

# Know Thy Consumer when it comes to Rare Earths and Metals



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By Anthony Dutton

The mining business has historically been a case of “acquire resource assets and investors will follow”. For the newly spotlighted rare earths and rare metals markets, however, the relationship between resource ownership and value is less direct. In this particular sector, value is more likely to be influenced by control of the downstream market and ownership of the customer. In other words, simply owning an upstream resource asset is not enough to generate real long term share holder value and economic wealth. Successful investing in this sector will require a deeper understanding of not only the resource asset but also of the more important downstream infrastructure that will ultimately determine the long term success of a rare earths or rare metals opportunity.

Until recently, most investors were only familiar with the more traditional base and precious metals markets. Over the last few years, however, investors have been introduced to a number of additional metals, including uranium and molybdenum that were initially considered to be on the fringe but are now actively traded globally. Investors in these markets have benefited as market fundamentals, and market awareness, improved.

Lately, the market has enthusiastically embraced a new group of rare metals including the rare earths group. These 15 exotically named elements include gadolinium, dysprosium, terbium and samarium and are used in everything from lasers to magnets to advanced ceramics. Equally important are rare metals including tantalum, vanadium, niobium, lithium and beryllium. These metals and elements are

critical for today’s technology based products such as PDAs, electric automobiles and super magnets. Beryllium in particular has many applications including aerospace alloys, medical equipment, telecoms and wireless infrastructure. It also plays a critical and important role in the growing alternative energy markets of wind and nuclear power.

As the rare earths and rare metals sector becomes better understood by both manufacturers and market analysts alike, investors have begun to take notice and are entering the market. Going forward, strong supply demand imbalances will have dramatic consequences, most likely resulting in price increases and supply shortages. With this basic understanding, much of the investment rationale being applied to this sector is that value will be generated by owning the resource, much as it is in the traditional metals markets.

However one only needs to look at Asian examples to understand that, for rare earths and rare metals, a new paradigm is in play. China, for example, mobilized its resources early and then announced to the world that if it wants rare earths and metals, it will need to purchase them from China in the form of finished products. China understands that by merging the downstream and upstream production into vertically integrated organizations, either by direct ownership or strategic partnerships, every element of the value chain will complement the other. With this structural realignment the Chinese have acknowledged that in the specialized markets of rare earths and rare metals owning an upstream asset is not enough, even if you are an efficient low-cost producer. In

order to maintain a long-term sustainable competitive advantage, it is more important to own the customer.

By failing to understand this new reality North America now faces a situation where, even though it has meaningful rare earths and rare metals deposits, it has virtually no processing or manufacturing capacity. Most analysts agree that an immediate and dramatic countermeasure from North America is required to stem the tide and to protect North American industry from complete reliance on the Chinese. In the rare metals sector there are also significant concerns, but several companies have demonstrated an understanding of the structural changes taking place and are responding accordingly. IBC Advanced Alloys Corp. (TSX.V:IB), for example, has taken the initiative by assembling a resource portfolio and at the same time consolidating manufacturing opportunities and building out its customer facing operations. This approach will enhance the long term value of their manufacturing assets and the upstream resource base.

This structural shift may at first appear subtle but it has profound implications for the long-term sustainability and profitability of the North American rare metals resource and mining sector. To provide job growth, investment and supply security, it is critical to invest in both downstream components of the value chain and the upstream resource base. The net result of focusing on the mine to market value chain will be a vibrant, proactive and integrated rare metals industry, benefiting both the manufacturing sector and the equally important resource and mining industry. **CMJ**