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Insight: Western miners push for higher metals prices to ward off Chinese rivals

By Ernest Scheyder and Pratima Desai

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Feedback

[1/3] Samples of rocks drilled at a cobalt mining site operated by Jervois Global are seen at a facility, west of Salmon, Idaho, U.S. May 16, 2024. REUTERS/Carlos Barria/File Photo [Purchase Licensing Rights](#)



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SALMON-CHALLIS NATIONAL FOREST, Idaho, July 22 (Reuters) - The only U.S. cobalt mine sits fallow in the northern Idaho woods, a mothballed hunk of steel and dirt that is too expensive for its owner to operate because Chinese rivals have flooded global markets with cheap supplies of the bluish metal used in electric vehicle batteries and electronics.

Jervois Global ([JRV.AX](#)), which dug the mine into the side of a nearly 8,000-foot (2,400-meter) mountain, watched helplessly last year as cobalt prices plunged after China's CMOG Group ([603993.SS](#)) opened the Kisanfu mine in the Democratic Republic of Congo, pushing global production of the metal to an all-time high.

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The Idaho site, which [Jervois bought in 2019](#), was idled in June 2023 just weeks before it was set to open. More than 250 workers lost their jobs. A skeleton crew now rotates unused rock crushing equipment weekly to keep it from flattening under its own weight.

"We were straightforward with our staff and told them: 'This is all about the price of cobalt,'" site manager Matthew Lengerich told Reuters during a visit to the facility. Jervois says cobalt prices need to reach at least \$20 per pound for the site to open. But prices sat near \$12.17 in July.

A similar quandary faces BHP ([BHP.AX](#)), Albemarle ([ALB.N](#)) and other Western mining companies trying to compete with metals produced by Chinese-linked companies, some of which use [coal-generated electricity](#), [child labor](#) or other practices not meeting the standards set by many governments and manufacturers.

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Western miners say their competitors have inherent cost advantages that enable rapid production expansions even as prices for cobalt, lithium and nickel have plunged more than a third in the past 18 months. Operational costs for many of these Western companies have, as a result, been exceeding what market prices will cover.

That has fueled growing calls from some policymakers and miners, including Jervois and Albemarle, for a two-tier pricing system with a premium for sustainably produced metals, according to interviews with more than three dozen traders, investors, executives, purchasing agents, and pricing agencies.

The plan is to charge more for a metal that is produced sustainably, whether that is through direct transactions or via multiple prices for a metal listed through futures exchanges, depending on production methods. For example, there would be one price for standard nickel and another for green nickel.



"Western miners simply can't compete with China, and China has shown the willingness to drive market prices way, way down," said Morgan Bazilian, director of the Payne Institute for Public Policy at the Colorado School of Mines.

Two-tier pricing could radically shift how metals needed for energy transition have been bought and sold for centuries yet also reduce market transparency as miners could bypass metals exchanges to negotiate directly with customers.

It could also, two analysts told Reuters, lead to multiple definitions of what exactly constitutes "green metal."

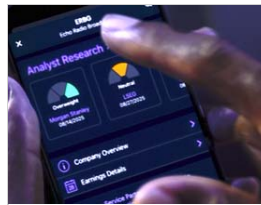
'COMMITMENTS HAVE A COST'

Industry leaders have pushed for two pricing structures for several years, but the call for change started gaining more attention from investors, policymakers and customers last fall as Western governments grew more concerned about Chinese competition.



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In meetings across Washington and Brussels, mining executives have been pleading with governments for some kind of intervention until two-tiered pricing is more widely embraced, suggesting that tariffs, supply chain transparency requirements, or government insurance for mines could be potential remedies, three industry sources said.

U.S. and E.U. officials have privately expressed sympathy with the mining industry, according to two of the sources, but have so far been loath to inject themselves into the mechanics of how prices are set by exchanges and others.

"I don't want to say what the markets should or shouldn't do to ensure strong ESG practices," said the U.S. State Department's Jose Fernandez, who oversees a program designed to [facilitate metals supply deals](#). "But it is true that all of those commitments have a cost."

As a result, mining industry customers such as automakers are in the uncomfortable position of trying to keep their costs low while maintaining secure and diverse metals supplies. Some deals are taking shape, prodded in part by regulations tied to emissions.

The European Union by 2027 will require EV manufacturers to [show where they procure metals](#) and the carbon footprint for their production. Refusal to comply would mean an EV can't be sold in the region, a step not yet taken by the United States but one widely seen as the most aggressive globally to boost supply chain transparency and likely to fuel premium metals contracts.

In Canada last year, Northern Graphite ([NGCV](#)) [started successfully demanding a premium from customers](#) wanting guaranteed North American supplies of the battery metal.

Teck Resources ([TECKB.TO](#)) [earlier this year started selling a lightly processed type of copper known as concentrate](#) to Aurubis ([NAFG.DE](#)) [, a source with direct knowledge said](#). The transaction does not rely on exchange pricing and guarantees Aurubis a steady supply of ESG-compliant concentrate that it turns into copper for sale to the auto industry.

Teck declined to comment. Aurubis said it sees "the way to a green-friendly copper industry as a joint task for the entire value chain, which needs to be honored from the raw material supplier to the end consumer."

Customers for now do not face a penalty if they do not source sustainable metals, but they increasingly face a reputational risk. "The question is really for car companies: Are you OK with something that might be priced lower or are you willing to pay premiums knowing that this is sourced sustainably in the correct way?" said Michael Scherb, CEO of Appian Capital Advisory, a private equity firm that invests in mining companies.

'WEATHER THE STORM'

BHP, the world's largest mining company, said this month it would [suspend operations](#) at its Australia nickel mines due to "the substantial economic challenges driven by a global oversupply of nickel."

The move was a blow to a company that had unsuccessfully bet its customers would be willing to [pay a premium](#) for nickel produced in a country that mines sustainably. BHP warned that nearly two-thirds of Australia's nickel market is in danger of closing amid low market prices fueled by a [153% increase in Indonesia's nickel](#) from 2020 through the end of last year due to Huayou Cobalt ([603799.SS](#)) [and others](#) - production that environmentalists say has partly come by [tearing up the country's vast rainforests](#).

U.S. officials are encouraging Jakarta to [improve](#) the country's mining standards. Huayou [Cobalt](#) did not respond to a request for comment.

Australia's nickel industry is among the cleanest in the world largely due to how it handles carbon emissions, according to data from ESG consultancy Skarn Associates. Nickel processed in Indonesia emits more than five times the amount of carbon as production in Australia, the data show, with emissions from China's nickel industry nearly seven times worse than Australia.

Albemarle, the top global producer of lithium, [laid off staff](#) in January amid low prices caused in part by ramped up production from Yongxing Special Materials Technology ([002756.SZ](#)) [↗](#) and others in China. "If there isn't an incentive above current prices, you're not going to get the investment you need to build the domestic (U.S.) supply chain," said Eric Norris, who oversees Albemarle's lithium operations.

Fernandez, the U.S. State official, expects rising minerals demand to offset current "global oversupplies," but acknowledged that miners, for now, are in a bind.

"We have to find ways to weather the storm," Fernandez said.

TRANSPARENCY

Since January, world leaders have taken a range of steps to offset China's market control.

President Joe Biden [imposed tariffs](#) in May on critical minerals produced in China, saying "(metals) prices are unfairly low because Chinese companies don't need to worry about a profit."

Jim Chalmers, Australia's treasurer, in February said governments should consider support for "a differentiated international trading market for resources produced to higher ESG standards."

Chrystia Freeland, Canada's deputy prime minister, in April said Ottawa would [fight the dumping](#) of critical minerals by China, Indonesia and others.

The Chinese mission to the United Nations did not respond to a request for comment. China has in the last year [banned exports of graphite and other metals](#).

Multiple U.S. senators from both parties have said they are considering legislation to offer price insurance for metals, similar to a government insurance program for crops, according to Senate aides. Such a move would guarantee miners a price for their metals, regardless of market conditions.

Automakers have been moving cautiously as this trend for green pricing premiums evolves, conscious that consumers are reluctant to pay more for [EVs](#).

General Motors ([GM.N](#)) [↗](#), the largest U.S. automaker, believes critical minerals should be produced sustainably but does not want to pay a premium out of concern that it will be unable to compete with Chinese rivals, according to a source directly involved in the company's minerals procurement. GM told Reuters it requires suppliers to comply with high standards, a stance echoed by Volkswagen, BMW and Stellantis.

Tesla ([TSLA.O](#)) [↗](#) and Ford ([F.N](#)) [↗](#), which is building an [Indonesian nickel processing plant](#) with Huayou Cobalt and PT Vale Indonesia ([INCO.JK](#)) [↗](#), did not respond to requests for comment.

EXCHANGES

The London Metal Exchange (LME) said it has received "positive market feedback" regarding its move to price sustainable nickel. Its partner Metalshub, a German online metals auction platform, sold 144 metric tons of low-carbon nickel in May and plans to publish a corresponding price when there are more transactions.

Benchmark Mineral Intelligence, a UK-based provider of critical minerals pricing and data, has launched green metals pricing contracts, with each price derived from how a mining company adheres to 79 criterion that Benchmark said reflect high production standards.

"You will not be able to guarantee by any stretch of the imagination a non-China supply of certain metals unless you're willing to pay some degree of a premium for that product," said Benchmark's Daniel Fletcher-Manuel.

That's the message that Jervois has been pushing, unsuccessfully. "Ultimately, ESG has a cost," said Bryce Crocker, the company's CEO. "It's a worthwhile cost."

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