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Even as the U.S. mounts a legal challenge to China's stranglehold on the global market for a class of key minerals, the U.S. Defense Department is playing down the impact on the U.S. military of the Chinese export limits.

The minerals, known as rare earths, are critical to military applications—including smart bombs, laser guidance systems and night-vision equipment—but in a new report, the Defense Department said such uses represent only a "small fraction" of U.S. demand and that military needs can largely be met domestically.

"The growing U.S. supply of these materials is increasingly capable of meeting the consumption of the defense industrial base," says the report, which has been circulated to selected members of Congress in recent days and has been reviewed by The Wall Street Journal.

Defense Department spokeswoman Cheryl Irwin said the Pentagon "monitors rare-earth-element markets and prices—as it does for other important commodities."

China is the largest producer, processor and consumer of the 17 chemically similar elements. Though the industry is valued at only about \$3 billion annually, the elements are critical not just for those military applications but for civilian technologies, from vibrating cellphones to power-generating wind turbines.

Beijing limits annual exports of rare earths and taxes their sale, policies that have sent their prices soaring in recent years and have raised widespread worry that demand outside China will outstrip supply.

On Thursday, the Obama administration, along with the European Union and Japan, challenged the export-control regime in complaints filed with the World Trade Organization in Geneva. Beijing has signaled its determination to prove its controls are legal.

"The policy aims to protect resources and environment, and realize sustainable development," a Ministry of Commerce spokesman, Shen Danyang, told a Beijing news conference on Thursday, according to the state-run Xinhua news agency. "China has no intention of restricting free trade or protecting domestic industries by distorting its foreign trade."

Neither President Barack Obama nor U.S. Trade Representative Ron Kirk specifically mentioned military applications for rare earths in their brief statements announcing the WTO action on March 13. Mr. Obama cited technology such as "advanced batteries and hybrid cars."

But the U.S. military is at the forefront of concerns elsewhere in Washington, including Congress, where the president was widely applauded for confronting the Chinese rare-earth export system.

"Not only are rare earths vital to the growth of green-energy jobs and high-tech innovation, but they are also critical to U.S. national security," U.S. Rep. Mike Coffman said in a statement.

His spokesman said the Colorado Republican disagrees with the military's conclusions that U.S. domestic supplies can meet its needs. In recent years, Rep. Coffman has sponsored legislation to require the U.S. military to formulate plans for sourcing rare earths, including possibly stockpiling.

The Defense Department's new report, *Rare Earth Materials in Defense Applications*, says there are military applications for seven of the rare earths: dysprosium, erbium, europium, gadolinium, neodymium, praseodymium and yttrium.

By its estimate, U.S. production next year will be sufficient for military requirements of six of those. The exception is yttrium; a particularly scarce element in a subclass of rare earths known as a "heavy" that is used in precision lasers and stabilizers in rocket nose cones.

The report says that increased mining outside China, falling prices for rare-earth minerals since

mid-2011 and lower forecasts for consumption outside China are factors that it believes by 2015 will mean a more stable rare-earths market.

The report doesn't represent the U.S. military's final word on the issue. Congress has ordered further study of how industry trends will affect the armed services, and the new report's findings contradict other government predictions—including from the armed forces—that the supply chain presents risks to national security.

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