CRITICAL
STRATEGIC METALS

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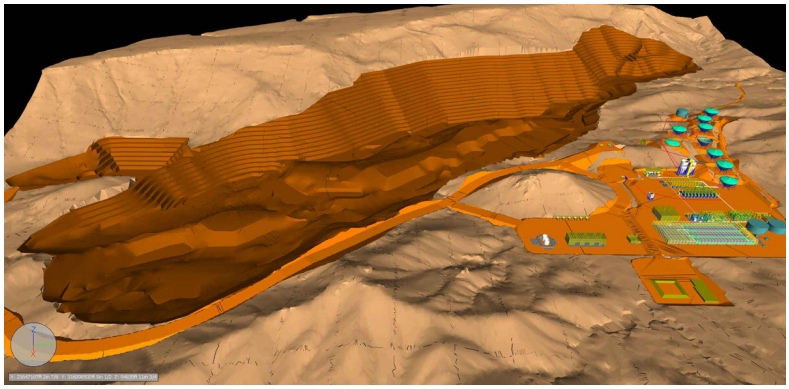
Your monthly guide to the latest information on the world's strategic metals

Have Anti-dumping Laws Contributed to America's Manufacturing Woes?



American Manganese Inc.'s Proposed Domestic Manganese Mine and Processing Facility at Artillery Peak, Nevada.

In June 2009, the United States along with the EU and Mexico filed a complaint with the WTO against China's controls in regulating the export of critical minerals. China's stranglehold over the production and export of mineral resources allows it to dictate prices as well as availability of strategic minerals that are critical to infrastructure, electronics, defense, aerospace, energy production and automobile manufacturing companies. In recent months, the U.S. has been most vocal about American access to critical rare earth minerals. And it's not just access to rare earth minerals that American industry needs to worry about, there's also manganese and magnesium among others. Most significantly China controls about 95% of the rare earths market, around 97% of the Electrolytic Manganese Metal (EMM) market and about 87% of the world's Magnesium market.

As in all such cases, a monopoly does not develop overnight. On China's part it is a conscious effort to attain market supremacy, investment in research and the access to cheap and abundant labor. For the U.S., it is an almost direct result of restrictive American policies and shortsightedness. In a global economy with a global supply chain there's no room for restrictive trade practices without inflicting a certain amount of self-damage.

A case in point is the U.S Anti-dumping and Countervailing Duty laws which restrict U.S. exporters' ability to compete in the international market. In 2004, the U.S industry's antidumping petition against the import of magnesium from China and Russia to protect its own domestic magnesium production, denied downstream U.S manufacturers the access to the metal at competitive international prices. By early 2010, the U.S. price for magnesium was $2.30 per pound whereas European manufacturers paid $1.49 per pound and the Chinese paid only $1.36 per pound. The difference in cost presented a huge advantage to non-American

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manufacturers and the trickledown effect resulted in a high manufacturing cost in the U.S, blunted competitiveness of U.S. manufacturers in the international market, reduced U.S. exports and flight of American manufacturing jobs.

American industries' access to the country's mineral resources is blocked by cumbersome legislation, circuitous procedures to attain mining permits and the omnipresent environment protection lobbies. Companies in the U.S. face the longest wait for mining permits. On an average it takes almost seven years to obtain permits and approvals to open a mine in the U.S. This effectively means that while the U.S. has the reserves it has ended up importing from other countries.

In a bid to contain the damage many American companies have setup manufacturing facilities in China and other countries, to ensure competitive and reliable supply of raw materials. The exodus of industrial facilities has cost American jobs and billions of dollars in lost revenue and intellectual property.

Complaints to the WTO notwithstanding, the U.S. needs to do more. There are increasing voices in America demanding the easing of restrictive hurdles in the issue of mining permits. According to a U.S. Geological Survey report in 2010, 13 million tons of rare earth deposits have been identified in various regions across the country. Recently, the U.S. Natural Resources Committee passed the Strategic and Critical Minerals Production Act aimed at streamlining the permitting process for mining in the U.S.; the bill will now be sent for a floor vote by the full House.

China's monopoly on strategic minerals need not strangle American industry. In recent months, American mining companies have reported encouraging and economically viable finds of rare earth minerals, manganese, magnesium and other critical metals. However most of these projects are still in an exploratory stage and years away from production. In the short-term, U.S. companies can get access to strategic minerals through strategic alliances as in the case of the Molycorp - Neo Material Technologies deal. Besides, China isn't the only country that has significant mineral resources. Canadian and Australian mining companies are actively involved in mining in Canada, Australia, Africa, South America and other countries with significant mineral resources. Japan and Korea are already in talks with countries such as India and Kazakhstan to jointly develop rare earth production facilities. In the long-term the U.S. must promote mining with supportive legislation, balance out environmental concerns with effective laws and build domestic supply chains for processing minerals.

Companies have already begun research into alternatives for rare earth minerals. Korean scientists are working on research to produce computer memory based on grapheme oxide. The Japanese Govt. has ear marked $65 million in subsidies to encourage Japanese companies to reduce reliance on rare earth metals and develop alternatives.

The Strategic Minerals Conference 2012 aims to look into the issue of the supply of critical minerals from the perspective of "Private Markets, Public Policy, and National Security". During the one-day, invitation only conference, panelists such as Larry W. Reaugh of American Manganese Inc. (TSX.V - AMY) and other speakers will "address the geo-politics of resource supply, the breadth of our critical mineral needs, as well as the roles the public and private sectors can and must play in the maximization of domestic mineral resource potential." The conference will be held on June 6, 2012 at the Hyatt Regency Washington on Capitol Hill in Washington, DC.

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China Gives Birth to Rare Earth Giants

A worker at Jinyuan Co.'s smelting workshop pours the rare-earth metal lanthanum into moulds near the town of Damao in Inner Mongolia. *Photograph by: David Gray, Reuters , Financial Post*

China, the largest producer of rare earths in the world, has been restricting the export of its rare earth minerals through a quota system for some years now. Reduced rare earth exports from China have forced many global companies to setup production facilities in China to ensure access to a steady supply of raw materials.

In an attempt to ensure "reasonable exploration and orderly production", China announced that it would consolidate Chinese Rare Earth producers to create rare

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earth giants. Notwithstanding China's claims that export quotas and consolidation of rare earth producing companies is being done to check the poorly regulated industry and to balance out concerns of environmental degradation, the U.S., EU and Japan who are major consumers of rare earths, view these policies as muscle flexing. Earlier this year they lodged a protest at the WTO against China's unfair practices.

According to recent developments, China has issued additional quotas to companies that passed the government's environment assessment norms. Companies that fail to meet the prescribed environment protection standards by July 31, 2012 would not be allowed to export rare earths. China allocated 10,546 tons in the first round of export quotas for this year. This month an additional 10,680 tons was allocated as part of the first round of quotas for 2012.

The situation today is not totally unexpected. For some years now, companies around the world have been taking steps to reduce their dependency on Chinese rare earth exports through strategic alliances and joint ventures, new rare earth exploration projects outside China, research and development of alternatives to rare earth, and more recently reclamation of rare earth metals by recycling batteries. In the current market scenario the stocks of rare earth companies are in great demand, and investors are queuing up to cash in on the critical demand for rare earth minerals.

With the completion of Phase 1 of Molycorp's Mountain Pass expansion project in Q3 2012, the facility will be producing at an annual rate of 19,050 metric tons of rare earth oxides. On completion of Phase 2 of the project by the end of 2012, the mine's annual production capacity will be 40,000 metric tons, thereby effectively increasing the availability of rare earths in the market outside China.

According to Molycorp, it will provide around 7%-12% of its production from the Mountain Pass mine to Neo Material Technologies for processing. This material in addition to Neo's supply from Chinese feed stocks, which the company currently receives, will enable Neo to achieve higher production capacities at its currently under utilized facility.

The Molycorp - Neo Materials deal will reportedly enable Molycorp to gain access to China's domestic rare earths supply. Neo Materials makes specialty metals from rare earths in factories that are located in China and Thailand and buys its feedstock from China. However some observers are skeptical about the deal, because the competitive Chinese market from which Neo sources its raw materials, at the lowest of prices, will now be replaced by China's consolidated rare earth 'giants'.

Other significant developments in the rare earth space outside China include Great Western Minerals Group's alliance with a Chinese company to build a rare earth oxide separation facility in South Africa. The U.S. Geological Survey reported that the U.S.A is home to one of the largest rare earth deposits in North America – in Bear Lodge, Wyoming. The current expectation of this resource is approximately 7 million tons of high-grade ore averaging 3.75% REO (Rare Earth Oxides) and this value is expected to increase as more assaying work and feasibility studies are carried out. Mining at Bear Lodge could start as early as 2014.

According to Lynas' website, China's export price for eight rare earth metals found at the company's Mt. Weld project in Western Australia fell to $92.2 per kilogram in Q1 2012. China's price for the same metals was $147.96 in Q4 2011. The price then fell further on May 28, 2012 to $62.01.

Industry observers expect that following Molycorp's strategic alliance with Neo, more mergers and joint ventures are expected. With many new high-potential rare earth exploration projects already underway and new production facilities coming online, the rare earths market is expected to stabilize and prices will fall further. In the long term, research into alternatives for rare earth metals and production from mines outside China is expected to normalize the rare earths market.