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China Raises Rare-Earth Export Quota

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China has increased its 2012 rare-earth export quota for the first time since 2005, amid growing international pressure on Beijing to loosen its hold on the minerals. The WSJ's Ken Brown explains.

China's government eased its restrictions on rare-earth exports for the first time since 2005 in an apparent nod to a trade fight over Beijing's tight global grip on production of the strategically important minerals.

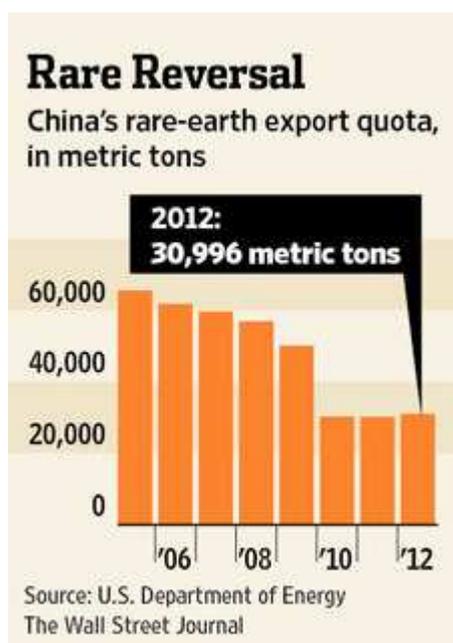
But industry executives said the move will do little to shake China's dominance of a market crucial to industries as diverse as oil refining, electric vehicles and ballistic missiles.

China's Ministry of Commerce said Wednesday that it will permit 2.7% more volume of rare earth—30,996 metric tons—to leave the country this year than it did in 2011. The increase follows a number of tighter limits imposed since 2005 that led to major price surges beginning about two years ago, making some of the elements more valuable than gold.

The restrictions raised cries from industries dependent on the minerals. In July, the World Trade Organization accepted a complaint from the U.S., the European Union and Japan, putting pressure on China at a time when it is contending with

other trade disputes with the U.S. ranging from cars to solar panels. China contends its export limits are one of a number of efforts spurred by environmental concerns.

"Pressure on China [to loosen export controls] has been quite high," said Frank Tang, an analyst at investment bank North Square Blue Oak. He said China is "now signaling to the wider world not to worry."



But industry observers said the move comes as China's rare-earth export limits become less important. Chinese miners haven't come close to exporting as much as permitted during the past two years as manufacturers look to reduce their use of Chinese-produced minerals, leading to sharp price drops.

Companies in the U.S., Australia and elsewhere are also ramping up production of the minerals, which aren't rare despite their name but can be complicated to process. Mining operations also take a long time to set up.

"The export quotas are not all that meaningful anymore," says Mark Smith, chief executive officer of [Molycorp](#) Inc., [MCP](#) -0.94% a Colorado company that is trying to quickly boost its own production at a California mine.

Molycorp said that by the end of this year it will be producing rare earths and related materials at a rate of 19,050 metric tons annually.

At the same time, China is moving up the rare-earth value chain, increasingly processing the minerals into high-end products like magnets, adding to its sway in the market even if limits are eased further.

China's rare-earth exports this year are well below the quotas. Exports in the first half reached slightly less than 5,000 tons, according to the state-run Xinhua news agency.

Enlarge Image



Agence France-Presse/Getty Images

Heavy machinery scoops soil containing rare-earth minerals that will be shipped to Japan from a port in Lianyungang, China.

Prices outside of China are also well off highs, with lanthanum oxide costing \$19 per kilogram this week compared with \$104 last year, according to Australian miner [Lynas Corp.](#) The element, used in lenses and lights, is now priced close to where it was two years ago before fears about pinched quotas pushed rare earths toward the front of political debate.

It is a bit different inside China, where there has been a global shift into the country of the intermediate chemical processing of the raw oxides needed to produce finished products such as magnets. That has sustained rare-earth demand there and likewise prices. Lynas said lanthanum sells for 2.5-times more in China than it did two years ago.

Japanese companies in the business of making high-performance dysprosium magnets used in hybrid vehicles are increasingly manufacturing in China. [Shin-Etsu Chemical Co.](#), [MCP](#) -0.94% for instance, announced plans in March for a

magnetic alloy plant in Fujian province with the ability to produce 3,000 metric tons annually beginning early next year.

The purchase of rare earths in China isn't subject to quotas, making it more economical for some users to do intermediate work there.

Asked recently about the WTO case, a U.S. administration official said export quotas were part of "a deeply-rooted industrial policy aimed at providing substantial competitive advantages for Chinese manufacturers at the expense of non-Chinese manufacturers."

Molycorp estimates that domestic Chinese demand absorbed 70% of the country's rare-earth oxide output in 2011, up from 60% the previous year. And it said that for various reasons that include a clampdown on domestic miners, rare-earth oxide production could fall by 20% this year.

"We think the real story is [Chinese] production quotas, not export quotas," Mr. Smith said.