



Silver Users Association

Washington Report

Volume 4, Issue 8

August 27, 2007

Market Watch: Silver Price

2007 Comex Spot Settlement

Month	High	Low	Avg.
January	13.51	12.13	12.83
February	14.69	13.33	13.95
March	13.53	12.13	12.83
April	14.06	13.29	13.74
May	13.53	12.81	13.15
June	13.76	12.21	13.09
July	13.36	12.47	12.93
August			
September			
October			
November			
December			

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This Month's Newsletter Sponsored by:



Association News:

- **SUA Fall Meeting: November 6-7**
Army-Navy Club
Washington, DC 2007
- Press Releases: Please send us your press releases and/or company announcements, so that we can include them in SUA's monthly newsletter.
- Web Site: Visit our web site at:
<http://www.silverusersassociation.org>
- **SUA Board Votes to Cut 2007 Dues by \$1,700.** Contact Paul Miller for news on the new 2007 dues structure and how you can get involved. Paul can be reached at (703) 930-7790 or at pmiller@mwcapitol.com

Note:

- Please send us any updates to your company profile so that we can update our records and web site.
- If you are interested in sponsoring the newsletter, please e-mail Paul Miller today at pmiller@mwcapitol.com

Mark Your Calendars: Silver Users Association Announces Fall Meeting Date

The annual fall meeting of the Silver Users Association will take place on Tuesday, November 6 and Wednesday, November 7 at the Army-Navy Club in downtown Washington, DC.

Updated Agenda:

Tuesday, November 6th

- 1:00 p.m. SUA Board of Directors Meeting (Members Only)
- 1:45 p.m. Welcome: Jon Potts, SUA President
- 2:00 p.m. Speaker: John Tobon, Dept. Homeland Security
Topic: Government Scrutiny of Precious Metal Imports
- 3:00 p.m. Speaker: Drew Maloney, Mitt Romney for President
Topic: Update on the Romney for Presidential Campaign
- 4:00 p.m. Speaker: Caroline Braibant, REACH
Topic: Update on the EU's new registration system for chemicals and metals – REACH
- 4:30 p.m. Break / Hotel Check-In
- 5:00 p.m. Hors D'oeuvres & Networking Session
- 6:00 p.m. Cocktail Reception – **Sponsors:**
Precision Engineered Products, Inc.
Heraeus Precious Metals Management
- 7:00 p.m. Dinner – **Sponsor: Mitsui Precious Metals**
- 8:30 p.m. Cigar Bar & Networking Session – **Sponsor:**
FideliTrade

Wednesday, November 7th

9:00 a.m. Breakfast (Members and Guests)

Speaker: Jeffrey Christian, CPM Group

Topic: Using Silver in an Era of High Prices

Sponsors: Ames Goldsmith

Gannon & Scott

10:00 a.m. Speaker: Senator Chuck Schumer (D-NY)

Topic: Unfair Trade Practices with China, Including Silver

10:45 a.m. Speaker: Michael Floskis, Tiffany's

Topic: TBA

11:15 a.m. Speaker: John Conheeney, NYMEX

Topic: NYMEX Overview and Analysis

For more information, please contact Paul Miller, SUA executive director at (703) 960-7790 or via e-mail at pmiller@mwcapitol.com. An early agenda has gone out in the mail.

Gannon & Scott Announces Representation in Mexico

Gannon & Scott, a leading refiner and assayer of precious metals since 1919, announces the appointment of Recuperado de Plásticos y Servicios Para Reciclaje, S.C. (RPS) as Consultant and Sales Representative in Mexico.

Mr. Luis Soltero, Principal Representative for RPS, founded the business in 2005 focusing on the plastic scrap market. Born in Guadalajara, Jalisco, Mexico, Mr. Soltero is a graduate Industrial Engineer with a Masters of Business Administration from Technologico de Monterey Campus Guadalajara. He has 16 years experience in manufacturing, most notably with IBM in the areas of Purchasing, Materials Planning, Quality Engineering, New Product Development and Global Accounts.

"We are very enthused about the appointment of RPS and in particular look forward to our relationship with Luis Soltero" said Ken Dionne, Chief Executive Officer of Gannon & Scott.

"Mr. Soltero's knowledge of the electronics industry environment will provide significant opportunities for Gannon & Scott" said Mr. Dionne, "but equally as important, our expertise and service will provide significant benefits to area customers".

House Clears Bill Overhauling Approval Process for Foreign Investments in U.S.

The House cleared a bill Wednesday to overhaul the government's process for scrutinizing foreign investments in the United States.

The 370-45 vote to accept Senate amendments and clear the measure (HR 556) sends it to President Bush for signing. The action brings a legislative close to the controversy sparked in early 2006 when the administration approved a deal that transferred operations at six U.S. port terminals to DP World, a company controlled by the government of Dubai.

The original House measure passed, 423-0, in February; 42 Republicans and three Democrats voted "no" Wednesday, apparently unhappy with Senate changes. The bill would revamp operations of the secretive Committee on Foreign Investment in the United States, the multiagency panel that weighs the national security risks posed by proposed acquisitions.

"This is an effort by the Congress to make clear we welcome foreign direct investment as a rule" while still protecting against "those exceptional examples where it might cause a security problem," said Financial Services Chairman Barney Frank, D-Mass. The Senate passed the measure before the July Fourth recess, taking up a House-passed bill and substituting its own language — essentially the bill (S 1610) approved May 16 by the Banking, Housing and Urban Affairs Committee. The committee made relatively minor changes to the House measure.

The legislation would establish the review panel, known as CFIUS, in statute for the first time, mandate a second-stage national security investigation of bids by state-owned companies and formalize the role of the national intelligence director in such reviews. The measure requires an increased focus on threats to critical infrastructure. Frank agreed to allow negotiators on the fiscal 2008 Defense authorization (HR 1585) conference agreement to make a technical correction related to reporting requirements on presidential decisions. Frank said the Senate eliminated the language by mistake.

House Armed Services ranking Republican Duncan Hunter of California said during the July 10 debate that he opposed the bill because it lacked a House provision allowing one CFIUS member to trigger a more detailed investigation into a deal. The final bill would allow a second-stage investigation if the Treasury Department recommended it and the rest of the panel agreed.

Carolyn B. Maloney, D-N.Y., sponsor of the House bill, said CFIUS operates by consensus, which means that each member has veto power. Frank did not share Hunter's concern. "I don't think the administration — this one or the next one — is going to let [foreign firms] buy things that are going to be damaging," he said.

Senate Finance Approves China Currency Measure

Senate Finance Committee leaders smoothed over a potential jurisdictional showdown with another Senate panel Thursday, but the fight over how to pressure China to change its currency practices is far from over.

The Finance panel approved, 20-1, legislation (S 1607) that would toughen the Treasury Department's investigations of questionable foreign currency practices, requiring officials to examine "fundamentally misaligned currencies" instead of the existing standard of intentional manipulation. The bill does not mention China but is clearly aimed at the Asian giant.

The most egregious cases, in which a country's currency imbalance is determined to be the result of clear government policies, would be subject to increasingly severe punitive actions under the bill. Lawmakers and other critics blame the low Chinese yuan for the burgeoning U.S. trade deficit with China and for a loss of U.S. manufacturing jobs.

Bill supporters must reconcile their approach with other proposals being considered by the Senate Banking, Housing and Urban Affairs Committee, whose leaders had maintained that the Finance bill belonged under their jurisdiction.

Supporters of the Finance bill expressed confidence that they could work with the Banking panel leaders, who plan to mark up their China currency bill (S 1677) the week of July 30.

Meanwhile, senators of both parties expressed concern that the bill approved Thursday would exacerbate trade tensions with China rather than improve them. "I question whether the legislative action we take won't be perceived as protectionist," said Maria Cantwell, D-Wash., who cast the lone vote against the bill.

Jon Kyl, R-Ariz., echoed Cantwell's apprehensions, though he voted to approve the bill. He said after the markup that he was "less than lukewarm" on the measure and was unsure whether he would support it on the Senate floor. "If it's made any worse at all, I obviously won't support it," he said, referring to the possibility that the Finance bill will be combined with other proposals.

Before the vote, Finance Chairman Max Baucus, D-Mont., introduced a revised version that incorporated several amendments as well as elements of an earlier revision. Baucus drafted the original bill along with the panel's ranking Republican, Charles E. Grassley of Iowa, panel member Charles E. Schumer, D-N.Y., and Lindsey Graham, R-S.C. The new version accelerates the timeline for Treasury to take initial action against offending countries to 90 days, from 180 days in the original bill. The revised measure also allows for a binding congressional override when the president decides to withhold sanctions against a violator for economic reasons. The original bill allowed for a non-binding expression of disapproval.

The final version preserves what some view as the legislation's biggest stick against China: a provision that would require the Commerce Department to include the degree of currency undervaluation in its calculation of anti-dumping duties. Many of the changes incorporated Thursday came from Debbie Stabenow, D-Mich., who had criticized the original version as being too weak. She praised the final product Thursday but also vowed to continue pushing for another tool: defining currency manipulation as an unfair subsidy subject to existing U.S. trade remedies, also known as countervailing duties.

She and Jim Bunning, R-Ky., introduced a bill (S 796) that would do just that. They say they will pursue that tack in the Banking Committee. Bunning withdrew an amendment Thursday, at the request of Baucus and Grassley, that would subject currency misalignment to such duties. Schumer supports the Banking panel pushing another bill but said he thinks the countervailing duty approach would violate World Trade Organization (WTO) rules. Baucus also said that approach raises concerns. Supporters maintain that the Finance bill would not run afoul of WTO rules.

Rep. Hunter, Others Oppose DOD Proposal To Exempt COTS From Specialty Metal Rules

Rep. Duncan Hunter (R-Calif.), the ranking Republican on the House Armed Services Committee, and two other House members Aug. 1 called on the Defense Department to abandon a proposed rule that would exempt commercially available off-the-shelf (COTS) items from the domestic source restrictions applicable to specialty metals, as codified by Congress last year.

Not only would the proposed rule "gut the law" and result in "a de facto repeal" of significant portions of the specialty metals restrictions contained in 10 U.S.C. § 2533b, they said, but a COTS exemption "could easily be applied to textiles and other products" covered by the domestic source restrictions at 10 U.S.C. § 2533a, also known as the Berry Amendment.

"The Berry Amendment and 10 U.S.C. 2533b serve important roles in maintaining a strong U.S. industrial base, securing American jobs, and ensuring our national security. The Department of Defense, Congress, and industry should partner to find a means of compliance with this important law," the lawmakers wrote in comments addressed to the Defense Acquisition Regulations System.

The comments were signed by Hunter, HASC member Robin Hayes (R-N.C.), and House Appropriations Committee member Rep. Tim Ryan (D-Ohio).

Further, the three lawmakers pointed out that Congress last year rejected legislative language to provide a COTS exemption for specialty metals. Also, they noted that the matter is the subject of pending legislation--the fiscal year 2008 defense authorization bill (H.R. 1585)--that will be taken up in conference between the House and Senate Armed Services Committees, assuming that the Senate passes its version of the bill when it returns from August recess.

"We believe it is inappropriate and inefficient for DOD to consider this rule while legislative action is pending," the congressmen said. The House version of the bill reflects the view of some HASC members that DOD is misinterpreting the specialty metals changes made last year, while language in the Senate Armed Services Committee report on its version of the bill endorses the department's efforts to implement the changes.

The bill as passed by the House May 17 includes language (Section 809) that would "clarify" 10 U.S.C. 2533b and tighten the requirements to be met by DOD when issuing determinations of domestic nonavailability (DNADs) for specialty metals. In contrast, the SASC report language accompanying the bill approved by the committee May 25 encourages DOD to take advantage of the flexibilities under Section 2533b, and specifically refers to DOD's April 10 DNAD allowing the purchase of fasteners containing non-domestic specialty metals.

Hunter, Hayes, and Ryan further commented that the legislation enacted last year contained a COTS exemption pertaining to electronic components, which they said "was intended to address 85 percent of the problems encountered by DOD." This exemption, included in 10 U.S.C. 2533b, applies to specialty metals contained in commercially available electronic components that meet a de minimis standard--that is, their noncompliant specialty metal content is worth less than 10 percent of the component's value.

DOD "has continued to ignore this tool that would eliminate the majority of compliance issues," the three argued. While "Congress is working to address legitimate cases where compliance is impossible," such instances are "extraordinarily rare," they asserted. Warning that the proposed rule also could be applied to items covered by the Berry Amendment, the three said it is "inappropriate" for DOD "to consider a COTS exemption for specialty metals without taking into account the broader implications of such a precedent." The proposed rule, which would amend the Defense Federal Acquisition Regulation Supplement, was published for public comment July 2.

"I hate to admit it, but the letter makes some good points," an industry observer told reporters. The observer agreed with the lawmakers that the rule, if adopted, "would gut a significant part of the law for specialty metals and set a precedent where a similar waiver could be issued for COTS items for the commodities covered under the Berry Amendment." "The swords are now drawn," the observer said of the differences between the House lawmakers and contractors.

Various contractor groups commenting on the proposed DFARS rule have expressed their strong support for the exemption, arguing that source restrictions that require manufacturers to track the specialty metal content of COTS items included in products delivered to DOD add significant costs to the department and drive some manufacturers out of the defense marketplace. The same contractor groups argued that the DNAD process that allows DOD to purchase certain noncompliant specialty metals is excessively time-consuming and burdensome.

In contrast, Jeff Green, formerly a HASC staff member and now head of J.A. Green & Co., which represents members of the specialty metals industry, told reporters that a COTS exemption like that proposed in the rule could set "a dangerous precedent" that could be applied to items covered by the Berry Amendment, such as shoes and clothing. "I question DOD's legal authority to exempt COTS" under the existing statute, Green said. "I just don't think the legal basis is

there." Further, given the pending congressional action pertaining to specialty metals restrictions, Green asked, "Does it make sense to go forward with a rule that will be overcome by events in the near future?"

Industry Groups Support Rule to Exempt COTS Buys from Specialty Metals Restrictions

Industry groups have come out strongly in support of a proposed rule that would amend the Defense Federal Acquisition Regulation Supplement (DFARS) to allow the Defense Department to purchase commercially available off-the-shelf items (COTS) without regard to the origin of the specialty metals included in those items.

The July 2 proposed rule calls for the creation of a new DFARS provision (Section 212.570) that would list the specialty metals domestic source restrictions recently codified at 10 U.S.C. 2533b as inapplicable to contracts and subcontracts for the acquisition of COTS items. The rule also would include the acquisition of COTS items containing specialty metals as an exception at DFARS 225.7002-2.

In issuing the rule, DOD said that under current sourcing restrictions, the manufacturers of COTS items containing specialty metals are subject to "costly and burdensome, if not impossible," requirements to track the specialty metal content of their items if they are to be available for DOD acquisitions. Industry groups, including the Aerospace Industries Association, National Defense Industrial Association, U.S. Chamber of Commerce, Industrial Fasteners Institute (IFI), and the Information Technology Association of America (ITAA) have expressed strong support for the rule in comments submitted between July 25 and Aug. 1.

AIA said in its Aug. 1 comments that the proposed rule "is an appropriate implementation" of the specialty metal sourcing restrictions codified at 10 U.S.C. 2533b. AIA encouraged Congress to codify the revised specialty metal provisions in passing the fiscal year 2007 defense authorization act, in order to provide DOD and its suppliers with some relief from the domestic sourcing requirements for items containing specialty metals then imposed by the Berry Amendment. "AIA very strongly supports the proposed rule," it said.

However, AIA noted that the title of the proposed rule, "Waiver of Specialty Metals Restrictions of Commercially Available Off-the-Shelf Items," incorrectly describes the rule as resulting in a waiver of the sourcing restrictions. Instead, the term "Inapplicability" should be used in the title, AIA said. Section 2533b satisfies the statutory requirements for laws that, under Section 35 of the Office of Federal Procurement Policy Act, are to be considered inapplicable when the government acquires COTS items, the group said.

Similarly, NDIA, in July 30 comments, said that the proposed rule "provides a long-awaited and important recognition that the specialty metals requirements in 10 U.S.C. 2533b do not apply" to COTS items. "Applying these specialty metal provisions to COTS items makes it increasingly difficult for commercial companies to sell leading edge technologies and products to the DOD," NDIA said.

The DFARS rule accurately notes that manufacturers make purchasing decisions about components "based on factors such as cost, quality, availability, and maintaining the state of the art, and not on the country in which specialty metals contained in the components were melted," NDIA added.

ITAA, whose members have said that in many circumstances they cannot comply with specialty metal sourcing restrictions due to the small amount of noncompliant metals in certain electrical components, told DFARS rule writers in Aug. 1 comments that implementation of the rule "will make determination of compliance for electronic components much easier for all involved."

NDIA, the Chamber, ITAA, and IFI all agreed with DOD's assertion in the proposed rule that the domestic non-availability determination (DNAD) process--which allows the department to purchase foreign specialty metals when it determines and documents that compliant metals are not available in the required form in sufficient quality or quantity--is too costly and time consuming to allow DOD to meet mission-sensitive requirements in a timely manner.

IFI said in its July 25 comments that it "fully supports" the proposed rule. It said that of the approximately 80 percent of all aerospace fasteners that would be considered COTS items under the rule, DOD uses only about 10 percent. "When products have to be made exclusively for the military, volume discounts disappear because military volumes do not allow for the optimum lot size during the manufacturing process," IFI said.

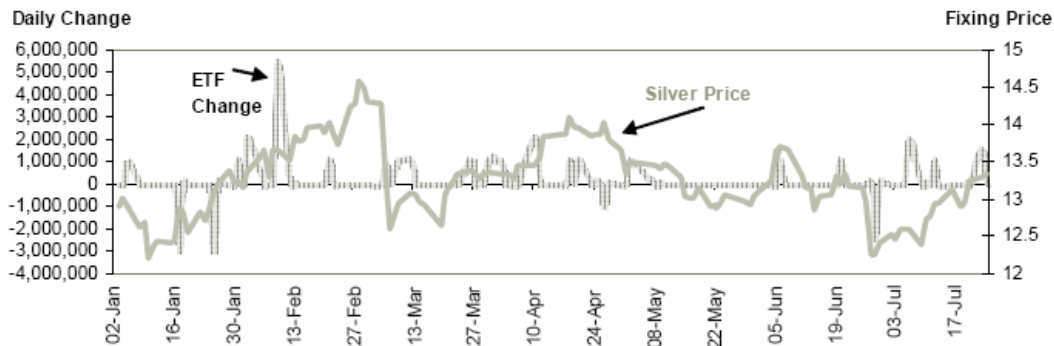
IFI cited recent Air Force testimony before the Senate Armed Services Committee as indicating that "the \$0.13 cent nut that meets military standards, if forced to be compliant, would cost 40 times as much (\$5.20) and take 48 weeks to produce." Further, IFI said that as subcontractors, fastener manufacturers may not request a DNAD, but rather must rely on a prime contractor to initiate that process. IFI's comments also described market segment calculations in support of the group's assertion that, "given the financial health of the specialty metals industry, it is highly unlikely, if not impossible, for the exemption of COTS items such as fasteners to result in severe financial harm to the industry."

**Mitsui Mid-Year Silver Forecast 2007**

January Forecast:	Annual Average Price: \$12.50/oz	Low Price: \$9.80/oz	High Price: \$14.80/oz
July Forecast:	Annual Average Price: \$13.25/oz	Low Price: \$10.40/oz	High Price: \$14.80/oz

ETF Activity and Liquidity:

The iShares silver ETF has grown by 20.5 Moz thus far in 2007, an increase of 17% from the beginning of the year. Since the end of April 2006, approx 141.6 Moz of silver has been taken off the market. A further 9 Moz has been absorbed collectively through the silver ETF products offered by ZKB and ETF Securities. Will ETF volumes amount to 180 Moz of silver by the year end as we estimated in January? While slower growth has occurred this year, we still maintain our initial estimate for ounces of metal that will be taken off the market, including ETF Securities and ZKB volumes. iShares investors liquidated on just 7 occasions in the year to date. In January, we characterised silver ETF participants as buy and hold investors and this generally held for 2007. However, when the silver market collapsed to a low of \$12.15 on the 26th June, ETF investors were not able to stand tall against this tide and liquidated 2.5 Moz. However, the magnitude of this selling was an isolated incident in 2007. Unlike gold, where we believe investor strategies have altered, silver investors, at this point, remain committed. Even during environments of slackening silver prices, investors typically add to their ETF holdings. Liquidity fears have not re-emerged as lease rates remain in the 0.55% area (in the 1 month period) and the silver ETF's continue to have a minimal influence on market liquidity. There is no question that the strength of these silver products are a contributory factor in the silver price run. However, it cannot be ignored that the sheer size of the ETF holdings represent a significant overhang to the market (at 21% of annual production) and is a very liquid source of supply should investors opt to liquidate.

iShares Silver ETF—Weekly Changes since January 2007

Outlook H2 2007: While the white metal has appreciated over 14% to date in comparison to the 2006 average, silver is currently down 2% from price level at the beginning of this year. Investors remain cautious of this metal. Silver has reacted strongly to movements in the gold market and global macroeconomic variables. This relationship, we believe, will continue for the remainder of 2007. The interaction of global markets serves as a valuable reminder of the contagion across international assets and the domino effect that filters through financial markets on occasion that the precious metals market cannot ignore. The strength of world-wide industrial production will dictate the robustness of industrial demand for the remainder of the year. The average silver price for 2007 to date is \$13.26 at present. Given our more positive outlook for the gold market, we are raising our average 2007 forecast for silver from \$12.50 to \$13.25.

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