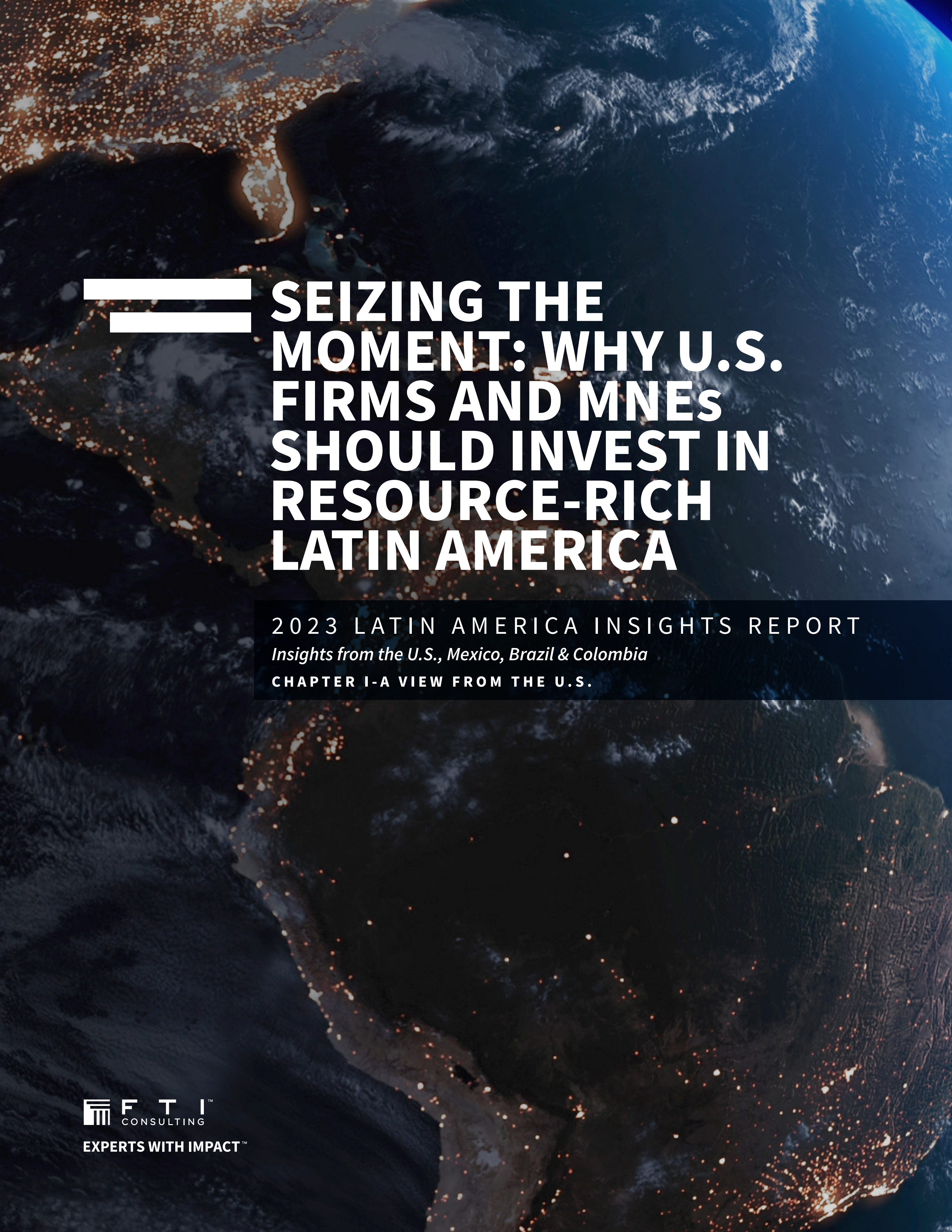

SEIZING THE MOMENT: WHY U.S. FIRMS AND MNEs SHOULD INVEST IN RESOURCE-RICH LATIN AMERICA

2023 LATIN AMERICA INSIGHTS REPORT

Insights from the U.S., Mexico, Brazil & Colombia

CHAPTER I-A VIEW FROM THE U.S.

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The problem: Reliable sources of critical minerals are hard to find

Critical minerals were already in high demand at the start of the decade, and are growing more important as electric vehicles ("EVs") and other green technologies that rely on batteries gain market share. Now, clean energy incentives laid out in Section 13401 of the U.S. Inflation Reduction Act of 2022 ("IRA") are bound to catapult them into the heart of the modern global economy.[1]

Yet with only one operating lithium mine and permitting requirements that can take up to a decade to fulfill, the U.S. currently lacks the capacity to source sufficient critical minerals domestically.[2,3]

The solution: Investing in Latin America

Latin America is uniquely positioned to meet the current demand for critical minerals, for several reasons.

To begin with, the region is rich in resources. It is home to the world's largest lithium reserves located in the "Lithium Triangle" countries of Argentina, Bolivia and Chile, while countries including Brazil, Mexico and Peru hold smaller but still significant shares.[4,5]

The region is also well positioned for investment. In South America alone, foreign direct investment (FDI) grew by 74% in 2021, and all major recipients saw inflows boom in mining and energy.[6] These benefits are only expected to grow, with demand for critical minerals slated to unlock US$50 billion per year by 2050.[7]

Fortunately, the U.S. enjoys healthy relations with Latin America's mining powerhouses and has free trade agreements (FTAs) with Chile, Colombia, Mexico and Peru.[8] These countries stand to gain from the incentives and benefits laid out in the United States' recent clean energy legislation and, for the region's new left-leaning governments, investment inflows could also help expand social spending and advance policy goals amid soaring inflation.

Why is this proposition mutually beneficial? Latin American countries battered by the economic impacts of COVID-19, many of which recently elected left-leaning governments, are in dire need of investment to boost social spending and fulfill campaign promises. Simultaneously, U.S.-based MNEs can benefit from the fact that the recent midterm elections and IRA have created a political environment that encourages expanded mining opportunities in Latin American countries with U.S. FTAs.

Evidently, China's commercial interest in Latin America is active and growing. It is a leading trading partner for Latin America and the top trading partner for South America in particular. China's presence is also deeply felt in the mining sector. It has invested US$4.5 billion in the Lithium Triangle and Mexico and has become the largest mining investor in Peru. [9,10] If multinational enterprises ("MNEs") do not move fast, China could crowd out additional investment in the region's critical minerals in the near future.

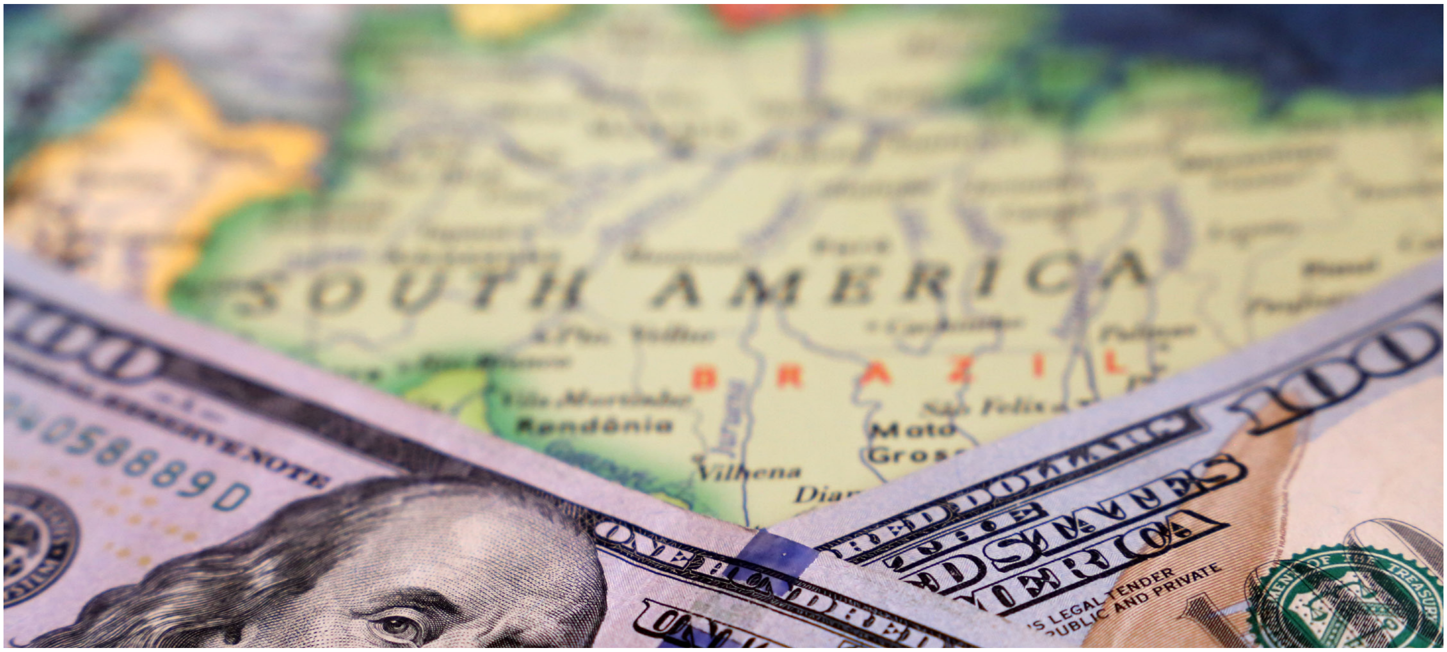
The U.S. political landscape can facilitate mining investment in Latin America

Pursuing these opportunities is timely for U.S.-based MNEs, as the 2022 midterm elections have created a political environment that could spur mining investments.

The IRA extends EV tax credits to countries with U.S. FTAs, and mining has come to enjoy bipartisan support.[11] Republicans point to national security and Chinese mining dominance to justify an expanded U.S. role in foreign mine acquisitions.[12] Although environmentalists and Indigenous groups often oppose mining, Democrats also recognize critical minerals as key to achieving clean energy and energy security goals.[13]

The IRA is designed to incentivize critical minerals sourcing from Latin America. The law creates opportunities for U.S.-based MNEs and regional governments to position their countries as prime destinations for investment.

There is a desire to build a homegrown critical minerals supply chain, but this will take time. Domestic sourcing is limited and though the Republican-controlled House of Representatives has vowed to expedite permitting times, the drawn-out vote for House Speaker has revealed stark divisions within the party which may undercut its agenda.[14] Moreover, the Democratic-controlled Senate may block these efforts due to environmental concerns. As such, sourcing in Latin America could allow U.S. firms to access critical minerals while efforts to build domestic supply take root.[15]



The strategy: Addressing challenges and taking action

Pursuing these opportunities will present challenges.

MNEs must cultivate a nuanced understanding of the region's regulatory and political landscape, which varies across and within countries. For instance, though Argentina has a national framework for mining, authorities govern resources at the provincial level.[16] In Chile, where an investment-grade economy and stable regulatory framework encouraged FDI for years, the Boric Administration is introducing new onerous regulations.[17]

MNEs must also gain and maintain license to operate ("LTO"). This entails navigating resource governance challenges — which center around environmental opposition and an unequal distribution of benefits — as well as rampant mistrust in government and the private sector.[18, 19] These factors combined have made LTO the top risk for miners and their stakeholders, one that must be continuously studied, monitored, mitigated and understood.

For their part, Latin American countries must operate strategically if they hope to benefit from heightened demand for their critical minerals. This will require countries to establish clarity around mining policies and mitigate the perception that the region's mining regulatory regime is in flux. This is especially critical for countries like Chile, a mining powerhouse where the rewriting of the constitution could deter investment. [20]

In addition, a volatile economic trajectory and the recent election of leftist leaders in Brazil, Chile and Colombia who have been critical of the private sector, will necessitate countering the perception that the region is risky for investors. Efforts will need to be made to inform stakeholders on how to capitalize on the benefits offered by the IRA, which includes incentives for mining investments and strict requirements on material sourcing (e.g., the stipulation that 80% of battery metals must come from the U.S. or a country with an FTA by 2027).[21] This will greatly benefit countries like Chile, Colombia, Mexico and Peru, which enjoy FTAs with the U.S., and should encourage their governments to pursue expanded trade relations.

In this setting, MNEs and Latin American countries must act. For MNEs, this will involve taking concrete steps to understand Latin America's political shifts and, in the U.S., engaging political leaders as allies, for instance, by supporting the ratification of the U.S.-Chile tax treaty that would facilitate investments. This will also require engaging stakeholders that determine a company's LTO and embracing the Environmental, Social and Governance ("ESG") principles and other best practices that help firms operate in fluid environments. National governments will need to amplify measures to attract investment, clarify mining regulations and engage U.S. stakeholders in pursuit of the maximum benefit for their countries.

The road to further U.S.-Latin American commercial opportunity needs more paving, but contains great potential. Strategic actions, taken now, to promote investment in Latin America's resources and to capitalize on the United States' political landscape can unleash prosperity for MNEs and the region alike.

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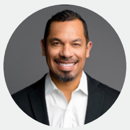

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