In addition to Olaroz, Orocobre controls South American Salars S.A., which has the rights to 85% of 10 salt flats in Argentina's Jujuy, Salta and Catamarca provinces.

Despite the promising mineral resources, Argentina has often proved to be a complicated country to develop a mine due to labor strife, environmental resistance and a lack of certainty over tax levels.

Mines in Argentina currently pay a royalty of 3% on gross output, with tax credits given for development costs. The tax structure was implemented in 1993 under a national mining law that also guaranteed tax stability for 30 years.

However, in December 2007, customs agents began demanding new 5%-10% export taxes on shipments from a number of mining operations, making some companies hesitant to move forward with projects.

But Orocobre isn't worried. "Current tax levels aren't an impediment to doing the development," Seville said.

While the project will rely mostly on sun and wind power for processing and have a relatively low environmental impact, other salars in the region are a popular tourist draw and opposition from local residents and environmentalists could pose obstacles.

"We'd be naive not to think that this is not an issue that we have to manage," Seville said.

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