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## U.S., Europe move on China rare minerals

*U.S. approaches WTO against China; Beijing warns of backlash*

BY SUDEEP REDDY & JARED A. FAVOLE

China's state media warned on Tuesday that U.S. plans to push a case involving rare earths before the World Trade Organization could trigger a backlash and hurt ties.

China's state-run Xinhua news agency on Tuesday said in a commentary that Beijing will defend the nation's rare-earth industry, which involves the mining and processing of key minerals used in everything from consumer gadgets to electric cars to defense systems.



**Trade fight:** A rare earth mine in California. The move marks a new front in Washington's effort to turn up the heat on China.

they force international prices of the metals so much higher than the prices for them in China. Mr. Silver said that he is hopeful that regardless of what the WTO might ultimately decide about China's quotas, that the U.S. action may lead to negotiations with China about how to narrow the pricing gap.

The U.S. has achieved a number of successes in pressing China, a WTO member, through the international trade body. But the cases can take years to resolve, including appeals. The U.S. and China have sparred for several years on trade policies for products ranging from tires to chicken.

China's hold on the rare-earth minerals market has raised concerns that the U.S. is too reliant on the country for materials that are necessary for complex weapons systems. The Pentagon last fall, in a report to Congress, warned lawmakers about the U.S. military's dependence on the raw materials and recommended alternatives to Chinese supplies.

In 2009, the U.S. and European Union launched a case against China at the WTO related to other industrial raw materials, such as magnesium and zinc, maintaining that China limited exports in order to

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"It is rash and unfair for the United States to put forward a lawsuit against China before the WTO, which may hurt economic relations between the world's largest and second-largest economies," it said.

"In face of such unreasonable and unfair charges, China will make no hesitation in defending its legitimate rights in trade disputes."

Xinhua added: "Past experiences have shown that policymakers in Washington should treat such issues with more prudence, because maintaining sound China-U.S. trade relations is in the fundamental interests of both sides."

A spokesman for China's Foreign Ministry was more reserved, saying at a daily briefing that the U.S. allegations were "groundless" and reiterating that its export restrictions on rare earths were aimed that making the industry more environmentally sound and economically sustainable.

"Despite huge environmental pressures, China has made efforts to maintain a certain level of exports," spokesman Liu Weimin said. "We hope other countries with rare-earth resources can share the responsibility to provide rare-earth supplies."

The Obama administration intends later Tuesday to escalate its trade offensive against China; a move heavy with polit-

ical overtones, by pressing the World Trade Organization to force the export giant to ease its stranglehold on rare-earth minerals critical to high-tech manufacturing.

The announcement, which will be made by President Barack Obama, marks a new front in the administration's election-year effort to turn up the heat on China, amid competition from the president's potential Republican rivals on the matter. It could also pressure China to respond to the WTO on an issue that is of high importance to a range of manufacturers.

The U.S., joined by the European Union and Japan, plans to ask the WTO, the international arbiter of trade practices, to open talks with China over its restrictions on exporting the rare-earth minerals, administration officials said.

China dominates both the mining of rare-earth materials and the ability to process mined oxides into the metals that serve as key components of everything from smartphones to hybrid vehicles to military equipment.

China produces more than 95% of the world's rare-earth minerals.

The latest U.S. effort was

widely anticipated by people in the industry following years of unsuccessful efforts to press China directly on the issue. The U.S. will ask the WTO to push China to stop its controls on the production of rare-earth minerals. Barring a surprise breakthrough in negotiations, the issue is likely to become a full-fledged case at the WTO against China.

Getting tough on China is one way Mr. Obama can begin to buttress relations with labor unions and blue-collar workers who objected to his championing of a series of bilateral trade deals last year. It is a vital constituency for the president, and one that has been somewhat tepid in its support.

Mr. Obama in January announced a new trade task force designed to press China on its trade and business practices, including growing concerns among U.S. businesses about intellectual property theft and U.S. restrictions in major Chinese markets.

"Raising the issue has great value," said Michael Silver, the chief executive officer of Los Angeles-based **American Elements Inc.**, which sources rare-earth materials in China and processes them in the U.S. and Mexico.

For rare-earth industrial users, he said, the problem with China's export quotas is how

boost prices and help domestic producers.

The WTO ruled against China in that case in January, leading lawmakers and trade officials around the world to press for a similar action related to the 17 rare-earth metals.

Beijing's previously rigid defense of its rare-earth export limits appeared shaken by that decision, as a Chinese policy maker suggested a fresh readiness to talk with major trading partners at the WTO. "Regarding WTO members' possible similar actions over China's rare-earth policies, we're ready to respond at any time in line with WTO rules and procedures," said Li Chenggang, head of the Ministry of Commerce's legal and treaty department, to Xinhua news agency in an interview published Feb. 1.

While WTO rules technically permit export quotas on natural resources for environmental protection, trade lawyers say China's export caps on rare-earth minerals violate the spirit of those rules. They note while Beijing has been cutting access to the resources by other countries through the quotas, it has been slow to implement rigid production limits at home that might truly protect the natural resources.

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