

8. januar 2014 15:05 AT  **Exclusive**

Analysts: Chinese consolidation of rare earths sector to have limited impact on global market

By [Jax Jacobsen](#)

The Chinese government moved last week to allow six state-owned firms to control the strategic rare earths center in the country, with one of these firms—[Inner Mongolia Baotou Steel Rare-Earth \(Group\) Hi-Tech Co. Ltd.](#)—acquiring nine regional mining companies as part of the consolidation push.

China remains the source of most of the world's supply of the valuable metals, necessary for production of electronic devices used in automobiles, smartphones, wind turbines and other products. Over 90% of the world's supply hails from China, though the East Asian economic giant has rattled importers in recent years with a significant reduction in export quotas, causing rare earth metal prices to jump substantially in 2010 and 2011.

China has made no secret of its desire to clean up the rare earths industry, which has caused substantial economic destruction, North Square Blue Oak Senior Analyst in Beijing Frank Tang told SNL Jan. 7.

"The rare earth consolidation started in Inner Mongolia from 2010 and it is still ongoing," he said. The six firms now overseeing rare earths production—which include Baotou Steel Rare Earth, [Minmetals Mining Corp Ltd](#), [Aluminum Corp. of China Ltd.](#) (Chinalco), [Ganzhou Keli Rare Earth New Material Co. Ltd.](#), [Guangdong Rising Nonferrous Metals Group Co. Ltd.](#) and [Xiamen Tungsten Co](#)—will receive easier approval in M&As, more mining/separation/export quota or other government support, such as government purchase and fiscal subsidy."

The consolidation is one way that the Chinese government hopes to crack down on illegal mining, trading and smuggling, which have limited the effectiveness of its export quotas, Tang added.

The government's move also signals China's intent to cement its position as the world's pre-eminent source of low-cost rare earth production, Adamas Intelligence Research Director Ryan Castilloux told SNL Jan. 8.

"Consolidation represents a strategic move to solidify China as the world's low-cost rare-earth producer, rather than to boost prices," he said.

Centralizing the industry will see the closure of miners and producers which have been under-utilized, Castilloux said.

"According to the Association of China Rare Earth Industry, there are 110 rare earth producers and separation firms which have the capacity to produce 300,000 tonnes per annum, while global consumers only consumed 120,000 tonnes per annum in recent years. Much of [these] remain idle, dated and inefficient. China will phase out the most inefficient [of its processing facilities and infrastructure], which will give it greater oversight over the entire industry...there will be less production 'under the moonlight.'"

Another observer, however, cautioned that Beijing's move to exert more control over the domestic rare earths sector may not be implemented as envisioned.

"What exists in China on paper can be very different in reality," Gordon Houlton, the director of the China Institute at the University of Alberta, told SNL Jan. 7.

Leakages—or the illegal export of rare earths metals—will not be completely eradicated through this new policy, he said.

"Sometimes leakage can still occur," Houlton said. "China is a very big country, there's a lot of territory and the minerals are widely spread. [Consolidation] won't be an overnight process. Even with state-owned enterprises, there is the possibility of corruption. Leakage is not impossible."

WTO ruling against Chinese export quotas looms over industry

The World Trade Organization [ruled in October](#) against China's rare earth export quotas, saying it violated the organization's rules on free trade.

China set the export quota for rare earths in the first half of 2014 at 15,110 metric tonnes, a decrease a 2.5% from projected full-year exports in 2013, Tang said.

The WTO is due to release a final verdict on the issue in the near future, but it will have little impact on Chinese policies, he added. The consolidation of its domestic rare earths will also not impact China's export quotas.

"The key message that the Chinese government delivered in the past several years is that it will keep a tight grip on the strategically important sector and maintain its influence," Tang noted.

Whether or not the quotas are repealed will have little impact on the global availability of the strategic metals, Castilloux said.

"The U.S., Japan, several countries in the EU haven't imported the entire amount of export quotas allotted to them in recent years, so while they've complained to the WTO about the export quotas being unfair, they've undermined themselves by not soaking up all that China was willing to give," he said.

It will take a significant amount of time for the WTO ruling to see any change in Chinese policies, Houlton said.

"There's a long gap between the lodging of a complaint and compliance," he said. "Don't expect quotas to disappear overnight."

Sector faces shifting trends

Foreign firms are ramping up their efforts to produce rare earths, with new mining projects [aiming to start production](#) in the next ten years as part of a wider desire to dilute China's dominance of the market.

However, the success of these projects is far from assured, as China also holds a near-monopoly on the technical skills needed to separate the strategic metals.

Changing patterns of rare earths consumption in China itself will also have an effect on global supply, Tang said.

"China's 2011-2015 development plan on new materials clearly stated that rare earth-related materials will be promoted," he said. "Domestic firms are encouraged to expand into the downstream processing sector to increase its value. This could mean less supply to the international market."