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Ottawa's efforts to support clean energy technologies and strengthen supply chains for critical minerals was undermined by a federal government decision last week not to review the takeover of a major Canadian lithium mining company by a Chinese state-owned enterprise. Canada's process for conducting national security reviews of proposed investments by foreign firms may be fundamentally flawed.

Zijin Mining Group Ltd which is majority owned and controlled by a large Chinese state-owned enterprise, has effectively been given the green light by Ottawa to complete its purchase of Canadian lithium company, Neo Lithium Corp for C$918.7 million.

Lithium is a major component in the manufacture of batteries for electric vehicles (EV's) and for large-scale battery storage needed to support increased renewable energy generation in the clean energy transition. Roughly 50% of global lithium reserves are located within the "Lithium Triangle" in Chile, Bolivia and Argentina where Neo Lithium's mine is located.

The Neo Lithium takeover is not the first time a Canadian lithium company has been acquired by a Chinese firm. In March 2018, Vancouver-based Lithium X was purchased by NextView New Energy Lion Hong Kong. In December 2018, another Chinese company, Tianqi which controls more than 46% of global lithium production, bought a 23.8% share in a Chilean lithium mine from Canada's Nutrien for $4.1 billion making it the largest deal in history for a lithium asset. Last November, Millenial Lithium, a Vancouver-based lithium miner narrowly missed being acquired by China's Contemporary Amperex Technology Co. Ltd. (CATL), after it was outbid by an American company.

The Chinese government's "Made in China 2025" industrial policy seeks to make China dominant in global high-tech manufacturing, including in batteries, EV's and renewable energy technologies. The program's policy aims include mobilizing state-owned enterprises to acquire intellectual property, technologies and assets abroad with the overall aim to surpass Western countries. Securing access to lithium and other critical mineral reserves is essential to the achievement of "Made in China 2025". It has been estimated that 77% of global lithium-ion production capacity was located in China at the end of 2021.[1] Based on current plans, China is still expected to hold 67% of global lithium-ion cell capacity in 2030. The Neo Lithium acquisition will add to the efforts by China to continue to dominate the global lithium battery market.

The Government of Canada is certainly aware of the strategic importance of lithium and other critical minerals to the clean energy transition and Canada's future prosperity. That is why it has developed a list of 31 minerals that it considers “critical to the sustainable economic success of Canada and its allies and position Canada as a leading mining nation”. Not only is lithium one of the minerals that Canada is seeking to protect and nurture, Canada is also part of the Energy Resource Governance Initiative (ERGI)— a U.S. initiative that includes other nations cooperating to develop alternative supply chains for critical minerals and reduce dependence on China.

It would have been surprising enough if the takeover bid for Neo Lithium had undergone a national security review and then was cleared to go ahead. However, the deal never even triggered a review under Section 25 of the Investment Canada Act. The stated purpose of the Act is to “provide for the review of significant investments in Canada by non-Canadians in a manner that encourages investment, economic growth and employment opportunities in Canada”. One wonders how these goals are furthered by letting Canadian lithium companies be acquired by state-backed Chinese firms.

Canada’s foreign investment reviews have, over the years, broadened from looking primarily at an investment’s economic benefits to incorporating an assessment of national security risks, including the risk to critical supply chains. The government’s “Guidelines on the National Security Review of Investments”[2], states that: “the Government will subject all foreign investments by state-owned investors, or private investors assessed as being closely tied to or subject to direction from foreign governments, to enhanced scrutiny under Part IV.1”. Zijin Mining Group’s largest shareholder is the state-owned Shanghang Minxi Xinghang State-Owned Property Investment Company, which holds 24% of Zijin[3] and exerts effective control over Zijin. The guidelines also state that the Minister may take into account factors such as, “the potential impact of the investment on critical minerals and critical mineral supply chains”. The Zijin takeover seems to have met both of these tests yet a national security review was not undertaken.

Some observers have suggested that a review likely wasn’t triggered because Neo Lithium’s assets are located in Argentina and not in Canada. However, this would not be sufficient reason in and of itself to exempt the takeover proposal from a review. The legislation clearly mentions a wide range of national security considerations including economic, technological and cultural. This includes whether an investment by a state-owned enterprise is “motivated by non-commercial imperatives that could harm Canada's national security”. Given Canada’s critical minerals strategy and what we already know about China’s “Made in China 2025” policy and its dominance in the lithium sector, there would seem to have been ample reason to review this proposal.

A national security review of the most recent lithium takeover could have identified any number of potential risks to Canada’s national security, including that Canada and its partners would have reduced access to lithium stocks needed to buttress a nascent lithium battery industry. Not having lithium production available carries significant supply-chain risks for the EV manufacturing and energy storage sectors and represents a lost opportunity for Canada to locate a significant share of value creation here at home. It is now most likely that virtually all the lithium from this mine will be exported to China to support China's continued dominance in this sector.

Canada's national security interests don't end at our borders. Canadian resource firms that own critical mineral assets should be considered as potential contributors to advancing Canada's national security interests, irrespective of where their activities and assets are located. While the government certainly doesn't want to be exerting undue control over the commercial activities of Canadian firms, it does have an interest in what they do when those activities could tip the balance in preserving Canada's national security, including our future economic security in key sectors such as clean energy, defense and other advanced technologies.

The Neo Lithium takeover raises a number of broader questions concerning Canada's critical minerals strategy. Is Canada serious about becoming a "world leader" in critical minerals and clean energy technologies? If so, it needs to protect those companies we already have from being acquired by competitors who wish to dominate these industries and at the same time be more proactive in building and strengthening critical mineral supply chains at home.

The government may also need to examine the national security review process and provide more extensive guidance on what types of investments and situations would automatically trigger national security reviews. For example, this latest acquisition raises questions about the extent to which our national security review process is aligned with Canada's critical mineral strategies.

Canada's future economic security will require that we have access to the critical resources we need to support the continued development of clean energy technologies and stronger critical mineral supply chains. Allowing major suppliers of critical minerals to be acquired by China's state-owned firms does nothing to advance those aims and puts Canada at a disadvantage in the race to competitiveness in the energy and resource sectors critical to success in the 21st century.

[1] Benchmark Mineral Intelligence, 2021. See: https://www.benchmarkminerals.com/membership/global-battery-arms-race-200-gigafactories-china-leads-2/

[2] Published on March 24, 2021. See: https://www.ic.gc.ca/eic/site/ica-lic.nsf/eng/lk81190.html

[3] Data extracted from Zijin Mining Group Annual Report, 2020 (p. 96). See: https://www.zijinmining.com/upload/pdfjs/web/viewer.html?file=/upload/file/2021/06/09/538a46cc4831452e97b30cae55c9cf97.pdf