

Today's Notes:

1. Strategic Metals (Redux)
2. China Bids for Canada

1. STRATEGIC METALS (REDUX)

I received several emails from readers in other countries indicating their concern for the stockpiling of metals in their home countries. Here is the concern from a German scientist, an advisor to the German government. He replied to my Morning Note of Wednesday August 5, 2009. He wishes to remain anonymous.

“Dear Dr. Berry,

Your comment of today concerning the strategic reserves is very important. I am warning the German authorities to concentrate on the supply of these minerals and metals, as Germany is the biggest economy worldwide referring to the export of goods and WE HAVE NO COMMODITIES at home (our coal is too deep and our costs for producing the German coal too high) and these costs are five times higher than the Australian coal delivered to our doors. Our lignite is too dirty.

So you are right to complain the US policy to sell all the Strategic Reserves; but in comparison to Germany you should be happy. We here in Germany depend on selling high complicate and expensive goods to the world and we have NO METALS.

China is doing a very good job; they are changing the flood of Greenbacks into commodities especially in Australia and Africa.

There is one mistake you did in your comment: Niobium, Tungsten, Tantalum are not rare earth elements. They are rare metals. Rare earth elements (I am a specialist here in Germany for these minerals) are lanthanides as Neodymium, Praseodymium, Europium and others. These metals are extremely important for all new technologies and China has a market share for the supply about 95 % worldwide. I see the times, Europe and the US will go on their knees to Beijing to ask for delivery of these metals.”

I think the fine Doctor makes several very good points. Intrigued by his comments I did some more research on the issues. Here's what I found about the world's metals markets.

China, Japan and South Korea have been busy building strategic metal stockpiles for 30 years. In the past decade they have stepped up their activities. China, in particular, has been active in reducing exports of molybdenum, tungsten and recently rare earth metals (by 38%).

Let's take the Asian metals, picture country by country. These data were extracted from the April 2009, **Reconfiguration of the National Defense Stockpile Report to Congress.**

Japan has stockpiled what it calls “rare metals” since 1983.

These metals are:

Chromium, Cobalt, Manganese, Molybdenum, Nickel, Tungsten, And Vanadium.

The stockpile, which consists of public and private components, has a supply of these materials equivalent to 60 days of normal consumption.

The **Republic Of Korea’s** Public Procurement Service started stockpiling base metals such as: **Nickel, Copper, Lead, and Zinc** in 1967.

Recently, the ROK’s Ministry of Commerce, Industry and Energy announced plans to expand the list of stockpiled materials to include the following:

Antimony, Chromium, Cobalt, Ferrochromium, Ferromanganese, Ferrovandium, Indium, Manganese, Molybdenum, Nickel, Niobium, Selenium, Thallium, Titanium, Tungsten, And Vanadium.

Because of its rapidly growing economy and resulting evaluation of its needs for materials, **China** in 2007 identified five commodities (cadmium, cobalt, copper, manganese, and petroleum) as strategic reserve minerals for the country. China planned to stockpile about **20 million metric tons of petroleum, 500,000 metric tons each of Cadmium and Manganese, 200,000 metric tons of Copper, and 300 metric tons of Cobalt, which represented about 90 to 180 days of net imports of these commodities.**

The estimated cost to build the stockpile was about \$2.7 billion (China Economic News, 2007). China reduced exports of tungsten and molybdenum in 2008.

China controls over 85 % of the world’s reserves of **Tungsten** and is seeking additional supply, thereby making availability of this material almost totally dependent on Chinese export policies. China has severely curtailed exports of many metals since 2006.

(Source: Reconfiguration of the National Defense Stockpile Report to Congress, April 2006)

Why Is This?

One must ask why it is that while the Asian economies mentioned above (and many more) are accumulating commodities as fast as possible, the US is hobbling her extractive industries. Canada is not following this course of action. Canadian companies can easily attract flow-through financing for example.

The BRICS are restricting exports in many metals. China continues to accumulate significant hoards of copper, moly and tungsten as well as recently limiting exports of its rare earth metals (95% of world supply). These are official government policies relative to metals mining and stockpiling strategic and non strategic assets. My argument applies to all our extractive industries whether in soft commodities, water technology, oil, natural gas, coal or hard rock minerals. Ultimately these will all be in short supply globally. More important is the fact that we choose to remain dependent on not-so-friendly supply sources.

In the meantime, as in Germany mentioned above, the US Congress is completely subservient to the environmental lobby. They are blind to what is really happening in the world. My friend, and rare earth expert, Jack Lifton noted in a WSJ article (March 9, 2009),

“Deng Xiaoping's comment in 1997, where he said that China would be for rare earth metals what the Middle East was to oil, has become a very stark reality. The world has to wake up and start thinking of this group of elements as the 'technology metals' without which there will be no technology. China is already working out how these metals are going to give its companies a competitiveness that the rest of the world will find very difficult to match.”¹

It will be difficult, if not impossible, for the US to “Go Green” and develop a domestic Green Industrial Base (to supply President Obama’s 4 million green jobs) without adequate stockpiles of rare earth metals. Lithium is another metal we lack. No, it is the BRIC countries and those who control access to these commodities that will call the shots.

Please examine the following table from the aforementioned “REPORT TO CONGRESS” in April. Please note a couple of issues regarding these materials:

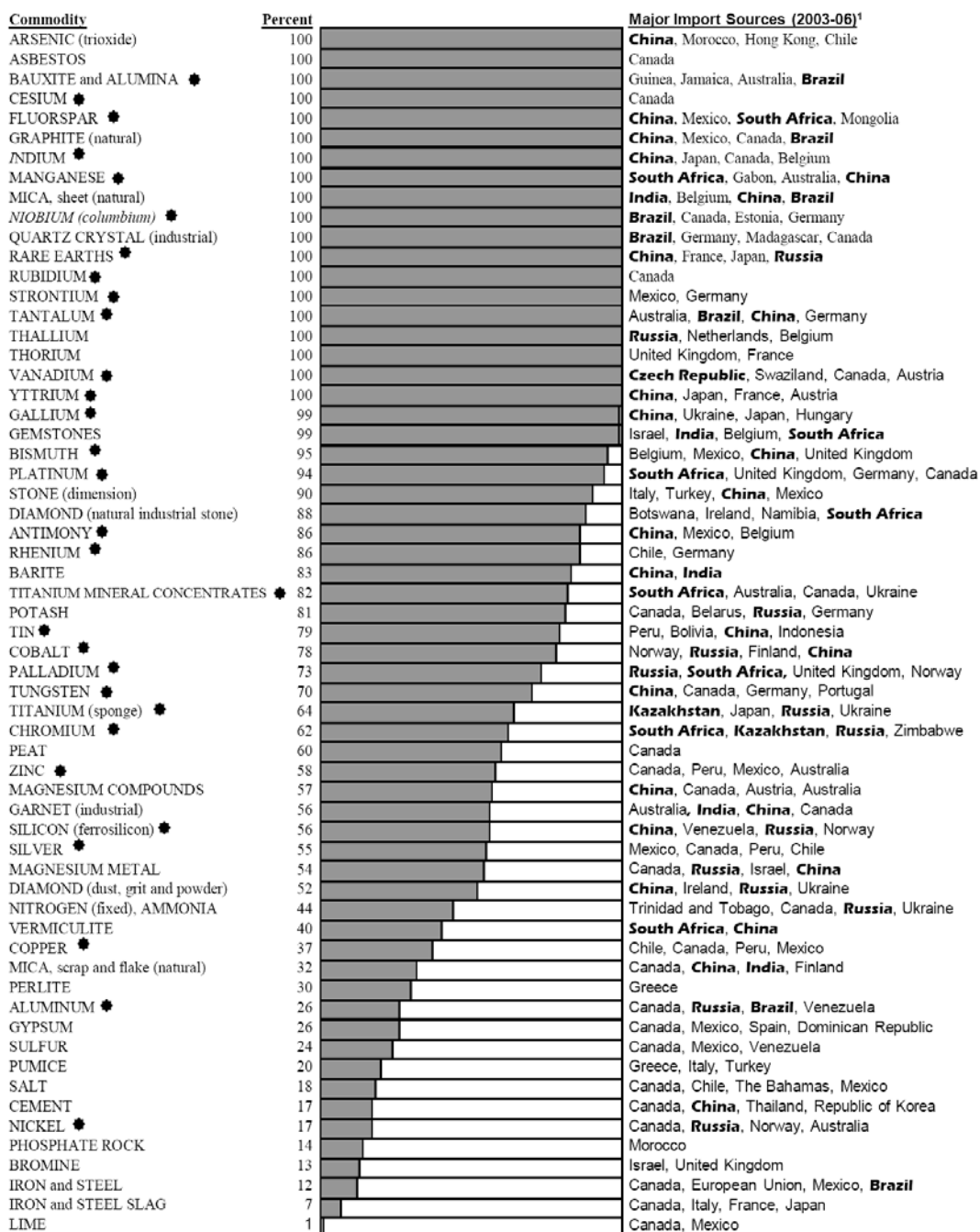
- 1) There are 24 materials that the US is more than 90% dependent on foreign countries.
- 2) The US is 100% dependent on 20 of these materials.
- 3) Those asterisks are crucial to the national defense.
- 4) The countries identified in bold share an increased risk of supply disruption due to economic (Quality of Life) or geopolitical considerations.

It appears that our policies will preclude us from building new, green and energy efficient industries because we may not have access to the crucial minerals in our stockpile. Twelve years ago the Chinese understood the critical requirements for a 21st century economy. In the US we are oblivious to these needs instead focusing on fallacious cap and carbon taxation strategies to wring more of mom and pop.

But there is another point that is critically important, in my view. Asia is experiencing a secular renaissance in lifestyle. They still only consume 1/6th of Canadians and Americans on a per capita basis. The Blackberry has freed her imagination and energized Asia. There is a growing awareness within Asian governments that to achieve a higher quality of life all sorts of commodities are necessary. Many of these applications are just now being identified through R&D. They carry names such as lithium, thorium, beryllium, niobium, germanium, tantalum, tungsten, molybdenum, manganese (take a breath!) as well as the rare earth metals. It goes without saying that uranium will also be crucial. Once again, Mr. Lifton opines that within a decade or so uranium will likely be in short supply globally. What is the US Department of Interior’s reaction to these global dynamics? It is to ban new uranium claims on the prolific Northern Arizona Strip under pressure from the environmental lobby and lobbyists for punitive mining legislation to replace the Mining Law of 1872. That is one reason there is so much volatility in these commodities.

¹ *China builds rare-earth metal monopoly, Asian Wall Street Journal, March 9, 2009.*

2007 U.S. NET IMPORT RELIANCE FOR SELECTED NONFUEL MINERAL MATERIALS



those marked by an * are materials identified as important to defense systems.

¹In descending order of import share

Those appearing in **bold** share an increased risk of supply disruption related to economic and/or geopolitical concerns.

2. CHINA BIDS FOR CANADA

Hand in hand with Morning Note 1 today's news is that China is involved in the purchase of another Canadian company. Goldbrook Ventures (Vancouver) and Jilin Jien (China) announced their intention to make an all cash bid for Canadian Royalties. The offer will result in C60 cents per share for Canadian Royalties (CZZ TSX). Earlier this week the shares were selling for 45 cents. Two years ago the shares were selling for C\$2.60. I have no indication how this offer will be received. I have very much liked the Canadian Royalty assets for years.



My point is that the rapacious accumulation of hard assets by China is ongoing. Credit bubble or not, China is intent on acquiring hard assets using dollars. Many of you have asked about Oil Sands Quest (BQI). With this ongoing acquisition pressure and the current production of 1.2 million barrels of synthetic crude from Alberta's oil sands, we think BQI will go forward. The oil sands now contribute 60% of Canada's exports to the US.

I am also told that there is a major new discovery of light sweet crude in Saskatchewan. I have not yet verified this information.

It is Canada that stands to benefit from this natural resource bonanza. I am convinced that the BRIC countries. Led by China, believe that after the detritus of the current crisis and recession is cleared away, the commodity sector will be a valuable discovery play. As we have oft written we have a way to go before we see a real economic recovery. But like all good contrarians who realize their opportunity, China is bidding for hard assets that will ultimately increase in value.

By the way, NuCoal (Saskatchewan) is well along on establishing a joint venture relationship with China (Sinopec) on a project to convert billions of tons of Saskatchewan's high BTU, sub-bituminous and lignite coal into gasoline. China is already on line with her Shenhua coal to liquids plant.

Two weeks ago I wrote on Avalon's rare earth metals suite at Thor Lake in Canada's North West Territories. Canadians will remember the Russian satellite that crashed into Thor Lake. How long do you think it will be before the Chinese are knocking on that door? Is there anyone in Washington listening? I am convinced there will be so much more Canadian Discovery potential. I am also convinced that China will be there building infrastructure and investing.

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