STUDY NOTES · BASIC CONCEPT

What are the key Expectations of Rare earth Industry from Union Budget 2026-27?

Indian Economy

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As India prepares for its Union Budget 2026, a key focus is emerging on rare earth elements (REEs)—a group of 17 minerals critical for high-tech industries like electric vehicles (EVs), semiconductors, renewable energy (e.g., solar panels, wind turbines), defense electronics, and smartphones.

India, currently over 90% dependent on China (which controls ~60–70% of global REE production and processing), is positioning the Budget as a pivotal moment to drive self-reliance and challenge this dominance.

India possesses the world's third-largest rare earth reserves, estimated at 6-8% of the global total, or approximately 6.9 million tonnes of Rare Earth Oxide (REO). However, its production remains significantly low, contributing less than 1% of the global output, with only 2,900 tonnes produced in 2024.

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Why Rare Earths Matter for India?

- Strategic Importance: REEs are dubbed the "new oil" or "vitamins of modern industry" due to their role in enabling technologies for net-zero goals, AI, and defense. India's reserves (e.g., in Odisha, Kerala, Andhra Pradesh) are estimated at ~6.9 million tonnes, but extraction and processing lag far behind.
- Global Context: China's export restrictions (e.g., in 2025–2026) have triggered a "rare earth shock," prompting countries like the US, Japan, and EU to diversify. India sees this as an opportunity to build resilient supply chains, especially for its "Make in India" and EV ambitions (targeting 30% EV penetration by 2030).
- Economic Stakes: The global REE market is projected to reach $20–30 billion by 2030; India's push could create jobs, boost exports, and reduce import bills (~$2–3 billion annually on REEs).

What does the Industry expect?

1. **Funding Boost**: Allocation of ₹7,820 crore already announced for the Rare Earths Mission; experts call for more (e.g., ₹10,000–15,000 crore) for exploration, auctions, and R&D. Additional funds for processing/recycling facilities to handle industrial waste (e.g., fly ash, red mud).
2. **Incentives and De-Risking**: Tax breaks (e.g., reduced GST on REE processing), long-term financing via development banks, assured offtake agreements for private miners, and value-chain-linked PLI (Production-Linked Incentive) schemes. Focus on downstream manufacturing (e.g., magnets for EVs) and

patent creation (target: 1,000 domestic patents by FY2030–31).

3. **Geopolitical Alliances**: Support for international tie-ups, like joining the US-led Pax Silica alliance (India invited in January 2026) for diversified supply chains. Potential JVs with Chinese firms for tech transfer, balanced with security concerns.
4. **Sectoral Integration**: Linkages to defense, energy, infrastructure, and aerospace—e.g., boosting mining for semiconductors and batteries amid global conflicts over resources.

India's Current Position and Challenges:

This stark disparity is largely due to challenges such as complex mining regulations, limited processing and refining capacity, and an incomplete industrial value chain that lacks facilities for producing intermediate products like alloys and magnets. The presence of thorium in India's monazite sands, the primary source of rare earths, further complicates extraction due to strict regulations. Currently, IREL (India) Ltd. is the sole public sector entity involved in processing monazite for rare earth compounds.

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Solutions

National Critical Mineral Mission (NCMM):

Launched in 2025 with an allocation of ₹34,300 crore (approximately USD $4.1 billion) for 2023-2030, the NCMM aims to boost domestic production, encourage private sector participation, strengthen international partnerships, and streamline regulations. It encompasses 1,200 exploration projects.

Expansion of IREL:

IREL (India) Ltd. plans a 400% expansion in its mining capacity over the next decade, targeting an increase from 10 million tons of rare-earth-bearing ore to 50 million tons annually by 2032, which would yield approximately 13,000 tons of refined rare earths.

Private Sector Engagement:

Regulatory reforms, such as amendments to the Mines and Minerals (Development and Regulation) Act, are being implemented to attract greater private sector involvement in exploration, mining, and processing.

International Collaborations:

India is actively forging partnerships with resource-rich nations like Australia and Chile to facilitate exploration, technology transfer, and commercial investments.

Circular Economy and Recycling:

Initiatives like urban mining are being explored to recover strategic minerals from e-waste and mine tailings, aiming to reduce demand on virgin resources.

Incentives and Stockpiling:

The government has announced a ₹7,280-crore incentive scheme for domestic manufacturing of sintered rare earth permanent magnets and is considering a ₹5,000 crore production-linked incentive scheme for downstream processing and magnet manufacturing. Additionally, USD $57.5 million has been allocated for establishing strategic mineral reserves.

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