

WTO ruling fails to alleviate European concern over China's rare earth dominance

✘ China has increased its efforts to limit the illegal mining and export of rare earths (REE). The Government has launched a five-month campaign, which has the specific goal of preventing prices of this commodity from dropping further in prices. Since the beginning of October until the end of March 2015 five authorities are working together to track down and punish illegal and smuggling REE operations. This is not the first time that the Chinese government has tried to tamper with (if not modernize) its rare earth industry, first by trying to rationalize resource management by shifting more control to state mining companies and then by setting production quotas for an ever smaller number of authorized companies. However, none of these measures were able to curb pollution, smuggling and illegal mining in the Chinese rare earth industry. The People's Republic has insisted that it holds 23% of the world's rare earths reserves even if it is widely held to have 40% of the reserves, addressing 90% of global demand.

The United States, Japan and Europe have filed a complaint with the WTO (World Trade Organization) – and obtained validation – that China's production and export quotas limited rare earth supplies for the global market, giving Chinese companies an excessive competitive advantage. However, Beijing has started to comply with the WTO ruling because it is facing internal environmental and social pressure. The European Union (EU) is very concerned that China may revive the REE trading restrictions that prompted the WTO to intervene in the past few years. In fact, just over a week ago, in Milan, Italy, European leaders met at the final stage of the ERECON conference. The European Commission has formed a panel of rare

earth experts known as the European Rare Earths Competency Network (ERECON). They are addressing the security of rare earth supplies in Europe as well as the primary production of rare earths, resource efficiency and alternatives to raw materials in the form of recycling.

ERECON's goal is to address the entire value chain challenge of rare earths in Europe, which are a key resource for its industry even though Europe is almost totally dependent on China, which covers 97% of total requirements – making the EU even more dependent on Chinese REE than the United States or Japan. Inevitably, this situation of strong imbalance in favor of China has led to consequences which continue to raise the importing countries' concerns, given the precedent of the Chinese government's decision to impose the cap on exports of rare earths in 2009, which caused their prices to rise by as much as 1000%, sparking protests from the US, Europe and Japan – the latter facing geopolitical and economic consequences that may have hurt its economy. These countries then presented an appeal to the WTO, of which China is a member, but before it was incorporated in March, the Chinese government took precautions by further raising the share of exports and, therefore, forcing REE down. ERECON and other forums, however have shown that the EU's concerns about China's virtual REE monopoly have not ceased – and not just for economic motives.

Rare earths are used in many areas, including military drones, laser technology and latest generation communications among other things. The EU, in fact all Western powers, have reason to suspect that China is using REE to upgrade and modernize its military industry and equipment at low cost while exploiting its military rivals' need to upgrade theirs. If there is any doubt, recent interest by Chinese investors in recently discovered rare earth mines in Greece suggests that China is in no way interested in relinquishing its REE supremacy. Another factor of concern is China's rapid rapprochement with Russia, a country which is also very

interested in re-entering the rare earths market. There are plans that would see ambitious projects starting to operate in Yakutia and the Kola Peninsula by 2020. The evolving Ukrainian crisis and the growing distance between the West and Russia has raised fears that the recently formed Russian-Chinese gas supply arrangements may extend to REE's as Russia seeks ways to confront the embargo imposed by most EU member states and NATO members. This should be encouraging news for the various REE mining operations under development In North America, South Africa, Tanzania and even Vietnam or Afghanistan – and there no assurances that the new operations will be able to deliver all of the rare earths that are in most demand such as neodymium, dysprosium or europium – among others. Efforts to recycle rare earths have yet to achieve any worthwhile results, which means that the REE challenge continues.