

Amid Tension, China Blocks Vital Exports to Japan

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HONG KONG — Sharply raising the stakes in a dispute over Japan's detention of a Chinese fishing trawler captain, the Chinese government has blocked exports to Japan of a crucial category of minerals used in products like hybrid cars, wind turbines and guided missiles.

Chinese customs officials are halting shipments to Japan of so-called rare earth elements, preventing them from being loading aboard ships at Chinese ports, industry officials said on Thursday.

On Tuesday, Prime Minister Wen Jiabao personally called for Japan's release of the captain, who was detained after his vessel collided with two Japanese coast guard vessels about 40 minutes apart as he tried to fish in waters controlled by Japan but long claimed by China. Mr. Wen threatened unspecified further actions if Japan did not comply.

A Chinese Commerce Ministry spokesman declined on Thursday morning to discuss the country's trade policy on rare earths, saying only that Mr. Wen's comments remained the Chinese government's position. News agencies later reported that Chen Rongkai, another ministry spokesman, had denied that any embargo had been imposed.

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Any publication of government regulations or other official pronouncements barring exports would allow Japan to file an immediate complaint with the World Trade Organization, alleging a violation of free trade rules. But an administrative halt to exports, by preventing the loading of rare earths on ships bound for Japan, is much harder to challenge at the W.T.O.

The United States, the European Union and Mexico brought W.T.O. complaints against China last November after it issued regulations limiting the export of yellow phosphorus and eight other industrial materials. American trade officials have been considering for months whether to challenge China's longstanding and increasingly tight quotas on rare earth exports as well.

China mines 93 percent of the world's rare earth minerals, and more than 99 percent of the world's supply of some of the most prized rare earths, which sell for several hundred dollars a pound.

Dudley Kingsnorth, the executive director of the Industrial Minerals Company of Australia, a rare earth consulting company, said that several executives in the rare earths industry had already expressed worries to him about the export ban. The executives have been told that the initial ban lasts through the end of the month, and that the Chinese government will reassess then whether to extend the ban if the fishing captain still has not been released, Mr. Kingsnorth said.

Image



Didymium oxide is a rare earth mineral used in delicate electronics. Credit...Isaac Brekken for The New York Times

“By stopping the shipments, they’re disrupting commercial contracts, which is regrettable and will only emphasize the need for geographic diversity of supply,” he said. He added that in addition to telling companies to halt exports, the Chinese government had also instructed customs officials to stop any exports of rare earth minerals to Japan.

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Industry officials said that mainland China’s customs agency had notified companies that they were not allowed to ship to Japan any rare earth oxides, rare earth salts or pure rare earth metals, although these shipments are still allowed to go to Hong Kong, Singapore and other destinations. But no ban has been imposed on the export to Japan of semi-processed alloys that combine rare earths with other materials, the officials said. China has been trying to expand its alloy industry so as to create higher-paying jobs in mining areas, instead of exporting raw materials for initial processing.

Japan has been the main buyer of Chinese rare earths for many years, using them for a wide range of industrial purposes, like making glass for solar panels. They are also used in small steering control motors in conventional gasoline-powered cars as well as in motors that help propel hybrid cars like the Toyota Prius.

American companies now rely mostly on Japan for magnets and other components using rare earth elements, as the United States’ manufacturing capacity in the industry became uncompetitive and mostly closed over the last two decades.

The Chinese halt to exports is likely to have immediate repercussions in Washington. The House Committee on Science and Technology is scheduled on Thursday morning to review a detailed bill to subsidize the revival of the American rare earths industry. The main American rare earths mine, in Mountain Pass, Calif., closed in 2002, but efforts are under way to reopen it.

The House Armed Services Committee has scheduled a hearing on Oct. 5 to review the American military dependence on Chinese rare earth elements.

The Defense Department has a separate review under way on whether the United States should develop its own sources of supply for rare earths, which are also used in equipment including rangefinders on the Army’s tanks, sonar systems aboard Navy vessels and the control vanes on the Air Force’s smart bombs.

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The export halt is likely to prompt particular alarm in Japan, which has few natural resources and has long worried about its dependence on imports. The United States was the main supplier of oil to Japan in the 1930s, and the imposition of an American oil embargo on

Japan in 1941, in an effort to curb Japanese military expansionism, has been cited by some historians as one of the reasons that Japan subsequently attacked Pearl Harbor.

Jeff Green, a Washington lobbyist for rare earth processors in the United States, Britain, Canada and Australia, said that China and Japan were the only two sources for the initial, semiprocessed blocks of rare earth magnetic material. If Japan runs out of rare earths from China — and Japanese companies have been stockpiling in the last two years — then the United States will have to buy the semiprocessed blocks directly from China, he said.

Image



An engine of a Toyota Prius. Each Prius uses at least two pounds of rare earth elements in its various parts. Credit...Junko Kimura/Getty Images

“We are going to be 100 percent reliant on the Chinese to make the components for the defense supply chain,” Mr. Green said.

Japanese companies are now setting up rare earth processing factories in northern Vietnam, partly to use small reserves of rare earth elements found there but also to process rare earth elements smuggled across the border from southern China. But the Chinese government has been rapidly tightening controls on the industry in the last four months to try to limit smuggling.

Rare earth elements are already in tight supply and prices are soaring after the Chinese government announced in July that it was cutting export quotas by 72 percent for the remainder of the year. A delegation of Japanese business leaders met with Chinese officials in Beijing on Sept. 7 to protest the sharp reduction in quotas.

The price of samarium, crucial to high-temperature military applications like missile guidance motors, has more than tripled since July, to \$32 a pound, Mr. Green said.

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Deng Xiaoping, the late leader of China, is widely reported to have said that while the Middle East has oil, China dominates rare earths. But while Arab states used restrictions on oil exports as a political weapon in 1956, 1967 and 1973, China has refrained until now from using its near monopoly on rare earth elements as a form of leverage on other governments.

China tried to position itself instead as a reliable supplier, partly to discourage other nations from digging their own rare earth mines.

Despite the name, rare earths are actually fairly common; they are expensive and seldom mined elsewhere because the processing equipment to separate them from the ore is expensive and because rare earths almost always occur naturally in deposits mixed with radioactive thorium and uranium. Processing runs the risk of radiation leaks, — a small leak was one reason the last American mine was unable to renew its operating license and closed in 2002 — and disposing of the radioactive thorium is difficult and costly.

A senior Japanese Foreign Ministry official, who declined to be named, said that the Japanese government had not yet received any notice from China regarding the suspension. The official said, however, that the Japanese government has repeatedly asked China to not restrict its exports of rare earth elements, citing the severe consequences such a move would have on global production and trade.

Toyota had not yet received any information on an embargo and was unable to comment, said Masami Doi, a spokesman for Toyota in Tokyo.