

# Malaysian Government Calls Election: Bets on LYNAS and 400 Billion Economic Program

✘ Lynas Corp (ASX: LYC | OTCQX: LYSDY) is heading toward one of its biggest challenges. Malaysia's Prime Minister Najib Razak formally suspended Parliament on April 3rd signaling an imminent election and the start of the campaign period. Malaysians expect this to be the closest and most intense in the country's history. The government has backed Lynas's Advanced Materials Plant (LAMP) facility in Malaysia, while the opposition has opportunistically exploited environmentalist activism in its campaign platform, prompting fears that Lynas would either have to pack up or halt operations for an unsustainable length of time.

Lynas shares have come under pressure lately, despite the legal victories over actions launched by Malaysian Save Malaysia Stop Lynas (SMSL), a group intent on blocking its license to operate in Malaysia. While last week's downward pressure might be related to the election; this may indeed be shortsighted as the drop is more reflective of the market in general. The sector is trying to absorb the low performance of the Chinese rare earth producer Baotou Steel, which endured a 57% profit loss from lower commodity prices. Baotou's losses owed much to the company's forced shut down last year as Chinese authorities set out to enforce tougher environmental regulations and production quotas.

The Malaysian election was never an issue; it had to be called this month and it will probably be called before month's end, even if the legal deadline is June 27, 2013. There is no doubt that if the current government of Najib Razak wins, it will stabilize Lynas performance and end a great deal of the uncertainty hovering over its license to operate in Malaysia.

The drop in Molycorp shares may also have influenced the rare earth market in general.

The Malaysian government is heading to the polls banking on a USD 400 billion Economic Transformation Program (ETP), legislated in 2010, which aims to raise Malaysia's status from Middle to High-income nation status by 2020. The fact that the opposition Pakatan Rakyat (PR) made strong gains, winning 13 national states, in the last election (2008) has prompted the ruling Barisan Nasional (BN) to make a number of electoral promises in support of further economic growth and development. The PR has been challenging the government more on issues of corruption and environmental degradation, explaining its politically opportunistic alignment to the SMSL group. That said, as far as corruption goes, the opposition PR leader, Anwar Ibrahim, a former BN government Finance minister, was fired in 1997-1998 on charges of corruption. Evidently, LAMP is a component of the ETP.

The government has banked on Lynas's high technology facility to help attract more advanced technology companies to invest in Malaysia. Average income levels have been increasing in Malaysia thanks to government incentives and the BN's campaign, launched over the past weekend, hinted at more such policies along with more infrastructure projects such as highways and railways.

The opposition PR hopes to make gains on social and ethnic issues, trying to balance the rights of citizens of Chinese and Indian with official 'Malays'. Yet one of the three PR coalition members, the Islamist and highly socially conservative PAS party is somewhat at odds ideologically with the others (especially the Chinese dominated Democratic Action Party). Indeed, for all its proposals aimed at uniting Malays, the opposition PR risks unravelling and losing because of its disjointed nature. Indeed, the very fact that the DAP and PAS could even be seen together in the same room, let alone run for elections together, is a red flag. PAS is somewhat similar

to the Muslim Brotherhood in Egypt and its ultimate goal is to run an Islamic based theocratic government. DAP are determined supporters of secular politics; rather the opposite as PAS. The whole world has been witnessing in Egypt, Tunisia and Libya what kind of political instability can be generated when parties based on such different ideological makeup clash.

As for Lynas, it has already been suggested that the opposition PR holds conflicting views about the plant within its own ranks. The PR leader Anwar Ibrahim himself has challenged views within his own coalition (another example of disunity and weakness), pledging to support the LAMP facility if it were proven to be safe after another inquiry. Other leading PR members have suggested as much. Accordingly, the government (the Ministry of Science, Technology and Innovation – MOSTI) has taken a strategic step of appointing a panel to monitor Lynas's compliance with the conditions set out in its temporary operational license (TOL) on matters of safety and environmental regulation.

The Malaysian Institute of Chemistry president Datuk Dr Soon Ting Kueh will oversee the commission. Another key member is the Deputy Vice Chancellor of the University of Malaysia, Pahang; Prof Datuk Dr Badhrulhisham Abdul Aziz (who is an official speaker at the 2013 Technology Metals Summit) would be the official spokesman for the project. Prof. Badhrulhisham also provided technical information to government about the LAMP Project and is engaged with the Kuantan community, working and residing there. Lynas will have to establish compliance with 31 recommendations with regards to its temporary operating license. Lynas, for its part is confident that it will be allowed to continue operations regardless of political outcome, suggesting that the recent series of Court decisions in its favor and in light of a slew of allegations show that Malaysia is ultimately pragmatic. The appointment of the Monitoring Panel is good for Lynas: it will establish facts that will be harder to disprove regardless of whom wins

the vote and also suggests a high level of confidence in Lynas's activity and longevity.

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## The Lynas LAMP is Lit



"The LAMP is lit. I want to congratulate Lynas on achieving its first rare earth production, today, February 27, 2013, at its LAMP facility in Malaysia." Thus said Jack Lifton, noted expert on the rare earths industry, about the start of production at Lynas's LAMP facility in Kuantan, Malaysia. Mr. Lifton will be addressing an

international seminar on rare earths in Kuantan.

After legal disputes, instigated by environmental activists and fueled by political opportunism, Lynas has officially produced the first rare earth products at its LAMP processing plant in Malaysia. As promised at the end of last year, Lynas is on schedule to ramp up production by the second quarter of 2013 at a rate of 11,000 tons per year. As we noted in the rare earth weekly review, investors had started to show optimism last week, as shares closed 5.3% higher. Today, Lynas shares rose an additional 4.3% in response to the announcement. Clearly, the start of commercial production at LAMP is an important milestone after confronting environmental activists in court arguing about the impact of the project on the environment and public health and trying to prevent its gradual development.

In 2012, Lynas shares reflected the uncertainty arising from the long season of litigation with the 'NGO' known as Save Malaysia Stop Lynas (SMLS), encouraged by community activists and – indirectly – by the opposition party Pakatan Rakyat. The start of production and the preparations for the first official shipment have vindicated those who believed in the validity and viability of the project. It should be stressed that the Courts have repeatedly dismissed SMLS's indictments as lacking in evidence to back up the activists' fears and claims of environmental gloom and doom.

Lynas obtained the temporary license to begin operations at LAMP last September but had to overcome legal obstacles brought forth by the environmentalist organization that delayed the start of production. Indeed, Lynas did start importing the rare earth concentrate from Mt. Weld in Australia last November. In order to be approved by the Malaysian government, LAMP had to pass various environmental tests, which also earned the approval of the International Atomic Energy Agency (IAEA). The residents' concerns of pollution or radiation are based on an old Mitsubishi rare earths refinery, built along entirely different standards and based on health problems suffered by that plant's former employees in 1992.

The IAEA stated that radiation from Lynas's thorium leftovers was sufficiently low as not having to secure any special permission for its transport. In other words there is more risk, if at all, to the actual miners of the rare earth mineral at Mount Weld, Australia; they are the ones who should be most worried about thorium radiation. Nobody is doing any rare earth mining in Kuantan. The SMLS campaign has been accused of lacking scientific expertise and of being far more political than environmental in scope.

Lynas has started official production at an auspicious moment; the Xinhua news agency, today, announce that China's economy will grow by 8% in the first quarter and that the

manufacturing rate is still within the 'growth' band of the index, which should translate to favorable sentiment for the value of commodities. With the start of production Lynas has surely earned its place as one of the protagonists of the gradual geographic shift in the production of rare earths.