

Producers oppose U.S. plan to sell off uranium stockpile

Nuclear Fuel is the market of today but DOE could destroy it.

Market Watch
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The U.S. government owns one of the world's largest stockpiles of uranium. Now Uncle Sam is planning to put that supply on the market, a move opposed by uranium producers who fear it could drastically lower prices.

The Department of Energy controls the equivalent of 135 million pounds of natural uranium, about 75% of the world's annual uranium consumption of 180 million pounds. This supply largely comes from the department's nuclear energy programs and weapons-grade uranium left over from the Cold War, as the U.S. gradually dismantles its nuclear arsenal. Much of it comes from Russia, which has sold its share to the U.S. for commercial use under a nuclear non-proliferation agreement.

In August, the DOE proposed selling on the market up to 5.5 million pounds of uranium a year, about 10% of the amount consumed annually by U.S. commercial reactors. "There is not expected to be an adverse material impact on the domestic uranium mining, conversion, or enrichment industry," the department said in a presentation on its sales proposal.

The uranium industry disagrees.

"DOE's proposal to limit its sales to 10 percent of the annual U.S. market would have a severe impact on producers in the initial years of the proposal," the Uranium Producers of America wrote in an October letter to the department. "Sufficient near term uncovered demand simply does not exist in order to accommodate this many DOE pounds."

Members of the group, based in Santa Fe, N.M., include International Uranium Corp. (IUC.T), Strathmore Minerals (STM.T) and Power Resources, a subsidiary of Cameco Corp. (CCJ).

Producers Want Limits

The producers want the department to limit its annual sales to 2.6 million pounds in 2007–2009, 3.9 million pounds in 2010–2013 and 5.3 million pounds in 2014 to 2016. They also say the department should sell the material through long-term contracts to avoid driving down spot market prices, while reserving some supplies for new reactors that will need uranium for their cores.

"The stakes today are simply too great to permit DOE to adversely impact the uranium market as it has by past practices," the group warned.

The price of uranium ore, or uranium oxide, has risen 81% in the past year and, at about \$60 a pound, is five times more expensive than it was three years ago. Some analysts predict the price will reach \$90 a pound next year, as utilities around the world plan to build new nuclear power plants.

After falling out of favor in the 1990s due to safety concerns and low prices for competing electricity sources, governments across the world now see nuclear energy as a way to cut emissions of carbon dioxide and other heat-trapping gases.

"Nuclear energy is back on the political agenda," J.P. Morgan analysts wrote in a November research note on the uranium market. "Government commitment to nuclear is firming worldwide, particularly in Asia due to energy security concerns and the need to limit CO2 emissions."

Twenty-seven nuclear plants are under construction worldwide, according to the report, while many more have been proposed.

Delayed production at a major uranium mine in Canada has further boosted uranium prices. News that flooding at Cameco's Cigar Lake mine in northern Saskatchewan would prevent the mine from producing by its 2008 target date drove uranium prices up 8%. The mine was originally expected to produce 18 million pounds a year, or about 15% of global supply.

New Reserves Needed

The government should encourage development of new uranium supply from projects like Cigar Lake to meet critical demand, rather than putting supplies from its stockpile on the market, the uranium producers group said.

"Any production delay at a facility such as Cigar Lake will place additional strain on the availability of material for initial reactor cores," the group wrote in a November letter.

The Nuclear Energy Institute, which represents both nuclear power plant operators and uranium producers, has yet to take a position on the DOE's proposal but plans to do so, said Felix Killar, the group's senior director of fuel supply.

"Right now there's a lot of concern about assurance of uranium supply," he said. "We've had a 10-year hiatus of anyone even thinking about putting production on-line."