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China takes charge of keys to technologies' future

Leo Lewis, Asia Business Correspondent

China has triumphed in a 15-year quest to become the “ultimate monopolist” in the supply of rare earth metals — a dominance that industry experts say could give Beijing control over the future of consumer electronics and green technology.

Industry sources believe that with China dramatically cutting its annual rare earth export quotas, the time may be rapidly approaching when it will be impossible for any company to produce a wind turbine or hybrid electric car outside the communist country.

After a long, relentless campaign of price wars and export quota reductions, more than 95 per cent of the global supply of rare earth metals — a group of 17 “lanthanide” elements employed in hundreds of technologies ranging from mobile phones and BlackBerrys to lasers and aviation — is produced by China.

Although China has the resources and refinery capacity to produce enough lanthanum, terbium, neodymium and dysprosium to satisfy a global demand that is rising at 10 per year, its rare earth export allocation for the whole world this year is expected to be about 38,000 tonnes — less than the quantity required by Japan alone.

Furthermore, as the world tries to make itself more energy-efficient, China's dominant position will become more strategically critical because of the wide range of cutting-edge environmental technologies, such as wind turbines, low-energy light bulbs and hybrid cars, that depend heavily on the rare earth metals.

Jack Lifton, an expert on rare earths, said: “Deng Xiaoping's comment in 1997, where he said that China would be for rare earth metals what the Middle East was to oil, has become a very stark reality. The world has to wake up and start thinking of this group of elements as the ‘technology metals’ without which there will be no technology. China is already working out how these metals are going to give its companies a competitiveness that the rest of the world will find very difficult to match.”

China's rising strength in rare earth supply and its apparent willingness to use that as “a 21st-century economic weapon” have triggered what government sources in Tokyo told The Times was an invisible tsunami of panic in Japanese industry, which in turn has called on the Government to fight its corner with Beijing. Japan, which imports nearly 100 per cent of its rare earths from China, sees the group of elements as a probable battleground for future trade wars.

Toyota and other big carmakers are hurrying to secure alternative supplies in Vietnam and Malaysia. Mines in the United States that were forced out of business by price wars may be brought back into use. Yet many industry observers believe that Beijing may engineer a global supply crunch before any serious rival sources become available.

China's strategy, said Yoichi Sato, head of the rare earth division of Mitsui, suggested a complex game being played between Beijing and the world's rare earth consumers. The perceived idea behind China restricting its rare earth exports is twofold. First, it gives its own high-tech industries a chance to flourish and gain a huge competitive edge over rivals in Asia, Europe and the US — a politically useful gambit by a Government whose legitimacy lies in the provision of jobs and economic growth. Second, it may force foreign companies to move their high-tech factories and research centres to China to circumvent quotas, a move that Japanese companies will resist for fear of losing industrial secrets.

Mr Sato also believes that China will seek to use its existing monopoly status to crush any competition that emerges. Although about 42 per cent of worldwide reserves of rare earth ores lie outside China, very few places have significant refinery capacity.

Mr Sato said: "Of course many people are looking at establishing alternative refineries and sources outside China, but the investment is not necessarily a sound one because of the threat of price revenge by China. If new projects emerge, as they have recently in Malaysia and Australia, China could just drop its prices and force rivals out of business."

Prospects of developing the industry outside China have been hit by a sudden decision by investors in Lynas, the Australian group, to pull funding for a project under which a big refinery would have been built in Malaysia for operation by the end of this year. A company source said that the project, which would have given companies such as Toyota and Honda a welcome diversity of supply, is unlikely now to open as scheduled.

Moreover, China's push to remain the globally dominant player appears to have intensified. Within the past fortnight, a Chinese investment company has acquired 25 per cent of Arafura Resources, an Australian rare earth miner, and last month China Minmetals Rare Earth Company laid out plans to invest \$300 million (£212 million) to cement its position as the globally dominant corporate force in the field.

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