

Pentagon Cornerstone Commits U.S. Rare Earth Policy and Funding to a Twice Bankrupt Mining Project with a Chinese Part Owner

James Kennedy – President ThREE Consulting, Expert Advisor to Thorium Energy Alliance

jkennedy@threeconsulting.com

Cornerstone, a government-run, integrated contract vehicle, was recently tasked with evaluating and funding projects that would “field a commercially sustainable domestic capability for the separation of HREE in support of Department of Defense (DoD) and essential civilian products.” according to [Cornerstone Initiative Request Number CS-20-0802](#). Cornerstone’s goal is to facilitate domestically secure access to the [critical elements](#) that drive much of the DoD’s high-tech arsenals of today and tomorrow. “Supply Chain Resiliency”, “secure parentage of HREE materials and products” and Domestic “Heavy Rare Earth” production capabilities were conditions stated within the initiative’s [Statement of Objectives](#).

Not one of these conditions were met with Cornerstone’s [recent decision](#) to fund MP Materials, the privately held company that owns the [twice-defunct](#) Mt.Pass mine in California.

Officials say the investment decision was part of a strategy to ensure American access to key minerals. Considering the history of this deposit, its geochemistry and MP Materials dependence upon their Chinese equity partner, the decision may prove a foolhardy attempt to set the ‘cornerstone’ of what the [Governmental Accountability Office](#) deemed “Reliable access to the material it needs, such as rare earths, is a bedrock requirement for DOD.”

Cornerstone was warned that the Mt. Pass deposit [lacks the critical Heavy REEs](#) necessary for military grade magnets or most other defense applications. Cornerstone was also made aware that MP Materials has insufficient domestic separation or processing capabilities and relies on China for these capabilities, thus negating “secure parentage”. Despite being obvious, Cornerstone was also warned that the deposit’s history of 2 bankruptcies brings into question the resiliency the project. Cornerstone was even warned about the projects troubling Chinese Owner equity and off-take partnership.

Cornerstone’s disregard for the stated conditions, goals and objectives of the contract are troubling. The contract award was initially delayed in March, but after third party review it was determined the CIR criteria was followed and the Government has determined to proceed with award Based on all of the known facts of the Mt. Pass deposit and MP Materials ongoing supply relationship with China any such determinations are suspect.

The fundamental problem with the Cornerstone's decision is that the Mt. Pass deposit cannot produce many of the heavy rare earths that are critical to the military. Mt. Pass lacks terbium and dysprosium, used in all high-temperature military-grade magnets for guided weaponry and on-board components of the F-35. Mt. Pass also lacks other critical Heavy Rare Earths used in Radar, Lasers, Rail Guns, Quantum Computing and Hypersonic Propulsion.

Another reason to question the Pentagon's judgment is that MP materials is partially funded by a Chinese company that [acts as MP's sole off-taker](#). This Chinese participation should have disqualified the awarded contract, as was seen with [HuaWei](#), just as it [has](#) within the DoE.

Why would China commit to buying rare earth concentrates with such a high dead-weight value? More than 82 percent of the concentrate is cerium and lanthanum. These elements are in [oversupply](#) and sell below their mined and processed cost.

Why would China bother to haul these low-value materials across California and the Pacific Ocean for processing when it has access to much better rare earths from new producers in [Asia](#) and [Africa](#)?

Some industry analysts [suspect](#) that China's interest in propping up MP is to use this U.S. company as a proxy to influence U.S. policy with the simple objective of protecting and extending its monopoly advantage. MP Materials, like its bankrupt predecessor MolyCorp, ships materials to China to be converted into metals, alloys, magnets, doing nothing to minimize U.S. dependence on China.

MP Materials says it has a ["mine to magnet" strategy](#), but it is the exact same plan that the now-defunct MolyCorp sold to the Pentagon and investors in 2010.

This decision will also have financial implications by channeling the bulk of private capital into this single project. Investors will view the U.S. government as picking winners and losers, the U.S. capital markets will overwhelmingly commit capital to just that project – [leaving all other projects to languish](#). This is exactly what happened the last time.

The Pentagon's decision to back the MolyCorp project in 2010, resulting in a spectacular bankruptcy in 2015, poisoned the investment well for this sector. No new private equity [flowed](#) into this space for the remainder of the decade; giving China another uncontested decade of rare earth supremacy. The resulting capital drought resulted in the near-bankruptcy of many superior Rare Earth projects, with more than a few being [bailed out by the Chinese](#).

Now, Cornerstone is setting the stage for a re-make of this fiasco. The only thing that has changed is that China leads the U.S. in economic diplomacy in Asia and [Africa](#), making the commercial environment for a mine like Mt. Pass even more precarious.

The viability of this project is not measurably different from its predecessor. There are no mineralogical, economic or strategic reasons for things to be different this time. China may end up being the only beneficiary of this decision, with private investors and National Security taking the fall again.

To prevent that from happening again, the GAO needs to intervene by way of rescinding the award and instructing Cornerstone, or unbiased third party, to redistribute award money to one or more alternative applicants that can meet the stated requirements and objectives set forth in the contract.