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Japan on alert over China's plans to restrict metals exports



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Japan is readying itself for a potential showdown with China at the World Trade Organisation as Beijing considers plans to strangle global supplies of rare earth metals — the “green” lanthanide metals used in hundreds of environmental and military technologies.

Global supply of the rare-earth metals, which are vital to the mechanisms of hybrid cars, wind turbines, iPods, lasers, super-efficient light bulbs and radar systems, is 95 per cent controlled by China.

The country's dominance of the market is the result of a deliberate, 20-year bid by Beijing to cast itself as the “Opec of rare earth metals”. China's apparent plans to tighten the leash on world lanthanide supplies come on the eve of a landmark decision by the Australian Government on the future of Lynas, one of its leading rare-earth mining companies. The Foreign Investment Review Board is debating whether to allow the state-owned China Non-Ferrous Metal Mining to buy a 51 per cent stake.

A senior member of Japan's Rare Earth Metal Association observed that in a world before everyone had a mobile phone and wanted to drive fuelefficient cars, China's rare earth monopoly was less meaningful — now it has created a dominance of globally strategic importance. Others, particularly those within the Japanese automotive sector, believe that the rare earth metals will become the centrepiece of numerous international trade wars.

The document that has sent shockwaves through Japanese industry and government is a White Paper produced by the Chinese Ministry of Industry and Information Technology, which proposes an export ban on rare earth metals including the particularly critical dysprosium. Although the paper's proposals, published only days ago, have yet to be acted on, the draft document has proved incendiary and spurred Sumitomo into accelerating a project in Kazakhstan to secure a non-Chinese supply.

The Chinese threat of an export ban on minerals critical to the modern world may end a phase of polite negotiation between Tokyo and Beijing on the issue. A senior Japanese official told *The Times* that if China does ban some rare earth metal exports by 2015, Japan may use the WTO to block such an action.

Chinese export quotas of rare earth metals fall below Japan's demands, forcing even the largest consumers there to rely on smuggled material to meet about a quarter of their annual needs. A draft of the Chinese plan has been seen by senior executives at several of Japan's largest trading houses and has sparked fears that China is aiming to step up dramatically its programme of quota reductions. Beijing has cut export quotas by about 6 per cent annually over the past decade. China's rare earth

monopoly arises from a combination of aggressive empire building by Beijing and long complacency on the part of the big consumers. The metals occur naturally in China, but Australia, the United States and South Africa all used to produce rare earth metals with a refining process that is dirty, mildly radioactive and expensive. It is widely believed in the industry that by skimping on costly clean-up provisions, China has been able to undercut all its competitors, forcing them out of business and earning itself its 95 per cent monopoly.

An attempt by China to further constrain — or ban — lanthanide exports would effectively force companies to re-open rare earth mines around the world or develop new ones. Sumitomo's joint venture with Kazakhstan's largest nuclear power company — revealed in *The Times* this month — is expected to unleash a land grab for rare earth mines in the former Soviet country. A Sumitomo spokesman said that the draft proposal from Beijing had "speeded-up our project there".

But China is not keen to let its dominance slip. Lynas Corporation, an Australian miner, had been poised to open a new rare earth refinery project in Kuantan in Malaysia, which would eventually have met a large portion of demand from Japan and elsewhere. The credit crunch derailed Lynas's funding plans for that project and has opened the door for China to step in with a bid that would give a state-owned company effective control of the Australian company. "Nobody else has come along with a deal on these terms," a Lynas spokesman said.

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