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## China to Tighten Limits on Rare Earth Exports

By KEITH BRADSHER

HONG KONG — [China's](#) commerce ministry announced on Tuesday in Beijing a steep reduction in export quotas for [rare earth](#) metals in the first months of next year, a move that threatens to cause further difficulties for manufacturers already struggling with short supplies and soaring prices.

The reduction in quotas for the early months of 2011 — a 35 percent drop in tonnage from the first half of this year — is the latest in a series of measures by Beijing that has gradually curtailed much of the world's supply of rare earths.

China mines more than 95 percent of the global supply of the metals, which are essential for smartphones, [electric cars](#), many computer components and a range of military hardware. In addition, the country mines 99 percent of the least common rare earths, the so-called heavy rare earths that are used in trace amounts but are crucial to many clean energy applications and electronics.

In what seemed to be an effort to reassure traders and users of rare earths, the commerce ministry said in a follow-up statement late Tuesday on its Web site that it had not decided what the total export quotas would be for all of 2011. The ministry typically issues a second, supplementary batch of quotas each summer.

The ministry said on Tuesday night that companies should not make guesses about the total export quotas for next year based on the initial reductions issued earlier in the day.

“We will be considering the production of rare earths in China, domestic demand and sustainable development needs to determine” the full quotas for the entire year, the ministry Web site quoted its foreign trade department director as saying, without naming the director.

Earlier this month, China's finance ministry raised export taxes to 25 percent from 15 percent for some of the most crucial rare earths. The ministry also extended taxes to exports of some rare earth alloys that previously were not taxed.

China gradually reduced its annual tonnage of export quotas from 2006 to 2009, then cut the tonnage of allowed exports by more than half in the second half of 2010.

Separately, the Chinese government imposed an unannounced embargo on shipments of raw rare earth minerals to Japan from mid-September to late November, a ban that started during a territorial disagreement over disputed islands.

In addition, rule changes for export quotas have had the effect of reducing the availability of supplies leaving China. Until now, the quotas mostly covered alloys and oxides with a rare earth content of at least 50 percent.

Starting next year, industry executives said, exports of some additional alloys will face restrictions as well, which will have the effect of tightening quotas by about 6 percent.

The commerce ministry provided no reasons for its reduction in initial export quotas for next year, and a ministry spokesman declined to elaborate. White House trade officials have begun an investigation into whether China's export restrictions violate [World Trade Organization](#) rules; the W.T.O. prohibits export quotas and export tariffs except for environmental protection and national security.

China's latest restrictions drew a quick response from the Office of the United States Trade Representative in Washington.

"We are very concerned about China's export restraints on rare earth minerals," a spokeswoman for the office, Nefeterius Akeli McPherson, said. "We have raised our concerns with China and we are continuing to work closely on the issue with stakeholders."

Business leaders and officials in Europe have also raised the alarm, especially in Germany, where a large manufacturing sector relies heavily on imports of Chinese rare earths.

Until a few months ago, Chinese officials said that their rare earth policies were aimed at forcing foreign industries to move high-tech factories to China so as to have access to Chinese rare earths. But as trade frictions have increased, they have given greater emphasis to environmental concerns.

A Chinese official said on Tuesday that pollution worries about rare earth mining were sincere.

"The government is paying more attention to environmental protection, and is retiring older facilities and older technologies," said the official, who insisted on anonymity because of the political implications of rare earth policies, and declined to discuss specifics of the quotas.

Dudley Kingsnorth, a longtime rare earth industry executive and consultant in Perth, Australia, said China's long series of restrictions, together with uncertainty about Chinese policies, were making it increasingly likely that mines would be opened in the next three years in other countries.

"It's only a matter of time before China is not the major supplier to the rest of the world," he said, while adding that there might be supply problems before the other mines can open.

Japanese companies account for half the world's consumption outside China and have some stockpiles, but have kept secret the size of these stockpiles.

Toshiyuki Shiga, the chief operating officer of Nissan Motor, said at a news conference on Dec. 20 at the Guangzhou auto show in China that his company had weathered the Chinese export halt this autumn with stockpiles held by Nissan's suppliers. But he warned that any further Chinese export restrictions would create problems.

"If this continues, it becomes a big issue for all of the Japanese auto manufacturers, and not just auto manufacturers, but electronics manufacturers and others," Mr. Shiga said.

The commerce ministry said on its Web site on Tuesday that it had awarded export quotas totaling 14,446 tons to 31 Chinese-owned and foreign-owned companies.

A year ago, the ministry had awarded 16,304 tons of export quotas to 22 Chinese-owned companies and 5,978 tons of quotas to 10 foreign-owned companies, for a total of 22,282 tons.

The Chinese commerce ministry denied earlier this month that it would reduce export quotas in 2011. Mr. Kingsnorth said that it was still theoretically possible for this to be true, if the government sharply increased its quota allocations for the second half of 2011 to offset the steep drop in quotas allocated at the start of the year.

The ministry typically makes a large allocation of quotas in December that can be used at any time in the following year, and then a supplemental allocation of quotas the following summer. In July of this year, the ministry made a supplemental allocation of 7,976 tons to Chinese-owned and foreign-owned companies.

World consumption outside China totals about 55,000 tons of rare earth minerals a year, and is rising about 7 percent a year, with increases at twice that pace for the particularly high-price minerals needed for clean energy. Annual production outside China is around 7,000 tons but poised to rise to at least 50,000 tons a year within three years. A quirk in how China calculates quotas means that two tons of quota must be used to export a ton of rare earths for some alloys.

The ministry also said that one company previously receiving quotas, not identified as foreign or domestic, had temporarily lost its rights to quotas because it was replacing equipment.