

TALK TO AN EXPERT: Clint Cox Makes The Case For Rare Earth Elements

Clint Cox's family has been in resource development for three generations. Mr. Cox founded The Anchor House, Inc. in 1995 to focus on special investing situations.

Because researching the rare earth market is the focal point of the firm, Mr. Cox and his team have traveled extensively over the past three years to study and research companies and locations around the world.

Website: www.theanchorhouse.com.

Email: c.cox@theanchorhouse.com

What are Rare Earth Elements?

Over the last several decades, rare earth elements (REE) have gone from being an obscure scientific novelty to creating a \$1.5 billion market that plays an essential role in critical technologies.

REEs are used in iPods, cell phones, hybrid automobiles, MRIs, laptop computers, fiber optics, SONAR, RADAR, flat-screen TVs, glass polishing, petroleum cracking, and much more. The list of applications is growing almost daily, and many of the uses have no current substitute for the REEs. Some of the highest growth areas for REE are magnets, high-tech alloys, and phosphors.

The rare earth elements are the lanthanide series from the periodic table and include:

Lanthanum (La)	Gadolinium (Gd)
Cerium (Ce)	Terbium (Tb)
Praseodymium (Pr)	Dysprosium (Dy)
Neodymium (Nd)	Holmium (Ho)
Promethium (Pm)	Erbium (Er)
Samarium (Sm)	Thulium (Tm)
Europium (Eu)	Ytterbium (Yb)
	Lutetium (Lu)

Yttrium (Y) and Scandium (Sc) are often included in the list of REEs, too.

The REE sector's requirement for praseodymium, neodymium, terbium, and dysprosium is currently driving the market. These elements have special magnetic properties that are exploited by a number of technologies— most notably the hybrid automobile.

China

China is the epicenter of the rare earth market. The focus of REEs shifted from the

United States to China in the mid-1990s. Since then, China has dominated rare earth production and is now providing about 95% of the world's REE.

The Chinese view REEs as strategic and fully understand the value of rare earths in today's culture of innovation. They are vigilant to protect the REE industry within China, and foreign entities may not have any ownership of mining operations for rare earths.

The Chinese currently use a number of strategies to maintain pricing control over the rare earth market. China continues to tighten export quotas and raise export tariffs on all rare earths – this pressures foreign manufacturers to maintain manufacturing facilities within China so that they will have access to a guaranteed supply of all of the REE they need. Chinese domestic demand (including foreign manufacturing) is absorbing an increasing amount of Chinese REE supply. The Chinese have also begun a significant stockpiling program that will host 300,000 tonnes of concentrate by completion.

Beyond China

Chinese dominance has led to a dramatic increase in rare earth exploration outside of China. Rare earth end-users that want to maintain production facilities outside of China desperately want find new rare earth supply chains to decrease their reliance on China.

However, the difficulty will be competing with China on price, and providing the elements in proportion to what the market needs. Any company that accomplishes this will find itself in a very unique situation with vast upside potential.

Risks

Just a year ago, it was thought that worldwide demand for REEs combined with increased consumption in China would outstrip China's ability to supply material to the market both inside and outside of China. This may no longer be the case due to our new economic environment.

The global economy has had a substantial impact on the rare earths sector. Since late 2008, the majority of rare earth prices have been dropped. Many of the products that use REEs have been dramatically affected by the slowdown. Many end-users have stockpiled rare earths in the recent past and are now determined to work down their stockpiles instead of purchasing rare earths in a market where prices continue to drop.

However, there are a number of new technologies that may be revealed in the next few years, and this industry is becoming more critical in specialized military applications, so the industry is not without hope.

The rare earth industry is a relatively small market that has proven repeatedly that it can be radically transformed in a short period of time by new demands and innovations. Stay alert! **RRR**

