

# Xi highlights China's dominance of rare earths market

Chinese leader visits magnet maker as trade war with US heats up



A labourer works at a site of a rare earth metals mine in China's Jiangxi province. The country is a major player in the downstream industrial supply chains that depend on such elements © Reuters

Lucy Hornby in Beijing and Henry Sanderson in London

A highly publicised visit by Chinese president Xi Jinping to a rare earths magnet maker this week sent a strong message in the country's escalating trade war with the US: China still holds a few important cards if things get worse.

Among those cards are rare earths, a group of 17 metals with a variety of high-tech applications. China sits on most of the world's deposits of the ores for these metals.

More importantly, as Mr Xi demonstrated with his visit to magnet producer JL Mag Rare-Earth in Jiangxi province in south-eastern China on Monday, the country is also a major player in the downstream industrial supply chains that depend on such metals.

The symbolic visit by Mr Xi follows the US decision last week to blacklist Chinese telecoms company Huawei, which threatened to send such shockwaves through the global tech industry that Washington was forced on Monday to allow a three-month grace period before the move takes full effect.

Relations between the two countries have deteriorated quickly this month after hopes for a trade deal were dashed.

“China has a strong hand in this battle. They know supply chains better than we do, and how these materials power our smartphones, Teslas and fighter planes,” said David Abraham, senior fellow at New America, a think-tank, and author of *The Elements of Power: Gadgets, Guns, and the Struggle for a Sustainable Future in the Rare Metal Age*.

The weakness for the US is not the mined rare earths . . . but processed rare earths or the products like magnets and batteries further down the supply line David Abraham, New America Rare earths drew international attention in 2010, when lower Chinese export quotas sparked heated accusations that it was punishing Japan over a maritime dispute.

At that time, oxides from China were usually processed in Japan. Times have changed. Now much of the processing is done in China, where the rare earths are made into complex downstream components, such as magnets, sensors or instrument panels.

Any new tussle over rare earths will centre on these products rather than basic ores.

“The optics are as they appear. The fact it’s (the facility Mr Xi visited) a magnet plant is not a coincidence,” said Ryan Castelloux, managing director of Adamas Intelligence, a rare earths consultancy.

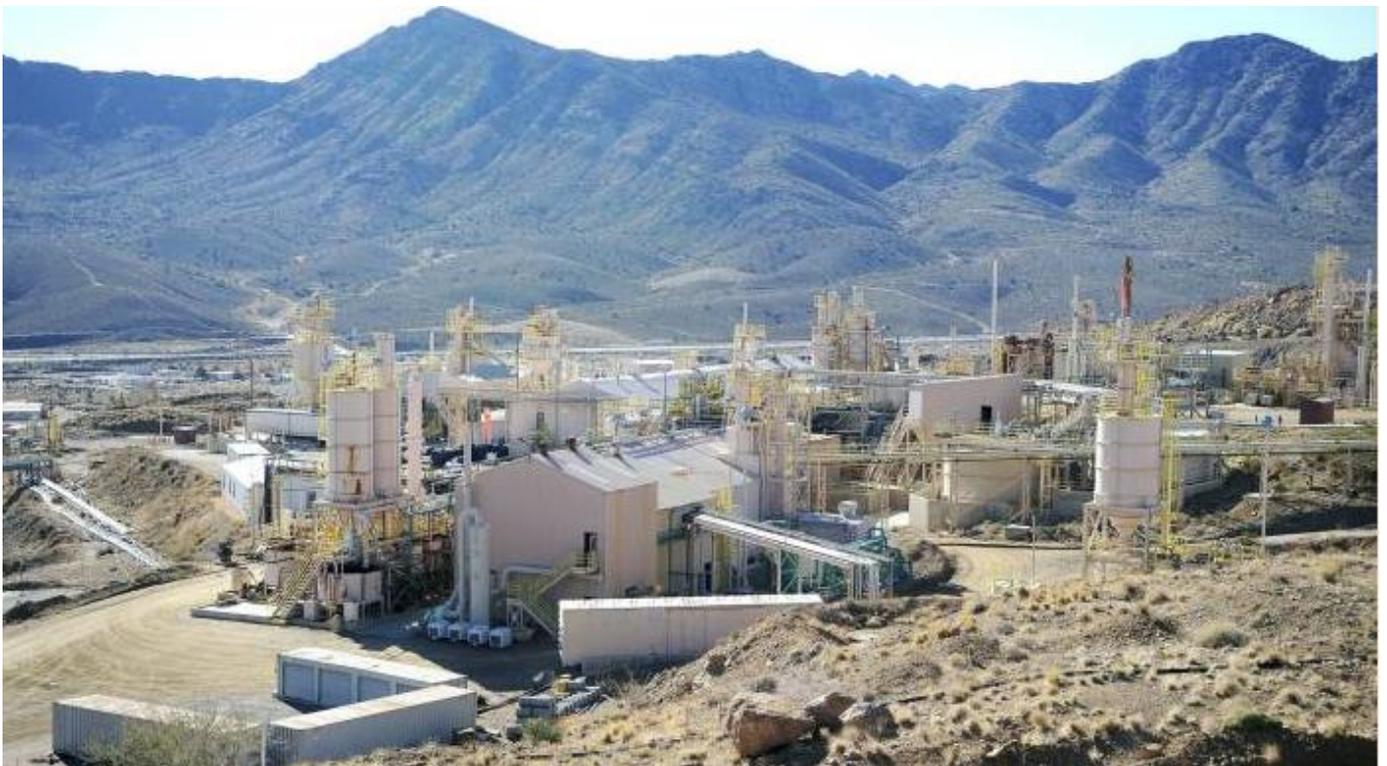
“It's signalling they know it's not only important to US high-tech industries, electric vehicles, wind, but also defence. That's the message they're trying to get out.

“The latest round of posturing could turn international attention to the manufacturing chains that incorporate rare earths.

“The weakness for the US is not the mined rare earths . . . but processed rare earths or the products like magnets and batteries further down the supply line,” Mr Abraham said.

“Here China has the undisputed advantage.” Years of industrial policies, including export quotas and investment incentives, enticed the rare earths downstream processing industry to relocate to China from a traditional base in Japan.

Mr Xi’s visit “is absolutely a suggestive move and the timing of it puts the US between a rock and a hard place”, said Adamas’ Mr Castelloux, noting that companies outside China that are starting alternative rare earths processing facilities would struggle to meet demand.



MolyCorp Mountain Pass mine in California is being revived after the company’s 2015 bankruptcy © Bloomberg

Those include Australia’s Lynas, which is in a protracted dispute with Malaysia over radioactive waste, and the Mountain Pass mine in California, which is being revived after the bankruptcy of its previous owner MolyCorp in 2015.

“The question is: Can refining and recycling capacity be increased faster than shortages or price hikes appear in goods China might limit?” said Derek Scissors, of the American Enterprise Institute, a think-tank.

So far, the posturing is entirely symbolic. China could restrict exports of any material or gadget containing rare earths to the US but it has not yet done so.

In 2015, it dropped its export quota regime after a World Trade Organization challenge by the US.

The downside is that any new restrictions would badly damage its recently developed industrial supply chains, which depend on foreign customers not only in the US but also in Europe and Japan.

Such a move would reinforce the idea that China is a risky source of supply. Recommended Lynas Corp Ltd Lynas auditors warn of material uncertainty for rare earths business JL Mag makes a type of magnets used in power steering, brakes and windmills, with most of its export market in Europe.

Globally, production is dominated by Hitachi of Japan but competitors such as JL Mag are gaining market share. After Mr Xi's visit, its stock surged by 10 per cent, the daily limit.

The company has an "ownership relation" with Ganzhou Rare-Earth Mineral Industry Co., a loose grouping of dozens of local miners in Jiangxi province.

That made it a safer choice to highlight than any subsidiaries of state-owned rival Jiangxi Rare Earth & Rare Metals Tungsten Corp Group, in which Mr Xi's brother-in-law once held a substantial indirect stake.

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