

URANIUM: Will plunging prices dent miners' plans for U.S. expansion? (03/17/2011)

Manuel Quinones, E&E reporter

The Japan nuclear crisis figures to slow the growth of U.S. uranium mining in the face of plummeting prices for uranium and the stocks of mining companies, a leading industry analyst says.

The spot uranium price plunged almost 10 percent this week on news of continuing problems at a nuclear power plant slammed by a tsunami after a mammoth earthquake Friday, the Ux Consulting Co. said. After hitting \$73 a pound a few weeks ago, uranium is now at \$60, said the firm, which publishes a price each Monday based on its compiled industry data.

"To the extent that the Japanese situation reduces uranium demand in Japan, and potentially from other countries with existing reactors or planned reactors, this will likely result in a number of planned uranium mines being delayed or canceled altogether," Ux analyst Nick Carter said in an interview.

The "mild mining resurgence" in the United States, Carter said, could be in jeopardy.

"If uranium prices retreat, as they likely will, fewer investors will be likely to finance the development of new mines," he said. "Therefore, there is a strong likelihood that some planned U.S. mines could be affected if it is uneconomic for them to produce at lower prices."

Other analysts are also warning that continued low prices could hurt production and mining.

"We believe the uranium price will still need to exceed \$80 per pound to incentivize new uranium development," RBC Capital Markets said in a report to investors. "If the Japanese can recover from the current problems without a meltdown or significant release of radiation, we think investors should maintain their uranium investments."

Proposed new uranium projects or increased extraction at existing mines could more than double U.S. production in coming years to about 10 million pounds from 4.1 million pounds in 2009 if prices stabilize or increase, Carter said.

"Under a low case scenario, production will expand only mildly, by 3 million pounds per year," he said. "This could be less if prices fall below the cost of production for some producers as a result of the Japan incident."

U.S. uranium production fluctuates because of low recovery at some mines or price changes, Carter said. The 4.1 million pounds produced in 2009 was up from 2.2 million pounds in 2003, but down from 4.8 million pounds in 1998, according to the federal Energy Information Administration.

The United States has more than a million pounds of uranium reserves, with Wyoming and New Mexico as the top states, EIA says. Worldwide, the United States ranks in the top 10 of national uranium reserves; Australia has the most reserves, followed by Canada, Russia and Kazakhstan.

'Driven by emotion'?

Environmentalists, who have been battling new U.S. uranium mining projects, are hoping for an industry retreat.

"If the heartbreaking events unfolding in Japan quell the global nuclear renaissance, and if uranium prices in turn plummet, the economic feasibility of uranium mining in the United States will surely be affected," said Taylor McKinnon, the director of the Center for Biological Diversity's public lands campaign.

McKinnon's group is challenging state permits issued by Arizona for three uranium mining projects near the Grand Canyon ([Greenwire](#), March 11).

The company proposing the Grand Canyon-area projects, Toronto-based Denison Mines Corp. (**AMEX: DNN**), saw its share price plunge from \$3.29 Friday to \$2.33 Monday after the earthquake and tsunami devastated northeast Japan last week and spawned partial meltdowns at three nuclear reactors there. It was trading at \$2.40 this morning.

Another major uranium company with U.S. operations, Saskatchewan-based Cameco Corp. (**NYSE: CCJ**), saw its shares drop from \$37.38 to \$30.16 from Friday to Monday. It was trading at \$28.73 late this morning.

But Cameco CEO Gerald Grandey warned reporters in a conference call this week against using plunging stock prices as a barometer for the future of his industry.

"This is largely driven by emotion, as one would expect in a situation like this," Grandey said.

Cameco provides 16 percent of the world's uranium and is the largest U.S. producer with sites in Wyoming and Nebraska. The company held the conference call Monday after "a high volume of inquiries" from investors and reporters about uranium's future in light of the Japanese tragedy.

"Some voices have questioned whether the nuclear renaissance will survive," Grandey said. "We at Cameco don't see a dramatic effect on the fundamentals of our uranium business."

Uranium Energy Corp., or UEC (**AMEX: UEC**), based in Corpus Christi, Texas, also expressed confidence in its plans to expand U.S. uranium extraction. The company is exploring sites in Arizona, Colorado, Wyoming and New Mexico and has three more sites under development in Texas. The company's stock price fell from \$4.85 Friday to \$3.86 Monday. It was trading at \$3.45 this morning.

"While pressure on uranium stocks is to be expected as people react to current headlines, it is important to remember the strong fundamentals that are driving the uranium sector," UEC said in a statement.

But company officials are worried about the possibility of investment dollars drying up if uranium prices stay low.

"In fact, supply growth may be significantly reduced if there is no equity market support to finance exploration and development," UEC said.

Crisis tests industry

The Japanese are battling to bring four reactors on the country's northeast coast under control after their cooling systems were knocked out by the earthquake and tsunami.

The crisis has spurred efforts around the world to put nuclear expansion projects on hold or to test older plants. Germany's nuclear operators, for example, have started to take their oldest nuclear reactors offline after the government announced a shutdown of seven reactors dating to the 1970s pending a safety review.

The Obama administration is standing by its policy to promote nuclear energy but says it was looking to learn from the unfolding Japanese disaster ([Greenwire](#), March 16).

Cameco's Grandey is trying to put the best face on the crisis.

Of Japan's 54 nuclear reactors, 11 automatically shut down after the 8.9 magnitude earthquake, he told reporters. Any drop in shipments to Japan would not be problematic for his company "in the grand scheme of global demand," he said.

And, Grandey said, nuclear projects around the world are likely to continue. There were 62 nuclear reactors under construction around the world as of March 1 -- including 27 in China, with 50 more planned there, according to the World Nuclear Association, which promotes the nuclear industry.

China's sweeping nuclear power push is likely to slow after Beijing ordered a safety crackdown yesterday, citing Japan's nuclear crisis ([Greenwire](#), March 16).

U.S. demand for uranium is not going away, said Carol Raulston, National Mining Association spokeswoman. The United States imports most of its uranium for its 104 reactors.

Uranium producers cite existing long-term U.S. fuel contracts with nuclear power operators and the years it takes for U.S. mining projects to receive government permits as further evidence of long-term growth.