

SQM-Codelco: The Main Deal of the Year

Máximo Pacheco: "This partnership was made with a business-driven approach"

The alliance between Codelco and SQM to jointly exploit lithium in the Atacama salt flat until 2060 was signed on May 31. Here, the president of the state-owned company, which will control the new company starting in 2031, explains what lies ahead in the deal of the year, addresses criticism, and congratulates himself on the agreement. "This is the most important thing I have done in my 50 years of professional life," he says.

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By Víctor Cofré

Máximo Pacheco arrives prepared for this interview, to list the progress of the alliance between SQM and Codelco to jointly operate the Atacama salt flat until 2060. The president of Codelco agrees — how could he not? — that the partnership is the deal of the year because it is "a strategic operation for Chile," which combines a public-private partnership with an unparalleled level of scrutiny, he adds, and because it allows the largest state-owned company, a global leader in copper, to also lead in lithium — two critical minerals in the energy transition and the planet's decarbonization process, he justifies.

He arrives prepared because he wants to describe what Codelco and SQM have done since May 31, 2023, when they signed the partnership agreement outlined in a memorandum of understanding (MoU) exactly one year earlier. The deal works as follows: the companies will merge their subsidiaries SQM Salar and Minera Tarar. The first holds exclusive operational rights until the end of 2030 and will contribute all lithium assets to that business. Tarar, owned by Codelco, will contribute the contract to operate until 2060. In the first stage, SQM will control a company governed by a six-member board, three from each side, but where SQM will have the final say. Starting in 2031, Codelco will appoint four of seven directors and hold 50% plus one share.

Seven months have passed, and every week a meeting is held in which Pacheco and SQM's General Manager, Ricardo Ramos, receive a detailed report titled "Monitoring and Implementation Matrix of the Partnership." Pacheco describes the results presented this week, at the penultimate meeting of the year, detailing compliance with each condition precedent. And he enumerates:

First, he says, "the partnership agreement has already been approved unconditionally by five foreign authorities: Belgium, Italy, and Japan, in terms of foreign investment; Brazil and Japan in free competition, with resolutions still pending from Chile, China, the European Union, South Korea, and Saudi Arabia. All applications have already been submitted. They are advancing, and it is expected they will be concluded in the first half of 2025."

Second, SQM has already made progress in reorganizing its lithium business in Chile and abroad to "consolidate in the joint company all its assets, rights, contracts, know-how, personnel, and subsidiaries related to lithium exploration, exploitation, production, and marketing." Service contracts have already been signed for the future continuity of the joint company, and this process will conclude at the beginning of 2025.

Third, they have already agreed with Corfo, the owner of the mining properties in the Atacama salt flat, on the terms and conditions of two key contracts: the modification of contracts until 2030, to, among other things, increase the lithium production quota by 300,000 tons, and the Tarar contracts from 2031 to 2060. Pacheco says that the drafts have been agreed upon between the parties and are expected to be signed once the indigenous consultation concludes, which could lead to contractual adjustments.

That indigenous consultation, linked to the two contracts, is the fourth point: it was already initiated by Corfo in November, and it is expected to "conclude in the coming months," Pacheco states.

Added to this are procedures before the Chilean Nuclear Energy Commission (CChEN) for the approval of new production quotas linked to the two contracts: in October, SQM Salar and Tarar activated that consultation. Furthermore, in November, the Internal Revenue Service confirmed that the joint company would not be subject to the Special Tax on State Companies, which applies to Codelco but not its subsidiaries. Additionally, the parties are preparing to sign potassium off-take contracts, energy contract protocols, intellectual property licenses, and the future transfer of SQM's Maricunga assets to Codelco.

And finally, there is the judicial litigation initiated by Tianqi, which questions SQM for not having held a shareholders' meeting to approve the partnership. "This claim is close to being resolved by the Court of Appeals, and if escalated to the Supreme Court, it is expected to be resolved in the first half of 2025," Pacheco predicts. "To date, no competent jurisdictional authority has issued a valid order prohibiting or declaring illegal the execution or implementation of the partnership agreement," he adds.

After reviewing the partnership, Pacheco answers the questions.

What does Codelco gain from this deal?

First, the title of being a company committed to its development and strengthening, a company full of life doing business. All major global companies carry out large

operations, and Codelco hadn't done a major operation in many years. I believe this shows the vigor, energy, and commitment of the company to strengthen its leadership in global mining.

Doesn't this distract Codelco from its core business, which is copper?

Not at all. On the contrary: we have proven that when we were criticized for this, we responded with a solution. The solution is that we are now partnering in a company that has 3,500 new people who have been working in lithium for 30 years, who have leadership in knowledge, experience, and expertise not only in operation but also in lithium commercialization. All that knowledge has been brought into this partnership.

What does SQM gain?

SQM gained an excellent partner. Just as the partner we have is important to Codelco, the partner is also important to SQM. The contract in the Atacama salt flat is extended until 2060, and they gain the fact that their investors, all of them, have seen this operation with great enthusiasm.

Who gained more, Codelco or SQM?

This is a partnership where we found a solution in which both win.

What was the biggest obstacle?

First, the scale. This is an extremely complex operation, combining financial, commercial, and valuation aspects. How much is each party's contribution worth? We got into a long discussion about valuing what each party brought to the table, and in the end, we managed to resolve it — and resolve it well.

The valuation was made with a long-term price of \$20,000 per ton. Today it's below \$10,000. Did you make a mistake?

No, because, as you said, this is the long-term price. When you look at recent deals in the lithium market, the price used to value those projects is still the long-term price. And the long-term price has not changed. In the evaluation by analysts, financiers, and advisors for acquisition and project development operations, the long-term price has remained steady; what has fluctuated is the short-term price. Commodities are volatile and cyclical. There's a lot of talk about the price reaching levels of \$70,000, but no one talks about when it was at \$4,000.

Is there any risk to executing the partnership?

Everything in the future carries risk. The future, by definition, is risk. Our primary responsibility is to manage those risks.

Is there a risk that the partnership won't materialize?

I don't think so. I am firmly convinced that the country has powerful reasons to safeguard this.

What do you think Tianqi intends?

I have no idea because I haven't seen them in a long time. The last time I saw their chairman was when we traveled to China accompanying the President of the Republic...

They have gone to court and have fiercely opposed this alliance. Don't you suppose their reasons?

I won't get into that because I haven't spoken with them. My counterpart in the negotiation is SQM's general manager, not the shareholders. I have been very careful not to get involved in those discussions. But I also travel the world, participate in forums, and I see that SQM has world-class shareholders. I'm talking about BlackRock, Macquarie, Abn-Amro, Schroder, Lazard, Alliance Bernstein, Grantham Mayo, Robeco, and Earnest Partners. All of these shareholders express to me the enthusiasm they feel about Chile taking this leadership in critical minerals. I haven't gotten involved in the Tianqi issue; it's a matter for the shareholders (of SQM), and it's hard for me to understand it.

Why are some congress members opposed to this deal?

You'd have to ask them, but I have the impression that one of the things creating the most tension is Codelco's corporate governance law. Until 2010, the chairman of the board was the Minister of Mining, and the vice-chairman was the Minister of Finance. In 2010 — I'm talking about the first Bachelet government — Chile wanted to join the OECD, and one of the topics that arose from the OECD was how to ensure that public companies were state-owned companies and not controlled by the government in power. They needed to be companies with a business logic in their decisions, free from political interference, and with a long-term horizon that wasn't tied to the political cycle but instead...

What does corporate governance have to do with opposition to the alliance?

...I have the feeling and impression that, as a country, we've struggled to assimilate this. We've had a very robust corporate governance system for 15 years, independent of the government in power and political influence. So, I think it's been hard to digest that this partnership was made with a business-driven approach, led and managed by a board of directors that, by law, has the responsibility to guide and direct the company's course.

But this negotiation began with a presidential mandate. President Boric tasked Codelco with this deal...

The President of the Republic defined the National Lithium Strategy and tasked Corfo with giving this mandate to Codelco, under which we, as a company, sat down with SQM — another company — and negotiated the terms ourselves. In this matter, the attitude of the President of the Republic, the Minister of Finance, the Minister of Mining, and even the Minister of Economy — who chairs Corfo's council — has been exemplary in delegating the negotiation to Codelco. And when we say Codelco, we mean the board of directors of Codelco. The board of directors of Codelco is autonomous because, by law, it has the responsibility to run the company.

Could this mandate have happened under a right-wing government?

Look, I'm the chairman of a board, and I'm very careful about giving opinions on political matters. My responsibility is to ensure this company operates with business principles.

Did you keep the President informed about the progress and setbacks of this negotiation?

I wouldn't say about progress and setbacks. But, evidently, the President of the Republic didn't learn about this agreement from the press. I have had a very fluid relationship; I have always recognized the trust the President has placed in the board and in me as chairman. Furthermore, I've always admired the respectful way in which the President, understanding the governance law that regulates Codelco, engages with us.

A year ago, you intended to start the partnership on January 1, 2025. That won't happen now.

Well, but it's also important to note that in the MoU and the final documents, it was always considered a possibility that we might not meet the deadline by the end of this year. The partnership agreement specifies that if the joint venture is formed after December 31, 2024, its economic effects will still be retroactive as if it had been formed on January 1, 2025. For this reason, the legal and economic rights of both parties will not be affected, nor will the benefits this public-private partnership brings to the State of Chile.

Will you be able to convince the communities opposing this alliance?

I think so because I believe there is a consensus that this is a very important project for Chile, for the region, and for the communities. The number of people from these communities who work directly and indirectly in this project, and the project's impact on their lives, is enormous. What the communities are categorically demanding is that we carry out a project that protects the health of the salt flat, respects the environment, and is carried out in harmony with the communities. And we are building that model.

Will you be a director of the new company?

That's an issue the Codelco board of directors must decide. The Codelco board must appoint three directors to the new company, and SQM must appoint the other three.

You've played a leading role. Would you like to stay involved with this new company?

I began my career as a professional and as a company executive in 1975, and I can say that this is the most important thing I've done in my 50 years of professional life. By training, by tradition, and by vocation, I am a business executive. I am very proud of what we've done, and I hope to see this project through to completion.

Who will the general manager be? Carlos Díaz (Vice President of Lithium at SQM)?

That decision must be made by the new company's board of directors, where, during the initial period until 2030, SQM has preferential rights. We are very pleased with the way Carlos Díaz is performing his role.

Who will be the Chief Financial Officer (CFO) proposed by Codelco?

There's a selection process underway. We've hired an international headhunter with global experience.

What will the new company be called?

We are currently checking the name in the various countries where the partnership will operate, to ensure it complies with trademark registration regulations. This process will be finalized very soon.

To settle the mining-port project:

Dominga Mining Company opens the door to an extended deadline for the Committee of Ministers

The company's lawyers proposed the alternative in a document submitted to the First Environmental Court.

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Time is running against the Committee of Ministers, which must once again decide the future of the Dominga mining-port project. Andes Iron, the company behind the initiative, seeks to build the project in the commune of La Higuera, in the Coquimbo Region. The permitting process has dragged on for over a decade and, if approved, would involve an investment of \$2.5 billion.

On December 9th, the First Environmental Court annulled the 2023 decision by the Committee of Ministers, which had rejected the mining initiative. The judges instead ordered a new vote to determine whether the project will move forward. The deadline for a new decision expires next Tuesday, and the ministries involved must also decide which authorities will cast the respective votes, as the incumbent ministers have recused themselves due to their previous opinions, which have now been invalidated.

The Environmental Assessment Service (SEA) requested that the effects of the court ruling be suspended until the Supreme Court issues its final verdict on the matter. The Environmental Court dismissed this measure, but SEA reiterated its request last Friday.

Andes Iron opposed SEA's request once again. However, this time the company stated that although they disagree with suspending the ruling's effects, they would consider allowing more time for the Committee of Ministers to meet. *"In practical terms, this partial suspension would imply an extended deadline for the Committee of Ministers to issue a new resolution,"* the company stated in a document submitted to the judges.

The firm explained to the judges that the validity of the Environmental Qualification Resolution (RCA) *"does not in any way imply the immediate construction of the project; it only allows for processing the large number of permits required for its execution, thereby enabling progress on the project in a permitting process that has lasted more than 10 years."*

Andes Iron emphasized: *"The partial suspension, as requested here, would allow progress in meeting a series of conditions beneficial to the community and the environment."*

Although the Ministry of the Environment has not officially commented on Andes Iron's document, sources close to the ministry told **El Mercurio** that the company's proposal acknowledges that the deadline originally set by the court is very tight.