SFP Cobalt Research

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Cobalt and the Dodd Frank Act

Over the past few months there has been increasing anxiety in the cobalt world as a result of legislation introduced in the USA at the end of last year.

The 'Dodd Frank Act' addresses several issues related to supply chain management and in particular the use of conflict minerals from the Kivu regions in the Democratic Republic of Congo and related areas.

As a significant quantity of cobalt is sourced from the Democratic of Republic, many cobalt consumers have automatically assumed that cobalt is included in this legislation and have requested confirmation that the cobalt they are purchasing does not contain any material originating in the DRC.

The Cobalt Development Institute has been working extremely hard to clarify this issue and we thought we would add our comments to further clarify.

Attached along with this is a copy of the Dodd Frank Act.

Page 16 defines the term 'conflict mineral' as follows:

(A) columbite-tantalite (coltan), cassiterite, gold, wolframite, or their derivatives; or

(B) any other mineral or its derivatives determined by the Secretary of State to be financing conflict in the Democratic Republic of the Congo or an adjoining country

(A) clearly does not refer to cobalt and although **(B)** is open to extension to other minerals, it is our opinion that it will not be extended to cobalt for the following reasons:

1) The cobalt mined in the Democratic Republic of Congo is found in the copper belt around the southeast of the country, on the border with Zambia.
   This is over 1,000km away form the Kivu regions that are the areas where so-called 'conflict mines' exist.

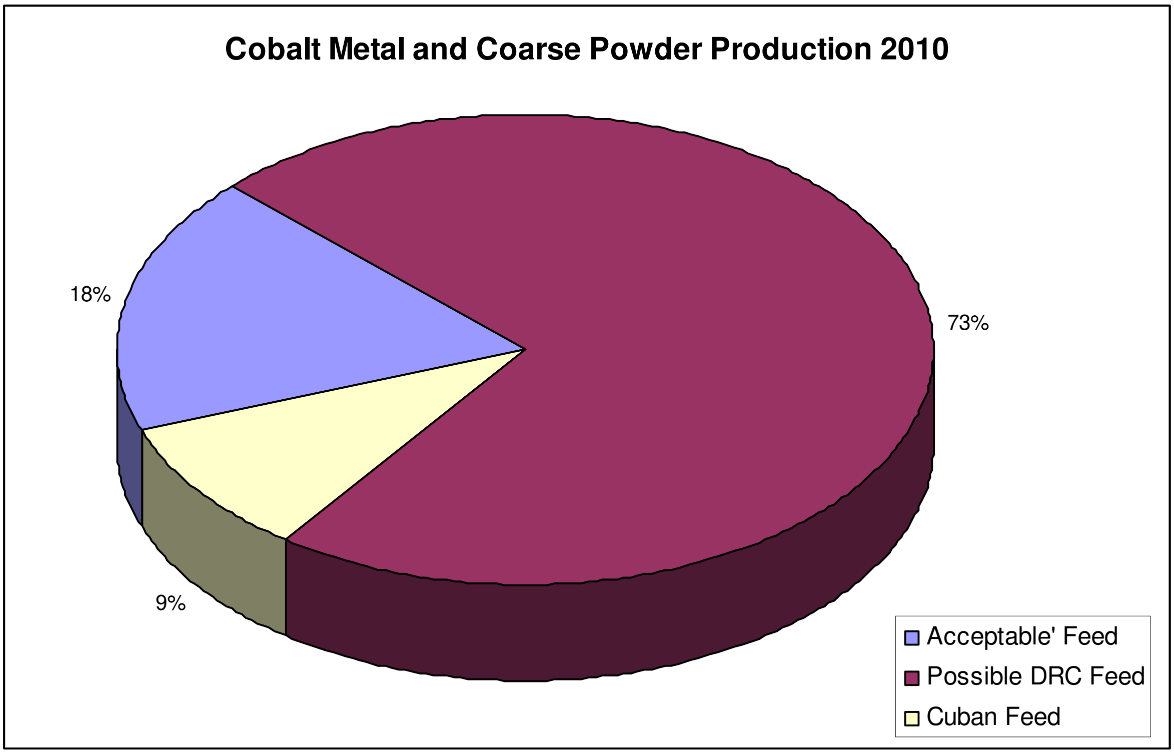
2) Cobalt in the DRC is found and mined alongside copper, but there is no speculation that the legislation will be extended to copper.

3) Cobalt is necessary for superalloy production, which is used in aerospace engines powering the US military.
   In addition to the recent Wikileaks document highlighting a cobalt mine in the DRC as a strategic priority, this suggests that the US government would not be inclined to favour further restrictions on imports of cobalt.

4) The majority of global cobalt producers use feed originating in the DRC.
   This not only includes African producers such as Chambishi and Katanga, but all Chinese producers and many others who at first glance do not appear to have any links with the DRC but do use some DRC feed, such as Falconbridge, OMG, Rubamin, Nicomet, CTT and Votorantim.
   As a result, by our reckoning only approximately 25% of total world cobalt metal and coarse powder production can be classed without doubt as 'DRC feed free', and of this 25% about one third is Sherritt and not allowed in the USA due to Cuban feed.
   In other words, of the total 39,250mt of cobalt metal and coarse powder produced in 2010, only approximately 7,000mt can be guaranteed to be free of DRC and Cuban feed.
   If this legislation were extended to cobalt, there would be a dramatic shortage of acceptable cobalt and many industries such as superalloys and lithium ion batteries would have to either pay the corresponding price

premiums, which would be astronomical, or switch away from cobalt, leading to inferior products.

This is clearly not a desirable situation.



In conclusion, the Dodd Frank Act does not refer to cobalt, and in our opinion it is highly unlikely that it will be extended to cobalt in the future for the reasons outlined above.

NOTES:

Production figures based on Cobalt Development Institute and SFP Research Department figures

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