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## China Increases Rare-Earth Export Quota; EU Criticizes Move

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(Adds Lynas comments in 4th, 9th paragraphs.)

July 15 (Bloomberg) -- China, the world's biggest supplier of rare earths, almost doubled its export quota for the second half from a year ago, a change the European Union said actually adds restrictions to overseas shipments.

Less than two weeks after the World Trade Organization said Chinese limits on raw-material exports break global trade rules, the country yesterday raised the quota for 26 companies to 15,738 metric tons. That compares with 7,976 tons a year earlier and brings the limit to 30,184 tons for 2011, little changed from 30,258 tons in 2010, government figures show.

China produces at least 90 percent of the world's rare earths, used in Boeing Co. helicopter blades, Raytheon Co. missiles, Toyota Motor Corp. hybrid cars and wind turbines. China curbed output and exports since 2009 to conserve resources and protect the environment, prompting users such as Japan to seek other sources. Ferrous alloys containing rare earths have been added to the quotas, said Lynas Corp.

"The quota is actually being tightened because more products will compete for limited allowances," said rare-earth developer Lynas in a statement from Sydney today. There is at least a 7 percent cut in the released 2011 export quota compared with 2010 after taking the new material into account, it said.

The EU criticized the latest quota as bringing about no "noticeable change" in the amount of rare earths that China will ship to the 27-nation bloc. The addition of ferrous alloys means the quota is actually being tightened because more products will compete for limited allowances, said John Clancy, the EU's trade spokesman.

'Highly Disappointing'

"This is highly disappointing and the EU continues to encourage the Chinese authorities to revisit their export-restrictions policy to ensure there is full, fair, predictable and non-discriminatory access to rare-earth supplies as well as other raw materials for EU industries," Clancy said in a statement from Brussels yesterday.

China takes factors such as protection of domestic resources, and domestic and international demand when setting export quotas for rare earths, Commerce Ministry spokesman Yao Jian said at a regular briefing in Beijing today. The category covers 17 chemically similar metals include lanthanum, cerium and neodymium. The composite price of eight rare earths found at the Mount Weld project in Western Australia surged to \$223.16 a kilogram (2.2 pounds) on July 11 from \$92.84 on March 31 and \$11.59 in 2007, according to figures on Lynas's website.

### Ferrous Alloys

China's decision in May to allow ferrous alloys containing more than 10 percent of rare-earth elements by weight to be included in the export-quota license-management system may mean at least 2,000 tons of previously excluded material have been added to the latest allowance, Lynas said in the statement, citing an estimate by industry sources.

The new quota is "below the requirements of the non-China market and will keep supplies tight," Matthew James, a Lynas spokesman, said by telephone yesterday. "This situation could remain until new suppliers enter the market."

The July 5 WTO judgment followed complaints by the U.S., the EU and Mexico. China said then it was assessing the report and Mei Xinyu, a professor at a government trade institute, said an appeal was highly likely. The EU and the U.S. said after the ruling was made public that it means China should be required to step up exports of rare earths.

### Strained Ties

The Geneva-based WTO issued its decision after an 18-month investigation of Chinese quotas, export duties and license requirements on industrial ingredients such as coke, zinc and bauxite. Chinese Commerce Minister Chen Deming said countries with abundant reserves of rare earths shouldn't criticize China's export restrictions, the People's Daily reported on July 7, without saying where he spoke.

Raw-material restrictions stoked tensions between China and its trading partners, who said the world's fastest-growing major economy has unfair commerce and currency policies. The U.S. has threatened to lodge a WTO complaint specifically over China's curbs on rare earths and last year asked business groups and unions to provide evidence that China is hoarding the elements.

The United Steelworkers union has said the restrictions give an unfair advantage to Chinese green-energy manufacturers, which rely on rare earths.

### Meeting Standards

"China seems to have increased the second batch of quotas from the same period last year," Ju Guoxian, a Shenzhen-based analyst at Minsheng Securities Co., said yesterday. "China sharply reduced the quota last year to rein in over-exploitation and environmental degradation caused by illegal mining."

Now that some companies have upgraded operations to meet environmental standards and received proper licenses, the government appears willing to increase quotas, Ju said.

The world's most populous nation will raise standards for exporters and won't approve new project expansions in an effort to curb overcapacity, illegal mining and sales, the government said in May. The Ministry of Land and Resources said it wants to set aside some rare-earth deposits as reserves.

The market for the minerals may double to as much as \$6 billion by the middle of the decade, according to an April 21 report by Ernst & Young LLP analyst Michel Nestour.

Lynas fell as much as 4.1 percent in Sydney trading today and at 2:22 p.m. local time was down 3.3 percent to A\$1.91.

Molycorp Inc., which plans to bring its Californian mine into production in the second half of 2012 and double the mine's annual capacity to 40,000 tons by the end of 2013, was down 4.6 percent to \$51.85 at the close of regular trading on the New York Stock Exchange yesterday.

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