

EU–Latin America: Enhancing cooperation on critical raw materials

SUMMARY

Economic security has become crucial for the EU. Both the Letta Report on the future of the single market and the Draghi Report on the future of European competitiveness emphasise the need to intensify efforts to secure the EU's supply of critical raw materials (CRM). Europe is vulnerable to both coercion and geo-economic fragmentation because of its high dependency on strategic raw materials from countries with which the EU is not strategically aligned. Diversifying imports of strategic raw materials is key to mastering the clean transition of Europe's economy, mitigating supply chain risks and reducing the EU's strategic dependencies.

In line with its CRM strategy, the EU is seeking to conclude new partnerships in the context of the EU trade and Global Gateway strategies. However, the EU is not the only actor looking to secure access to CRM supplies. China, for example, is bolstering its global dominance in strategic and emerging technologies, continuously increasing its presence in Latin America (and Africa) in order to secure its supply of strategic raw materials. The region is primarily rich in lithium and copper, which are essential for renewable energy technologies and the production of the lithium-ion batteries used in laptops, smartphones, and hybrid and electric vehicles.

Since 2023, Latin America, too, has won the EU's renewed attention, and real steps to enhance cooperation on CRM have been taken. In 2023, the EU signed a memorandum of understanding with Argentina and Chile on sustainable raw materials value chains. In November 2024, an interim trade agreement with Chile was ratified – the first EU trade agreement comprising a specific chapter on energy and raw materials. In December 2024, the EU and Mercosur finally reached a political agreement on the EU–Mercosur partnership agreement. As Mercosur countries, primarily Argentina and Brazil, are major producers of CRM, the agreement could help the EU secure an efficient, reliable and sustainable flow of the raw materials that are critical for the clean transition and for the EU's strategic autonomy more widely.



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The EU's critical raw materials dependency

In her November 2024 [speech](#) to the European Parliament's plenary on the new college of Commissioners and its programme, the President of the European Commission, Ursula von der Leyen, announced that the new Commission's first major initiative would be a **competitiveness compass**. The compass would frame the work for the rest of the term and consist of three pillars: (i) closing the innovation gap; (ii) developing a joint plan for decarbonisation and competitiveness; and (iii) reinforcing the EU's economic security. The key objective of the third pillar is to ensure **stable and secure supply chains, notably for critical raw materials (CRM)**. This goal is also reflected in the President's [mission letter](#) to the Commissioner for Trade and Economic Security, Maroš Šefčovič, which states that the EU's trade policy should focus on the core objectives of competitiveness, security and sustainability. [Clean trade and investment partnerships](#) should bolster the EU's competitiveness and diversify supply chains; providing a template also for partnerships on CRM.

The EU is highly dependent on imports of [CRM](#), as the domestic CRM production, for instance in Belgium (arsenic) and Finland (Nickel), does not cover the European economies' demand. The clean energy transition and the digitalisation of the EU economy will lead to a sharp increase in the EU's need for CRM over the coming decades. This increase, combined with the growing global demand for CRM – due to increasing global population, digitalisation and the transition to climate neutrality – could further deepen the EU's strategic dependencies on certain countries. As a result, Europe's supply chains would become even more vulnerable.

Both the [Letta Report](#) on the future of the single market and the [Draghi Report](#) on the future of European competitiveness emphasise the need to intensify efforts to secure the EU's supply of CRM. Around 40 % of EU imports are sourced from a small number of suppliers, and around half of these imports originate from countries with which the EU is not strategically aligned. [China](#), for example, provides 100 % of the EU's supply of rare earth elements and 97 % of its magnesium supply. Consequently, Europe is vulnerable to both **coercion** and, in extreme cases, **geo-economic fragmentation**.

One case in point is the recent example of [China's ban](#) on exports of rare minerals such as gallium and germanium to the United States (US), which could lead to a US\$3.4 billion decrease in US gross domestic product. Diversifying the imports of strategic raw materials is therefore key to mitigating the risks for supply chains and reducing the **EU's strategic dependencies**. The latter is also one of the key objectives of the [Critical Raw Materials Act](#), which entered into force in May 2024. The EU set the goal that by 2030, not more than 65 % of the EU's annual consumption of each strategic raw material at any relevant stage of processing should come from a single third country.

Against this backdrop, the EU is striving for **new partnerships with like-minded partners**, in particular from emerging markets and developing economies. Latin America is becoming increasingly important for the EU in this context. The region is home to vast reserves of CRM, primarily lithium and copper, and is expected to play a pivotal role in the clean energy transition and the digitalisation of the world economy. Strengthening political, trade and investment ties with Latin America even further will be crucial for the EU in a bid to diversify and foster secure supply chains to reinforce Europe's economic security.

Latin America: Global supplier of lithium and copper

Of the 34 critical raw materials on the [EU's list](#) of CRM, **25 are extracted in Latin America**. According to the [World Trade Organization](#), Chile – with which the EU has just updated a [trade agreement](#) – is the world's leading exporter of critical minerals, accounting for 11 % of global exports in 2022, followed by South Africa (10 %), Australia, Peru and the Russian Federation (all at 6 %). Latin America, in particular South America, is primarily rich in lithium and copper. The region has also the largest reserves of niobium, natural graphite, fluor spar and rare earth elements. According to a 2023

European Commission [study](#) on CRM, Brazil is, with over 90 %, the world's largest supplier of niobium (Figure 1), a metal mainly used to enhance steel products' strength, flexibility and lightness.

Lithium is an essential mineral for the production of **lithium-ion batteries** used, for instance, in laptops, smartphones, hybrid and electric vehicles. Lithium-ion batteries are also used increasingly to store excess power generated from wind, solar and other renewable energy sources. United Nations Conference on Trade and Development (UNCTAD) [projections](#) based on data from the International Energy Agency indicate that by 2050, **lithium demand could rise by over 1 500 %** (with similar increases forecast for nickel, cobalt and copper). The EU's demand for lithium alone is [expected](#) to increase 12-fold by 2030 and 21-fold by 2050.

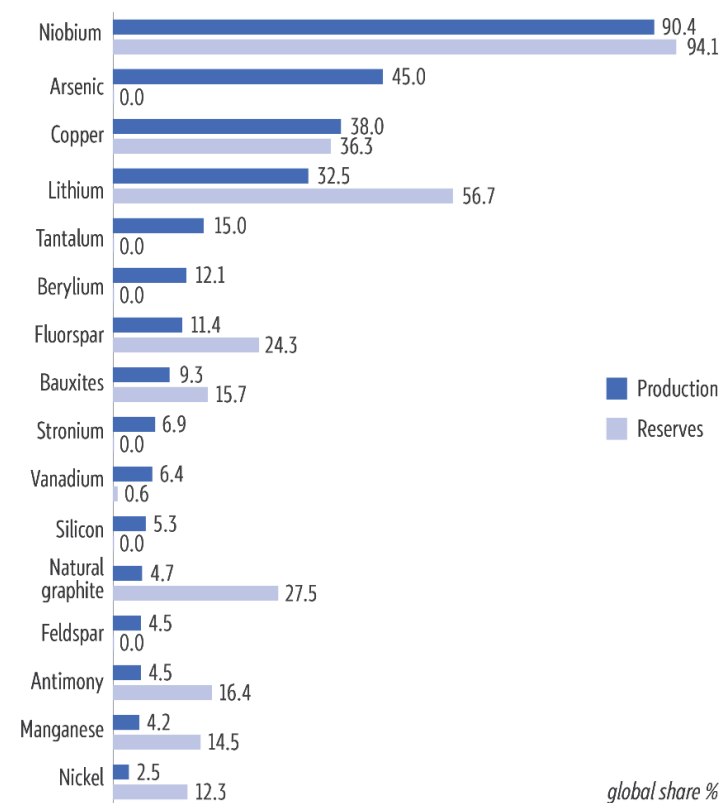
According to the 2024 [US Geological Survey](#), Argentina, Bolivia and Chile – jointly referred to as the '[lithium triangle](#)' – hold about half of the world's measured lithium resources. Argentina (6 %) and Chile (24 %) account for around 30 % of global lithium production. Beyond the lithium triangle, other Latin American countries such as Brazil and Peru are exploring their potential lithium reserves, as well. While Brazil is overall the most important supplier of CRM from Latin America to the EU, 79 % of the EU's supply of refined lithium originates in Chile.

In addition to its richness in lithium, Latin America has the world's [largest copper reserves](#). **Copper** is another mineral that is crucial for renewable energy technologies. Chile is the world's number one [copper producer](#), accounting for 27 % of global supply. Peru, the second largest producer, accounts for 11 % of global supply.

However, considering its enormous reserves, Latin America [underperforms in its production](#) of critical minerals. Australia, for instance – despite having only half of Chile's lithium reserves – has managed to become the world's largest lithium producer. One explanation for this is that some Latin American countries cannot operate lithium-mining projects autonomously. [Bolivia](#), for example, has the world's largest lithium reserves, but does not have the means to develop them locally.

These countries therefore have to engage in **joint ventures with international companies**, as was the case in 2023, when Russia's Uranium One Group and Chinese companies reached [agreements](#) with Bolivia's state-owned lithium company Yacimientos de Litio Bolivianos (YLB) in order to build lithium carbonate production plants in the country. However, according to [experts](#), investment conditions in the Andean region, in particular Bolivia, are unfavourable for companies, on account of the political instability and the high degree of state intervention. In 2019, for example, the Bolivian

Figure 1 – Latin America's share in global production and reserves of selected critical raw materials in 2023 (%)



Source: EPRS, based on [PEI and USGS](#) data; graphic by Stephanie Pradier, 2024.

government cancelled a [joint partnership](#) with Germany's privately owned ACI Systems Alemania (ACISA) aimed at developing a large lithium project, after protests claiming the project would not benefit local communities.

While the booming demand in CRM offers enormous economic opportunities for Latin America, the exploitation of these resources has led to significant challenges in terms of their **environmental impact** (e.g. the sustainability of water-intensive lithium mining) and the increase in **socio-ecological conflicts**. According to a German Institute for International and Security Affairs [study](#) on environmental rights and conflicts over raw materials in Latin America, over 40 % of environmental conflicts are linked to minerals extractions. Alongside economic issues, such as no rise in employment in the productive sector, dependency on the price of raw materials on the world market and high ecological costs, there are also multiple related social divides.

[Experts](#) point to the fact that, while Latin American countries mine a substantial share of the world's strategic mineral commodities, most of the strategic and **value-added processing, refining and downstream manufacturing operations are undertaken abroad**. An [UNCTAD analysis](#) shows, for instance, that no country in Latin America (or Africa) is currently a major player in manufacturing or trading cathodes or battery materials analysis. UNCTAD advocates more sustainable and transparent mining contracts and exploration licences to bolster domestic industries in developing countries. Local firms should be enabled to participate more effectively in the value chain of renewable energy components. Against this background, the [EU's Global Gateway approach](#) to establishing partnerships on CRM supply chains comprises the following criteria, to the **mutual benefit of both sides**:

- integration of sustainable raw materials value chains, including through joint development of projects, new business models, promotion and facilitation of trade and investment linkages;
- cooperation on research and innovation along the raw materials value chains, including on minerals knowledge and the minimisation of the environmental and climate footprint;
- cooperation to leverage environmental, social and governance (ESG) criteria and align with international standards;
- deployment of hard and soft infrastructure for projects development, while minimising their environmental and climate impact;
- strengthening capacities, vocational education and training and skills development along sustainable raw materials value chains in accordance with international labour standards.

China and the race for Latin America's critical raw materials

Over the past two decades, China has steadily [increased](#) its economic footprint in Latin America and the Caribbean (LAC). The [Belt and Road Initiative](#) (BRI), officially launched in September 2013, is a corner stone of China's foreign policy concept and plays a crucial part in Latin America. So far, **21 Latin American countries have signed on to the BRI**. However, Brazil – which as China is a member of BRICS (Brazil, China, India, Russia South Africa and others) – has so far refused to join the BRI. In 2016, China [published](#) an update of its policy paper on LAC, highlighting the Chinese trade and economic strategy for the region. The country's economic engagement in Latin America is based on [four pillars](#): (i) foreign direct investment (FDI); (ii) official lending; (iii) trade; and (iv) infrastructure.

Looking at the trade and investment relations, China has continuously strengthened its ties with the LAC region over the past two decades, and is today the region's **second biggest trading partner after the US (and before the EU)**. According to the World Economic Forum, Latin America's [bilateral trade in goods](#) with China grew 26-fold, from US\$12 billion in 2000 to US\$315 billion in 2020, and is expected to more than double by 2035, to over US\$700 billion. Focusing on South America, China's

economic role is even stronger – the country has overtaken the US, and is the region's top trading partner. **China** currently has **four bilateral free trade agreements** in place (with **Chile, Costa Rica, Ecuador and Peru**), and aims to strengthen its trade network further. Talks on a free trade agreement with Uruguay are ongoing. Moreover, Brazilian President Luiz Inácio Lula da Silva has proposed to negotiate a free trade agreement between **Mercosur and China** once the agreement with the EU has been finalised.

China's dominance in strategic and emerging technologies

China is:

- the producer of three quarters of lithium-ion batteries worldwide;
- the world's largest car exporter, mainly owing to surging global demand for electric vehicles;
- the world leader in energy storage space solutions, such as sodium-ion batteries.

China aims to control:

- a third of the world's lithium by 2025;
- the supply of 90 % of rare earth elements and 95 % of rare earth magnets, which are essential for many other green energy technologies, including solar photovoltaics (PV);
- most of the mining and refining processes of lithium, cobalt, nickel, graphite and manganese, which are needed for lithium-ion batteries;
- over 80 % of the entire solar PV supply chain, with all of the top 10 solar PV manufacturing equipment suppliers being Chinese.

Source: D. Song-Pehabmerger, '[Controlling Tomorrow: China's Dominance Over Future Strategic Supply Chains](#)', *The Diplomat*, 21 August 2024.

The high geographic concentration of mineral-processing facilities in China make it the dominant producer of refined mineral components. In 2022, China [refined](#) all of the world's graphite, approximately 85 % of rare earths, 70 % of cobalt, 58 % of lithium and 42 % of copper. **China** is also the **primary buyer** of **Latin America's raw materials**: in 2023, it accounted for [34 %](#) of Latin America's mineral exports.

Along with the increasing trade relations, **foreign direct investment (FDI) from China to Latin America** has been of significant importance over the past two decades – although overall FDI has decreased. [China's FDI in Latin America](#) reached US\$14.2 billion per year between 2010 and 2019, but fell to an average of US\$7.7 billion from 2020 to 2021 and then to US\$6.4 billion in 2022. According to a 2024 [report from the Inter-American Dialogue](#) think-tank, the drop in investment levels did not reflect a lack of interest in Latin America, but is rather a clear [shift in Chinese FDI](#) from costly infrastructure projects towards specific industries described by China as '**new infrastructure**'; this term encompasses, among other aspects, telecommunications, CRM production and energy transition. **Raw materials** are the **most important sector in terms of total Chinese FDI**. They [account](#) for 46 % of investments from 2015 to 2021. Critical metals and minerals projects have been a prominent focus for Chinese investors, accounting for 98 % of total Chinese mining investment. Since 2018, China has invested US\$11 billion in lithium extraction in Latin America. Over the past years, Chinese [mining companies](#), such as Ganfeng, Tianqi and Zijin, have either gained partial or full access to mineral mines across the world, including Latin America. To [illustrate](#): **Chinese companies** purchased **half of the world's largest lithium mines in the market since 2018**. An example of this was the above-mentioned deal of January 2023 between a consortium of Chinese companies (CATL, BRUNP and CMOC) and Bolivian YLB, investing US\$1.4 billion in the construction of two lithium extraction plants. A second deal was signed in June 2023, where CITIC Guoan agreed to invest US\$857 million in a project in the Uyuni salt flats, which contain vast amounts of lithium.

Looking ahead, China is ambitious to expand its relations with Latin America further: at the margins of the 2024 [Asia–Pacific Economic Cooperation](#) (APEC) Leaders' Summit in Lima (Peru), China and

Peru updated their free trade agreement (FTA). [Observers](#) point out that the upgraded FTA is expected to boost bilateral commerce between the two countries by at least 50 %. Argentinian President Javier Milei, who met with Chinese President Xi Jinping during the November 2024 G20 Leaders' Summit in Rio de Janeiro (Brazil), [stressed](#) that Argentina hopes to strengthen cooperation with China in the fields of economy, trade, energy, mining and finance, and would welcome more Chinese enterprises to invest and cooperate in Argentina. In addition, during President Xi Jinping's state visit to Brazil in November 2024 following the G20 Summit, the two countries expanded their bilateral relations by signing [37 international acts](#) in areas such as trade, investment, energy, mining and finance.

EU–LAC cooperation to enhance trade and investment in critical raw materials

In line with the EU's CRM strategy, the EU is seeking to explore and conclude new partnerships on sustainable raw materials in the context of the EU's trade and Global Gateway strategies. So far, the EU's [raw materials diplomacy](#) has resulted in **strategic partnerships on sustainable raw materials** with Argentina, Australia, Canada, Chile, the Democratic Republic of the Congo, Greenland, Kazakhstan, Namibia, Norway, Rwanda, Serbia, Ukraine, Uzbekistan and Zambia.

Since 2023, Latin America has gained renewed attention from the EU. In June 2023, the High Representative and the Commission adopted a [joint communication](#) setting out a new agenda for relations between the EU and LAC. The [strategy](#) aims for a stronger and modernised strategic partnership by boosting trade and investment, among other things. A concrete objective is the establishment of a **global Critical Raw Materials Club with interested LAC partners, to strengthen sustainable supply chains and diversify sourcing**. The intention to establish such a [club](#) for all like-minded countries willing to strengthen global supply chains was announced by the Commission in 2023. The idea behind it was that 'resource-hungry' countries would pay a fair price for raw materials, and support 'resource-rich' countries in enabling them to retain a larger share of the raw materials value chain. Resource-rich countries would in turn supply critical materials. [Experts](#) criticise that the club lacks structure, and that little information is available on the state of play of the club's establishment.

With Latin America, concrete steps forward in the cooperation on CRM were taken in 2023. In June, the **EU and Argentina** signed a [memorandum of understanding](#) (MoU) on sustainable raw materials value chains. In July, at the margins of the EU–CELAC (Community of Latin American and Caribbean States) Summit in Brussels, the **EU and Chile** signed a similar [MoU](#). With the signing of these two MoUs, the parties expressed their intention to **intensify cooperation in the field of global sustainable value chains**, including those raw materials that support clean energy and the digital transition, such as copper, lithium and rare earths. From a **parliamentary scrutiny** point of view, it might be interesting to follow up with the Commission on the establishment of the Critical Raw Materials Club, and the implementation of the multiple MoUs on strategic partnerships on sustainable raw materials, even though they **do not represent commitments of financing or preferential treatments**.

In addition to the partnerships on sustainable raw materials, the EU is driving ahead with its network of trade agreements with Latin America. In November 2024, the [interim trade agreement](#) (ITA) with Chile was ratified as part of the broader advanced framework agreement (AFA) between the EU and Chile, and is expected to enter into force on 1 February 2025. The **ITA with Chile** is the **first EU trade agreement that contains a specific chapter dedicated to energy and raw materials**. In view of the sustainability concerns mentioned above, the agreement contains, among other things, provisions on sustainable mining and principles for environmental impact assessments.

Lastly, on 6 December 2024, the EU and Mercosur reached a political agreement for the **EU–Mercosur partnership agreement**. [According](#) to the European Commission, since Argentina and Brazil, in particular, are major producers of CRM, the agreement will help secure an efficient, reliable

and sustainable flow of raw materials critical for the global green transition by **lowering or removing export taxes and eliminating export restrictions and export monopolies.**

Looking ahead, it will be interesting to observe how the Commission develops and expands the above-mentioned clean trade and investment partnerships on critical raw materials.

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