

Alkane Resources emerges as a winner in the Japan-China Dispute



Alkane Resources (*Alkane*, ASX: ALK), developing the Dubbo Zirconia project, has reached the final stage of feasibility and expects to start construction of the mine, in New South Wales, in the last quarter of the year. Alkane is in the process of raising the necessary funds to launch operations on schedule; the challenge is not a small one, given that some AUD\$ 1 billion will be needed. Last fall, ProEdgeWire contributor Robin Bromby, noted that Alkane managed to secure some very big financial players to arrange the investment banking and product financing support including Credit Suisse, Sumitomo Mitsui Bank and Petra Capital. Alkane indicated that it has also considering selling a 10% stake in the project to raise AUD 200 million.

The Dubbo project is very promising given that includes a combination of some of the most in demand rare metals including niobium, terbium, zirconium and dysprosium, for which the main Japanese processor of rare earths, Shin-Etsu Chemicals, has already signed a memorandum of understanding (MOU) for an offtake agreement for Dubbo. The Japanese 'connection' and the presence of Sumitomo Mitsui Bank suggest that any additional financing or project participation will also be Japanese. Japan, moreover, has been reducing its reliance on rare earths imported from China and it has looked to Australian suppliers with great interest, including Alkane and Lynas Corp (ASX: LYC). Shin-Etsu Chemical Company of Japan has entered into a Memorandum of Understanding (MOU) for their non-separated rare earth off-take from the Dubbo Zirconia Project (DZP). This is a significant agreement for future off-take. Last November, the Japanese government announced an official policy to diversify its rare earths imports, shifting away from China starting in mid-2013.

Alkane has established links to Japan well before this policy and the new and more nationalist government led by Prime Minister Shinzu Abe, voted in last December, has set an even more course to relations with China, prompting a more intense search for alternative sources of rare earths. Until recently, Japan imported some 90% of its rare earths from China; the new strategy is to reduce it to below 50%. Japan's average demand for rare earths has ranged anywhere from 20,000 to 30,000 tons. After China, Australia has been the main supplier, accounting for about a third of those amounts. In 2013, the Ministry of Trade said Japan planned to import 9,000 tons from Australia. Meanwhile, there have been increasing rumors that China could, itself, become a rare earths importer due to increasing production restrictions, tougher environmental regulations and rare earth industry consolidation.

Australia is slated to fill in any gaps there as well and Alkane could benefit from this shift, potentially signing offtake agreements with rare earth refiners in China itself just as it has with Japan. Of course, for such prospects to be fulfilled, the world economy must improve. So far, there is some reason for optimism; China announced a better than expected GDP growth and today the Central Bank of China confirmed that the growth trend is being sustained after noting steady increases in the last three months of the year. Moreover, China's economy, which has been largely export driven, is expected to address a number of domestic socio-economic challenges spurring more internally driven demand. As for Alkane, securing financing package will allow it to move ahead with the Dubbo project and reach the construction stage before the end of 2013. Alkane also announced in an update for the Dubbo Zirconia Project that it has been improving its process developments including such areas as water recycling. Alkane expects to release the Environmental Impact Statement at the end of March and the Definitive Feasibility Study in the March Quarter.