

Cobalt

Australia hopes to cash in on new cobalt rush

Search for deposits driven by demand for electric vehicles and Congo supply concerns



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Jamie Smyth in Broken Hill and Henry Sanderson in London FEBRUARY 12, 2019

It is one of Australia's oldest mining towns that has built its wealth from a huge deposit of silver, lead and zinc. Now, Broken Hill is aiming to tap into the fast growing electric vehicle market by becoming a vital source of cobalt.

Mining groups in the outback town, 1,000km from Sydney, are lured by forecasts that demand for cobalt — the main power source for mobile devices and electric vehicles (EVs) — will quadruple by 2029.

Supply concerns have further stoked their interest as two-thirds of the world's cobalt is mined in the Democratic Republic of Congo, a poor country that suffers from political instability and corruption and which has been criticised for the use of child labour in its artisanal mines.

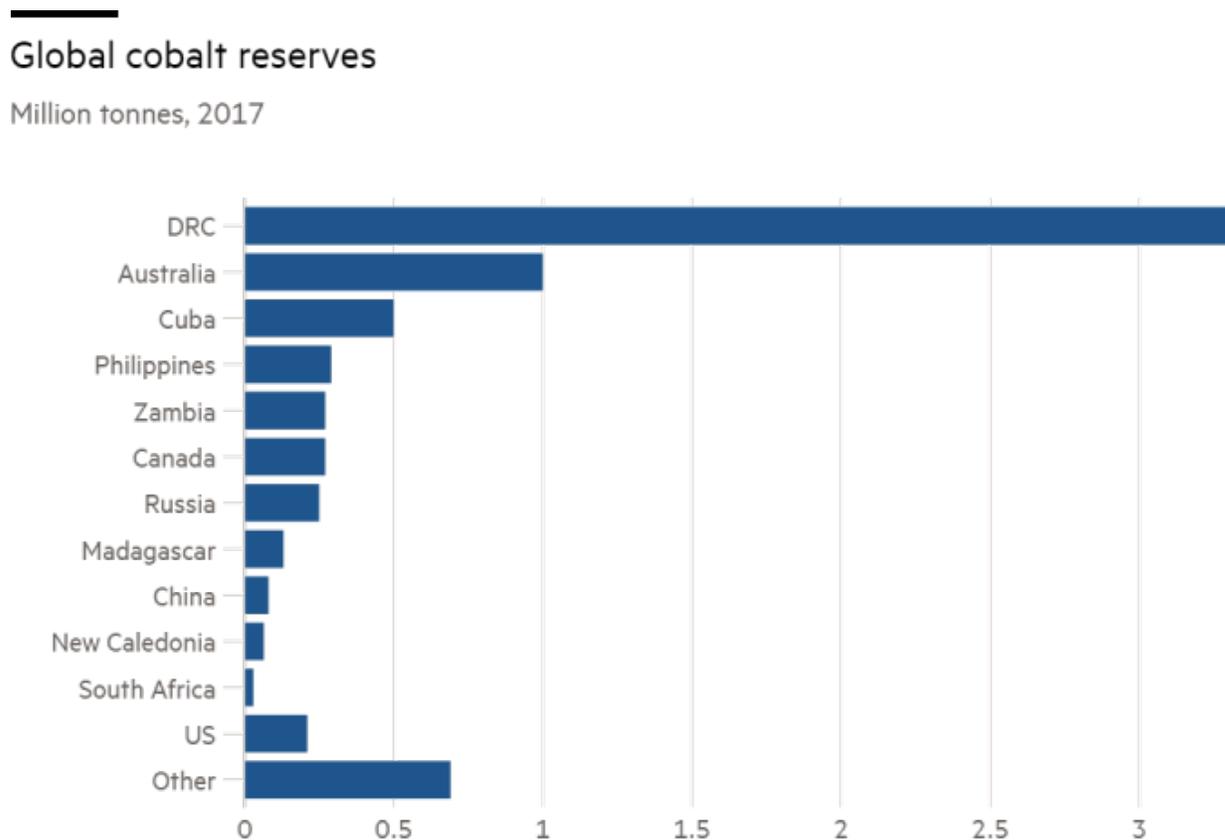
“No one can predict politics in the DRC, the country presents logistical challenges and there is a question mark over the efficacy of the 10 to 15 per cent of cobalt produced there from

artisanal sources,” said Joe Kaderavek, chief executive of Cobalt Blue, an ASX-listed miner with an operation in Broken Hill.

“Increasingly, Asian battery makers are looking for the stability that Australian sources of cobalt can offer.”

Cobalt Blue is one of dozens of small miners in Australia, Canada and elsewhere that are rushing to explore cobalt deposits and raise funds to develop new mines and processing plants to produce the blue-grey metal.

Last year Kinshasa’s dominance over the cobalt supply chain rose above 70 per cent as Chinese-owned mines in the DRC and new entrant Eurasian Resources Group, a Luxembourg-based miner, ramped up production. It is expected to hit 75 per cent this year, according to Darton Commodities.



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“The DRC is to the cobalt world what Saudi Arabia is to oil when it comes to availability of supply, there’s nowhere else where you can get large volumes like you can in the Congo,” said George Heppel, an analyst at consultancy CRU.

This leaves battery makers, electric vehicle manufacturers and western miners exposed to sudden shifts in DRC government policy and consumer boycotts focused on child exploitation. Last year a new mining code imposed a series of taxes on western miners and Glencore was forced to write off \$5.6bn in debt to safeguard its joint venture with Gécamines, the DRC's state mining company.

The London-listed miner is embroiled in a separate dispute with the DRC government over plans to build a new plant to remove uranium from its cobalt ore. This month Katanga Mining, a subsidiary of Glencore which owns a large cobalt and copper mine in the DRC, warned it may not be able to sell any cobalt until 2020 due to governmental concerns.

Analysts at Darton Commodities recently warned that increased resource nationalism in the DRC continued to present a significant supply risk.

“Continued stability in the DRC will therefore be of vital importance, ensuring a secure and transparent cobalt supply chain which in turn is critical for the global transition to EVs to materialise,” they added.

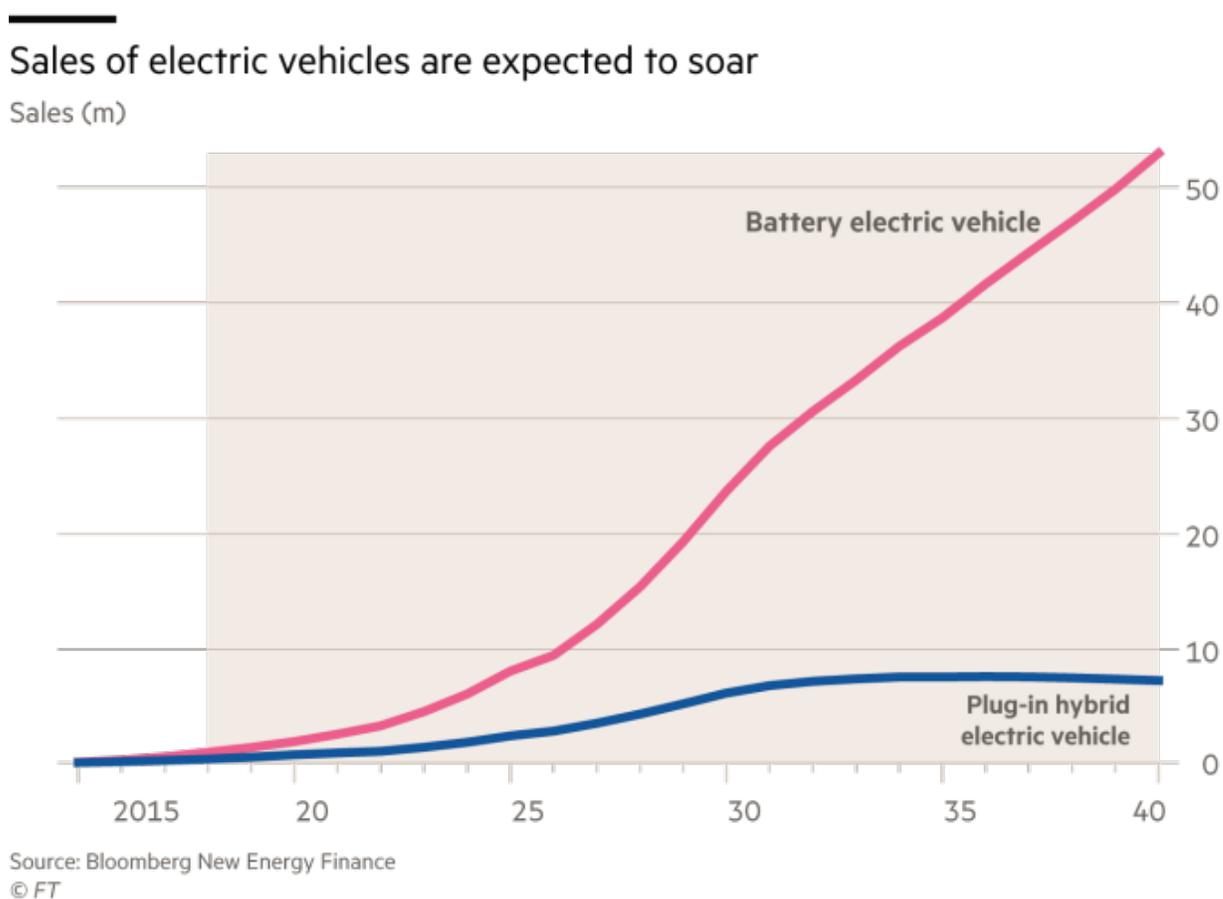


Camla Rochat, a Cobalt Blue geologist, examines core samples at the company's site in Broken Hill

Due to these concerns, Asian battery makers are now building alliances with miners in Australia.

Last year LG International, the investment arm of the South Korean battery maker, bought a 6 per cent stake in Cobalt Blue. Shanghai Pengxin, a Chinese conglomerate, paid A\$81m (\$57m) for a 16 per cent stake in Clean TeQ, an ASX-listed company also aiming to develop a nickel-cobalt-scandium mine about 350km west of Sydney.

“International NGOs are focused on the issue of child labour in DRC and they are likely to single out multinational companies, the battery makers and the car companies, to clean up their act,” said Sam Riggall, Clean TeQ’s chief executive. “Australia will play an important role in the diversification of the cobalt supply chain,” he said.



However, there are currently no large new cobalt mines in the pipeline outside of the DRC.

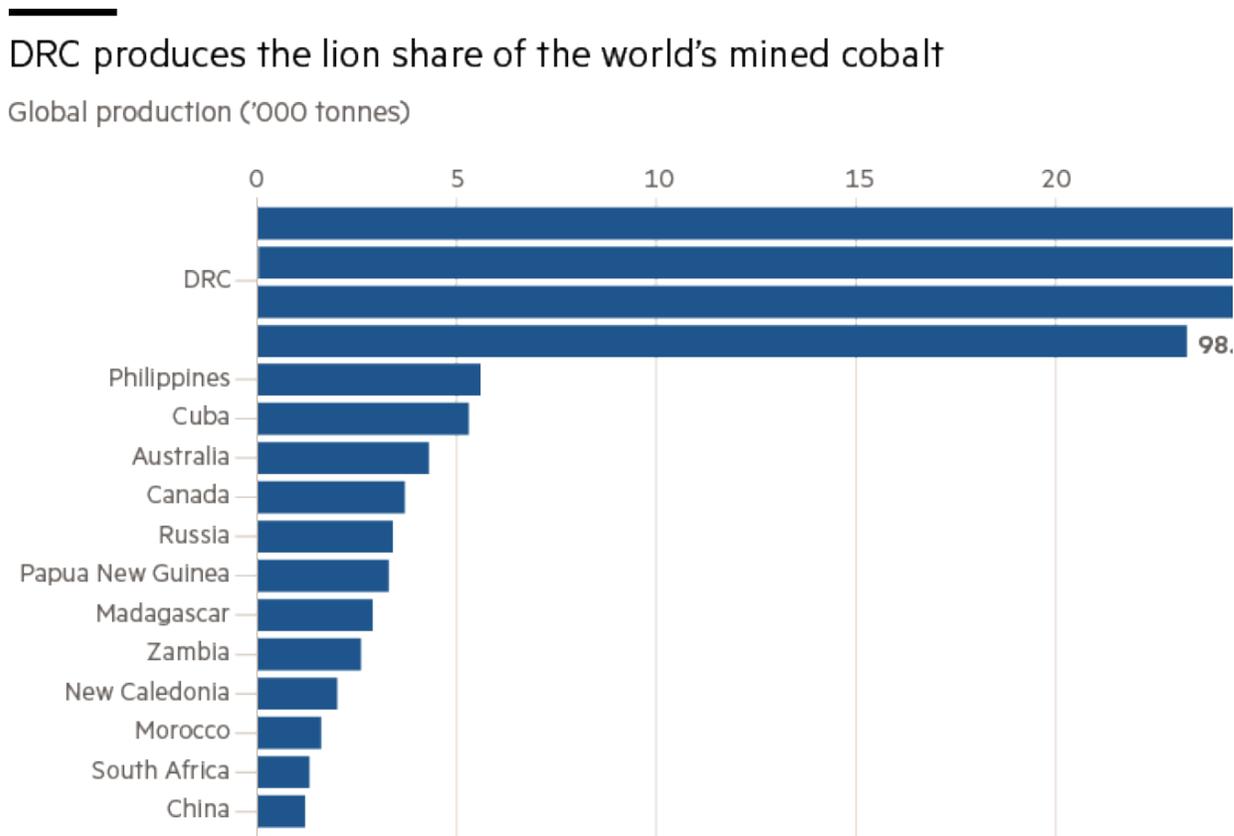
Canadian-listed First Cobalt aims to build a North American supply of cobalt by developing a mine in Idaho and processing the metal at a refinery it has reopened in Ontario.

Trent Mell, chief executive of First Cobalt, said the publication by US president Donald Trump of a “critical minerals” list last year had helped the company gain political support for US-based cobalt supply.

“With the US putting cobalt on the critical minerals list, we have a lot of friends in Washington,” Mr Mell said. “If you picture a boxing ring, you’ve got Glencore in one corner and China in the other; it’s a small market, it’s a tight market. I don’t think cobalt prices really reflect the structural outlook that many of us see.”

Another country that could be a source of cobalt is Kazakhstan. Kenes Rakishev, a Kazakh businessman and entrepreneur, is aiming to mine cobalt and nickel in eastern Kazakhstan, using low-cost leaching techniques already used to mine uranium in the country. The company, KazCobalt, aims to eventually list on the stock market.

“If this technology can work for nickel and cobalt, it will be the lowest cost in the world,” Mr Rakishev said. “You need to just dig — that’s it.”



Source: Darton Commodities
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Cobalt is mined alongside copper in the DRC, while outside the country it is mostly a byproduct of nickel mining. Brazilian miner Vale is spending \$2bn on an underground expansion of its mine at Voisey’s Bay, Canada, which will also produce cobalt.

“There will be no shortage of cobalt but we’re going to have better cobalt and nickel prices to get the mines [outside the DRC] built,” said Anthony Milewski, chief executive of Cobalt 27, which has acquired the right to buy future cobalt production from the Vale mine.

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Echoing this view, Gavin Montgomery, an analyst at Wood Mackenzie, said companies outside of the DRC would struggle to raise finance in the face of falling cobalt prices, which are down more than 40 per cent since mid-November.

Prices are likely to fall further given there was a “tsunami” of new cobalt supply coming online in the DRC over the next few years, Mr Montgomery said.

“In the medium-term it is all DRC,” Mr Montgomery added. “There’s no shortage of supply.”

Outside of the DRC the most promising project is a giant \$700m nickel-processing project being built in Indonesia by a consortium of investors including Chinese stainless steel giant Tsingshan and China’s largest battery maker CATL.

As well as nickel, the Indonesian project hopes to produce about 20,000 tonnes of cobalt sulphate for batteries a year and has already secured financing.

“We’re probably more bullish about Indonesia becoming the new frontier for cobalt and nickel supply than Ontario or Zambia or Australia,” Mr Montgomery said.

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