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China Cuts Rare Earth Export Quota 72%, May Spark Trade Dispute With U.S.

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July 9 (Bloomberg)-- London Metal Exchange Chief Executive Officer Martin Abbott talks with Bloomberg's Rishad Salamat about demand for commodities in Asia and the LME's growth strategy in the region. The London-based exchange, founded in 1877, has entered talks with Singapore Exchange Ltd. on possible cooperation in Asia, according to a statement yesterday. The LME opened its first overseas office in the Southeast Asian city-state this year. Abbott, speaking from Singapore, also discusses regulation for commodity trading. (Source: Bloomberg)

China, the world's largest rare-earths producer, cut export quotas for the minerals needed to make hybrid cars and televisions by 72 percent for the second half, raising the possibility of a trade dispute with the U.S.

Shipments will be capped at 7,976 metric tons, down from 28,417 tons for the same period a year ago, according to data from the Ministry of Commerce yesterday.

Rising production of hybrid cars and music players such as Toyota Motor Corp.'s Prius and Apple Inc.'s iPod have driven up demand for rare earths even as China cut the quotas to shore up prices and ensure domestic supplies. The U.S. is looking at building a trade case on the restrictions, industry representatives said last month.

"The rare earths industry officials have realized that, after many years of continued growth in exports, the industry didn't receive due profit returns," Liu Aisheng, director of the Chinese Society of Rare Earth, said in an interview by phone from Beijing. "They adjusted the policy to ensure that the resources are optimally utilized."

Shares of [Lynas Corp.](#), building a rare earth mine in Australia, rose 8.8 percent to close at 59.5 Australian cents in Sydney. [Inner Mongolia Baotou Steel Rare-Earth Hi-Tech Co.](#), the biggest Chinese producer, rose 1.4 percent to close at 36.69 yuan on the Shanghai stock exchange.

Baotou Steel, Baotou Huamei RE Products Co. Ltd. and Sinosteel Corp. are among the 32 local and foreign companies that are permitted by the government to export in the second half, according to the Ministry of Commerce statement.

Lynas Opportunity

"The tightening of supply regulations provides additional opportunities for Lynas to meet the supply deficit out of China," Executive Chairman [Nicholas Curtis](#) said today in a statement filed to the Australian Stock Exchange. Sydney-based Lynas is building a rare earth mine at Mount Weld in Australia.

The total Chinese export quota for 2010 is 30,258 tons, 40 percent less than the 50,145 tons for 2009, Lynas said in the statement.

Rare earths are a group of chemically similar metallic elements, including lanthanum, cerium, neodymium and europium. They are used in radar, high-powered magnets, mini hard-drives in laptop computers, catalytic converters for vehicles, electric-car batteries and wind turbines. China, which accounts for more than 90 percent of the global production, started cutting output and exports in 2006 as prices fell.

"Reduced supply from China will trigger other rare earth producers to boost production to fill the gap," said Liu of the Chinese rare earth society. Still, the policy will force some privately owned Chinese producers to shut down as they are not authorized exporters, he added.

Trade Tensions

The U.S. has asked business groups and unions to provide evidence that China is hoarding rare earths for a case that may be filed at the World Trade Organization, according to industry representatives who asked not to be identified.

A rare-earth mine in the U.S., in Mountain Pass, California, shut down most operations in 2002. [Molycorp Inc.](#), which owns the mine, plans to reopen it this year.

China needs to restrict exports and production because domestic supplies won't be enough to meet its own needs, the Ministry of Industry and Information Technology said in September.

Below is a table of Chinese rare earth export quotas for 2009 and 2010. The numbers are in metric tons.

	09/1H	09/2H	TOTAL	10/1H	10/2H	TOTAL
Foreign	6,685	10,160	16,845	5,978	1,768	7,746
Local	15,043	18,257	33,300	16,304	6,208	22,512
TOTAL	21,728	28,417	50,145	22,283	7,976	30,258

--Xiao Yu. Editors: [Tan Hwee Ann](#), [Indranil Ghosh](#).