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## US rare earths miners would benefit from proposed stockpile

By Raymond Barrett in Washington, DC; and Matt Whittaker in New York

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The creation of a US rare earth strategic reserve is more likely to get the go-ahead after China's largest exporter halted production, two congressional sources told dealReporter. Such a move would create another source of demand for the metals, likely aiding a rebirth of the US rare earths industry, said two company executives and a company spokesperson.

The decision by Inner Mongolia Baotou Steel Rare-Earth (SHA:600111) to stop production for a month was described as a "wake up call" by the first congressional source. This source is close to a member of the House Armed Services Committee, which is responsible for overseeing changes at the Department of Defense. The department is dependent on rare earth elements as they are used in a variety of applications including global positioning and guidance and control systems, according to a Congressional Research Service report.

The Baotou closure is the latest rare-earth related jolt from China. Last year, the country reduced its export quota by more than 37%, according to a 2011 report by the US Geological Survey, citing figures from the China Customs Import and Export Tariff Department. The declines in exports contributed to a surge in prices.

After 2010's export kerfuffle, speculators helped created a "bubble effect" in the rare earth market, but prices have been on the decline since summer perhaps due to some of that froth coming off the market, said Peter Dickie, CEO of Vancouver-based Quantum Rare Earth Developments (CVE:QRE). He and Donald Ranta, CEO of Colorado-based Rare Element Resources (AMEX:REE, CVE:RES), said the Baotou closure was a response to this year's decline in rare earth prices.

The amount of sway China has over rare earth supplies has led to government concern and a scurry to develop production sources outside of the Asian nation. With prices having been kept lower for years by a glut of Chinese production, there had been little incentive for development of deposits outside China, noted Ranta.

He cautioned, however, that the creation of a stockpile could exacerbate the



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shortage of rare earths outside of China. It may therefore be prudent for the US government to delay its implementation until three or four years after the ramp up of production from the main non-Chinese pure-play rare earths miners, Colorado-based Molycorp (NYSE: MCP) and Australia's Lynas (ASX:LYC), Ranta said.

Rep. Mike Coffman, R-CO, told this news service that he supports the creation of a strategic reserve, commenting that the US is over-reliant on rare earths imported from China, which he called an "unreliable trading partner." In a letter to the Defense Logistics Agency, Coffman added his voice to other legislative efforts like H.R. 1540, which calls for the creation of an inventory of rare earths, focusing particularly on national security implications.

A Defense Logistics Agency spokesperson told this news service that the agency is preparing a report to Congress to address the issue of rare earths, with formal coordination and the forwarding of the report to Congress expected by 31 December.

According to Ranta, whose company is developing a rare earths deposit in Wyoming, the creation of a stockpile would add to demand for rare earth minerals. Dickie said the same, adding that it would also add a level of stability to rare earth supplies.

"It provides another audience where we can sell our product to," said Dickie, who added that it was his understanding that niobium—a steel strengthener whose production is concentrated in Brazil and Canada—would also be part of a strategic stockpile. Quantum is developing a niobium and rare earths deposit in Nebraska. According to Dickie, the company's niobium project is more advanced than its rare earth project.

A stockpile would help Quantum secure bank financing, or possibly government funding, for project development by adding an additional end user, making the project more attractive, Dickie said.

Molycorp spokesperson Jim Sims said the Defense Department is taking a strategic view of the situation that could go beyond a traditional 'on-the-shelf' stockpile. One alternative Sims pointed out was a "rolling inventory" that Molycorp could keep on behalf of the government.

As the only rare earths miner in production in the US, Molycorp expects to ramp production up to an annual capacity of 40,000 metric tons by the end of 2013. According to an industry analyst, the creation of a US stockpile would allow Molycorp to run "flat out production" from its expanded operations.

A second industry analyst said the creation of a strategic reserve would probably give a boost to rare earth prices in the short term. According to this analyst, even without a strategic reserve, Molycorp would be able "satisfy all US needs and some."

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