

China Consolidates the Rare Earth Industry and Builds Strategic Reserves

Nabeel A. Mancheri

Nabeel A Mancheri is a Postdoctoral Associate at the *National Institute of Advanced Studies*, Bangalore.

IDSA Comment

7 August 2012

China has started to regulate the rare-earth industry intensively since 2010. Its policy measures have heightened the consolidation process of the industry and the country has started to build strategic reserve of the minerals. These policies will provide China more power to fix the prices and control the supply in the international market. China is the world's largest producer, consumer and exporter of rare earths, controlling over 90 per cent of global supplies. China's rare earth oxides (REO) output has increased rapidly from a little over 1,000 tonnes in 1978 to more than 100,000 tonnes in 2012. China has also successfully moved its manufacturers up the supply chain. Rare earths are a critical component of many high technology goods and it has many applications in defence and weaponry.

As part of the consolidation strategy, rare earth elements (REE) were formally placed under the purview of the powerful Ministry of Industry and Information Technology (MIIT) in 2011. The MIIT is the architect of China's industrial policy and a champion of consolidation. Not only does MIIT have control over rare-earths policy, it has also been tasked with shaping the development of emerging sectors that will drive demand for rare earths. So, in general, MIIT is responsible for the mineral industry; the Ministry of Land and Resources is responsible for mineral mining and exploitation; and the Ministry of Commerce (MOFCOM) is responsible for mineral trade.

To address the salient problems in the development of the rare earth industry, the Chinese government has tightened the regulation. According to the "Guidelines" issued by the State Council in May 2011 on the Rare Earth industry, the government—in accordance with law—will strengthen control over the mining, production, distribution, import and export. The Chinese government has established an inter-departmental coordinating mechanism for the rare earth industry to make overall plans and study the national strategy, plan, policy, and other important issues concerning the development of the industry. The state has also set up a rare earth office to coordinate and propose plans on the mining, production, reserve, and import and [export of rare earth materials](#).

China continues to implement a wide-ranging industrial policy of consolidating production, limiting exports and enacting environmental regulations. It established a nationwide REE industrial association with the purpose of monitoring market

activities, to create a fair and transparent market and protect common interests of all its members especially with respect to pricing. Its preparatory work was initiated in 2009 and the new industry body called the China Rare Earths Industry Association was created in April 2012 under the auspices of the State Council. The body consists of 155 Chinese rare earth developers and smelting enterprises. The new association joins hands with MIIT to lead a new round of restructuring and integration in the industry and also establish a rare earth reserve system. The body has also entrusted the implementation of production and export quotas in consultation with the MIIT and MOFCOM. The system will include impromptu onsite visits and inspections to ensure that national directive plans are being implemented and executed.

Industry consolidation has accelerated over the past year with the closure of hundreds of mines and the acquisition of many smaller producers by the country's major mining companies. China has consolidated the industry into three major rare earth production areas, i.e., the light rare earth production areas in Baotou of Inner Mongolia and Liangshan of Sichuan, and middle and heavy rare earth production areas in the five southern provinces centring on Ganzhou of Jiangxi province.

As part of this strategy, state-backed institutes have already started to purchase and store rare earths as strategic reserves for which the Chinese government is offering interest-free loans. The Ministry of Land and Resources, which is in charge of rare earth stockpiling, began this effort with a pilot project in early 2010 in China's biggest rare earth mining region of Baotou in Inner Mongolia. At least 10 storage facilities are being built and managed by the government-controlled Baotou Steel Rare-Earth (Group) Hi-Tech Co. with financial support from regional and municipal governments. Recently, the MIIT, the ministry in charge of rare earth policies, identified 11 rare earth mining zones in Jiangxi province for speeding up stockpiling particularly the heavy rare earths. Subsequently, eight major rare-earth mineral producers in Guangdong Province signed a framework agreement with Guangdong Rare Earth Industry Group to form an alliance. According to the provincial government's plan, the industry group will set up joint ventures in a bid to consolidate the management of the rare earth resources in the province.

Xu Guangxian, China's "Father of Rare Earths", has been vocal about building a strategic reserve of rare earths in China. He was instrumental in pushing the government on these policy issues and suggesting that the major rare earth producers such as Baogang, Minmetals, and Jiangxi Copper implement the [stockpiling strategies](#). The Chinese move to build reserves comes at a time when the United States, countries of the European Union, Japan and South Korea, all of which are dependent on China for rare-earth supplies, have highlighted the imperative of stockpiling strategies.

China's pre-eminent success in the rare earth industry is the result of both careful thought and consideration at the highest policy making levels which have constantly expedited reform in the industry. These policies are well thought decisions that are directly linked to its long term objectives to become an innovative nation by 2020 and a global scientific power by 2050.

Keywords:

[Rare Earth Elements \(REE\) China](#)