



# Silver Users Association

## Washington Report

Volume 5, Issue 5

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### Market Watch: Silver Price

2007 Comex Spot Settlement

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Avg.</b>
January	16.95	15.17	16.05
February	19.81	16.30	17.66
March	20.69	16.81	19.16
April	18.31	16.50	17.48
May			
June			
July			
August			
September			
October			
November			
December			
<b>2007 Summary</b>	15.50	11.47	13.38

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## **EPA to Regulate Nanoproducts Sold As Germ-Killing**

*By Rick Weiss*

Washington Post Staff Writer

Thursday, November 23, 2006; Page A01

The Environmental Protection Agency has decided to regulate a large class of consumer items made with microscopic "nanoparticles" of silver, part of a new but increasingly widespread technology that may pose unanticipated environmental risks, a government official said yesterday.

The decision -- which will affect the marketing of high-tech odor-destroying shoe liners, food-storage containers, air fresheners, washing machines and a wide range of other products that contain tiny bacteria-killing particles of silver -- marks a significant reversal in federal policy. It also creates an unexpected regulatory hurdle for the burgeoning field of nanotechnology, which involves the creation of materials just a few ten-thousandths the diameter of a human hair.

Until now, new products made with tiny germ-fighting particles of silver did not have to pass muster with regulators. That has concerned environmentalists and others who think that the growing amount of nanosilver washed down drains may be killing beneficial bacteria and aquatic organisms and may also pose risks to human health.

Most nanomaterials -- which by definition are on the scale of a billionth of a meter -- will remain outside the purview of the new EPA decision. But experts said the move is the first federal restriction to focus largely on nanotechnology, an emerging engine of technological innovation that promises major advances in materials science and medicine.

"This is something of a test case," said Andrew Maynard, chief scientific adviser for the Project on Emerging Nanotechnologies at the Washington-based Woodrow Wilson International Center for Scholars.

"Nanotechnology can mean so many different things," Maynard said, because the technology is used to make a variety of products. "Specific examples like this will gradually help us make clear decisions as to whether existing regulatory approaches are adequate."

Under the new determination, first reported on Tuesday by the Daily Environment Report, a Washington publication, and confirmed yesterday by the EPA, any company wishing to sell a product that it claims will kill germs by the release of nanotech silver or related technology will first have to provide scientific evidence that the product does not pose an environmental risk.

"We will be able to evaluate them and ensure that these products are not going to do damage to the aquatic environment," said Jim Jones, director of the EPA's Office of Pesticide Programs.

Sean Murdock, executive director of the NanoBusiness Alliance, a trade organization for companies that make or use nanomaterials, said he had not seen details of the plan and could not predict its effect on the industry.

Jones said the final rules will be spelled out in the Federal Register sometime in the next few months. He acknowledged, however, that the EPA oversight will apply only to products advertised as germ-killing -- a detail that at least one major retailer has apparently noted.

The Sharper Image, which until recently advertised as anti-microbial several products containing nanosilver, has dropped all such references from its marketing materials.

In such cases, Jones said, the EPA will not act. "Unless you're making a claim to kill a pest, you're not a pesticide," he said.

Advocates of tougher regulation oppose that approach.

"Its sounds like a major legal loophole and is probably something that will have to be dealt with in the courts," said Mae Wu, a lawyer at the Natural Resources Defense Council, which has been pushing the EPA to regulate nanosilver.

Efforts to reach an official at the Sharper Image were unsuccessful.

Conventional materials, such as carbon or gold, exhibit unconventional properties when manufactured on a nanoscale. That is largely because the tiny particles have relatively large surface areas for their small mass, which makes them very chemically reactive.

Carbon, for example, does not conduct electricity well in its bulk form but does so very well when spun into fibers a few nanometers in diameter. And though bulk gold hardly reacts with substances around it, nanoparticles of gold can burn up bacteria and other living cells.

Silver can kill microbes even in bulk form but is more efficient as nanoparticles. Nanosilver also can be easily incorporated into a variety of products, such as food containers and shoe liners. That characteristic has made it the most common type of nanomaterial marketed to consumers, according to a database of about 350 nanoproducts maintained by the Project on Emerging Nanotechnologies.

Nanosilver has also been added to bandages to speed healing. That use and others in which the particles are applied to the body are regulated not by the EPA but by the Food and Drug Administration, which is currently considering whether it needs new rules for nanoproducts.

One product, a "Silver Wash" clothes washer made by Samsung, had in the past year drawn particular attention from the EPA because of claims that it sanitized clothes in cold water by releasing tiny charged particles of silver into the wash water.

In a statement yesterday, Samsung said that "only very minute, inactive forms of silver are discharged into the environment" by its washing machine. "Samsung has and will continue to work with the EPA and state regulators regarding regulation of the silver washing machine to maintain full compliance with all applicable laws and regulations," the company said.

About a year ago, Jones said, the EPA decided that such products did not fall under his office's major regulatory tool, the Federal Insecticide, Fungicide, and Rodenticide Act, or FIFRA. That is because FIFRA requires that pesticidal chemicals be proved safe before they are marketed but exempts pesticidal "devices."

In effect, Jones said, the agency considered the washing machine more of a mouse trap than a mouse poison, which meant that it was not subject to regulatory review.

Among those disagreeing with that ruling was Chuck Weir, chairman of Tri-TAC, a technical advisory group for wastewater treatment plants in California. Those plants are subject to penalties if the water that leaves their stations is toxic to aquatic organisms.

In a letter to Jones in January, Weir asked the EPA to rethink its decision on nanosilver. "Silver is highly toxic to aquatic life at low concentrations and also bioaccumulates in some aquatic organisms, such as clams," Weir wrote.

Under pressure from other groups as well, the EPA decided to reconsider.

"We took a second look at the release of silver ions, and it was very clear that this is a pesticide and not a device," Jones said. "Our original determination proved not to be a correct one."

## **House Passes New Coinage Legislation**

Legislation introduced earlier this year passed the House by voice vote this month. The legislation could result in the alteration of the metal content and sizes of U.S. circulating coins. H.R. 5512 is titled the Coin Modernization and Taxpayer Savings Act of 2008.

Among its provisions, H.R. 5512 calls for the manufacture of a steel cent within 180 days of the bill's passage. The coin is to be treated so that it will have a copper appearance like the current copper-plated zinc cent.

Rep. Zack Space, D-Ohio, introduced the bill. Cosponsors are Rep. Luis V. Gutierrez, D-Ill., and Rep. Barney Frank, D-Mass. Gutierrez is chairman of the Domestic and International Monetary Policy, Trade and Technology Subcommittee. Frank is chairman of the House Financial Services Committee, which oversees the Monetary Subcommittee.

The newest legislation would cede part of Congress' constitutional authority over coinage by authorizing the secretary of the Treasury to change alloy specifications of coins issued by the U.S. Mint, without approval from Congress. It would also remove all weight specifications for individual coins from current law, thereby allowing the Treasury chief to issue regulations establishing the specifications.

### Reducing costs

The newest legislation is in reaction to increasing production costs for certain U.S. coins, especially for the cent. "Given the current cost to make a penny and volume of pennies minted, by simply reducing penny production costs to face value, the United States will save nearly \$600 million in the next 10 years," the bill states.

The cost to produce a cent is 1.67 cents and the cost to produce a 5-cent coin is 9.5 cents, according to Becky Bailey, director of Public Affairs for the U.S. Mint. H.R. 5512 also mandates that coins shall be "coined, minted and materials fabricated in the United States."

When considering the weight and composition of the dollar, half dollar, quarter dollar, dime, 5-cent coin and cent, the Treasury secretary is instructed to consider the potential impact on current coin suppliers; the acceptability of new coinage materials; making certain new coins work with existing coin acceptance equipment; and ensuring that the changes are in the public interest. The Treasury would be required to consult with industry merchants and manufacturers who would be affected by any change in the weight and composition of circulating coins.

A formal rulemaking process is to be part of the process. H.R. 5512 proposes a technical amendment to Section 5112(a) of Title 31, United States Code by striking weight specifications on coinage and diameter requirements for the 1-cent coin.

The Treasury secretary is authorized to make changes to individual coins when the net production cost exceeds the total face value of the coin for five years. An exception is made for the cent.

Similar pieces of legislation under consideration by the House include H.R. 3956, the Coin Modernization and Taxpayer Savings Act of 2007, introduced Oct. 24 by Space; and H.R. 3330, the Coinage Materials Modernization Act of 2007, introduced Aug. 2 by Gutierrez.

## **House Ready to Pass Tax Bill; Senate to Challenge Inclusion of Offsets**

The House is expected to pass an approximately \$55.5 billion tax bill on Wednesday, though senators are likely to seek significant changes. The bill ([HR 6049](#)) includes extensions to expired and expiring tax policy, sprinkled with new provisions that would help low-income families, homeowners and trial lawyers.

It does not include a one-year “patch” for the alternative minimum tax, a provision Congress is expected to enact later this year. That — and the House’s insistence on revenue-raising offsets — make the measure’s future murky in the Senate. The fully offset bill does contain the “extenders,” the now-routine list of tax relief provisions that occasionally lapse and then get a reprieve from Congress.

These include the research and development tax credit, an optional deduction for state sales taxes and accelerated depreciation for certain retail stores and restaurants. All of those provisions expired at the end of 2007. The House included them in legislation that passed the chamber last year ([HR 3996](#)), but all that became law was a stripped-down version ([PL 110-166](#)) that provided a one-year “patch” to keep the AMT from hitting millions more taxpayers.

The new bill was approved, 25-12, by the Ways and Means Committee on May 15. It was changed after the markup to remove several tax provisions that were also contained in the farm bill ([HR 2419](#)), which is expected to become law. The bill also would extend provisions that expire in December. The largest is the “active finance exception,” which lets financial services companies and manufacturers with overseas financing arms defer taxes on foreign income from those operations until profits are repatriated.

To help reach consensus with the Senate, the House is adding an \$18.5 billion energy tax package that features several provisions with stronger support among Senate tax writers. For example, the bill would provide an expedited refund of coal excise taxes that have been ruled unconstitutional, rather than allowing them to be returned to coal companies via the courts. Sen. [John D. Rockefeller IV](#), D-W.Va., has been pushing for the provision. The House passed the refund provision in December as part of an energy bill ([HR 6](#)). Senate supporters came one vote short of adding that package to their energy bill ([PL 110-140](#)).

The tax bill also includes a one-year extension of the production tax credit for wind, through 2009, without any changes in the structure of the credit. Senators, particularly [Charles E. Grassley](#), R-Iowa, have resisted any change to the credit, which provides benefits based on the amount of electricity produced. House tax writers want to cap the value of the credit based on the value of the investment, but they relented on an immediate change. The bill would make that change, but only after 2009, and the expiration of the straight extension means that lawmakers would have to revisit the issue next year anyway.

Beyond the extensions, the bill includes several new tax provisions. One, which also appeared in last year’s “extenders” bill, would lower the income floor for families to receive a refundable child credit for 2008. That would help about 13 million children get new or expanded benefits, according to the Center on Budget and Policy Priorities. Homeowners who do not itemize their deductions would get a new, temporary benefit. They would be able to take a \$350 deduction (\$700 for married couples) for property taxes in addition to their standard deduction. The House included a similar provision in its housing bill ([HR 3221](#)).

In addition, trial lawyers who work on a contingency-fee basis would get more favorable treatment of their expenses. They could take deductions in the year expenses are incurred, not when they receive any award.

The biggest Senate fight will come over the offsets, not necessarily the specific provisions but their existence at all. The bill would raise all of its money with two provisions. One would require executives with certain offshore deferred-compensation arrangements to count money in those plans as income immediately. The other would delay rules ([PL 108-357](#)) that would give multinational corporations more flexibility in how they allocate their interest expenses.

But Republican senators contend that extensions of existing tax policy should not be offset with revenue increases. That position has delayed enactment of the widely supported energy tax incentives, too. After several failed attempts to include offsets, the Senate passed a short-term, \$8.3 billion extension without offsets as part of its housing bill (HR 3221).

However, even though the new House energy-tax extension is offset, it does not include the removal of a domestic manufacturing deduction for oil and gas companies, providing a potential opening. Wednesday's bill also does not include an AMT patch for tax year 2008, which would prevent an estimated 21 million additional taxpayers from being hit with the tax. The AMT was designed to make sure the wealthy could not use legal credits and deductions to avoid all taxes, but the exemption thresholds have not been indexed for inflation. Without congressional action, the tax automatically expands. House Democrats say they plan to move an AMT bill soon, but they also need to find \$60 billion in offsets.

### **OPEC Antitrust Bill Passes in House**

With oil prices setting record new highs almost daily, the House passed legislation Tuesday designed to outlaw price manipulation by the Organization of Petroleum Exporting Countries. The bill ([HR 6074](#)) — known as “NOPEC” — would amend antitrust law to allow legal action against the OPEC cartel. It passed with a vote of 324-84.

The idea has been floating around Congress for almost a decade and invariably resurfaces as gasoline prices climb and lawmakers want to be viewed as doing something to counter them. But, as in the past, it is likely to go nowhere. The White House threatened a veto of the bill, just as it did when a similar measure ([HR 2264](#)) passed the House a year ago.

The bill would allow the federal government to sue oil-producing foreign countries in U.S. courts for manipulating supplies and fixing prices. One of the purposes of OPEC is to regulate production to keep revenues high for member countries, though the cartel has not always been successful in that effort. “There are many causes for the increased prices of gasoline, and Congress cannot address all of them,” the bill’s sponsor, Wisconsin Democrat [Steve Kagen](#), said during House debate Monday. “The one thing Congress can do is to make sure that the price paid by our constituents for gasoline is not the result of anti-competitive practices, and that the Department of Justice devote necessary resources to address this problem.”

After Tuesday’s vote, Kagen added: “I would ask President Bush, what is it that he and Dick Cheney don’t like about the idea of a free market?” Critics of the idea say the current high prices are caused primarily by soaring demand from countries such as India and China, and the only solution is to increase supply.

“How do we sue another part of the world to produce more energy when we’ve got a conspiracy here between the White House and Congress to lock up our own resources?” said Republican Rep. [John E. Peterson](#), Pa., who voted against the measure. “What court are we going to go into to do this? Could someone else say to the U.S., produce more oil, or we’re going to sue you? It borders on insanity.”

Republican and Democratic presidents have frowned on efforts to subject OPEC to antitrust lawsuits in U.S. courts, out of concern it might irritate allies such as Saudi Arabia. Such a law also might face a World Trade Organization challenge, as well. During his just-concluded Middle East trip, Bush tried to persuade the Saudis to increase oil production in hopes of easing crude oil prices.

The earlier version passed the House on May 22 by 345-72. In the 109th Congress, the Senate version of the 2005 energy law ([PL 109-58](#)) included the antitrust provision, but it was removed in conference. Similar language was part of a Senate-passed energy bill last year but was left out of the conference version that became law ([PL 110-140](#)), in the face of a White House veto threat. Because OPEC members classify oil exporting as a governmental rather than

commercial activity, they are exempt from antitrust lawsuits under U.S. law. Current law allows lawsuits in federal courts only in cases involving foreign countries' commercial operations that affect the United States.

The measure would make it illegal under U.S. law for foreign countries to collectively manipulate energy prices or supplies. It would allow the federal government to sue foreign countries for any such actions that directly affect the United States. Oil was trading at nearly \$129 a barrel in New York on Tuesday.

### **Senator Boxer Adds Changes to Global Warming Bill to Attract More Support**

Supporters of Senate global warming legislation have unveiled a series of changes in the hope of attracting more support, including new provisions that could help blunt criticism that the bill would harm the economy. But the changes are unlikely to satisfy critics of the bill who are pushing for additional provisions, including incentives for nuclear power plants. It remains to be seen whether sponsors can win the 60 votes needed to overcome a likely filibuster when the measure ([S 2191](#)) goes to the floor.

[Barbara Boxer](#), D-Calif., has prepared a substitute amendment that she will offer to the legislation, which the Senate is now scheduled to take up immediately after the Memorial Day recess. In contrast to her critics, Boxer is touting the bill as a way to create jobs and help the economy by driving environmentally friendly technologies. "This bill has been strengthened enormously," Boxer said.

The legislation would cap the emissions that contribute to global warming and set up a trading program for companies to buy and sell emissions allowances. The changes to the bill may help attract senators from both parties who were hesitant to support the bill because of its perceived effect on businesses and energy consumers in their home states. Meanwhile, a solid number of lawmakers remain staunchly opposed to the bill, citing cost concerns or opposition to a mandatory cap on emissions.

"The fact is that the Lieberman-Warner bill is the largest pork bill ever considered by Congress," according to a statement from [James M. Inhofe](#), R-Okla. "No matter how many revisions this bill undergoes, it remains a massive redistribution of wealth, the largest new tax-and-spend program in our nation's history."

Boxer said she expected to have enough votes to proceed to debate on the bill. It is far less certain that the Senate will actually pass the bill itself this year, but Boxer also stressed the importance of laying the groundwork for the next Congress. The presidential candidates from both parties support a mandatory cap-and-trade program. "However far we take it, it is very important to start now," Boxer said.

In addition to the Boxer substitute, the Senate is expected to take up amendments to provide incentives for nuclear power plants. [John McCain](#) of Arizona, the presumed Republican presidential nominee, has made nuclear power a priority in his own climate change plan. But nuclear provisions are controversial because of concerns about the cost of building plants, security implications and the disposal of waste.

The Senate is also likely to consider amendments that would pre-empt states from enacting emissions limits stricter than those in the bill. Such a provision would be problematic for states such as California that have a tradition of setting independent environmental standards.

The substitute amendment does include a number of adjustments that are intended to soften its economic impact on consumers or provide incentives to affected industries. It would allocate an estimated \$800 billion through 2050 for a "tax relief fund" to help consumers pay their energy bills, according to a summary distributed by Boxer's staff. The precise amount would vary depending on the price of emissions allowances that are auctioned to industry by the

government. And the details of the tax relief would be developed by the Finance Committee after the bill is signed into law.

One provision is intended to limit the price of an emissions allowance under the proposed cap-and-trade program. The issue of cost containment is one of the central controversies of the bill, with some senators favoring a “safety valve” that would not allow the price of emissions allowances to rise above a certain level.

The bill would not go as far as setting a safety valve, but it would establish what the summary calls an “emergency off-ramp.” Additional allowances would be released into the market if the cost of allowances rises above a certain price range, which is not specified in the summary. The extra allowances would be paid back in the future so that the emissions cap remains the same over the long term. To reduce costs for industry, the bill would allow companies to meet 15 percent of their obligations through the use of what are known as offsets. These would allow businesses to avoid reducing their own emissions if they pay for special projects — such as programs to plant trees, which capture greenhouse gases.

Boxer’s substitute would let companies meet an additional 15 percent of their emissions reductions through international projects. Five percent of this could come through international offset projects, and 10 percent would come through a program to reduce deforestation in other countries. An estimated \$955 billion from the auctioned allowances would be directed to the Treasury to make the bill “deficit-neutral.” Smaller amounts of funding would go toward wildlife adaptation, public transit, energy efficiency block grants, international adaptation and other areas.

The bill also directs the government to distribute a number of free emissions allowances to provide financial incentives for various programs. This includes a major incentive for local electric and gas distribution companies to help further protect consumers from increases in energy costs. Additional funding would be provided for state programs, agricultural and forestry initiatives, energy-intensive manufacturing industries, fossil fuel power plants, renewable energy, carbon sequestration and other programs.

### **Senator Kennedy’s Absence Stalls Numerous Bills**

The prospects for action on several pieces of legislation dimmed Monday as it became apparent that Edward M. Kennedy’s hospitalization will prevent him from returning before the Memorial Day recess. Kennedy’s unexpected absence from the Senate has extinguished hopes of passing a bill that would extend collective-bargaining rights to public safety employees (HR 980) and of resolving differences between the House and Senate versions of a major higher education overhaul (HR 4137, S 1642) before the weeklong break that begins May 23.

As chairman of the Health, Education, Labor and Pensions Committee, Kennedy was a hands-on negotiator on those bills and others. “He’s an important part of closing deals,” said a former Kennedy aide. “So if they weren’t closed, then they might have to wait for his return.” The 76-year-old Massachusetts Democrat was admitted to a Boston hospital May 17 after having a seizure at his Cape Cod home.

Majority Leader Harry Reid, D-Nev., had hoped that Kennedy and the committee’s ranking Republican, Michael B. Enzi of Wyoming, could agree on a limited number of amendments to the collective-bargaining bill and allow the chamber to pass the measure this week. But by Monday, with Kennedy still in the hospital, negotiators were looking for more time.

“Staff-level negotiations will continue, but any serious movement will take place after the Memorial Day recess,” said a senior Democratic aide. “Now we have a little more time to iron out the differences ... and reach an agreement.” Reid suspended action on the bill May 15 after it became apparent that Republican objections would prevent the measure from garnering the 60 votes required to cut off debate.

The bill, which drew fire from Enzi and other Republicans because Reid bypassed the committee process to bring it to the floor, would give state and local public safety officials, including police and firefighters, the right to unionize in any municipality with a population that exceeds 5,000.

It was unclear late Monday exactly when Kennedy would be back to work, but an aide seemed to foreclose the possibility that it would be this week, saying Kennedy would likely remain in the hospital for several days and would then “take a few days off at home before returning to the Senate.” Doctors are still trying to determine the cause of Kennedy’s seizure, but said May 17 that he was “not in any immediate danger” and that preliminary tests indicated that he had not suffered a stroke.

Jim Manley, a spokesman for Reid, declined to comment Monday on whether Reid and other Senate leaders would defer to Kennedy or delegate responsibilities to other senators until his return. Reid said Monday that he has spoken several times with Kennedy’s wife, Victoria, and was optimistic that Kennedy’s health would not sideline him for too long. “Anyone who knows Ted Kennedy and his work ethic realizes that no one is more eager to get back to work than him,” Reid said.

Even before Kennedy’s weekend health troubles, the outlook for a quick deal on the long-term renewal of the Higher Education Act was uncertain, though Kennedy and the lead House negotiator, Rep. George Miller, D-Calif., had hoped to clear a final bill before the Memorial Day recess. With Kennedy out of the picture, that outlook was downgraded to virtually impossible.

Differences still to be worked out, according to those close to the debate, include textbook costs and new penalties for states that diminish their contributions to higher education. Negotiations on a Kennedy bill to increase the use of information technology in health care (S 1693) also could languish in the chairman’s absence.

The bill overcame a major hurdle last week, when Kennedy and Enzi, his chief co-sponsor, agreed to accept an amendment by Judiciary Chairman Patrick J. Leahy, D-Vt., that Leahy believes will strengthen privacy protections in the legislation. The bill would provide grants and loans to health providers to buy the technology to share medical records electronically, and would encourage the health care industry to settle on software and hardware standards for electronic medical records. However, aides noted that the legislation was not going to be ready for the floor until sometime in June.

A Senate GOP aide said the revised bill, with Leahy’s language, was being circulated among Senate offices this week to determine whether there was any remaining opposition to the measure.

### **President Bush Signs Bill Suspending Shipments to Petroleum Reserve**

Bowing to overwhelming House and Senate majorities, President Bush signed legislation Monday suspending shipments of oil to the nation’s Strategic Petroleum Reserve. The legislation (HR 6022) freezes deliveries to the underground reserve while prices for crude oil exceed \$75 a barrel.

Bush has vigorously opposed efforts to stop deliveries to the reserve, contending that bigger stockpiles of oil are needed to protect the nation from supply disruptions. The White House has argued that the amount of oil diverted to the reserve is too small to affect market prices.

But lawmakers said it makes no sense to remove supply from the market — especially of the high-quality light sweet oil now pumped into the reserve — while prices are soaring to all-time records. In a major shift, Republicans in both houses joined Democrats in defying the White House and supporting the legislation by majorities big enough to override a presidential veto. The Senate cleared the bill by voice vote on May 14, a day after the House had passed it, 385-25.

The legislation was an attempt by Congress to show constituents before the Memorial Day recess that it was trying to address rising gasoline prices.

Bowing to congressional pressure, the Energy Department announced Friday it would suspend shipments of oil to the reserve for the rest of this year.

The reserve has the capacity to store 727 million barrels of crude oil underground, a hedge against a sudden cutoff of imports. Currently it holds about 701 million gallons, roughly equal to 58 days of imports.

## Mitsui Global Precious Metals | Interim Precious Metals Forecasts 2008

**Silver – likely to make additional 2008 highs, however the metal’s sustainability is under question.**

During the first ten weeks of 2008, silver enjoyed a purely speculative driven price rally which fuelled the metal to a high of \$21.24 (spot). In a stunning start to 2008, the lack of supportive fundamental attributes became irrelevant and to many market participants, the white metal looked on target to go all the way to \$25.

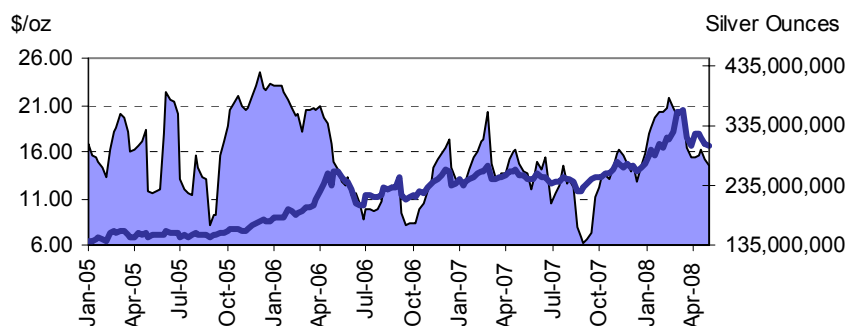
Silver regularly outperformed gold during H1. The metal enjoyed renewed interest from investors who previously shunned the metal based on its capabilities to tumble in a fashion which outdid profit taking across the precious complex. Silver reported a 16.4% price gain for Q1 which outweighed gold’s 9.8% rally, as investors piled into the market with considerable vigour. There is no denying that silver put forward a hugely impressive performance over this period.

### Demand Highlights

#### **Investment Demand**

In Q1, net long exchange positioning appreciated 67.5 million ounces while the ETF products collectively rose 11.7 million ounces. In addition, OTC activity was particularly evident. While impossible to track in any great depth, the LBMA clearing statistics show that for March transferred silver ounces rose 16.8%. This corresponds to the largest level since July 2006.

**Chart 4: Net Long Global Silver Exchange Positions**

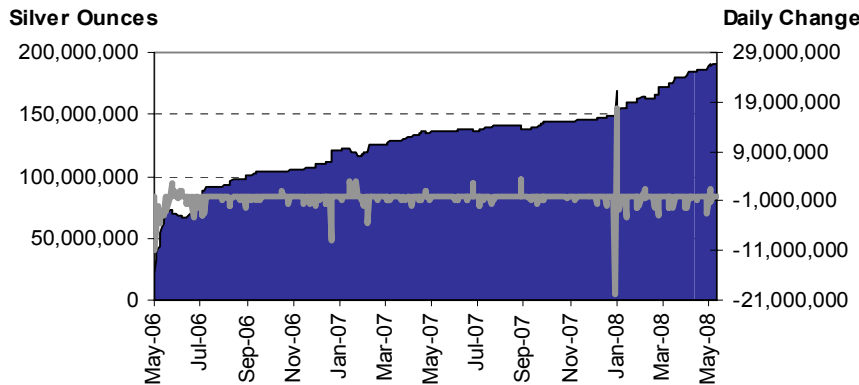


However, if we look at the trading activity of 2008 to date, a different story emerges. On an overall basis, ETF based buying was the firm driving force in the investment led rally as exchange investors were net sellers. In the first 126 days of the year, such investors added 39.8 million ounces of silver to ETF stockpiles. In response, lease remained low and clearly illustrated the over supplied nature of this asset. Compared to 2007 growth levels, this marks a 171% appreciation and should this level be maintained, this contract could reach 260 million ounces by year end. Interestingly,

this pattern is entirely at odds with the main gold ETF contract where all 2008 gains have been eradicated.

Turning to the silver investors on COMEX, their behaviour reveals a very different attitude to metal participation. In the year to date, investors have been net-sellers of 18.7 million ounces. Therefore, combining both exchange and ETF based market action for the initial five months of 2008; investors have been identifiable net buyers of just 7 million ounces. This is important to remember.

**Chart 5: The Depth of the Silver iShares Contract**



For the year to date, while silver has held on to the bulk of its Q1 price gains, gold has erased all of its early 2008 achievements. This makes for a complex situation. If we look at gold and silver side by side, the white metal is certainly the star performer. However if we are concerned about long term sustainability and potential, then we should place our faith in the yellow metal. Just as the market was lulled into thinking that silver had left behind its days of staggering price declines, commodity wide liquidation took hold on the 19<sup>th</sup> March, resulting in a price decline of 21% in just 4 days. At that time, the white metal gave the market a sharp re-enactment of its intrinsic tendencies. Such nose-dives act as an important reminder to our market that silver is essentially an industrial based asset – unlike gold. Therefore when investment led demand lulls, silver can become extremely vulnerable to further downside corrections.

### **Industrial Demand**

After strong industrial demand in 2007, the climate during the current year is quite different. Faced with declining economic growth across major economies and high silver input costs, industrial demand at best will remain flat. However it would not be surprising to see a slight decline of between 2-3%.

Following the trend of recent years, the importance of photographic demand to the silver market continues to dwindle and we expect global consumption will fall by another 10% during 2008.

At present, \$15 — \$16.50 appears to be most comfortable entry area for industrial consumers.

### **Supply Highlights**

According to the 2008 Silver Survey, mine supply increased 4% in 2007. With continuing expansion across base metals production, and accelerating growth in Argentina, Bolivia, Chile, Mexico and Russia, newly mined supply could grow 5% in the current year. In line with elevated silver prices, returning scrap supply should appreciate. These factors will act to dampen the silver price over H2 2008. Therefore, much will depend on the attitude of investors to the white metal over the second half of the year.

**Silver – the way forward:**

For the remainder of 2008 – given that we are bullish for gold and platinum, we cannot be overly bearish for silver as this metal will be buoyed along by the sentiment towards the rest of the precious metals complex. While \$15.00 - \$17.00 is a more appropriate price range given the supply and demand characteristics; it is not impossible that silver will approach \$25 in H2 2008. At such lofty levels, the sustainability of the white metal is called into question and we do not believe silver possesses such staying power over the long-term. For the remainder of 2008, we anticipate a trading range of \$14.50 - \$25.00, with emphasis placed between \$17.00 - \$19.00.