Silver Users Association

Washington Report

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Market Watch: *Silver Price*

2005 Comex Spot Settlement

Month	***High***	***Low***	***Avg.***
January	6.85	6.43	6.63
February	7.52	6.55	7.07
March	7.60	6.91	7.27
April	7.33	6.90	7.13
May	7.44	6.84	7.05
June	7.53	7.03	7.31
July	7.24	6.83	7.02
August	7.28	6.69	7.01
September	7.50	6.94	7.18
October	7.36	6.74	7.15
November	7.77	7.01	7.50
December	8.03	6.69	7.10

In This Issue:

This Month's Newsletter is Sponsored by:

Association News:

- **SUA Spring Meeting to be held May 22-24, 2006 in Washington, D.C. at the Army-Navy Club. Call now for information (703) 930-7790.**
- *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
- Join SUA today and save 50% for new members!

Note:

- Please send us any updates to your company profile so that we can update our records and web site.
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China's Currency Versus U.S. Dollar

The debate over whether to take a more aggressive stance on China's policy of "pegging" their currency to the dollar has stepped up a notch. Senators Charles Schumer (D-NY) and Lindsey Graham (R-SC) have introduced legislation, S. 295, to impose a retaliatory tariff of 27.5 percent if China does not revalue its currency. The Senators were successful in forcing the Senate leadership to commit to a vote on the bill. They held the Foreign Affairs authorization bill ransom until the leadership agreed to a guaranteed vote before July 29 of this year. Meanwhile, Representatives Duncan Hunter (R-CA) and Tim Ryan (D-OH) have introduced a bill that takes a more "moderate" approach to the issue. Their bill would define China's currency policy as an illegal subsidy for the purposes of U.S. unfair trade practice laws. The legislation would require the U.S. government to evaluate the impact of the policy on the U.S. and then impose countervailing duties.

Nine Billion Ounces

(Partial reprint of an Article written by Charles Savoie, Silver Investor)

"How can anyone talk about impending shortages of the white metal when such enormous supplies as we have just mentioned are available?"

That was Walter Frankland of the Silver Users Association quoted in American Metal Market, April 12, 1988. His comment was in reference to a claim by Lehman Brothers that as of that date, the world contained 11 billion ounces of refined, above ground silver. Well golly gee-whiz, to quote Gomer Pyle, television's wacky Marine. Statistics mainly from CPM Group show that from mid-1988 through 2005 projections, silver deficits totaled approximately 1,750 million to 1,800 million ounces. Walter, do you mean to tell us that only about 16 to 17 percent of the available silver in the world has gone to satisfy the deficit (caused entirely by suppressed low prices); and therefore, that silver investors in their mid-30s as of now could pass away waiting for silver to become scarce enough as to force prices to rise, overwhelming even gigantic short positions?

Walter doesn't seem to be broadcasting such a view, in light of the Silver Users Association's recent stated opposition to a silver Exchange Traded Fund. The ETF would only require some 130 million ounces to be fully backed. Hell, that would increase the silver production to consumption deficit to a mere 1,930 million ounces at most, since Lehman's 1988 claim of 11 billion ounces leaves around 9BOZ today---barely 17.5% of what they claimed was available has been consumed. How good is the market intelligence of the SUA relative to silver held by central banks or treasuries; dealers; banks or insurance giants; exchanges and so forth? We must assume their intelligence is VERY good. In fact we can toss out any claims of excessive silver inventories if GFMS puts out another off the wall claim. But based on Lehman's 1988 assertion, there should still be some 9,000 million (nine billion) ounces of refined silver above ground. Why worry then, over 130MOZ when there should be roughly 69 times that available? If half that silver is in India, that still leaves 34.5 times the 130MOZ figure. The SUA expresses worry over silver to the extent of less than half the current COMEX short profile. SUA must know there's not the metal available backing shorty! Lehman Brothers, PLEASE! Please help us now, sez Walter! It seemed more than a touch strange that Lehman Brothers would issue such commanding commentary on the silver supply, inasmuch as the Wall Street Journal, October 21, 1996, section C page 17 reported.

A Lehman spokesman confirmed that the firm has laid off all eight employees on its precious metals desk."

Apparently there has been a trend for fewer major financial institutions to be big silver shorts. What silver was paper money mob member Lehman Brothers referring to in 1988? Amalgam fillings in teeth of deceased in cemeteries? I have two antique dressers with mirrors from 1893. That silver has been out of the market for over a century and won't ever return. The mirrors still work nicely. OKAY! Lehman must have been referring in part to silver in India. I ran into someone in Dallas who told me that "Indian silver backs COMEX short sales." That's like saying, if your freezer fails don't worry, it's backed by ice in Antarctica! Or if your little boy runs out of sand for his sandbox, it's backed by the

Sahara Desert. But Indians hold to their tradition of saving in silver and won't change. They have the natural instinct about paper money to realize it cannot be held in the same confidence as silver and gold. Senator Patrick McCarran of Nevada commented (Mining Congress Journal, February 1946, page 56).

"Naturally, the people of India prefer silver to paper currency issued by the Bank of India, which is British controlled."

How dare the Indians want real money instead of what the mature, wise and worthy bankers desire them to use! The same attitude has overwhelming momentum in Mexico---silver is wanted in payment, paper is for bathroom tissue. Could it be that Lehman Brothers, who always seems to have a representative on the advisory boards to the Commodity Futures Trading Commission (CFTC) in Washington, was intentionally putting out a false signal? Would shorts DO such a thing? Absolutely! How involved has Lehman Brothers been over the years, with member companies of the Silver Users Association? HIGHLY involved! From underwriting to interlocking directorships to bond and debenture issues and everything else. Why, if there's 11 billion ounces of silver above ground (in 1988) or 9 billion ounces today, there's no reason any of us should invest in silver. That was the intent! To derail investment! To reserve ALL silver for the Silver Users Association! Lehman Brothers, would you PLEASE revise your estimate of how much silver there is above ground, as of January 2006? If your 1988 reckoning was correct, would you PLEASE tell the world what happened to so much silver? (Maybe Iran took it and that's another reason for George to get tough with them by having others die---Alexander led troops into battle but George won't!) If your 1988 figures were wrong Lehman Brothers, are you willing to compensate futures traders for the losses you caused them after the "figures" you hatched were released? Walter, PLEASE!

Yes India probably has a monumental amount of silver. It is not a factor determining world prices going forward. Indians are the greatest natural silver savers on planet earth. Maybe it's a genetic trait! This metal is dispersed among tens of millions of Indians. When the moment Madame Guillotine falls on the COMEX silver shorts, Indians will convulse with delight that their belief in silver was justified. "But" some silver bear says, "we believe Lehman Brothers is beyond reproach; there is probably still 9 billion ounces of silver in inventories, with only half of that in India!" And surely the Reserve Bank of India would spearhead a confiscation drive to collect Indians' silver so as to deliver it to the SUA for $4 an ounce, huh? Dream on, silver short moron. So, where are all these silver stockpiles totaling around 9BOZ? In the back room at Lehman Brothers or as a fiction in cyberspace? Jailbird Martin Armstrong's claim years ago that "silver is coming out of the cracks in the pavement in London" rings true only if "paper money" is substituted for "silver." There are hundreds of references embedded in the public access record dating back generations proving that stockpiles peaked long ago---and nowhere near 11 billion ounces. Beginning around 1950, net drawdowns began. According to "Silver In '54," article in the Mining Congress Journal, February 1955, page 142.

"Authoritative opinion in London is that silver production will not be in excess of world requirements for some time. When it is considered that the world consumption of silver during the past five years has exceeded the world production by 126,600,000 oz and that industrial uses of silver continue to increase, it would seem reasonable to expect a serious shortage of the white metal in all of the industrial countries of the world unless the world price increases sufficiently to stimulate adequate production."

Someone slipped up! The London crowd normally puts out any bearish lie it cares to fabricate as to silver and silver supply. But even in the most financially corrupt city that ever existed, someone honest can be found. Someone across the Atlantic admitted that price governs available supply more than anything else! If only the United States government would allow a free market in silver, the shortage would resolve.

As of mid 2005 Lehman reports its assets as $292.5 billion. That figure could correspond with the value of investor held silver on the COMEX once the demonized shorting spree ends. And maybe Lehman's assets are due to shrink---catastrophically, for making too many of the wrong bets, too much dabbling in swaps and derivatives, and too much insane opposition to gold and silver.

The Buffet purchase of almost 130MOZ in 1997 shouldn't have caused a showy spike in the silver price; it should have occasioned a ripple at best, if Lehman Brothers told the truth about silver supply in 1988. Shorts and users are incorrigible liars. You conclude they have to be. Lehman has ripped off so many millions of investors in so many ways there is even a Fraud Information Center on them! www.lehmanbrothersfraudinfocenter.com/ Lehman is involved with pension fund management---pity those retirees who are at risk! The Wall Street Journal, January 26, 1996, section C page 1 ran a story in which Lehman's role of selling speculative limited partnerships to "safety-conscious" investors without informing them of their risks was detailed. Fines in the tens of millions were proposed. The March 4, 1996 WSJ, page 9 reported Lehman took a chump-change fine of $122,448 over dealings with scandal-ridden media tycoon Robert Maxwell, who committed suicide after massive frauds costing hundreds of millions. Lots of people in Denver know Lehman Brothers has a smell about it. They remember the municipal bond problems Lehman caused in 1995-1996 over the Denver Airport. So-called "talent" hired by Lehman insiders has no hesitancy about biting the hand that feeds it. Christopher Pettit, a Lehman exec, sold $6.8 million in Lehman shares a week before he sprouted wings and left the firm (WSJ, April 11, 1996, section B, page 8, column 5).

Think of America as a convenience store and Lehman Brothers as a gang that ransacks it, and you're not at all off base.

Anti-Money Laundering tips: Silver Status

As 2005 was drawing to a close, we still didn't have a ruling from FinCEN on whether silver was to be a precious metal under the Act. It seemed unfair for Treasury to ask companies to expend time and money on an AML program until we knew silver's status.

Materials Management Co. asked for a reprieve. Here is an excerpt from FinCEN's response:

We agree. We have no objection to persons who are dealers ... solely by virtue of purchases and sales of silver, not complying with the requirement... to establish anti-money laundering programs by January 1, 2006, pending our issuance of a final rule.

FinCEN will be confirming this on its website. Meanwhile, the full text of its letter can be found on our web site at www.silverusersassociation.org.

Local Governments Oppose Enzi, Dorgan Bills on Required on Sales Tax Collection

Organizations representing local governments declared their opposition Dec. 22 to federal legislation they said would force them to sacrifice their telecommunications taxes in return for the ability to collect taxes on electronic commerce and other remote sales.

The organizations took issue with S. 2152, introduced by Sen. Mike Enzi (R-Wyo.), and S. 2153, introduced by Sen. Bryan Dorgan (D-N.D.), almost identical measures that would require states and localities to simplify telecommunications taxes in order to be authorized to collect Internet sales taxes (246 DTR G-6, TaxCore, 12/27/05).

"Our loss in telecommunications revenue will far outweigh the little gain local governments may achieve in sales tax revenue," said Beverly O'Neill, president of the U.S. Conference of Mayors. "Anyone can see that is not a balanced quid pro quo, and is, therefore, unacceptable."

The statement was issued by the National League of Cities, the U.S. Conference of Mayors, and the Government Finance Officers Administration. The National Conference of State Legislatures could not be reached for comment.

The bills are designed to provide congressional support for the Streamlined Sales and Use Tax Agreement, a multistate agreement that provides for the simplification of sales and use taxes in return for allowing state and local governments to collect taxes on remote sales, including sales over the Internet.

In a news release, Enzi said his bill would "level the playing field for all in-store, catalog and online retailers so each has the same sales tax responsibilities as well as help states collect more revenue from the sales."

Local Concerns

Local officials said they are concerned the legislation could open the door for the telecom industry to push for an all-out ban on cities' abilities to impose fees on a range of telecommunication services, including rights-of-way fees, per-line subscriber charges and franchise fees.

Revenues from the fees are a major source of funding for critical local government services, the organizations said.

"We cannot allow telecommunications companies to dig up city streets and disrupt the lives of our constituents--and their customers--without just compensation for their actions," said James Hunt, city councilman in Clarksburg, W.Va., and president of the National League of Cities.

Hunt said the three organizations have been working closely with the telecommunications industry to find a solution to the difficulties facing the industry as it responds to various tax rates and jurisdictional issues. Although progress has been made in these conversations, local government officials say they are now concerned the telecommunications companies are refusing to compromise on bill language.

The companies will reap significant benefits as a result of tax simplification, the organizations noted. However, local officials say the telecom industry will push for a complete exemption from local telecommunications taxes.

"Why give telecommunications companies more benefits than anyone else," the organizations said.

"We regret having no choice but to oppose these two bills," Hunt said. "We look forward to supporting a compromise bill that takes the concerns and finances of local government into consideration in the New Year."

Consumers Wary of Health Savings Accounts, Though Accounts Promote Cost-Conscious Choices

Few Americans are choosing high-deductible, consumer-driven health plans, and those who do are generally less satisfied with their quality of care and out-of-pocket costs than people with comprehensive health insurance coverage, according to a new study on "consumerism" in health care.

At the same time, the high-deductible plans promote more cost-conscious behavior, with enrollees exhibiting more sensitivity to health care costs than those in comprehensive plans, according to the study, *Consumerism in Health Care Survey*, released Dec. 8. The information needed to make better decisions, however, is still lacking, regardless of the type of health plan, the survey found.

The online survey comes from the Employee Benefit Research Institute, in conjunction with the Commonwealth Fund. It examined the behavior and attitudes of over 1,700 privately insured Americans aged 21 to 64. The study grouped individuals into three groups:

- People with consumer-driven health plans (CDHPs), meaning those with high-deductible plans who also had health savings accounts or health reimbursement arrangements;

- People with high-deductible health plans (HDHPs) but not contributing to a savings account; and

- People in comprehensive health insurance plans.

High-deductible plans included those with a deductible of $1,000 or more for individuals and $2,000 or more for a family.

The study's term "consumerism" relates to the expectation of those who promote these plans that they will, in the words of the study, "encourage individuals to become more astute health care consumers, who make decisions about their health care on the basis of cost and quality information."

As of October, only 1 percent of adults in the United States had a CDHP (high deductible plus the account), with another 9 percent enrolled in an HDHP, according to the study.

Additionally, only one-third of those in CDHPs and HDHPs said they would recommend the plan to a friend or co-worker, and a similar percentage said they would change plans if they could.

The survey found that individuals in CDHPs and HDHPs are generally healthier and better educated. Adults in CDHPs and HDHPs more often rated themselves as healthy, and less likely to be obese, smoke, or to skip regular exercise. Income levels were generally similar for individuals in all three groups, according to survey findings, with the exception of adults in CDHPs, who are more likely than those in HDHPs or comprehensive plans to have an income at or above $150,000. Overall, there are relatively few demographic differences among the three groups, the study showed.

Cost-Conscious or Cost-Related Avoidance

While CDHP and HDHP enrollees were more likely to consider cost when seeking health care services and discuss treatment options and cost of care with their doctors, they also were twice as likely as those in comprehensive plans to report that they delayed or avoided getting health care services because of cost, according to the survey.

Sara Collins, senior program officer for the Program on the Future of Health Insurance at the Commonwealth Fund and co-author of the study, said cost consideration is obviously having an effect. Among adults with comprehensive coverage, 38 percent considered cost when deciding to seek health care services, compared to 60 percent of those in HDHPs and 71 percent of people in CDHPs, Collins said.

Individuals in CDHPs and HDHPs generally spent a larger share of their income on health care expenses, according to the study, although there was little variation in the rate of health care use among the three groups.

About one in 10 individuals with comprehensive coverage spent 5 percent or more of their income on health care expenses, including premiums, in the last year, the study said, compared to 31 percent of those enrolled in CDHPs and 42 percent of those with HDHPs. The rates increased among adults with health problems or incomes below $50,000, Collins said, indicating that the high-deductible, consumer-driven plans give disproportionate responsibility for cost control to those with health problems or lower incomes.

Paul Fronstin, director of the EBRI Health Research and Education Program and co-author of the study, said he expects satisfaction with CDHPs and HDHPs to grow over time and the plans themselves to become more widespread. It takes time to come to understand any type of health care plan, Fronstin said.

Senator Enzi to Address Cost, Coverage and Confidence in Small Businesses Health Plans

For years Congress has debated ways to help ease the ever worsening crisis of cost, coverage and confidence in the nation's health insurance system. Medical care in this country is the best in the world but this quality of care does not come without a price tag and rising health insurance costs reflect that. Few families are shielded by these rising prices but those hardest hit are America's small businesses that have the least market leverage and weakest ability to pool risk.

Small businesses have faced five years of double-digit growth in health insurance premiums, five times the rate of inflation. Already, among businesses with fewer than 10 employees, only 52 percent offer health care coverage to their employees. Small businesses and working families are feeling the squeeze rising health insurance costs have on their budgets more and more every year.

There are many reasons that health care insurance costs are where they are and I am interested in finding solutions to decrease prices and increase the numbers of people insured. As Chairman of the Health, Education, Labor and Pensions Committee I have been working to come up with a reasonable plan that will help small businesses pool risk and gain market clout to help thousands of employees across the nation.

My plan is based on core goals and components to help ease the burden on small business health plans. I believe that all associations should play a meaningful role on a level playing field and the current hodgepodge of varying state regulations need to be streamlined. States should be at the center of providing oversight and consumer protection, not a federal bureaucracy. Meaningful reform can be achieved that provides lower cost health plans without big price tags that cloud the possibilities of the plan passing Congress.

All of these goals are possible and have been included in the "Health Insurance Marketplace Modernization and Affordability Act," S. 1955, which I recently introduced in the Senate. The bill draws on the best aspects of the current association health plan bills, while responding to the concerns about self-insurance and cherry-picking that has stalled such legislation for a decade. This bill will deliver real relief to America's small businesses and struggling families by enabling business groups to pool their members in small business health plans for greater market clout and affordability.

Small businesses and their employees are the bedrock of this country's economy and proper health insurance coverage is the bedrock to a solid family. I am working to strengthen the cornerstone of these foundations so we can continue to prosper as a country.

S. 1955 is a compromise that blends a modified version of the current Snowe/Talent Association Health Plan (AHP) legislation (S. 406, the Small Business Health Fairness Act of 2005) with several additional reform initiatives applicable not just to association plans, but also to the wider health insurance marketplace.

Unlike the current AHP bill, however, this legislation does not include the much more controversial option for associations to self-insure. Primary regulatory oversight of coverage issued to associations would remain at the state level and would not be transferred to federal control. Although far from perfect, state insurance commissions are much closer to the real problems confronted by purchasers of insurance in their communities than would be a federal agency in Washington.

Like the current AHP bill, this legislation would enable associations to take advantage of more streamlined rules in the areas of benefit design and rating. In an important departure from the current AHP bill, however, this greater streamlining would be made available not just to associations, but also to other purchasers of insurance. This adjustment will go a long way toward easing critics' fears that the current AHP bill would create an unlevel playing field and market disruption.

SUA supports Senator Enzi's new healthcare proposal as it provides a compromise to the original AHP bill, which SUA also supports. "We like this bill", stated Paul Miller, SUA Executive Director. "This bill includes the key AHP components are members want and need. In the past it AHP legislation has been held up because of the concern states won't have enough control. Senator Enzi addressed that concern. There is no reason why this bill should not be on the floor of the House and Senate in early 2006," added Miller.

PM Control Costs Controversy

An internal EPA e-mail from a top air program official to staff -- obtained by Inside EPA -- reveals that the agency is "stuck" and struggling with how states might justify costly industry and other controls on particulate matter when implementing the agency's new, stricter PM standards. The senior official's e-mail suggests EPA regulatory impact analysis (RIA) could deal with the matter by using benefit/cost calculations that show the benefits of controls significantly exceed the costs, and explains, "In response to those who may argue that the benefits/ton numbers are too large we can point out that they are based on published RIA's and they exclude many, many non-monetized and unquantified benefit categories."

Silver Institute's Priorities Include ETF

Silver Institute Chairman Phil Baker, President and CEO of Hecla Mining, said the Washington, D.C.-based silver industry association's 2006 legislative priorities will emphasize the silver ETF, and promoting federal capital gains treatment of precious metals investment.

In a recent interview with *Mineweb*, Baker declared that "the bottom line is that we are looking for any mechanism for people to be able to invest in silver. The ETF overcomes some of the other problems going into the market now. It's very difficult, very expensive for someone to get silver, but they will be able to do that through the ETF."

Since the gold ETF may be the fastest-growing ETF ever, Baker said that "I would not be surprised for silver to do very, very well" as an ETF. He noted that silver producers are supporting the silver ETF although "we realize that is it an alternative investment to our own shares."

Last June, Barclays Global Investors filed an initial prospectus for the first exchange-traded fund to reflect the price of silver bullion. Each share of the ETF would be equivalent to 10 ounces of silver. The only silver ETF being proposed in the U.S., the Barclays' application is still under study by the SEC.

It's (the Silver ETF) not without some potential negative impact on the companies," Baker admitted. "But it's what's right for the shareholders to be able to invest in silver. Of course, what we expect to see happen is that people will make those investments, and the general investment demand for silver will rise."

During a recent silver discussion panel hosted by the RBC Capital Markets in New York City, Jeff Christian of the precious metals consultancy the CPM Group said some discussion is on-going regarding creation of a silver ETF in India. Meanwhile, Christian suggested that the conversion of silver products into bullion "will be a surprise" for silver markets, noting that semi-fabricators have already been making such a conversion.

On October 12th, the Silver Users Association issued a news release stating it opposed the silver ETF based on concerns that the investment product "could make silver too expensive or illiquid in the world market."

To allay the price-increase fears of manufacturers who use silver, Baker suggested that "the key is producing enough silver to meet the demand."

"The users of silver basically had a free lunch for a long time because of all of the silver that had come out of the government storehouses over the last 40 years because of demonetization of silver as a currency, as backing the U.S. currency and the Chinese currency," Baker declared. "In fact, the only government of size that has silver in inventories is India. That's like 120 million ounces; that is all of the government stock of silver in the world."

"What is going to happen is that all of that silver has come out, it has been consumed. You are now going to get more into a equilibrium between the users and the producers of silver. The alternative metals are so expensive, that on a relative basis, silver is inexpensive," he explained. "Even with the increases we have seen, in real terms, the price of silver is still very, very low."

The Silver Users Association has in fact opposed the silver ETF on the grounds that the creation of a silver ETF would require the holding of physical silver in allocated accounts, thus removing large amounts of silver from the market. By doing so, the ETF most likely would cause a shortage of silver in the marketplace. This removal of large quantities of physical silver could have a negative impact on silver-industry specific employment as well as the overall economy, both through job losses and inflation.

The Silver Users Associations supports the buying and selling of silver as an investment. There are already several ways to do so without creating a potentially harmful situation to industry. We don't endorse a silver ETF because of the potential liquidity problems it would create.

The SUA strongly urges the SEC to take these issues into consideration before it decides whether or not to issue a silver ETF. If the silver ETF is approved, it will mean lost jobs, lost wages, higher cost of products and a negative effect on the economy and the community where these jobs are based.