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Africa holds promise of rare earth riches

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Vital for so many modern technologies, rare earths remain one of the most sought after minerals on the planet and recently it was suggested at the American Association for the Advancement of Science conference that mining the sea beds for these resources could be viable to meet global demand.

Currently, this global demand is met by China, who dominates the market. However, the news that Rainbow Rare Earths - the owner of a rare earths project in Burundi - successfully listed on the London Stock Exchange at the end of January has led to speculation that China's dominance in the rare earths market may finally be challenged. That may of course be premature but, with the global demand for rare earths back in the news, it is an appropriate time to assess the current state of play in that market.

China clearly continues to dominate global production. The latest available statistics (for 2015 from the US Geological Survey) give an annual production slightly in excess of 100,000 tons. Australia, second in the list, trails in with 10,000 tons. Only three other countries produce in excess of 1,000 tons (the US, Russia and Thailand with 4,100 tons, 2,500 tons and 1,100 tons, respectively). Africa currently figures nowhere. Such was the dominance of China that in 2014 it lost a WTO case relating to its regulation of the market and was forced to scrap its export quotas for rare earths. While exports from China would still require a license those licenses would no longer be subject to quotas.

While China dominates global production (at more than 90%) the same is not true with respect to actual deposits. It is estimated that China only controls around 30% of the global available resource. The problem is the cost of bringing new deposits into production and the ability of one country with such a dominant position in connection with production to flood the market and bring down prices. In doing so the economic viability of new projects is adversely impacted. By way of illustration in the 1990s the US was able to cater to its demand for rare earths solely from domestic production. That production ceased when low-cost China sourced product entered the market. It is speculated that China continues to stockpile rare earth production thereby maintaining its ability to control global prices to some extent.

The challenge to Chinese dominance has been spoken about for many years. Several macro trends are however likely to accelerate the scope of that challenge. Most significantly the demand for rare earth production is likely to increase in a meaningful way. Historically the major use has been in components for the telecoms, computer and other similar electronic industries (rare earths are particularly important in the manufacturing of high performance magnets). The recent emphasis on the need for enhanced battery technology is likely to produce a major requirement for rare earth production. In addition, shifts in global trade patterns towards more protected markets might introduce new strategic imperatives for countries such as the US and Russia to re-commence/increase domestic production.



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It is widely acknowledged that, outside North America and Australia, Southern and Eastern Africa offer the greatest potential for the development of further rare earth production. The countries in Africa most frequently spoken about in this context are South Africa, Tanzania, Malawi and Mozambique. Kenya, Burundi, Zambia and Namibia are also mentioned. In addition to challenges around the global price for rare earths new projects also face challenges from the environmental issues which rare earth production invariably involve. Projects in China have produced contaminated groundwater, radioactive tailings and other environmental problems.

The recent Rainbow Rare Earths IPO is premised on the Gakara project in Burundi. This is a project which is not yet producing and further exploration activity needs to take place. The risk factors described in the prospectus produced in connection with the IPO are a sobering reminder of the difficulties involved in developing a new rare earths

project - from market pricing issues to producing ore with the required level of various rare earth concentration to environmental considerations. The company's belief is that the use of rare earths in permanent magnets will continue to be the dominant need for production in the future. Rainbow was seeking to raise a minimum of \$6.05 million and a maximum of \$8.0 million in the IPO.

The recent IPO has clearly generated interest in the rare earth industry. However, by itself the project is unlikely to make a large dent in the overall global supply position. That is going to take bringing many more projects into production in the near to mid-term future. With the Lynas project in Australia being the only significant producer outside China there is clearly a long way to go before Chinese domination is diluted. Clearly, though, Africa based projects can make a significant contribution to correcting the imbalance.

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