



## **China's New Rare Earth Policy & Industry Consolidation after the WTO Ruling**

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On January 1, 2015, after losing its battle in the final ruling in the World Trade Organization (WTO), China ended its 16-year -old rare earth export quota system. And on May 1, 2015, China eliminated export tariffs on rare earths elements including tungsten, molybdenum, iron and steel particles and other products, as part of WTO ruling requirement. The abolition of the decades' long rare earth export quota and tariffs, leads to important policy changes in China's rare earth industry, as well as huge impact on the world rare earth industry and market. It becomes very important for the world technology industry to understand China's current rare earth policy and their industry trends.

There are 5 major impact areas:

1. China's new government policy for their rare earth industry;
2. China's new consolidated rare earth industry infrastructures;
3. China's new tax law for their rare earth export;
4. Impact on the rare earth price trends;
5. Impact on the world-wide rare earth industry outside China.

### **1. China's new government policy for their rare earth industry**

Rare earth elements are highly strategic scarce resources and Chinese government clearly wants to have a tighter control of it. Early 2014, China's Ministry of Industry and Information Technology (MIIT) issued "Guidelines for formation of large enterprise groups of rare earth". It requires by law that the china's rare earth industry integrates and restructures into six large State-Owned-Enterprise (SOE) groups: China Aluminum

Group, China Minmetals Group, Northern Rare Earth Group, Xiamen Tungsten Group, Southern(Ganzhou ) Rare Earth Group and Guangdong Rare Earth Industry Group.

The policy calls to consolidate all the country's mining and smelting of rare earth separating enterprises into these six government owned and controlled large Rare Earth Groups before the end of 2015. China's policy makers believe "This will strengthen the China internal integration, and strengthen coordination control from the production source. This will also let Chinese rare earth industry to form a joint force to facing the outside world to change the current rare earth oversupply situation, effectively control the rare earth production and marketing. "

China Treasury also established special funds to subsidize its Rare Earth restructure & exploitation. For example, on Aug. of this year, the Ministry of Finance issued subsidies of 458 million yuan to the Ganzhou Rare Earth Group for the development and comprehensive utilization of resources dedicated to rare earth, rare earth mine geological environment restoration of governance and large geological disaster prevention. Since 2012, Ganzhou Rare Earth Group has received total subsidies of 950 million yuan from China's Ministry of Finance for its rare earth exploitation. In 2014, the Ganzhou Rare Earth Group has the total sales of 47.673 billion yuan, with 6.142 billion yuan of total profits.

## **2. China's newly consolidated rare earth industry infrastructures**

China's Rare Earth industry enters the six State-Owned-Enterprise (SOE) groups era. Early this year, the newly formed Northern Rare Earth Group completed the integration of Baotou Steel Rare Earth in Inner Mongolia area with six other companies within the Inner Mongolia Autonomous Region, the respective companies have been incorporated into running within the framework of the Northern Rare Earth Group. The China MIIT requires Northern Rare Earth Group to integrate all the rare earth mining,

smelting and separation, utilization enterprises in the Inner Mongolia area and in Gansu province. As of now, total of 28 such companies has been consolidated into one roof under the Northern Rare Earth Group.

Currently, consolidation in other part of the China is also under way. China's MIIT announced recently that it has completed the integration of the country's 77 rare earth mining permits (out of 78 total), and 77 smelting and separation enterprises (out of 99 total) into the six large State-Owned-Enterprise(SOE) groups. It is expected to complete all the consolidation tasks by the end of the year.

### **3. China's new tax law for their rare earth export**

When China eliminated its export tariffs on rare earths elements on May 1, 2015, they also implemented a new rare earth Resource tax law. The new Resource tax calculated by flat rates and rates varies by the regions and by the type of rare earths elements.

Previously China's rare earth export tariffs are 15% for light rare earth and 25% for heavy rare earth respectively. Under the new Resource tax, the tax is calculated using the following formula:

$$\text{Resource tax} = \text{Sale Total} \times \text{Resource tax rate\%}$$

Where: Sale Total = sale amount X unit price

Resource tax rate% = 27% for all heavy rare earth in all regions

Resource tax rate% =11.5 % for all light rare earth in the Inner Mongolia region

Resource tax rate% =9.5 % for all light rare earth in the Sichuan region

Resource tax rate% =7.5 % for all light rare earth in the Shandong region

#### **4. Impact on the rare earth price trends**

Statistics released by the China General Administration of Customs show that China's July exports of rare earth 3,658 tons, more than doubled compared to last July's 1,799 tons, the highest record since last four years. This year from January to July, a total exports of 17,500 tons rare earth has been reported, which is an increase of 10.3% compared to last year.

With the sharp rise in exports quantities, the price of the rare earth is in sharp decline. Data from the China General Administration of Customs show that the first half of this year, China's total exports of rare earths from Inner Mongolia region is 2663.8 tons, an increase of 36.5% compared to the same period of last year, while the average export price has plunged to 32,000 yuan per ton, a 34.7 drop compared to the same period of last year.

#### **5. Impact on the world wide rare earth industry outside China**

Data released by the China General Administration of Customs show that in 2014 China's total exports of rare earth are 28,000 tons , an increase of 27.3% compared to last year, However, the total exports value are 2.3 billion yuan , down 35.6% compared to last year, with the exports price 83,000 yuan per ton, the average price fell 47.8% compared to last year. The 1st quarter of this year , Inner Mongolia region exported 1009.9 tons of rare earth materials, down 7% compared to last year in the same period . the average export price is 34,000 yuan per ton , down 38.2% compared to last year in the same period.

With this kinds of price impact, many rare earth industry outside China struggles. On June 25, 2015, Molycorp, which mines rare-earth 15 elements at Mountain Pass, Calif., the only miner and producer of rare-earth elements in USA has filed for Chapter 11 bankruptcy after failing to turn a profit since 2011. In its court papers said that it had

secured \$225 million in new financing and brokered an agreement with creditors to restructure its \$1.7 billion in debt.

Five years ago, Molycorp was flush with a market value \$6 billion because China, the world's dominant supplier of rare earths, had restricted their exports. But those fortunes faded when China did away with the quotas and tariffs following the ruling from the World Trade Organization, and as magnet and battery makers turned to rare earth alternatives.

Today, 90% of the world's rare earths are produced in China. It would be closer to 100% but for Molycorp's output of cerium, lanthanum, neodymium, and praseodymium oxides and carbonates . If Molycorp were to stop operating, China would once again be essentially the only rare-earth game in town.

Mining companies outside China are now caught in a bind: They are working to increase output at a time when lower prices make it extremely difficult to turn a profit. Looking ahead, Molycorp will need to both increase production and obtain higher prices to survive, goals that can be mutually exclusive in today's market.