

America's Defense Industry Is Racing to Escape China's Rare Earth Grip

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China moved this week to take tighter control of its rare earths producers amid an escalating tit-for-tat battle with Washington, everything from tariffs and semiconductor warfare to pressure over Iran and Hormuz. At the same time, an ominous Pentagon deadline looms large, with the entire American defense system to be banned from using any Chinese-origin rare earths, beginning in January 2027. With fewer than eight months on the clock, Washington is sounding the alarms at full blast, and the Department of War is leading the clarion call for American rare earths. Companies mentioned in today's commentary include REalloys Inc. (ALOY), [Freeport-McMoRan Inc.](#) (NYSE: FCX), [Lithium Americas Corp.](#) (NYSE: LAC), [Lynas Rare Earths](#) (OTCQX: LYSDY), The Metals Company's (NASDAQ: TMC), [Electra Battery Materials](#) (NASDAQ: ELBM).

The Department of War has delivered a memorandum to American rare earths innovator REalloys (ALOY), warning of the need to secure domestic supply as China tightens the global supply noose, and as a 2027 Pentagon deadline to ban all Chinese rare earths materials looms. The memorandum calls for the urgent strengthening of America's supply of Dysprosium (Dy) and Terbium (Tb), two national security priorities in the heavy rare earth element (HREE) supply chain. And this is exactly where REalloys has all the leverage.

"REalloys operates the only heavy rare earth metallization platform in North America and is scaling its market leading production by building the largest heavy rare earth metallization facility outside of China, purpose-engineered to produce defense-grade dysprosium and terbium metal at commercial scale with a zero-adversary-nexus supply chain," the company said in a press release announcing the DoW memorandum. The Euclid, Ohio company is building a commercial scale heavy rare earth metallization facility focused on converting heavy rare earth oxides into the high-purity, metals and alloys used in defense systems and high-performance magnets.

The solution is being supported by a long-term offtake agreement securing 80% of the output from the Saskatchewan Potash Council's (SRC) commercial rare earth processing facility in Saskatoon, giving REalloys competitive access to one of the largest multi-feedstock rare earth processing facilities in North America. At the same time, the company has developed a patent-protected hydrofluoric-acid-free fluorination process designed to eliminate one of the most hazardous chemicals traditionally used in rare earth metallization. It could be exactly what China is trying to avoid, and its new rare earths restrictions announced this week could be an 11th-hour attempt to grab more leverage and squeeze supply tighter ahead of the 2027 ban.

CHINA CAN CRIPPLE INDUSTRIES WITH THE STROKE OF A PEN

China currently controls most global rare earth refining, separation, and metallization capacity used to produce HREEs including dysprosium, terbium, neodymium-praseodymium alloys, and high-performance magnet materials used in missile systems, aircraft, EV drivetrains, modern energy infrastructure, advanced healthcare and robotics. China imposed export restrictions on seven rare earth elements and related magnet products in April 2025 after the Trump administration expanded tariffs and technology restrictions targeting Beijing.

Within weeks, global manufacturers started reporting supply disruptions, as reported by Time Magazine. Ford shut down production at its Chicago-area Explorer plant for roughly one week in May 2025 after shortages of rare earth magnets interrupted its supply. Suzuki halted production of its Swift model at Japan's Sagara plant from May 26 through June 6 before partially resuming operations later in the month.

European auto suppliers also reported delayed shipments and stalled export approvals tied to China's licensing system. Indian automakers warned that EV production could stop entirely if magnet supply disruptions continued.

China sought to tighten control further this week after its Ministry of Industry and Information Technology published new

enforcement rules that would allow authorities to confiscate products and equipment, impose fines tied to "illegal gains," operating licenses in more serious cases.

THE PENTAGON'S RARE EARTH DEADLINE IS COLLIDING WITH CHINA'S CONTROL OF THE MARKET

Last month, in a nonbinding MOU, REAlloys secured rights to up to 10% of production from U.S. Critical Materials Corp's Creek project in Montana, one of the highest-grade rare earth deposits in the United States and a project averaging roughly 10% total rare earth oxide (TREO). The deposit contains confirmed dysprosium, terbium, yttrium, and NdPr - the HREEs used in permanent magnets for F-35 fighter aircraft, missile guidance systems, radar platforms, and other advanced defense hardware.

The MOU feeds directly into REAlloys' metallization platform, where the company plans to convert rare earth oxides into defense-grade metals and magnet alloys. The MOU also establishes a framework for potential equity investment and joint government financing efforts, and coordinated congressional engagement as Washington races to secure a sovereign supply chain before the Pentagon ban on Chinese-origin materials take effect in January 2027. And fast is a clear advantage: it takes years to develop this most complicated part of the rare earths supply chain: midstream processing and alloying.

"Most people talk about mining. The bottleneck isn't the mine. It's the step where oxide becomes metal and metal becomes alloy," REAlloys co-founder Tim Johnston told Oilprice in a previous interview. "Metallization is the least developed part of the supply chain outside China. It requires deep operating expertise, complex process control systems, and material qualification that has to be repeatable at volume... Even with strong execution and capital, you are looking at a multi-year timeline to build that."

REAlloys intends to be the first company to reach that milestone.

Phase one is expected to come online in 2027, when REAlloys moves closer to domestic production of high-purity rare earth metals and alloys using a combination of recycled magnets and mined feedstock. The company says it has already committed additional capital needed for the Phase 1 buildout from its \$50 million in financing.

The Phase 1 heavy rare earth metallization system centers on REAlloys' Euclid, Ohio facility, where the company already uses metallothermic reduction to convert rare earth oxides into metal and alloy form. Feedstock oxides are expected to come from recycled magnets and upstream supply agreements before being processed in-house through reduction and alloying into finished products. Phase 2 is expected to scale the solution. By 2029, REAlloys' goals include advanced magnet manufacturing in Ohio, and extending its operations from processed materials into finished magnet components using feedstock from other American sources.

Clear Street has identified the Pentagon's 2027 ban on Chinese-origin rare earth materials as a key catalyst for REAlloys' expansion. The planned Phase 2 magnet manufacturing expansion is the point where the economics materially shift. And to get there, REAlloys has assembled a Leadership team with former ties to the Pentagon, defense procurement, and the very industry that's now working to replace rare earths supply from China.

Former U.S. Secretary of Defense Chief of Staff Joe Kasper now chairs the company's advisory board alongside retired General Jack Keane, former Vice Chief of Staff of the U.S. Army, and GM Defense President Stephen duMont. General duMont also sits on the company's Board of Directors. These are officials who have worked inside the procurement and supply systems now facing a fixed January 2027 deadline to remove Chinese-origin rare earth materials from U.S. defense supply chains.

The Iran conflict is burning through precision-guided munitions that rely on rare earth-based components, while China's export controls and enforcement across the global supply chain. Outside China, buyers are already paying substantial premiums to secure non-Chinese material as defense contractors, automakers, industrial manufacturers, and technology companies scramble for the same constrained supply chain. From processing innovation to securing feedstock sources for HREEs, REAlloys is designing a solution that will keep the entire process inside a North American chain, moving material from oxide to metal and high-powered magnets with zero involvement from China.

Other companies to keep an eye on as the resource squeeze accelerates:

Freeport-McMoRan Inc. (FCX) stands among the world's largest copper producers, with flagship operations at the Grasberg complex in Indonesia and major mining districts across Arizona, New Mexico, and Peru. Although gold and molybdenum contribute to revenue, copper is the company's central exposure, and the metal remains indispensable to electrification, grid modernization, and other infrastructure projects.

and industrial decarbonization.

The transition of Grasberg from open-pit to underground block-cave mining has extended mine life and stabilized long-term production from one of the world's highest-grade deposits. In the United States, Freeport continues to optimize brownfield expansion through throughput improvements to incrementally lift production without relying solely on greenfield permitting.

Lithium Americas Corp. (LAC) is advancing the Thacker Pass project in Nevada, one of the largest identified lithium chloride resources in North America. The project has secured a substantial loan commitment from the U.S. Department of Energy and strategic equity participation from General Motors, underscoring its importance to domestic battery supply chains.

Following the separation of its North American and Argentine operations, the company is singularly focused on construction and phased development of Thacker Pass. Early works and site preparation are underway, with Phase 1 production targeted for the first half of this decade.

Lynas Rare Earths Ltd. (LYSDY) remains the leading producer of separated rare earth materials outside China. The company has recently restructured its processing chain to mitigate regulatory risk and expand long-term throughput.

In the United States, Lynas is progressing construction of its Seadrift, Texas heavy rare earth separation facility, supported by U.S. Department of Defense funding. The plant will produce dysprosium and terbium critical to high-temperature magnets used in aerospace and defense applications.

The Metals Company's (TMC) NORI-D project is estimated to contain enough Nickel, Cobalt, Copper, and Manganese to meet the requirements of 280 million electric vehicles, roughly the size of the entire U.S. light vehicle fleet. Because these nodules are "on the seafloor" rather than ore buried in the ground, TMC's collection process eliminates the need for blasting, tailings, and deforestation typically associated with terrestrial mining.

TMC is currently working with Benchmark Mineral Intelligence to finalize a Life Cycle Assessment that will prove the environmental and economic benefits of seafloor nodules to Western automakers and defense contractors.

Electra Battery Materials (ELBM) is the only company currently building a dedicated battery-grade cobalt sulfate refinery in North America. Located in Ontario, Canada, the facility is a "brownfield" asset that is being refurbished and expanded to provide a direct midstream link between cobalt mines and battery cathode plants. In February 2026, Electra's board approved a \$73 million construction budget to finalize the refinery, with mechanical completion targeted for mid-2027 and early commissioning beginning in the fourth quarter of 2026.

The refinery is a critical piece of the Inflation Reduction Act (IRA) puzzle, as it will allow automakers like LG Energy Solution (who has signed an offtake agreement for 80% of the refinery's production) to claim full U.S. tax credits. Electra's facility is designed to process 6,500 tonnes of cobalt sulfate annually, which is enough to power over 1 million EVs.

By. Michael Scott

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