Euroclasm – Opportunity Knocks

At the root of the Euro crisis is one fundamental error in the dim dark past. The Germans for a long while suffered from a strong Deutschmark and so they should have because of their export miracle. So for those with long memories will recall that the launch of the euro at the turn of the New Year from 1998 to 1999 it originally traded at Euros 1.1795 to the US dollar. All well and good. This coincided with the last frenzied surge of the USD related to the tech boom that came to grief in early 2000. The Euro fell as low as 0.8225 in October of 2000.

After that event the Euro went on a tear, soaring on the back of Germany's export performance and the strength of the export economies of the likes of the Netherlands, Austria and France during the good years as Greenspan and his followers ran the printing presses and US consumers went on a spending spree for European goods.

The euro was a boon for the Germans as it diluted the effect of the strong Deutschmark (until 2008) and created a captive audience of countries whose own export capabilities had been annihilated. Had the Euro never been introduced, the Deutschmark would have soared in the early part of this century and plunged Germany into a Japanese-style high-currency, low-growth scenario. That was, and is, Germany's predicament and root fondness for the Euro experiment. A "core" Euro of only Northern European states would start soaring and bring back Germany's eternal dilemma.

The problem for Greece, Ireland and Portugal was that what low tech industries they had were crushed by the rising exchange rate. Textile manufacturers faded in the face of cheaper Chinese competition while German machine tool makers essentially had no competition. The Euro eventually attained it's all-time high l of 1.6037 in July, 2008 in the wake of the U.S. sub-prime mortgage crisis that led to the collapse of Lehman Brothers in September of that year. By that stage Portugal, Greece and Spain had been turned into economies built upon a nefarious combination of tourism and building booms while Ireland was a wonderland of tech company tax-dodging and riotous overbuilding until 2008 when it returned to its historical role as exporter of the destitute young (another factor in common with Greece).

Argentina and Greece – Parallel Paths

It is useful to look at the two interesting currency "works in progress" at the moment, and these are Argentina and Greece. I won't give a long disquisition here but… the British Foreign Office has now warned holidaymakers to take a lot of cash in euros, enough for several days, on their summer trips.

The clear message here is that Grexit may be imminent and when it comes a total paralysis of the Greek banking system might ensue with ATM cards AND credit card transactions ceasing to function. Speculation has also included rumours that in such a

situation the state might start issuing IOUs which would become the “new drachma” and a medium of exchange. All this reminds us of the pseudo-currency BoCones (*Bonos de consolidacion*) that became a widespread means of exchange in the wake of the 2001 meltdown. The government of the largest province (Buenos Aires) paid its suppliers with these who then used them to pay their own taxes and utility bills and around and around they went with civil servants using them to pay their bills and eventually becoming a parallel currency in the whole community.

This was Gresham’s Law at work where bad money pushes out good. Frankly Greece adopting something like this would be the “soft” way of breaking in a new currency. After all, Greece and Argentina have followed parallel paths since the start of the 19th century with defaults and devaluations being meat and drink to the both of them.

That brings us to the current state of things in Argentina. Curiously BoCones are not the pseudo-currency of choice any more, Bitcoins are. Yes, apparently Bitcoins are becoming a favored means of exchange. We suppose it’s the spread of the

internet and the fact that no provincial government in Argentina would dare fly in the face of Cristina Fernandez de Kirchner by issuing BoCones-like instruments again. Things are also different in that it’s not exactly an internal meltdown going on and inflation is steadily rising but not soaring. Now it is primarily foreign exchange restrictions and the heavy burden of taxes and levies that are driving the desire to transact certain barter-like transactions in the latest fiat pseudo-currency. Little does the man in the street in Argentina realise that Bitcoins are having their own swoon at the moment.

So it could be out of the frying pan into the fire. However, one might speculate that if Greece goes over the edge then Bitcoins might have to duke it out with “new drachmas” printed on toilet paper for the affections of the Greek public (and the visiting tourists) over the summer season.

Conclusion – PIIGs Might Fly

My observations on this subject are not merely academic as I rode the Argentine roll-coaster from 1989 until its bitter end in 2001. Defaults however are not new and not confined to Argentina (or Greece) alone. Malaysia instituted capital controls during the meltdown of 1997 and it was years before these were eased. The key difference is that Greece is in the Euro mechanism and its ejection or departure sets all sorts of precedents. For a start Cyprus, which is a “client” of Greece (and had its own banking crisis in 2013 that was barely contained) would definitely be an “odd-man-out” if it stayed in the Euro mechanism when the economy with which it is symbiotically connected departed.

Other European states that have had dodgy finances in recent years might be tempted to go NOT by the traumatic treatment Greece has had meted out to it but rather if Greece experiences a strong economic rebound post-departure. If Greece for instance was rocking and rolling again in three

years from now, with its debt wholly or partially cast into the dustbin of history and the drachma back in full force then envious eyes would be turned by the Italians, Spanish and Portuguese who have long suffered from an overvalued Euro crushing their footwear and textile industries to the benefit of the Chinese and the Germans.

While I discussed Bocones/IOUs and Bitcoins as temporary alternatives that would be all they would be. Greece staying as a half-in/half-out participant in the Euro mechanism would be combining all the disadvantages and none of the advantages. A return to the drachma would be inevitable and indeed welcome. If I had been the Greek finance minister I would have had an enormous mountain of these printed and waiting in an aircraft hangar somewhere. However the mere whiff that such a stockpile of crisply minted bills existed might have accelerated things even faster than they have moved already. And that might not have been a bad thing with the all-important tourist industry seeing cancellations numbering tens of thousands per day. Greece needs a medium of exchange and it is quite clearly NOT the Euro if the circulation of them has dried up.

So will it be drachmas, euros, IOUs or Bitcoins? To paraphrase Gresham, let the worst currency win!

Greece – Armageddon or New Dawn

With the global financial markets watching tentatively to see if Greece finally goes over a metaphorical "Niagara in the barrel" I must confess to feeling a certain calm. As I have

noted before I have been there done that when Argentina (a much larger economy) went into a spiraling devaluation (and corresponding inflation) in 2001. However none of this is particularly novel, just novel in recent years. In 1997 we had the simultaneous Asian and Russian crises. In 1994 we had the Tequila meltdown in 1994 which washed across the Latin markets.

Greece as an “Emerging” Market

One of the problems in recent years when Greece is that so many have been mistakenly talking of it as a “developed country”. Just becoming a member of the Euro mechanism does not make one developed. If asking the question “what does Greece make?” brings back the response “olive oil” then you have there your answer. A small mono-culture nation with no great service industry (beyond tourism and ship-owning) combined with a reticence to develop mining and a rather arid climate, sounds like a developing country rather than a developed one. Greece anywhere else would be developing. Geography does not dictate how developed a country is…

Curing what Ails It

Starting with the premise that Greece is really a pseudo-developing country makes the economic doctor’s task in prescribing medicine all the easier. There is one cure for

every illness that looks like Greece’s and it’s called devaluation. Frankly if Greece had not been in the Euro mechanism, it would have taken its lumps back in 2008 and be in the pink of economic health now.

Then how might this play out? The difficult thing is the “denial”. Denial results in a Greek central bank not having a vault overflowing with freshly minted drachma notes to start distributing on Devaluation Day +1. Somehow it will muddle through, bank notes can be flown in en masse. The populace will also start bringing back their flight capital to take advantage of the bargains on offer (Greeks are still Greeks after all!). It also helps that this all happens at the start of the summer tourist season when the country receives a surge of tourists loaded to the gills with their own currencies and disposed to spend them. That whole part of the Greek service sector will be able to operate in a multi-currency manner. Banks will probably have an extended holiday and may even be nationalized.

The mechanism for changing from one currency to another overnight is not that complex and not really unknown territory. Brazil shifted from Cruzeiros to Reais in the 1990s after having previously had Cruzados.. Argentina shifted from Pesos to Australes in the 1980s then back to Pesos in the 1990s.

It is worth recalling also that Greece has spent more than half the time since its independence in the 1820s in a state of default so whatever might shortly happen is a case of “been there done that”.

The Implications for Mining

To the surprise of many, Greece is Europe’s largest producer of bauxite, however to put that in perspective, the USGS report on Greece in 2012 put its share of global bauxite production at 1%. In the same report it was noted that Greece

was the world’s second ranked producer of perlite after the United States and the world’s sixth ranked producer of pumice. It also was estimated to have produced about 9% of the world’s bentonite.

The bauxite producers were Delphi-Distomon S.A., Hellenic Mining Enterprises S.A., and S&B Industrial Minerals S.A. (S&B). All Greece’s major bauxite deposits are located in central Greece within the Parnassos-Ghiona geotectonic zone and on Evvoia Island. The leading bauxite producer was S&B, which had an output capacity of two million tpa exclusively from underground sites located in the areas of Amfissa and Distomon.

However, one percent of the global bauxite market does not really move the dial. Devaluation though would make the country’s production cheaper and maybe drive volumes higher.

When looking at gold it is interesting to go back to a Bloomberg article on the wave to come that said: “Gold mining is gathering momentum after Greece began what it called a “fast-track” approvals program. The Canadian and Australian companies said their projects will add about 425,000 ounces by 2016, worth $757 million at the Oct. 5 spot price, to the 16,000 ounces the country produced in 2011”. However an ominous sign was that the article began with a photo of TVX Gold’s abandoned its Olympias mine with the caption that TVX: “..repeatedly clashed with local government officials and courts and eventually abandoned Greece in 2003 after its permits for Olympias were declared illegal and annulled”. That should have been a warning in itself. Curiously TVX Gold had been controlled by the fallen Brazilian billionaire, Eike Batista, whose travails in Colombia we wrote about recently.

In a way that history turns out to be rather circular, the Olympias asset ended up in European Goldfields and then Eldorado Gold (NYSE:EGO) took that over for $2.4bn only to now find.

Glory Resources Ltd. of Australia announced in 2012 that it had identified mineral resources at its Sapes gold project with a Joint Ore Reserves Committee (JORC) estimate of measured and indicated resources of 2.6 million metric tons (Mt) grading 9.8 grams per metric ton (g/t) gold. Then in October 2013, Eldorado moved on Glory also and took it over.

This means that Eldorado Gold theoretically has four projects on the go in Greece but the emphasis is on theoretically as opposition to mining has been fierce from vested interests. It is surely a symptom of the “Greek disease” that the country was so comfortable on the EU’s handouts that it thought it had the luxury of rejecting some of the most carefully thought out environmentally sound mining projects on the planet on a mere whim.

Curiously, looking at Eldorado’s portfolio of Greek properties it does not list the underground silver-lead-zinc Stratoni Mine located on the Chalkidiki Peninsula. Back in 2012 this was operating at a mining rate of about 18,000 metric tons per month of ore and produced lead, silver, and zinc concentrates. The Stratoni mineralization was classified as lead-silver-zinc carbonate replacement type mineralization, with galena, pyrite, and sphalerite as the main ore minerals. Resources at the Stratoni Mine were contained within the Mavres Petres ore body and had estimated proven and possible reserves of 1.8 Mt grading 8.5% zinc, 6.3% lead, and 177 g/t silver. The mine produced a lead-silver concentrate and a zinc concentrate by a conventional underground drift-and-fill method. The concentrates were shipped by sea to European facilities using either the Stratoni or the Thessaloniki port facilities. Clearly the overvalued Euro and high costs in Greece put paid to this operation which certainly looks sexy to us with its Lead-Zinc component.

Then looking at the gold projects the surprising thing is that Olympias (despite TVX having spent $250mn on developing the mine) is in a holding pattern and Eldorado’s focus is on

Skouries. This is a high-grade gold-copper porphyry deposit also located in the Chalkidiki Peninsula in northern Greece.

The mine will operate in two phases. The initial phase consists of a small, open pit, with production expected in 2016. In the following phase, production will come from the underground. The project benefits from a simple metallurgical process and will produce a clean copper-gold concentrate via flotation as well as doré from a gravity circuit. The project was moving along nicely until March of this year when <<sigh>> the government revoked a permit required for the Skouries processing plant.

These travails are one of the reasons that Eldorado’s share price has been one of the least responsive to upward stimuli in the market in 2015.

The problems at Skouries can be linked back to erratic action from the new Left-wing Environment Minister. If devaluation and default come to pass then Syriza might also blow up or the government might see the light on the need to hunt under every stone for new sources of export earnings and economic growth. Not everyone can be an olive picker or a waiter.

Conclusion

My basic premise is that Greece falling out of the Euro zone will not be a disaster but a blessed relief for all concerned. Sure there will be ructions but better to get it over with. If previous experience in Argentina is anything to go by the Greek equities market will become a massive buying opposition on Devaluation Day +1… (excepting banks, which will be ravaged). Everything else will have a giddy surge. Other markets around Europe and globally will heave a sigh of relief and also rally.

The intriguing thing will be to see how fast drachmas start to circulate again… indeed, if they appear immediately then it will be a sign that the government always knew this was going to happen and had made a big stash of notes for the eventuality. After all how can Greece devalue against the Euro if it has nothing to devalue with?

On the mining front, well might we ask whether Greece will see the light on its less than warm reception offered to foreign miners. The amount that Greece will owe to creditor banks (particularly the ECB, IMF etc) will mean it will need to become an export generator (or at least a foreign currency earner) fast and with an “all hands to the pump” attitude, gold mining will seem like easy pickings. However the Greeks have shown in recent times that practicality is not one of their strong suits.

InvestorIntelReport: Greece Exists, Stage Left, from its Own Drama

"It's all Greek to me" is an old expression representing bafflement and clearly the markets and commentators knew the feeling with the various interpretations of the Greek "votequake" at the weekend. I feel less baffled as it appears to be a prelude I have long expected to the almost inevitable departure of the country, stage left, in this Greek tragic comedy.

Interest cuts and currency gyrations were the main themes of the markets last week. The Bank of Canada made a surprise cut of 25 basis points in the hope of offsetting the negative effect of lower oil prices on the economy. To date the Bank of Canada had kept the cost of borrowing steady at 1% since April 2009. The immediate reaction was that the Canadian dollar slipped, and in a matter of minutes from 1.21 to 1.238 against the US dollar – or a 2.5% drop in one day, the lowest level since April 2009. Canada is a net exporter of oil and the collapse of prices since last June has been threatening investments in the sector. The Central Bank, meanwhile, expects anyway the economy back on the path of recovery in the second half of the year, projecting growth of 2.1% (revised downwards from the previous + 2.4%).

However, the Bank of Canada was hardly unique; it followed in the footsteps of other central banks in recent days that have cut the cost of money. It happened in Switzerland, Denmark, Egypt, India, Romania and Turkey. Of course the week before

had seen the Swiss revaluation with its massive kicker for gold. However the effect on gold started to wane by mid last week and some are even looking for a Wile E. Coyote moment for the yellow metal.

The victory of Alexi Tsipras and his party's anti-austerity in the Greek elections may be less disruptive to the markets than expected but it's still too early to tell. Being just short of a majority looked like it would hobble some of the more extremist stances of the Syriza party and then he managed to pull a rabbit out of the hat in the form of a coalition with a Right-wing party that also opposed austerity. We are calling this the Coalition of the Unwilling.

The early signs from trading in all major European exchanges is that investors are waiting to see whether the new Greek government baulks at the ongoing German demands for more austerity. The German markets, meanwhile, among the most concerned by the Greek election results, performed well or better than expected. Ultimately the Greek government wants to stare down the German government. The Greeks have got little to lose and the Germans will either have to dip into their pockets or the Greeks will depart. Angela Merkel my just refuse to blink as Greece is now the biggest liability to the Euro structure while some economies amongst the so-called PIIGS (Portugal, Italy, Ireland, Greece & Spain) are finally starting to pull out of their dive.

Over in Japan, as Prime Minister Shinzo Abe did his utmost to confront an intractable ISIS hostage situation in Syria (without success), the trade numbers for December, exports rising at their fastest pace since 2013, at just under 13% for the fourth consecutive month of increase.

In China stories have been circulating of a new generation of supposed "hedge funds" that have barged onto the international stage, making a strong debut in the commodities sector and metals in particular. It is claimed that Chinese traders

targeted copper that last week, pushing prices to a six-year minimum at the London Metal Exchange. This was an especially tough short-selling operation that seemed to take other traders by surprise, reminding other players of China’s influence. We wouldn’t be surprised though if a temporary copper price dip may not suit the powers-that-be in Beijing are trying to bail banks out of the exposure they have to the bogus copper stockpile collateral scandal that has been roiling Chinese trading circles.

Beijing today represents about 40% of world consumption of non-ferrous metals (compared to 4% in 1980), accounting for more than of the iron ore sold in the world and huge quantities of agricultural products. Now, traders have to be on the lookout as Beijing’s reforms have led to a gradual liberalization of financial assets while some of these Chinese “hedge funds” have managed to cross the borders of the mother country. In commodities, the Chinese “hedge funds” supposedly have an edge over those in the USA or EU because they have room to try aggressive moves such as taking advantage of time zones to get a head start in trading. The success of Chinese hedge funds is that they seemingly have forced out Western raw materials traders (possibly Red Kite) while many North American finance firms are restricted by the Dodd-Frank act and other reforms. We take all this with a grain of salt as these may just be the same old traders that have now been dressed up in the Western garb of “hedge funds”. The Chinese may not like what happens if they have a “hedge fund” meltdown. Long Term Capital Management anyone?

The InvestorIntel Graphite sector gained +5.27% and the Agribusiness sector was down 9.52% while Rare Earths gained +2.93%. Gold and precious metals continued with the uptrend noted last week in the wake of the Swiss Franc devaluation.

Star Minerals (CSE: SUV) was the ‘star’ performer in the critical metals sector, gaining 50%. Star has entered the manganese space as art of its goal to explore and develop

critical metals in the alternative energy sector. One of the main aspects of its effort is to achieve production ready 'mine-to-market manganese-based' battery technology in the US. To this effect, last December, Star signed a memorandum of understanding (MoU) with Cooperative Mineral Resources (CMR) and energy storage company Octopus Technologies (OTI).

Zenyatta Ventures (TSX: ZEN | OTCQX: ZENYF) also performed very well, gaining +26.32% in Toronto trading and +12.2% at the OTC. The markets appeared not to have paid much attention to graphite in late 2014 and the first few weeks of 2015; however, optimism appears to have returned to the graphite sector in expectation that demand will finally start to measure up to previous expectations.

In Rare Earths, Alkane Resources (ASX: ALK) gained +11.1%, Tasman Metals (TSXV: TSM | NYSE MKT: TAS) gained +20.93% at the TSX and +13.54% in New York while US Rare Earths (OTCQB: UREE) gained +29.23% putting all three amongst last week's best performers. Tasman Metals released the prefeasibility study (PFS) for its Norra Karr project, Sweden. Tasman is working on developing a heavy rare earth element (REE) deposit is set to produce over 200 tonnes of dysprosium oxide per year over the next 20 years, according to the PFS, with roughly 74 percent of revenues coming from magnet rare earths.

Meanwhile, on InvestorIntel Dr. Luc Duchesne has debunked, the bizarre claims emanating from a swathe of press outlets ranging from Newsweek to the Smithsonian Magazine, that fish sperm may hold the secret to both the recycling and extraction of rare earths.

Niocorp Developments (TSXV: NB | OTCQX: NIOBF) gained +6.85% in Toronto after it announced the results from its drilling program at Elk Creek, Nebraska, last week. Elk Creek is rich in niobium (formerly known as columbium), a rare metal that is the focus of the project. Niocorp published the final results from the third and final phase III of the 2014 drilling

program at Elk Creek, in preparation for the release of its feasibility study toward the spring of this year.

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Ukrainian economic woes and Eurozone fears could lead to negotiated solution with Russia

The economy in Ukraine is collapsing and inflation has reached 17%. Its currency, the Hryvnia, has suffered the worst performance of the year, losing 48% against the US Dollar, in the world and, unless foreign aid arrives promptly, a default is expected. Ukraine's civil has had tragic effects on the economy and expectations of GDP having fallen 7.5% in 2014 are optimistic, while the central Bank expects even worse performance in 2015. In order to avoid a sovereign default, the European Union estimates that Kiev would need a USD$ 15 billion injection and Prime Minister Arseniy Yatsenyuk has already found it very difficult to obtain even a fraction of that as he considers the holding of a donors' conference. In this scenario, the International Monetary Fund has already allocated a USD$ 17 billion rescue package. What is especially troubling is that, despite the desperate financial condition, the government has forecast an increase in military spending

of 5.2% and a cut in social spending to ease the burden on the state budget, while the imports “non-essential” duties will be doubled to 10%. Ukraine’s dire economic situation plays into a complex geopolitical scenario that contains the seeds of a thaw in relations between itself and Russia and Russia with the West.

In recent weeks it has also learned that Ukraine has almost completely dried up its gold reserves from March to today, demonstrating the seriousness of the financial and currency crisis. Gold reserves in Ukraine are at the lowest levels since August of 2005, a decrease of 45% in 8 months. In contrast, while Ukraine has almost wiped out its gold reserves, Russia has continued to buy back, coming to 1,187.5 tons in November. Since 2005, Moscow has tripled its gold reserves, bringing them to the highest levels since 1993, suggesting that central banks, beyond Western Europe and North America, still have appetite for the shiny metal. Therefore, as hard as the situation may be for Russia, facing international sanctions and de-facto isolation from the West, Ukraine’s financial situation is far worse. Indeed, the new government, which replaced the one led by former President Yanukovich a year ago in a US and European Union supported coup, Ukraine has proven unable to control and stabilize the internal political and economic situation, while becoming a virtual tool of foreign geopolitical interests and machinations. The good news is that, given its precarious financial condition, Ukraine will be forced to reach some kind of negotiated settlement with Russia in 2015 rather than risking default and the spreading of the conflict. Russia shares this interest because, the pursuit of a more intense military option is out of the question – apart from the cost, it would risk inviting additional encroachment from NATO powers. Surely, Russia will be in recession, but it should be able to avoid a default despite a predicted 4% drop in GDP for 2015.

President Putin said that Russia's economy will adjust gradually to the new level of oil prices. Therefore, while Russians can continue to expect bad economic conditions in 2015, a recovery should start in 2016; neither Ukraine or Russia stand to gain militarily or politically from a perpetuation of the war while the European Union will be overly preoccupied with 'Euro' exits to continue sustaining Ukraine. European investors – and voters – are weary of the volatility and increased risk resulting from a very possible Greek exit from the Eurozone: a 'Grexit' as some have called it. Doubtless, Greece represents a very small part of the Eurozone economy but even the departure of a small economy from the Euro would generate several problems from the 'mathematical' standpoint in the short term. The prospect of a Greek exit is a kind of 'black hole' of risk, because no one has ever come out from the Euro, and no one has ever suggested the release of the Eurozone economy. This uncertainty creates market volatility, a self-feeding mechanism that will inevitably force the European Central Bank to intervene to calm the markets. This possibility will reduce the appetite for foreign adventurism in the EU, leaving Ukraine more isolated. Russia, in turn, will fare better later in 2015 because the low oil prices that have so fiercely targeted its resource economy are unsustainable in the long term, despite recent Saudi rhetoric.

The price of oil is too low for OPEC, which will surely cut production in order to cause prices to rebound to at least USD$ 70-80 per barrel – it seems to be a fairly realistic number in the medium term. Therefore, Russia will be in a stronger position than Ukraine, which will be left with the ultimate responsibility to find a solution, even if it means leaving a part of itself to Russia. The conditions point to such a solution to emerge before the end of 2015 but, in geopolitics, there are many uncertainties and it could take longer. The more optimistic timeline for a solution is backed by the fact that France has already stated that it would stop

sanctions against Russia in view of a continued diplomatic effort aimed at easing dialogue between Kiev and Moscow. Last December 6, France's President Hollande held a surprise meeting with Putin in Moscow upon returning to Paris from a trip to Kazakhstan. Many other EU powers are eager to lift sanctions as well and it will not be difficult to convince the EU as a whole to suspend or ease sanctions in order not to cripple Russia in return for the intensification of negotiations with Kiev. On January 15, there will be a big test in this direction as the French, Russian and Ukrainian will shake hands to create a compromise to restore peace. That solution, which should be satisfactory to the White House (if not a Republican interventionist Congress), will likely see a deal whereby Russia will stop supporting pro-Russian Ukrainian separatists in exchange for full recognition of Russia's ownership of the Crimean peninsula plus any eventual reparations (in the form of gas supplies?). And then the ice between Russia and the West will break.

WTO ruling fails to alleviate European concern over China's rare earth dominance

China has increased its efforts to limit the illegal mining and export of rare earths (REE). The Government has launched a five-month campaign, which has the specific goal of preventing prices of this commodity from dropping further in prices. Since the beginning of October until the end of March 2015 five authorities are working together to track down and punish illegal and smuggling REE operations. This is not the first time that the Chinese government has tried to tamper

with (if not modernize) its rare earth industry, first by trying to rationalize resource management by shifting more control to state mining companies and then by setting production quotas for an ever smaller number of authorized companies. However, none of these measures were able to curb pollution, smuggling and illegal mining in the Chinese rare earth industry. The People's Republic has insisted that it holds 23% of the world's rare earths reserves even if it is widely held to have 40% of the reserves, addressing 90% of global demand.

The United States, Japan and Europe have filed a complaint with the WTO (World Trade Organization) – and obtained validation – that China's production and export quotas limited rare earth supplies for the global market, giving Chinese companies an excessive competitive advantage. However, Beijing has started to comply with the WTO ruling because it is facing internal environmental and social pressure. The European Union (EU) is very concerned that China may revive the REE trading restrictions that prompted the WTO to intervene in the past few years. In fact, just over a week ago, in Milan, Italy, European leaders met at the final stage of the ERECON conference. The European Commission has formed a panel of rare earth experts known as the European Rare Earths Competency Network (ERECON). They are addressing the security of rare earth supplies in Europe as well as the primary production of rare earths, resource efficiency and alternatives to raw materials in the form of recycling.

ERECON's goal is to address the entire value chain challenge of rare earths in Europe, which are a key resource for its industry even though Europe is almost totally dependent on China, which covers 97% of total requirements – making the EU even more dependent on Chinese REE than the United States or Japan. Inevitably, this situation of strong imbalance in favor of China has led to consequences which continue to raise the importing countries 'concerns, given the precedent of the

Chinese government’s decision to impose the cap on exports of rare earths in 2009, which caused their prices to rise by as much as 1000%, sparking protests from the US, Europe and Japan – the latter facing geopolitical and economic consequences that may have hurt its economy. These countries then presented an appeal to the WTO, of which China is a member, but before it was incorporated in March, the Chinese government took precautions by further raising the share of exports and, therefore, forcing REE down. ERECON and other forums, however have shown that the EU’s concerns about China’s virtual REE monopoly have not ceased – and not just for economic motives.

Rare earths are used in many areas, including military drones, laser technology and latest generation communications among other things. The EU, in fact all Western powers, have reason to suspect that China is using REE to upgrade and modernize its military industry and equipment at low cost while exploiting its military rivals’ need to upgrade theirs. If there is any doubt, recent interest by Chinese investors in recently discovered rare earth mines in Greece suggests that China is in no way interested in relinquishing its REE supremacy. Another factor of concern is China’s rapid rapprochement with Russia, a country which is also very interested in re-entering the rare earths market. There are plans that would see ambitious projects starting to operate in Yakutia and the Kola Peninsula by 2020. The evolving Ukrainian crisis and the growing distance between the West and Russia has raised fears that the recently formed Russian-Chinese gas supply arrangements may extend to REE’s as Russia seeks ways to confront the embargo imposed by most EU member states and NATO members. This should be encouraging news for the various REE mining operations under development In North America, South Africa, Tanzania and even Vietnam or Afghanistan – and there no assurances that the new operations will be able to deliver all of the rare earths that are in most demand such as neodymium, dysprosium or europium – among others. Efforts to recycle rare earths have yet to achieve any worthwhile

results, which means that the REE challenge continues.