

Australia moves to shatter China's rare earths dominance

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Amid rising geopolitical tensions and a global push to diversify the critical elements, Australia is emerging as a full-cycle powerhouse.



Australia has jumped into the middle of Washington-Beijing tensions by offering itself as an alternative rare earths supplier, challenging China's dominance over materials critical to smartphones, electric vehicles and the defence sector.

This week, the US and Australia signed a deal to help finance \$8.5 billion worth of projects aimed at beefing up mineral-rich Australia's production and processing capabilities, as well as helping it strike partnerships at home and abroad.



Andrew Zurawski,
WTW

US companies rely heavily on supplies of rare earth elements while economic rival China is a major producer and controls the bulk of processing globally.

"Given the largely untapped supply of these minerals in Australia, we are seeing developments involving a mix of large-scale private investments and public sector support," said Andrew Zurawski, chief economist for Asia Pacific at WTW.

Public policy is playing a central role, with Zurawski pointing to Canberra's critical-minerals strategic reserve plan, which includes a proposed A\$1.2 billion stockpile to mitigate supply chain vulnerabilities.

Equity prices for major rare earth mining companies have climbed in tandem with these developments, reflecting growing domestic and foreign direct investment.

MARKET FACTORS

Australia's bid to shift from raw-ore exporter to rare earths supplier is being driven by state-backed financing, downstream investment and allied partnerships, said Steve Alain Lawrence, CIO at Balfour Capital Group.

He highlighted the government's 10% processing tax credit and over A\$1.2 billion (\$778 million) in Export Finance Australia loans, which are supporting new refining capacity at Iluka's Eneabba and Lynas' Kalgoorlie projects in Western Australia.

"Combined with offtake deals involving the US and Japan, these initiatives reduce China's dominance in processing and anchor Australia as the democratic world's secure, transparent source of critical minerals – an essential pivot for energy, defence, and technology supply chains," Lawrence said.

Production is scaling rapidly.

Lynas has expanded both its Mt Weld mine and Kalgoorlie rare earths refinery, while Arafura Rare Earths has secured long-term offtake agreements with Spanish-German wind engineering firm Siemens Gamesa and multilateral financing from European finance institutions KfW and EFA.

Firms are embedding resilience into operations by integrating ESG-linked pricing, traceability standards and floor-price clauses to attract buyers —particularly in the defence and renewables sectors, where supply security often outweighs short-term cost efficiency.

Foreign direct investment is accelerating as governments and corporations seek secure, non-China supply chains.



Steve Alain Lawrence
Balfour Capital Group

Lawrence pointed to the US Department of Defense's funding of Lynas USA's Texas facility, and noted that Japanese trading houses and

European OEMs are locking in offtakes from Arafura and Iluka.

“This marks a shift from passive investment to co-financed industrial policy, where defence agencies and clean-tech firms invest directly in upstream projects,” he said.

Australia’s stable regulatory environment, strong ESG oversight, and alliance ties have made it a preferred jurisdiction for de-risked, long-term capital deployment.

Market dynamics are also shifting.

“Australia’s growing production won’t flood the market – it diversifies it,” Lawrence said.

Following China’s export tightening in 2024, prices for Neodymium-praseodymium (NdPr) -- a mixture of rare earth elements used in magnets -- surged roughly 40% in six weeks, underscoring the geopolitical sensitivity of rare earths supplies.

Buyers are now willing to pay premiums for Australian-origin oxides as a hedge against Chinese export risk. As Western magnet factories, such as MP Materials’ Fort Worth facility, scale up, Australian producers are expected to benefit from sustained demand.

“In the long term, Australia’s transparent supply may moderate extreme price spikes while supporting higher ethical-sourcing premiums, improving pricing stability across global REE markets,” Lawrence added.

Zurawski cautioned that it is still too early to assess the full impact of these developments on rare earth prices, though he acknowledged “significant movement” in equity prices for some miners.

ASIAN IMPLICATIONS

Australia’s rise in the rare earth sector is also reshaping dynamics across Asia.

“Asia’s manufacturing powers – Japan, Korea, India, and Taiwan – stand to gain from Australia’s rise,” Lawrence said.

Japan’s automakers and magnet producers already rely on Australian feedstock, while South Korea’s EV and electronics giants are exploring joint ventures for magnet manufacturing.

India is aligning with Australia and Japan to secure inputs for its renewable energy expansion.

While China's pricing power may erode, the broader Indo-Pacific will benefit from enhanced supply reliability, reduced concentration risk and a more resilient manufacturing base across clean-tech and defense sectors, Lawrence said.

This shift could lower geopolitical risk and encourage regional investments in processing and manufacturing, according to Zurawski.

CHALLENGES AHEAD

Still, Australia faces several hurdles including limited heavy rare earth separation capacity, the absence of domestic magnet manufacturing and the need for risk-sharing mechanisms such as offtake-backed loans and price floors, Lawrence said.

While Iluka's Eneabba and Lynas' Kalgoorlie refineries are beginning to close the midstream gap, Lawrence stressed the importance of deepening joint ventures with Japan and South Korea to establish NdFeB magnet production.

Expanding credit guarantees and strategic stockpiles, he said, will be essential to stabilizing returns and ensuring Australia's supply chains can meet global defence and energy transition demand.

But while Australia has abundant raw material reserves, it has historically exported these for processing—primarily to China.

"As such, recent efforts have focused on enhancing investment in processing capabilities in a low-cost way," Zurawski said.

"Environmental concerns are also a consideration in increasing the supply in Australia."

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