



Rare earths - 17 minerals whose production is almost completely dominated by the Chinese and are essential in renewable energy products and advanced weapons systems - may seem like an odd pairing with the fast-paced, pulse-pounding, over-the-top action of a blockbuster video game like "Call of Duty: Black Ops II."

Anyone familiar with the game knows that it models itself more on SEAL Team 6 and less on the Defense Logistics Agency. This year's offering, however, offers a plot focused on rare earth materials and a "cold war" developing between the United States and China over access to these critical materials. Though the kinetic pace of the action is pure Hollywood, the competition between the countries for these critical materials is anything but fiction.

Although players have many options to win in the game, it is unclear whether the Obama administration, which is neglecting proven mining and development strategies that could develop a domestic rare earth supply, is playing to win in the real world. The contours of this neglectful rare earth policy have become clear through the attitude of the Department of Defense and the widely announced recent World Trade Organization case.

At the end of last year, the Defense Department released a lengthy report about the industrial capabilities of the defense industrial base, concluding that stable non-Chinese sources of rare earth oxides are essential to the U.S. supply chain. The report recommended the development of risk-mitigation plans and partnerships with domestic industry to obtain and retain rare earth processing capabilities.

But less than six months later, the Defense Department reversed course and concluded that rare earths "are not uniquely important." This report also assumed 100 percent of the very few heavy rare earths mined in the United States would be available to meet defense needs. The Defense Department also cited its ability to stake priority claims under Title I of the Defense Production Act, effectively noting that it could seize material from commercial users to meet its needs.

Alarming to industry analysts concerned about the ability of the United States to maintain access to rare earths, the Defense Department looks favorably on “corporate restructuring within the supply chain,” likely referring to the acquisition of Neo Material Technologies Inc. and their Chinese processing plants by Molycorp Inc., the only domestic producer of rare earth oxides. The Congressional Research Service recently described this pending acquisition as a plan to export rare earths to China, where they then would be subject to Chinese export restrictions should U.S. industry need them back. Whether they would be allowed to return to the United States remains an open question.

The administration is fighting these export restrictions through its action in the World Trade Organization, but the majority of its energy is focused on obtaining cheap Chinese raw materials, which does nothing to encourage domestic industry. Perhaps this is because the administration faces an election-year tightrope on this issue: Among other uses, rare earths are vital for wind turbines and hybrid and electric vehicles key to the creation of a greener economy, but encouraging mining would certainly dismay the administration’s radical environmentalist supporters. The irony is that the global environmental impact would be much lower if the rare earth industry applied Western standards to the process instead of relying on traditional Chinese production.

Focusing on the WTO avoids this problem altogether. It is also highly convenient for big U.S. companies that are dependent upon rare earths and have shifted large portions of their manufacturing capacity to China, where they can purchase rare earths without worrying about export restrictions.

Partnering with Japan to bring the WTO case also meshes neatly with the “strategic pivot” to the Asia-Pacific. After China, Japan consumes the most rare earths and is a reliable supplier of high technology materials to the United States. However, if they lose the capability to obtain cheap and regular supplies of Chinese raw materials, as they did from a de-facto Chinese rare earth embargo in the fall of 2010, or if Japanese firms continue to relocate facilities to China, as Toyota recently did, our broader strategic interests in the region may be threatened.

In short, a successful conclusion to the WTO case may provide cheap Chinese material to the market, supplying cheap, plentiful materials to the defense industry - but only as long as China believes it to be in its interest to allow those exports. Meanwhile, nothing will be done to improve domestic and allied sources of supply; these valuable markets will continue to be offshored and outsourced rather than dealt with in any comprehensive fashion.

Sweeping our supply problems under the rug does not appear to be a long-term strategy for success. In the end, these actions align closer with the political agenda of the administration than with the needs of a high-tech economy or national security.

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