

# **Baotou – with an eye on WTO appeal – signals tough times ahead for Chinese REE producers**

Woody Allen made the now famous quip that, if you want to make God laugh, tell him your future plans. For “future plans”, substitute “rare earth forecasts”.

Back in the 2011 frenzy that sent REE prices to the stratosphere, could you have imagined an analyst writing the following in April 2014: “In reporting diabolical first quarter results, the world’s largest producer of rare earths, the Chinese group Baotou, warned that fears of the World Trade Organisation ruling which could lead to unrestricted exports from China could drive prices down even further”?

First quarter 2014 revenues for Baotou fell 52% and profits tumbled 72% as compared to the same period in 2013. The quote in the previous paragraph comes from Roger Bade who works out of Whitman Howard in London. According to the Xinhua news agency, Baotou attributed the sharp decline to both falling sales and prices in what it termed a lacklustre market. A company spokesman said it was feared that the WTO ruling that China’s export restrictions on rare earths violate global trading rules – a ruling China is appealing – would force the country to export more REE and thereby force down prices even further.

How has it come to this? (Of course, it is self-serving of Baotou to make this argument, given what China stands to lose if its appeal is unsuccessful. But there seems little doubt the company is doing it tough.)

So let us travel back in time to 2011 when, on the forerunner

of Investor Intel, your correspondent was reporting the forecasts then being made that, by 2015 – now only just over eight months away – China was set to be a net importer of rare earths. By then, I went on, “if this proves to be correct, then the various emerging rare earth mines outside China stand to do very well as tightness of supply forces prices beyond even the extraordinary levels (at least for some of the HREE) of today“. [Fortunately, having been left looking silly by previous confident forecasts, I added the rider that “let me state right at the outset that I don’t know what is going to happen in this regard, except that – knowing China – everyone will probably be proved wrong to some extent. In fact, both sides might be partially right: China may, for example, indeed be short of one or two REE but not most; or vice-versa“.]

The then chairman at Great Western Minerals Group Gary Billingsley was quoted in news reports saying he thought the net-importer-by-2015 was likely, but made sure that he used the word “perhaps“. Back in that 2011 posting, Molycorp’s Jim Sims, then director of public affairs at the company, was quoted making a similar prediction. Both men cited the growth in applications depending up REE, like wind turbines along with electric cars and bikes. “This argument makes a great deal of sense,” I felt justified in adding.

The well-known Australian REE expert Dudley Kingsnorth, in his 2011 response to my query about this 2015 scenario, was not having a bar of it. “The idea that China will not be able to meet its own rare earths needs in the near future is fanciful nonsense,” he writes. His case was that the country had between 30 million and 50 million tonnes of REO reserves; it had between 200,000 and 250,000 tonnes a year of processing capacity (admittedly 50 per cent of which was presently shut down but the equipment was there and available).

Furthermore, said Kingsnorth, cash-rich state-owned enterprises had announced multi-million dollar REE expansion plans, with Fujian province unveiling a \$US905 million project

based on its HREE reserves. From calculations he had done, it appeared that between 20 million and 30 million of reserves had suddenly been “lost” in a year when prices had tripled. For him, the figures clearly did not compute. And he concluded: “Above all, China’s policies are driven by the need for social harmony, so believe me they will find the rare earths needed to sustain the high technology manufacturing industry that is dependent on rare earths and employs millions of people”.

So there it is: the yawning gap between what, three years ago, we thought was going to happen and what actually eventuated. Keep this in mind when reading upcoming forecasts (some, no doubt, reported by your correspondent).

And here’s something else: if Baotou is right, and REE prices are forced down further, this is going to make the more grandiose plans seem a little less realistic. I think immediately of the Japanese efforts to exploit large REE deposits under the sea floor. And now we have reports in *Applied Geochemistry* that German scientists have come up with a way to leach REE – specifically yttrium, dysprosium and praseodymium – from ferromanganese nodules on the sea floor by using Desferrioxamine-B, a solvent the journal says binds strongly with the REE (but not other metals, so leaving the unwanted ones behind).

Finally, in the “whatever-happened-to” department, back in 2011 The *People’s Daily* reported that the Zhejiang Provincial First Geological Team had discovered what it called a “mammoth” scandium deposit worth \$70 billion. Anyone heard any more about that?