

Today's Notes:

1. Strategic Metals

**1. STRATEGIC STOCKPILES**

**“Reconfiguration of the National Defense Stockpile is necessary to respond fully to conditions in the world markets ... This is an area where we cannot afford to go wrong. ... It is vital that we understand what it takes to achieve the goals set forth, while we also strive to understand the unintended consequences of our actions.” 7/23/09**

**Congressman Randy Forbes (D Virginia)  
Ranking Member , Readiness Subcommittee (Armed Forces Committee)**

Yesterday I read the transcript of the Congressional Readiness Sub Committee (Armed Services Committee) from July 23, 2009. This committee is chaired by Representative Solomon Ortiz (D Texas)<sup>2</sup>. The Readiness Sub Committee keeps track of those metals that are considered strategic as well as ensuring that non-strategic metals are available for defense and economic development. There are currently 13 metals classified as strategic with 39 more being considered according to last week's testimony.

In an April 2009 report *Reconfiguration of the National Defense Stockpile (NDS) Report to Congress* indicated,

***“Further, the global growth in demand for scarce raw materials and the industrial surges in China, India, Russia, Brazil, and other developing countries require that the U.S. employ a new, integrated and responsive strategy for identifying and ensuring, on a continual basis, an adequate supply of strategic and critical materials required for U.S. security needs.”***

Most people do not realize that an additional the role of the Defense National Stockpile is to sell (as well as obtain) excess metals. Documentation shows that about \$50 billion has been raised from the sale of these metals. Most of the metals discussed are somewhat arcane (ferro manganese?). Yet as a country we are now responding to new, strong and growing resource nationalism around the world. Thanks to Congressmen like Forbes of Virginia and Bishop of Utah Congress is finally awakening to the threat.

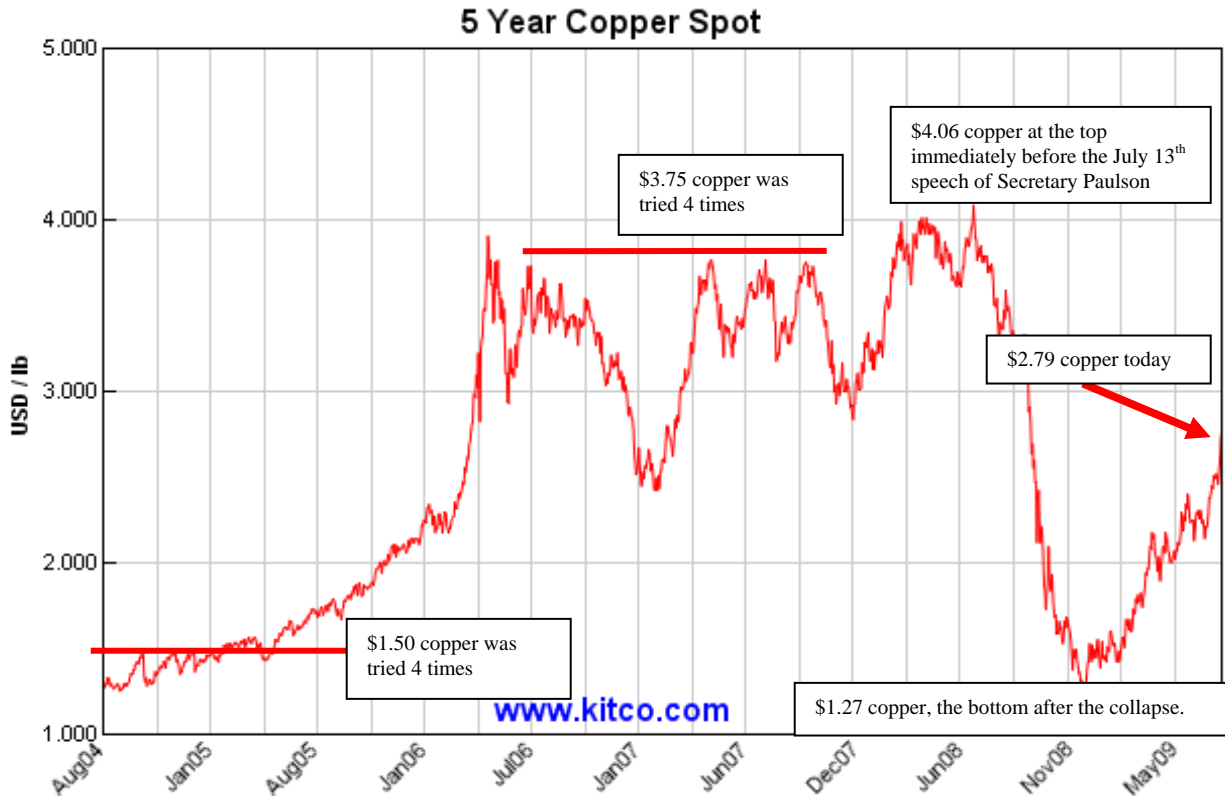
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<sup>1</sup> <http://www.youtube.com/watch?v=zVXwU5yDAbg>

<sup>2</sup> Rep. Solomon P. Ortiz, D-Texas Chairman, Rep. Gene Taylor, D-Miss., Rep. Neil Abercrombie, D-Hawaii, Rep. Silvestre Reyes, D-Texas, Rep. Jim Marshall, D-Ga., Del. Madeleine Z. Bordallo, D-Guam, Rep. Hank Johnson, D-Ga, Rep. Carol Shea-Porter, D-N.H., Rep. Joe Courtney, D-Conn., Rep. Dave Loebsack, D-Iowa, Rep. Gabrielle Giffords, D-Ariz., Rep. Glenn G. Nye Iii, D-Va., Rep. Larry Kissell, D-N.C., Rep. Martin Heinrich, D-N.M., Rep. Frank M. Kratovil Jr., D-Md., Rep. Bobby Bright, D-Ala., Rep. Ike Skelton, D-Mo. Ex Officio, Rep. J. Randy Forbes, R-Va. Ranking Member, Rep. Rob Bishop, R-Utah, Rep. Mike D. Rogers, R-Ala., Rep. Trent Franks, R-Ariz., Rep. Bill Shuster, R-Pa., Rep. Cathy Mcmorris Rodgers, R-Wash., Rep. K. Michael Conaway, R-TEXAS Rep. Doug Lamborn, R-Colo., Rep. Rob Wittman, R-Va., Rep. Mary Fallin, R-Okla., Rep. John Fleming, R-La., Rep. Frank A. Lobiondo, R-N.J., Rep. Howard P. "Buck" Mckeon, R-Calif. Ex Officio

You see we can talk about rare earth elements such as niobium, tantalum, thorium, beryllium, tungsten and molybdenum (there are many more). They are all important today for defense and ultimately in short supply. No doubt that in the future new strategic uses will be found. As the Quality of Life cycle roles around the world (only Africa has not yet caught the QOL bug) all these metals are becoming strategic support for the QOL.

One does not have far to look to see that the world of metals has changed forever. Take a look at copper. Copper is not considered a strategic metal in the US or Canada. However both Molybdenum and copper are strategic metals in China. Why?



A rise in the price of copper has been oft cast as the precursor for a healthy economy. As you can see two facts have been evident for the past 5 years. Copper volatility has increased as has the price, dramatically. Even with the massive July to March swoon copper's average annualized 5 year return is 20%. Copper has often been an economic messenger for better or worse. One cannot deny that a new global era is upon us. Such an era will change how we see the use of metals in our lives.

It is likely that speculation in these markets, the new *bête noire* in Washington, has caused the volatility. Futures markets serve an important purpose, price discovery. In that sense even increased volatility sends a price message – one of uncertainty. That is perhaps the message, particularly in the emerging world; a new QOL is upon us. A more important message for our leaders in Congress is that all metals are quickly becoming pseudo-strategic –if not for military purposes then to sustain a modern economy as it strives to build a cleaner energy infrastructure.

If the US and Canada are serious about building a “Smart Electrical Grid” we will need all types of metals in vast quantities. But the per capita increases in China and India (not mention 23 other countries) will also stimulate demand. China has placed export restrictions on rare earth metals, molybdenum and tungsten. In the US the grid will rely on replacement of current appliances (100 million homes) with new smart appliances that can communicate with the grid to draw more efficient energy. This will occur over the next three decades – it is a long term phenomenon.

Yesterday I sent Congressmen Forbes (R Virginia) and Bishop (R Utah) this news article, ***“Copper imports into China, the world's largest consumer of copper, rose to a record high in June. China has bought 235,000 tons of copper for strategic reserves this year, citing Yu Dongming, a Chinese government official.”***

Annualized, that is 35% more than the **annual** copper production of the Bingham Open Pit mine, the world’s second largest copper mine. China considers copper, tungsten and molybdenum strategic minerals. Why is copper strategic to China and not to the US? It is strategic because it is, foremost, a quality of life mineral. Citizens do not like to be denied a better life once made aware.

In addition China is attempting to ensure that domestic mining develops in a transparent fashion through markets. The US, driven by the environmental lobby, is moving in the opposite direction, attempting to halt mining by enacting punitive Hard Rock Mining bill.

***July 31, 2009 (Bloomberg) – China Beijing Equity Exchange may start trading prospecting and mining rights, the China Business News said, without saying where it got its information. The exchange is drafting guidelines on the transfer of mining and prospecting rights in China and will publish it in August, the report said. The rules will help address questions about information disclosure, evaluation of the assets, risk control and supervision, it added.***

***There were more than 100,000 mining rights owned by individuals and companies in China at the end of 2008, the report said, citing figures from the Ministry of Land and Resources. There are over 1,000 rights registered at the exchange and ready to be traded, the report said, citing Dong Chaobin, head of mining rights center at the exchange.***

***The exchange also plans to set up a nationwide mining and prospecting rights trading platform, pending regulatory approval, Dong was quoted as saying. The report didn't specify a date for the start of trade.”***

Such legislative action in the US is unnecessary and will retard the progress of building and maintaining the country’s strategic non-energy materials stockpile.

The recent report on the stockpile suggests that it (the National Defense Stockpile), is wholly ineffective for responding to modern needs or national security threats. If this is true then we certainly will not be prepared as resource nationalism take sits icy grip globally on other metals. The author of one report, Roderick Eggert said,

***"Industries dependent on minerals can be significantly influenced by supply disruptions, which might be avoided with better information ... Consumers and producers would both greatly benefit from a systematic framework for evaluating minerals that are critical to the economy."***<sup>3</sup>

We have first hand knowledge, for example, that marginal US copper mines are being shut down and new copper projects everywhere delayed. This means that supply is falling. When the supply chain, contracts with respect to metals it is a decade long process to restore it to proper functioning. Is copper critical to the new green US economy – you bet! The supply chain begins with exploration.

**The reports also suggest that any mineral could, at some point, become critical to the economy or national security,** depending on new uses and availability. Using a new tool that it developed specifically for its report, the critical minerals committee determined that platinum group metals, rare earth elements, indium, manganese, and niobium -- minerals used to make LCD TVs, catalytic converters, pacemakers, and other products Americans rely on daily for increased QOL -- are currently highly critical. This means they are difficult to substitute, essential in their use, or at-risk in supply.

Of particular interest in the testimony before the Committee on July 23<sup>rd</sup> were the committee's questions and references to molybdenum and tungsten. The members of the National Defense Stockpile who testified suggested that perhaps the system should include finished materials (such as steel) in addition to raw materials. While there are 13 metals considered strategic another 39 metals are being considered. The bottom line is that copper alone is sending a powerful message to Washington.

We must heed that message and adjust our extractive resource policies now. There is no reason that environmentalism cannot be practiced while we create wealth and security through our abundant extractive resources in both the energy and non-energy spaces.

It is gratifying to see some congressmen aware of the challenge. It is galling and dangerous to our security to see a strategic resource such as uranium mining banned by President Obama's Department of the Interior.

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<sup>3</sup> *Minerals, Critical Minerals, and the US Economy*, National Research Council, Roderick G. Eggert, Chair. 2007

*Gold, Derek Oil and Gas, Terraco Gold, Kenrich-Eskay Gold, Neuralstem, MegaWest Energy, Valcent Products, CGX Energy and Quaterra Resources. We cannot attest to nor certify the correctness of any information in this note. In considering any of these companies for investment, please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.*