A Work Project presented as part of the requirements for the Award of a Master Degree in Finance from the NOVA – School of Business and Economics.

A New Paradigm: Sustainable Mobility

Diogo Jorge Soares Pereira 25975

A Project carried out on the Master in Finance Program, under the supervision of:

Nuno Quartin Bastos de Vasconcelos e Sá

DATE: 03/01/2020
Abstract:
The purpose of this individual report is to understand one of the main risks associated with clean energy mobility solutions and how it can impact revenue of electric vehicle sales. The potential restrictions on lithium extraction, a silvery-white metal essential for rechargeable batteries, can reversal the upward supply of electrified powered motors and undermine the demand considering the increase in cost ownership. These limitations dependent on supranational regulatory decisions and scarcity of natural resources which will affect the market for electric powered vehicles which will influence Daimler’s revenue.

Keywords:
• Lithium
• Electric
• Sustainable
• Mobility

This work used infrastructure and resources funded by Fundação para a Ciência e a Tecnologia (UID/ECO/00124/2013, UID/ECO/00124/2019 and Social Sciences DataLab, Project 22209), POR Lisboa (LISBOA-01-0145-FEDER-007722 and Social Sciences DataLab, Project 22209) and POR Norte (Social Sciences DataLab, Project 22209).
The booming demand for non-fuel vehicles has rearranged the mineral industry. The pressure on lithium extraction has soared since mid-2015 because of the intensified demand for electric vehicles (EV). Until the end of 2018, the demand for lithium exceeded the supply, driving the prices of EV uphill, stressing the automobile players over the supply of raw materials. The race to lithium triggered the opening of new extraction sites, which ultimately prompted the involvement of institutional organizations apprehensive about the negative externalities of over-exploration of natural resources. The environmental impact of finding all means required to produce batteries become an issue in its own right.

Lithium is extracted from lithium minerals, because it is not usually found in its element form due to its high reactivity. The largest reserves of lithium minerals are located in the Pacific Coast of South America (especially in Chile and Bolivia), Argentina, Australia and China. Other relevant deposits are found in Portugal, Brazil and United States. However, some of these reserves are not economically extractable, thus, the resources potentially extractable represent $2.55 \times 10^7$ ton.

The amount necessary to fully operate an electric lithium battery depends on each car characteristics: size, engine power, battery autonomy period, etc. However, the median amount for battery is 2.4kg. Considering this median requirement, if all the word reserves that are economic extractable would be used, the total produced vehicles would reach 4.1 billion, but if instead, the production of batteries used the total potential extractable resources, the total amount of EV produced would reach 10.6 billion vehicles.

Back in 2015, policies such as the Nationally Determined Contributions made for the Paris Agreement were important to prompt the energy transition, stating that the climate change mitigation will be developed with the usage of EV in parallel with the decarbonisation of fuelled power systems. Additionally, the Chinese government encouraged the acquisition of clean energy vehicles over fossil fuelled in its Low Carbon Emission Plans. These government
incentives were a crucial factor to help the market into equilibrium, as the global outcome of lithium prices are mostly determined by the outcome of largest EV market, the Chinese market. Moreover, in 2017, the Clean Energy Ministerial (CEM) a working force partnership of the world’s key economies set a global objective for all 13 members of CEM of a 30% market share for EV in the total sales of all vehicles by 2030. These 13 members, which include China, India and several EU countries, account for 75% of global emission of greenhouse gas and 90% of global clean energy investments. CEM priorities include innovative priorities to accelerate the deployment of clean solution, mobilizing public and private investments towards realistic clean goals. In detail, its campaign EV 30@30 was designed to speed up the placement of EV in circulation, up to a volume of sales of 44 million worldwide in 2030. These policies prompted the run to lithium stressing the mineral extractions which were not prepared to the extraordinary demand. Since 2015, up until the end of 2018, period in which supply met demand, the prices for lithium rocketed.

The global sales of all types of EV in 2018, doubled compared to the homologous period of 2017, from 1.148.700 to 2.018.247 units. The production of vehicles by Daimler followed the global trend for clean energy mobility. As such, the sales of Mercedes-Benz branch reached more than 28.436 vehicles in 2018 a relevant expansion considering the less than 1.000 cars sold in 2010, representing, as of 2018, a market share of 1%. Nonetheless, considering Daimler interest position in other subsidiaries and joint ventures associated with clean energy mobility, the units sold would amount to 41.580, adding up the sales from BAIC Group, Geely Automobile and the Smart brand, an influence share on the market of 5.65% in terms of units sold. Considering the EV sold in 2018 and the median value of 2.4 kg of lithium, the required lithium amount as of 2018, was 4.844 ton.

The exploration of brine operation (low quality lithium) over refined production of lithium, resulting in low-quality materials, lightened the heavy demand in Chinese market resulting in a
two-fold decrease of lithium price per tonne in 2018. In the long term, the addition of new mineral sites and improvement of the existing ones are fundamental to match forecasted demand over next decade, which is expected to be 5 times higher in this 10-year period, considering the demand by EVs, energy storage systems and other mobile digital devices. However, several obstacles have been faced by the mineral industry, considering the recent capital expenditures shrinkage, delay in mine openings and bearish market in lithium and other mineral equities are representative of the development challenges that lay ahead in the following years, reflecting the drawbacks of hast requirements of such substantial mineral volume. However, market expectation about these issues are still positive and the apprehension about over-supply of these inorganic matter are unfounded as the market for lithium is expected to arrive in a period of persistent supply deficit in early 2020s.

The forecast of Daimler Business Model in the near future has most part of its uncertainty rooted in its new revenue streams and how exogenous factors will affect profitability of its future cashflows. The electric branch will have a significant relevance in Daimler total units sales and average price per vehicle. The main report underlying assumptions assumed an optimistic scenario that by 2030, the total sales of EV would reach 30% of total sales. However, this approach doesn’t consider fluctuations in lithium prices that would ultimately influence sales prices and the demand-supply dynamics. In this optimistic scenario, the EV purchase cost would only be 15% higher than the traditional mobility automobiles.

The underlying assumptions to develop these scenarios consist of: same units sold in 2030 but a different proportion of EV; GDP growth for the next decade will be similar regardless of lithium prices and EV sold and Daimler’s market share on Electric Vehicle Market is the same irrespective of lithium prices and market penetration of EV.

The best-case scenario would be one which extraction meets supply, no extreme regulatory legislation would be enforced, and customers would have a high level of satisfaction with EV
usage. This paramount will match the expectations of EV 30@30 by CEM of low carbon emission by 2030. That would result in around 40 million cars sold on a yearly basis by 2030, representing around 30% of all vehicles sold. The effects on units’ sales, average price, revenue and other financial statement accounts is displayed in the table below:

The outcome of this positive scenario is a share price of 62,19€, which reflects the recognition by market players belief on the explosion of electrified mobility, which would be eased by the continuous access to lithium mineral that would decrease the average price of EVs to 10% to 15% of the price of traditional vehicles

The poorest scenario would be one with extreme quotas on lithium extractions and low interest on EV due to high cost of ownership. The minimal expectation would be of total sales of 5-10%, which would represent a sales interval if 7-14 million units. The effects on units’ sales, average price, revenue and other financial statement accounts is displayed in the table below:

The outcome of this pessimistic scenario is a share price of 43,75€, which reflects the recognition of market players’ disbelief on electrification of large share of vehicles sold, which would imply that large investments in R&D were completed but the overall market conditions were unfavourable, and customers’ acceptance of these products was below expectations, considering that due to level of prices of lithium, the price of EVs would be 30% more expensive than the fuelled motor vehicles.
Nonetheless, the expected probabilities on these events are divergent, since from the understanding of the automobile industry, the best-case scenario would probably occur around **75%-85%**, as a manifest of institutional efforts to reduced pollution through low carbon emission motors in EV. However, the low probability of the worst-case scenario, around **15%-25%** would be the result of environmental concerns about over extraction of lithium which would limit the potential EV sold.

It is definitely possible to build millions of electric vehicles with lithium-ion batteries, but it may not be possible to make billions of them. Nonetheless, the short/medium term future of electric cars powered with lithium batteries is safe, since producers expected electric mobility to boost in the years to come and the existent reserves are enough to meet demand in the medium-term perspective.