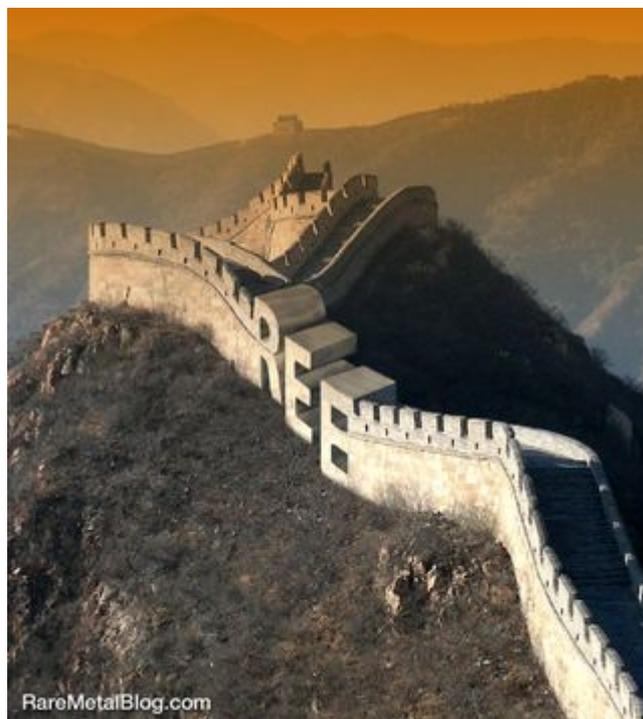


# Have China's efforts to stabilize Rare Earth Prices been a Failure?

In the first two months of this year, China's rare earth smelting separation plants have been facing a tidal wave of comprehensive losses due to a persistent slump in domestic market prices. Industry analysts pointed out that subdued demand for rare earth and seasonal factors have led to falling prices while higher inventory and higher costs of production resulted in losses for the sector.



According to data published by the Association of Jiangsu Rare Earth Industries on March 11, the total REO output was 602.73 metric tons while total REO sales were 695.38 metric tons, including all rare earth smelting and separating producers in Jiangsu province, increasing by 29.88 percent and 36.98 percent respectively in January. Exports also grew 22.42% to 124.13 metric tons, compared to the same period last year. However, the output value has dropped by about 43 percent to 231 million Yuan, while the export value dropped by about 87 percent to 37.1 million Yuan. Moreover, profits at rare earth producers were sharply down by 117.49% to -32.48 million Yuan, compared to the same period last year. This means the whole rare earth smelting separation industry is in plight and causing comprehensive losses for the state. If we consider a review of 2012, the total REO output of rare earth smelting and separating producers was 8095.97 metric tons and the total

export value was 2.049 billion Yuan, achieving a net profit of 980 million Yuan in Jiangsu province.

The latest data from the Baotou government show that February's rare earth prices were not optimistic in the Baotou market, which also continued to decline. Accordingly, the average RE carbonate concentrate prices just 32000 Yuan per ton, the average of Cerium Oxide prices just 49000 Yuan per ton and the average of Lanthanum Metal prices just 85000 Yuan per ton – according to figures from the Baotou government on its website.

Prompted by the decline in domestic prices over the past several months, China has adopted a series of strong measures and has been trying to stabilize the price of rare earths, including halting rare earths production, purchasing rare earths as a stockpile, strengthening the supervision of the rare earths industry as well as cracking down on illegal mining and smuggling, building up the national strategic reserves, etc. However, it would appear these measures have failed.

When the rare earth price bubble has burst, the hot money has followed, withdrawing from the rare earth market over the past few months as a result of gloomy forecasts, with underselling their illegal inventory at low prices, also contributing to a drop in rare earth prices. "The thing to remember about bubbles is they don't immediately re-inflate. It seems to take anywhere from a year to a generation," according to the Wall Street Journal. This is a fact, I think. China's rare earth industry needs to return to a rational order, which includes the curbing of local governments' irrational and blind expansion, especially in the downstream industry sector.

However, these statistics and prospects are not necessarily discouraging; the potential of the rare earth elements is strong and they can only become more important. "Rare earths are the economic and technologic foundation of a safe and

secure Nation. To possess them imparts independence, immunity to coercion, and the tools to invoke scientific advancement.” James B. Hedrick said, I think we should remember it.