US Tariff Policy against China to alter the competitive landscape for (some) critical minerals

written by Tracy Hughes | May 14, 2024

In a significant move on May 14, 2024, U.S. Trade Representative Katherine Tai announced a strategic shift in the United States' tariff policy towards China, following a comprehensive four-year statutory review. The review, which meticulously examined the effectiveness of the Section 301 tariffs originally imposed to address China's practices related to technology transfer, intellectual property, and innovation, concluded with a decisive directive from President Joe Biden to enforce stricter measures.

Ambassador Tai stated, "After thorough review of the statutory report on Section 301 tariffs, and having considered my advice, President Biden is directing me to take further action to encourage the elimination of the People's Republic of China's unfair technology transfer-related policies and practices that continue to burden U.S. commerce and harm American workers and businesses." This directive underscores the administration's commitment to using every available tool to protect American industries and promote job creation.

The proposed modifications to the tariffs are targeted specifically at sectors deemed strategic, with notable increases on products like electric vehicles and semiconductors, where tariffs will see an unprecedented rise to 100% and 50% respectively by 2025. This bold strategy is not just about penalizing unfair practices but also about bolstering American competitiveness in critical industries.

Peter Clausi, CEO of CBLT Inc. (TSXV: CBLT) and a board member of the Critical Minerals Institute (CMI), contextualized the move, saying, “The United States intends to employ tariffs and taxation as a strategy to nationalize against China for critical minerals. It remains uncertain how this approach will be applied to other critical minerals and other countries.”

The report also highlights the ongoing challenges with China’s technology transfer policies, which not only persist but have evolved in complexity, often involving state-sponsored cyber intrusions and cyber theft. Despite these ongoing challenges, the tariffs have been somewhat effective in mitigating the exposure of U.S. businesses to these harmful practices.

Christopher Ecclestone of Hallgarten + Company (UK) commented on the changes, specifically the impact on the natural graphite and permanent magnets sectors: “This announcement alters the competitive landscape by removing what is seen as unfair competition from China. Consequently, prices in the West for these materials are expected to rise by about 25%, which improves the economic viability of these projects.”

Further, the U.S. Trade Representative’s office has recommended maintaining current tariffs on numerous products while also proposing the addition of or increase in tariffs on others, including medical gloves and various critical minerals, slated for incremental increases through 2026.

Additionally, the review suggests improvements in collaboration between private companies and government authorities to combat technology theft, and a call for greater enforcement of the tariff measures by allocating additional funds to United States Customs and Border Protection.

Jack Lifton, Co-Chair of the Critical Minerals Institute (CMI), shared extensive insights into the economic implications of these tariff adjustments: “This allows American producers of these items to raise their prices and maintain those increased prices. All permanent magnets and magnet-enabled devices from China will now face a surcharge of 25% of the value of the contained magnets. This represents an opportunity for the mining industry as they can now increase the prices of their rare earths, rare earth metals, and alloys.”

Lifton further elaborated, “The supply chain is significantly impacted here. However, I want to caution that this allows the maintenance of high prices for these items in the United States and encourages price increases because many in the rare earth sector, especially the junior miners, are not profitable. By adding 25% to the price, they can sell their rare earth elements for 25% more, based on the contained value in a magnet from the Shanghai metal market, for example. This could make them profitable. Therefore, this change is going to trickle down to the miners and will definitely have an impact. “This is a significant shift because, interestingly, a 45% tariff on magnets implies that, since the prices of magnets and rare earths fluctuate daily, the tariff ensures that the price on the day of sale or purchase will be 25% above the stated Chinese price, likely from the Shanghai metal market. This is a substantial boost for the rare supply chain. I’m not sure it benefits the American consumer, as it certainly won’t lower prices at all.”

The Biden administration is also setting up an exclusion process for machinery used in domestic manufacturing, with a focus on solar manufacturing equipment, indicating a nuanced approach to tariff exemptions where they might bolster domestic production capabilities.

Next week, the USTR will issue a Federal Register notice to invite public comment on these proposed modifications, providing a platform for stakeholders to express their views and influence the final policy decisions.

This strategic recalibration of tariffs not only aims to curb China’s unfair practices but also to enhance the resilience and competitiveness of U.S. industries, creating a more balanced trade environment while navigating the complex global economic landscape.

For more information on the Critical Minerals Institute (CMI), [click here]