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China's Export Curb on Rare Earth Minerals

Highlights

• In July, China cut export quotas for rare earths by over 70% for the 2nd half of 2010
• Rare earths used in a wide array of advanced technologies
• China accounts for more than 90% of global supply
• Chinese government justifies reduced quotas by citing domestic over-exploitation, the failure for domestic profits to keep up with continued export growth and insufficient Chinese supply to meet rising domestic demand
• Rising concerns China will provide unfair support to domestic companies and is trying to force foreign firms to offshore their high-tech production to China
• Rapid development of alternative sources of rare earths outside China is unlikely

General Background

In early July, China's Ministry of Commerce dramatically reduced export quotas for rare earth minerals by 72% for the second half of the year, a decision which sent ripples of concern around the world over the future supply of the strategic resource. The 17 elements comprising the rare earths family are often critical components in the development and manufacture of some of the world's most advanced and cutting-edge technologies, used in the production of everything from iPads to wind turbines to weapons systems. Accounting for more than 90% of global supply, China now exercises almost exclusive control over rare earths and enjoys an effective monopoly.

China's Troubling Export Curb

Open access to rare earths is absolutely essential for countries and companies to continue playing any meaningful role in the burgeoning industries which stand at the technological frontier. Consequently, the sustained policy of the Chinese government to tighten its supply of rare earths to world markets since 2005, of which the July cut is simply the most recent and striking example, is understandably deeply troubling to many countries in which CBI members are based. In 2005, China's export quota for rare earths stood at 65,609 tonnes. For 2010, the export quota has now been set at 30,258 tonnes, a reduction of over 50% in the past five years. Given the fact that the country overwhelmingly dominates the supply of rare earths and global demand for the resource is rising at approximately 10% annually, China now finds itself in a highly advantageous position vis-à-vis the rest of the world, especially developed countries with large high-tech sectors heavily dependent on the metals such as Japan, the US, the UK and other EU members.

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China’s Reasons for Tightening Supply

Officially, the Chinese government has pledged that the rest of the world will continue to have access to rare earths mined in China, with Chinese Premier Wen Jiabao offering reassurances in mid-July that China will never block their export and only wants to export the metals at a reasonable price and volume. However, the government has also justified the need for certain restrictions by citing over-exploitation and rampant environmental degradation resulting from mining in addition to the failure for profits in China’s domestic rare earths industry to keep up with years of continued export growth. In September last year, the Ministry of Industry and Information Technology also stated that China must impose limitations on rare earths exports since the country’s supplies are insufficient to meeting rising domestic demand. Projections that China’s demand will equal the country’s entire supply by 2012 make the government’s desire to safeguard a vital national resource somewhat understandable. The country certainly needs a vast supply of rare earths to fuel its ambitious green/environmental programmes. For example, in an incredibly ambitious project which will require one full year’s supply of rare earths alone, China plans to build 120 GW of wind generated electricity by 2020, more than Britain’s entire electricity production.

However, developed countries are legitimately concerned that the Chinese government is tightening supply in a deliberate effort to force foreign firms to offshore their high-tech plants and R&D to China. In addition, fears abound that China will use its monopoly to help promote and shore up its own high-tech industries and give them an unfair, competitive edge over their foreign rivals which lack access to an abundant supply of rare earths. Both strategies would stand in clear violation of WTO rules.

Possible Solutions

China’s export curbs and rising global demand have spurred the drive to develop alternative sources of rare earths outside China. Massive deposits certainly exist in countries such as the US, Canada, Russia, South Africa, Australia, Sweden and Greenland. However, extraction of rare earths is difficult and requires heavy investments in both time and money. The US enjoyed near self-sufficiency in rare earths production for most of the post-World War Two period, but saw virtually all of its mines and processing plants shut down or moved overseas to China during the 1980s and 1990s as China drove down prices through its low labour costs. Unfortunately, the reestablishment and development of mines outside China does not offer a quick solution to the problem. Rare earth mines in developed countries face stringent environmental regulations, a lack of financing exacerbated by the global economic recession and the prospect of years of development before being able to launch full operations. In addition, if new projects begin to emerge outside China, China could easily respond by slashing prices and driving its foreign rivals out of business.

Countries such as the US are also considering the possibility of taking legal action through the WTO. However, they should be aware that doing so could potentially lead to a sharp deterioration in trade relations with China.