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## CHINESE RARE EARTH EXPORT QUOTAS CUT BY 40%

Recent reports from China indicate that China's Ministry of Commerce has continued the trend of restriction and discouragement of the export of what is regarded as a strategic asset to China.

After a brief respite in export quota decreases for 1H 2010, the Ministry of Commerce has been reported to have officially reduced the rare earth quotas for domestic enterprises for the second half of 2010 to 6,208 tonnes. This brings the total for 2010 to 30,259 – a 39.4% reduction from 2009. For foreign invested entities operating in China the 2H 2010 quota is 1,768 tonnes, an effective 70% reduction on the 1H 2010 quota.

Since the introduction of the export quota system there has been a steady decrease in Chinese rare earth exports as indicated in the table below. This reinforces China's position as a major influence in the rare earth industry, continuing the downward trend of export quotas since the quota system was introduced.

Year	Domestic Companies (REO TPA)	Foreign Companies (REO TPA)	Total (REO TPA)	Change
2005	48,040	17,659	65,609	0%
2006	45,752	16,069	61,821	-6.00%
2007	43,574	10,069	59,643	-4.00%
2008*	41,105	15,834	56,939	-5.50%
2009	33,300	16,485	50,145	-12.00%
2010	22,512	7,746	30,258	-39.60%

\*Adjusted to an annualised figure.  
Source: China Ministry of Commerce.

The main reason cited for the imposition of the rare earth export quota system is the preservation of rare earth resources for China's own domestic consumption to promote further "value-add" downstream processing.

China's aim has been to encourage value adding processes to take place within China and is reflected in the fact that they now export more rare earths in the form of downstream products such as electronic goods than as raw rare earth oxides.

Events of recent years highlight the risk of supply to non-China consumers of rare earths products predominantly for hi-tech applications.

Additionally Chinese consumers are seeking alternative supplies to supplement domestic demand. Currently Japan and the USA represent the largest non-Chinese consumers of

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rare earths. This announcement should add a higher degree of urgency to efforts in the USA to recommission the US domestic rare earths supply chain from the mine to final finished product and re-establish independence from China supply sources.

Arafura Resources Limited, through the company's Nolans rare earths project in the Northern Territory, is well placed as an emerging rare earths mining and processing company to capitalise on the shortfall of demand which will arise from the restrictions in Chinese export quotas. Furthermore, by intentionally not committing rare earth offtake prior to the completion of the BFS, Arafura Resources is positioned well to take advantage of increasing rare earths prices in the background of ever-tightening supply.