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Rare Truths About China's Rare Earths

Environmentalists and markets can end Beijing's monopoly on minerals for smartphones and more.

By The Editorial Board



Looks like it's time for another panic about rare-earth elements. New fears are surfacing that Beijing could use its dominance of the production of these vital minerals to throttle the global economy. As usual, the truth is more complex and less favorable for Beijing.

Rare earths, which are metals toward the bottom of the periodic table, are crucial to many emerging technologies. Their magnetic properties make them indispensable for smartphones, wind turbines, electric vehicles, nuclear submarines and other things. Some 80% of global output of processed rare earths are produced in China.

Publicly the Communist Party acts like this market dominance puts it in the economic catbird seat. One recent report suggested officials are studying how much damage Beijing could do by cutting off rare-earths for the West's F-35 fighter program. In 2010 it threatened to ban rare-earth exports to Japan following a territorial dispute.

Then there's rare-earth reality. China's share of global production, while still high, is already on the wane; it was above 95% as recently as 2010. Despite the name, rare earths

are abundant across the globe. Driven in part by Beijing's metallurgical saber-rattling, countries such as Australia and the U.S. have ramped up mining and processing. Investment is underway on new recycling techniques.

This capacity already undermines China's supposed threat to foreign militaries. Defense applications in the West are a very small portion of total rare-earth consumption. The Trump Administration studied the possibility of stockpiling in case of a Chinese supply disruption. While that plan has yet to get off the ground, the U.S. and allies likely could meet their military rare-earth needs outside China in short order in case of an embargo.

That still leaves other industries exposed to Beijing's gamesmanship. But Beijing's threatened export controls, now and in the past, have less to do with strategic considerations than with other problems—some of which should concern the West too. A big one is that rare-earth mining and processing are environmentally destructive.

This explains why the West wasn't willing before now to develop more of its own mining and processing capacity. Beijing's 2010 feud with Japan probably was less about grand strategy than trying for environmental reasons to rein in out-of-control wildcat miners in China.

It appears to have failed. Despite at least one subsequent attempt to consolidate the industry, Beijing minister Xiao Yaqing complained Monday that domestic oversupply of some rare-earths is driving prices too far down: "Our rare earths did not sell at the 'rare' price but sold at the 'earth' price."

Beijing is also increasing some output quotas on rare earths to support domestic high-tech manufacturing. Meanwhile, China is becoming an importer of some raw materials, especially from Burma. This confusion—one hand boosts production and imports while the other complains prices are too low—belies claims that a coherent industrial policy is in operation.

All of this can be good news if Western countries trust markets, which worked after China's threats against Japan in 2010. Production increased. **But Western subsidies also artificially boost demand for green tech and thus for rare earths. And the U.S. and other countries have made mining for rare earths difficult and costly due to environmental rules.**

Reduced Chinese supply—if it happens—will force Western policy makers and voters to face the trade-off between the carbon benefits of wind energy or electric vehicles and the environmental costs associated with manufacturing those technologies. If Western mining drives up rare-earth costs by fully accounting for environmental effects, that would be an important price signal. The Biden Administration and Congress could help by telling the truth about this trade-off and reducing the burdens on mining critical minerals.

Market signals have stimulated significant rare-earth investment and innovation in the West over the past decade. They remain the West's best defense against Chinese mineral mercantilism now.