

POLICY BRIEF

**RECOMMENDATIONS
FOR THE NEW
ADMINISTRATION**

Latin America, Green Materials and Free Trade Agreements

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This brief is part of a series of policy recommendations for President-elect Joe Biden's incoming administration. Focusing on a range of important issues facing the country, the briefs are intended to provide decision-makers with relevant and effective ideas for addressing domestic and foreign policy priorities. View the entire series at www.bakerinstitute.org/recommendations-2021.

Rich in copper, lithium, and other critical minerals used in the manufacturing of electric vehicles and batteries, Latin America (LATAM) has an important part to play in enabling the global energy transition. China has already recognized the opportunity LATAM offers. Seeking to secure its own supply chain, China is actively pursuing investment opportunities in many countries in the region. The U.S. has not been as proactive in the region, and currently has almost no free trade agreements (FTAs) with LATAM countries. If the U.S. is to create a resilient energy supply chain and securitize its own needs for the energy transition, it must be more proactive in resource and supply chain development in LATAM.

LATAM countries have long recognized the importance of engaging in customs unions and FTAs. Agreements such as the Andean Community Free Trade Agreement¹ and the Peru Trade Promotion Agreement² are notable examples. The Mercado Común del Sur (MERCOSUR), or Southern Common Market, is a much broader customs union that was formalized in March 1991 between Argentina, Brazil, Paraguay, and Uruguay. Chile joined with an economic partnership, and Venezuela joined later but was suspended in December 2016. The

MERCOSUR bloc has free trade agreements with Mexico, Peru, India, Egypt, Israel, and the European Union.

Due to the current diplomatic standoff between Bolivia and Chile, there is no FTA in place within LATAM's Southern Cone, a region that includes three of the world's largest lithium resource-holders—Argentina, Bolivia, and Chile. As the second-largest producer of lithium in the world, Chile is a major player in the global supply chain for batteries and electric vehicles. Most of the lithium it produces is exported to China for use in battery manufacturing. If no advancements are made toward the development of advanced manufacturing capabilities in-country or in the Americas, this will continue for the foreseeable future.

Fortunately, there are also notable examples of successful trade negotiations involving the U.S. specifically. Argentina and Chile each have bilateral trade agreements with the U.S.³ So, there is precedent for the U.S. to leverage with regard to the development of renewable energy supply chains. Given the new administration's focus on reducing supply chain dependency on China, the LATAM region offers opportunities that can be strengthened and expanded by leveraging agreements.



By proactively engaging and expanding trade relationships with the Southern Cone countries, the U.S. can secure access to minerals and materials that are critical to the energy transition, boosting regional economic development in the Southern Cone.

By promoting FTAs and investment in the region, the new administration has the opportunity to support the development of “green materials” in the Southern Cone. By proactively engaging and expanding trade relationships with the Southern Cone countries, the U.S. can secure access to minerals and materials that are critical to the energy transition, boosting regional economic development in the Southern Cone. Notably, this will provide an important diversification benefit, thereby reducing dependency on China throughout the value chain.

Since some of these countries already have some type of trade agreement, it would be useful to review and update existing agreements to better serve the relationship with green materials and critical minerals. This could range from amended trade agreements to Cabinet-level agreements to promote the advancement of U.S. manufacturing. With regard to Chile, new commercial relationships can leverage the fact that the two lithium producers in Chile are Albermarle, a U.S. company, and SQM, a Chilean company listed on the New York Stock Exchange. Along similar tracks, the U.S. could promote partnerships to securitize the copper supply chain with Peru and Chile, who together currently supply more than 50% of their copper production to China (worldwide, Peru is the second-largest copper producer, and Chile is the largest, currently supplying 7% of its production to the U.S.), as well as seek new diplomatic avenues to support Bolivia’s ambitions to develop its lithium resources.

Trade policy can be a powerful diplomatic tool to achieve broad economic and national security goals, especially when it is not dominated by neo-mercantilist motives. An energy transition strategy that expands the use of renewable and battery technologies will push the U.S. to increase its import dependence on critical minerals and materials as well as components not produced domestically. This is a significant departure from what has recently transpired in oil and gas markets, where decades of effort led to a radically different energy security paradigm than what existed in the 1970s. Taking measure of the past,

efforts to diversify sources of supply will be critical to fostering supply chain resilience. Deepening U.S. trade and diplomatic relationships with neighbors in LATAM is one area that could pay such dividends, as it would open new avenues for investments along emerging energy supply chains. In turn, this will support growing demands for green technologies while mitigating the potential impact of any disruption by a single actor. Supply chains will, as a result, be more resilient, thus providing the U.S. an important element of energy security.

ENDNOTES

1. Ratified in 1995 by Bolivia, Colombia, Ecuador, and Peru.
2. Ratified in 2009 between Peru and the U.S.
3. Argentina signed a bilateral Trade and Investment Framework Agreement (TIFA) with the U.S. Chile has pursued multiple FTAs, and is a member of the Trans-Pacific Partnership and several bilateral agreements, including one agreement with the U.S and Canada.

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