

# Exclusive: Pentagon races to track U.S. rare earths output amid China trade dispute and Silicon Valley bribes

[Ernest Scheyder](#)

- The Pentagon is rapidly assessing the United States' rare earths capability in a race to secure stable supply of the specialized material amid the country's trade conflict with China, which controls the rare earths industry, according to a government document seen by Reuters.

FILE PHOTO: Heavy mining equipment haul ore at the Mountain Pass Rare Earth facility in Mountain Pass, California, June 29, 2015. REUTERS/David Becker

The push comes weeks after China threatened to curb exports to the United States of rare earths, a group of 17 minerals used to build fighter jets, tanks and a range of consumer electronics.

The Pentagon wants miners to describe plans to develop U.S. rare earths mines and processing facilities, and asked manufacturers to detail their needs for the minerals, according to the document, which is dated June 27.

Responses are required by July 31, a short time frame that underscores the Pentagon's urgency. The U.S. government's fiscal year ends in September.

The U.S. Air Force, which is part of the Pentagon and created the document, confirmed the document's existence. The Pentagon's headquarters did not respond to a request for comment.

The responses will be reviewed by two government contractors, including Northrop Grumman Corp, which did not respond to requests for comment.

"The government wants to know how much of these minerals we could eventually be producing, and how soon," said Anthony Marchese, chairman of Texas Mineral Resources Corp, which is working to develop the Round Top rare earth deposit in the state's western edge.

Several miners, though, declined to comment when asked if they will reply to the Pentagon, a sign of the sensitivity around rare earth mine development during the ongoing U.S.-China trade dispute.

The document does not directly promise loans, grants or other financial support to U.S. rare earths projects. But the Pentagon's request is derived in part from the Defense Production Act (DPA), a 1950s-era U.S. law that gives the Pentagon wide berth to procure equipment necessary for the national defense.

Some type of financial assistance is ultimately expected for the industry after the Pentagon reviews the responses, according to industry analysts and consultants.

## **CHINA DOMINATES**

Although China contains only a third of the world's rare earth reserves, it accounts for 80% of U.S. imports of minerals because

it controls nearly all of the facilities to process the material, according to U.S. Geological Survey data.

It is unclear how much money the U.S. military will spend to boost America's rare earths industry as the DPA does not set a financial limit. The June Pentagon letter notes that government investments usually range from \$5 million to \$20 million per project.

"The overall goal is to secure and assure a viable, domestic supplier (of rare earths) for the long-term," according to the nine-page document.

The Air Force Research Laboratory, which drafted the request, said it wants information related to U.S. rare earth "shortcomings, risks, and opportunities which may be addressed by investments" by the military.

"There is no guarantee that any submitted topic will" receive military support, Diana Carlin, the Air Force's executive agent program manager for the DPA program related to procurement, said in an emailed statement to Reuters.

James Litinsky, co-chairman of MP Materials, which owns the Mountain Pass mine in California, said the United States needs "a sustainable supermajor for the Western supply of these minerals." A supermajor would be a large producer that dominates the global industry.

MP Materials, the only existing U.S. rare earths facility, ships its ore to China for processing and has been subject to a 25% tariff since last month.

Some industry analysts have called for the Pentagon to broaden the scope of its study and commit to direct government funding of rare earth magnet and motor manufacturing, much like China's government.

FILE PHOTO: Samples of rare earth minerals from left: Cerium oxide, Bastnaesite, Neodymium oxide and Lanthanum carbonate at Molycorp's Mountain Pass Rare Earth facility in Mountain Pass, California June 29, 2015. REUTERS/David Becker

"The U.S. government doesn't have a holistic approach to the entire rare earths supply chain, even now, and that's a problem," Jack Lifton, an industry analyst with Technology Metals Research LLC, said in an interview this week.

## **BILLS IN U.S. SENATE**

The Pentagon's request builds on several executive orders from President Donald Trump on strategic minerals, which he has said are critical for national defense.

Several U.S. senators have sponsored legislation in recent weeks designed to boost domestic production of lithium, rare earths and other strategic minerals. On Thursday, U.S. Senator Marco Rubio, a Florida Republican, introduced a bill that would let rare earths producers form cooperatives, avoiding U.S. antitrust statutes.

None of the bills have passed yet.

The Pentagon has also held talks with rare earths suppliers in Malawi and Burundi, department officials told Reuters last month.

“There’s a heightened sense of urgency on developing a rare earth supply chain in North America,” said Don Lay, chief executive of Medallion Resources Ltd, which earlier this month said it was studying potential sites across North America to develop an extraction plant for rare earths.

(INTERACTIVE GRAPHIC-Rare earth production [tmsnrt.rs/2I9MfL5](https://tmsnrt.rs/2I9MfL5)).

(GRAPHIC-Rare earth export prices perk up after China rattles trade war sabre link: [tmsnrt.rs/2Id5tQ2](https://tmsnrt.rs/2Id5tQ2)).

Reporting by Ernest Scheyder in Houston; Additional reporting by Mike Stone in Washington; Editing by Amran Abocar and Matthew Lewis

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