

[The Star Online](#) > Worldupdates
Friday, May 03, 2013 MYT 11:55:01 PM

China says illegal rare earth production, smuggling still rife

BEIJING (Reuters) - Illegal production and smuggling still dog China's rare earth industry despite a long campaign to clean up the sector, contributing to a supply glut that has depressed global prices, a senior industry official said on Friday.

"Problems in the industry that have accumulated over the long-term have still not been fundamentally resolved," Su Bo, vice-minister of industry, said in comments published on the ministry's website (www.miit.gov.cn).

"Unplanned exploitation and production of rare earths has affected the normal workings of the market, and illegally-produced rare earth products have reached downstream consumers through a variety of channels or been smuggled abroad, leading to a continuous decline in prices," he said.

China, which supplied 97 percent of the world's rare earths, used in products from computers to wind turbines, launched a nationwide campaign in 2010 to "rectify" the chaotic and ill-regulated sector to curb severe environmental damage.

It reduced domestic output and shut hundreds of small and unlicensed miners, processors and traders, leading to a fourfold spike in export prices and complaints from buyers in Europe, Japan and the United States.

The crackdown has strengthened the position of giant state-backed firms in the industry.

Su said the top 10 rare earth producers, including Minmetals, Chalco and Baotou Rare Earth, now control 99 percent of official national output. They also control 61.5 percent of the country's separation capacity, where material is separated out into individual rare earth ores.

Rare earth prices hit record levels in 2011 but have since slumped, largely as a result of the global economic slowdown, including weaker growth in China, according to Western buyers.

China sold just 16,800 tonnes of rare earths in 2012, lower than the permitted quota of 24,000 tonnes, Su said.

He gave no indication of the current size of illegal production, but earlier government estimates have suggested that as much as 40,000 tonnes of rare earths have reached the domestic and export market illegally in previous years.

Su said demand was expected to recover, with the supplies of scarcer heavy rare earths likely to get tighter.

Other countries have ramped up production of rare earths in response to China's export quotas, including the United States and Australia, but China remains the dominant producer.

Su added that while China needed to continue to restructure the sector and prevent oversupply, it should not impose "excessive controls" over the production of light rare earths and thereby lose market share.

(Reporting by David Stanway; Editing by Richard Pullin)