



**AVALON**  
RARE METALS INC.

## INDUSTRY BULLETIN: Chinese Ministry of Commerce Announces Rare-Earth Export-Quota Allocations For 2012

In our ongoing efforts to provide you with broader communications and industry information, we are pleased to issue this Industry Bulletin, which reports on the December 27, 2011 announcement by the Chinese Ministry of Commerce (the "Ministry") on the first round of allocations of rare-earth export quotas for 2012. The announcement stated generally that, "In order to protect international demand and maintain the basic stability of rare-earth supplies, the total export quotas for 2012 and 2011 will be basically the same."

The Ministry's announcement disclosed that the first round of quota allocations (totaling 24,904 tonnes of rare earth oxides) will represent 80% of the quota allocations for 2012; which implies that the total for the coming year will be 31,130 tonnes of rare earths, slightly higher than for 2011. The following table summarized the annual export quotas, as they have been declared over the past eight years, showing that annual quotas have stabilized over the past two years reversing a six year trend of reduced annual quotas going back to 2005.

Export quotas for the Chinese rare-earth industry								
Source: Chinese Ministry of Commerce, Metal-Pages and IMCOA								
	2005	2006	2007	2008	2009	2010	2011	2012
<b>TOTAL</b> (Tonnes)	65,609	61,821	59,643	56,939	50,145	30,258	30,246	31,130

Interestingly, this year's announcement differs from previous years by providing a full year target quota rather than six month quotas and by defining separate quota allocations for light rare earth elements (LREs) and medium / heavy rare earth elements (MREs/HREs), evidently in an effort to better balance the export market.

First set of allocations of Chinese rare-earth export quotas, for 2012			
Allocation Type	Allocation (tonnes)		
	LRE	MRE/HRE	Total

Confirmed	9,095	1,451	10,546
Provisional	12,605	1,753	14,358
<b>Total</b>	<b>21,700</b>	<b>3,204</b>	<b>24,904</b>

The Ministry also introduced a new approach to allocating the quotas designed to encourage improved environmental practice amongst producers. Some of the annual allocations are being made only on a provisional basis subject to meeting new pollution control regulations, by July 2012. Companies that fail to meet the new requirements will apparently have their quotas re-allocated to other companies. It is currently expected that sometime during the summer of 2012, details of which companies will be allocated the remaining 20 per cent of quotas will be released.

Reaction to the announcement from industry watchers has been mixed. Gareth Hatch, co-founder of Technology Metals Research, notes, "The industry is well aware that the significant price increases for individual rare earth products were key in eroding demand over 2011, with lanthanum- and cerium-based products seeing the largest declines in demand. It is possible that the authorities in China see prices falling much further than the recent decreases that we've seen, to such low levels that the demand for exports will return to 2009 / 2010 levels, which would "fill out" the 2012 quota allocations." Gareth Hatch's detailed commentary can be found at <http://www.techmetalsresearch.com/2011/12/the-first-round-of-chinese-rare-earth-export-quota-allocations-for-2012/>.

Other analysts and writers are divided on the reasons behind the rise in the export quota, with some suggesting China was bowing to pressure from trading partners, and others suggesting it was a response to China's domestic economic slowdown. China's control over global rare-earth supply, and its actions over the past six years in reducing its export quotas while global REE demand grew, has caused a surge in prices over the past two years.

Pierre Neatby, Avalon's Vice President, Sales and Marketing notes that, "Thirty-thousand tonnes per annum is the number the Chinese have been saying is a good number for the next few years. The lower quota in the first half may in part be due to the Chinese wanting to stop the price slide. While it can be expected that these export quotas could likely lead to continued near-term pricing pressures on rare earths, even at much lower rare earth prices, we are confident that the longer-term outlook for the overall industry remains bright, especially for the more scarce heavy rare earths."



#### **ABOUT AVALON RARE METALS INC.**

[Avalon Rare Metals Inc.](#) ([TSX](#) & [NYSE Amex](#): AVL) is a mineral development company focused on rare metals deposits in Canada. Its flagship project, the 100%-owned Nechalacho Deposit, Thor Lake, NWT, is emerging as one of the largest undeveloped rare earth elements resources in the world. Its exceptional enrichment in the more valuable 'heavy' rare earth elements, which are key to enabling advances in green energy technology and other growing high-tech applications, is one of the few potential sources of these critical elements outside of China, currently the source of 95% of world supply. Avalon is well funded, has no debt and its work programs are progressing steadily. Social responsibility and environmental stewardship are corporate cornerstones. Avalon's performance on community engagement in the north earned it the 2010 PDAC Environmental and Social Responsibility Award.