SILVER USERS ASSOCIATION

February 13, 2006

Ms. Nancy M. Morris
Secretary
Securities and Exchange Commission
Station Place, 100 F Street, N.E.
Washington, DC 20549-9303

Re: File Number SR-Amex-2005-072

Dear Ms. Morris:

I am writing on behalf of the Silver Users Association (SUA) and all of its manufacturing members in opposition to the proposed rule change referenced above that would create an exchange-traded fund (ETF) in silver.

The Silver Users Association is a non-profit organization that was established in 1947 to represent the interests of companies that make, sell and distribute products and services in which silver is an essential component.

The Association's members employ more than 200,000 workers and process 80% of all silver used in the United States. Members include representatives from photographic, electronic, silverware, mirror and jewelry industries, producers of semi-fabricated and industrial products, and trading and service organizations responding to member needs.

Silver Market Background

Between 1966 and 1970, U.S. Treasury sales of silver were a major secondary source of supply. Because silver had been a U.S. monetary standard along with gold, the U.S. government held the world's largest source of secondary supply in an effort to meet a growing production/consumption deficit. In 1965, it appeared that in less than two years the Treasury would effectively lose control of the price of silver. If silver had been allowed to rise above $1.40 per ounce, the silver content of U.S. coins would have been worth more than their face value, causing them to disappear from circulation. Under the Coinage Act of 1965, Congress eliminated the use of silver in coins and authorized the mining of cupro-nickel substitutes and the sale of silver to the public. The right of holders of U.S. silver certificates to redeem them for silver was suspended in 1968. The following year, a federal ban on the melting of U.S. coins was lifted, freeing anywhere from 400 to 700 million ounces for secondary recovery.

In late 1970, the General Services Administration was authorized by Congress to release the national strategic stockpile of silver to the Treasury Department, primarily for coinage of new commemorative silver dollars (40 percent silver content). The same act provided for the auction of approximately 3 million old uncirculated silver dollars (90 percent silver). In 1973, the Cost of Living council freed commercial-grade silver from price ceilings imposed the year before to allow domestic silver to advance to current international price levels.

Silver has reacted erratically to world political and economic news in recent years. The New York spot settlement price for silver has ranged from a low of $3.92 in 1975 to a high of $48.70 in 1980.

In the early 80's, the U.S. government's strategic stockpile of silver was locked in by law at 139.5 Moz. Congress has since authorized legislation to dispose of these stockpiles. In late 2000 the U.S. Defense National Stockpile Center delivered its remaining stockpile of nearly 15 Moz to the U.S. Mint for coinage programs. Since 2001, the U.S. has had to purchase silver for its coinage programs from the open market. This has boosted silver consumption by 1% annually.

Impacts of a Silver ETF

It is SUA's position that such an investment product could make silver illiquid and could thereby have a negative impact on our U.S. manufacturing operations and U.S. manufacturing jobs.

The creation of a silver ETF would require the holding of silver in allocated accounts, which would result in the removal of large amounts of silver from the open markets. Probable increases in the price of silver, resulting from the forced decrease in supply, would result in higher prices for products containing silver. Such price pressure threatens to erode our products' competitiveness, overall price points, and the manufacturing jobs that rely on the stability of silver products. If the silver ETF is approved, it will mean higher product costs and lost jobs in our industry.

While ETF's have been approved for gold, silver is a different market in that the supply is much more limited. Since it is a relatively small market it is subject to more speculative behavior and volatility. An historical review of silver prices reflects this volatile propensity. In such a small market, a silver ETF could strain market liquidity and introduce a new element of volatility. This could have dire consequences for manufacturers whom silver is such a critical component.

It is unfair to compare the proposed silver ETF and the current gold ETF. The reason is simple. Gold is a liquid commodity where silver is not. If you use the estimates of available silver published in the 2005 CPM Group's Silver Survey, you will see that the above ground levels of silver in 2004 were roughly 750 million ounces. This is compared to roughly 3 billion ounces of gold. There clearly is a difference and a gold ETF may make sense because of the liquidity of the commodity. The same cannot be said for silver.

The approval of a silver ETF at this time is risky because of the impact it will have on those who rely on this commodity for the products they produce. Requiring the holding of large quantities of silver, which this proposed ETF does, will have a negative impact on those manufacturers and the people they employ. Approving a silver ETF at this time not only impacts the employees of these company's, but also impacts the manufactures ability to obtain the physical silver necessary to maintain compliance with today's production standards.

Fortunately we do not have to look back very far to see the impact a significant amount of allocated silver would have on the market. It was 1998 when Warren Buffet purchased over 100 million ounces of physical silver and the spot price rallied over $3 dollars and the one month cost of borrowing silver soared over 30%.

Commodity markets such as Palladium have proven that consumers will search for alternative sources to substitute their need for metal if the market becomes too pricey or illiquid. As it is, silver can be an illiquid market because there are few central banks which own silver. Silver is inexpensive in terms of commodities, and its volatility is typically 2-3 times that of gold.

These are both reasons investors are drawn to the market. A silver ETF would only exaggerate silver's illiquidity given the sheer volume of physical silver needed to be shipped and stored. While a silver ETF might initially provide price benefits for producers, we believe it would disrupt the market in the short term and may harm the market in the long term.

SUA is concerned that the proposed silver ETF could be a legal way for investors to squeeze the silver market.

As we see it, a silver ETF poses a lot of risks and uncertainties, which are not good for silver users, the people they employ, the products they make, the consumer or investor. It is going to be all of these sectors that will be left holding the bag when the ETF doesn't live up to the initial speculation. Approving a silver ETF will mean that company's relying on silver in the production of products will pay higher rates for silver; consumers will in turn pay higher prices for goods; and our employees may find themselves out of work due to our inability to keep production of certain products going due to the skyrocketing costs and lack of silver in the market for these products.

Approving the proposed silver ETF has impacts beyond this industry. Approving a silver ETF could set the stage for proposed ETF's for platinum and palladium. These commodities are in thinner supply and vitally necessary in the refining of oil into gasoline, the automotive industry, and many other industrial applications. Approving ETF's for these commodities would have the same type of impact as the proposed silver ETF. This is something to think about in your review of the current application.

Conclusion

The Silver Users Association opposes the creation of a silver ETF because of the concerns that doing so will 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 urges the SEC to take these issues into consideration before it decides whether or not to issue a silver ETF.

Sincerely,

Paul A. Miller
Executive Director