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Geopolitics to the Forefront

Six years ago today, we wrote a cover entitled, "A New Decade, A New Market" (The Ux Weekly, December 3, 2001), laying out reasons why the 2000s would prove to be much different than the 1990s when it came to the uranium market. The first reason was the changed participation of Russia and China in the market from being large suppliers to large consumers. This effectively marked the beginning of the geopolitical shift in the global market, one that has received increasing attention in the press as these economies have expanded and their role in the world has grown.

Today, there is little question that Russia and China have a much different role in the nuclear fuel market than they did in the 1990s, one that has gone beyond even what we envisioned six years ago. At the time, we noted that these countries were better able to direct resources to build more nuclear power capacity, but we underestimated the resources they would have to direct, due to the economic growth in both countries since 2001.

Russia's changed status in the nuclear fuel market is evidenced by the fact that the differential between SWU sold by Russia and other companies has essentially disappeared (we stopped publishing separate prices last year), and Russia is no longer seen as a net source of uranium supplies outside of the HEU deal. From this perspective, the recently initialed amendment to the Russian Suspension Agreement (see discussion on page 2) is really about future enrichment, not uranium, supplies.

Everyone knows about China's plans to expand its nuclear power capacity, but some question its ability to do so. However, there should be little doubt that China clearly intends to forge ahead with not only new reactor orders, but in arranging for the nuclear fuel supplies to feed these reactors. This approach was seen in the recent mega-deal the Chinese entered into with AREVA for reactors and fuel. China has also looked to Kazakhstan to secure a large share of uranium to meet its needs going forward.

But China's influence on the nuclear fuel market is wider than its own nuclear capacity plans. One example of this is the impact on South Africa's nuclear power aspirations. South Africa is currently looking to build more reactors due to a dramatic increase in electricity demand fueled to a large extent by China's demand for raw materials (Russia is a factor here as well). Both China and Russia are looking to Africa as a source of uranium supplies, just as both are looking to Kazakhstan.

On another front, it can be argued that a major reason for BHP Billiton's attempt to acquire Rio Tinto is so that the combined company can negotiate more effectively with China, a primary market for mineral production, including uranium. Here China's potential impact is on the supply side, as a combination of BHP and Rio Tinto would lead to greater production concentration in the uranium industry.

Thus, it is clear that China can have a large impact on supply and demand developments in nuclear fuel. We won't go so far to attribute the election of Australia's new Prime Minister, Kevin Rudd, to his ability to speak Mandarin, but it would not be surprising to see closer trading relationships develop between Australia and China in the future.

Also, the shift in the Australian government is something that bears watching. While it did not make a huge difference if Australia had a two mines policy or a three mines policy when supplies were plentiful relative to demand, Australia's uranium mining/export policies will have a huge impact on the future of the market and nuclear power going forward. Rudd's belief that governments can manage markets to achieve better outcomes raises questions about the role that the new government will play in uranium trade and production.

These are but some of the examples of how geopolitics is helping to shape the market. (To find others, just look at some of the news briefs in today's issue.) As a company, we have put considerable effort into tracking and analyzing geopolitical developments. In 2006, we launched a geopolitical report series that included comprehensive studies on Russia, China, India, Kazakhstan, and Uzbekistan. These join previous reports written on Australia, Canada, Namibia, South Africa, France, the United Kingdom, and the United States. We have also recently expanded our Washington Watch policy briefing service to include international policies in addition to U.S. policies and renamed it Policy Watch.

Our desire to cover the geopolitical dimension of the market has influenced our recent hiring as well as our participation in conferences. We have spoken at and sponsored conferences in Beijing and Moscow, and will continue to participate in these venues. As discussed in the box on page 1, we are a sponsor of the Capstone Project at George Washington University to study the feasibility of nuclear power in new regions of the world.

In summary, we expect geopolitics to continue to play an important and growing role in the nuclear fuel market. Understanding country policies with respect to nuclear power, supplies, and trade is key to analyzing how the market will evolve in the future, especially as nuclear power widens its global appeal in meeting future energy needs.

UxC Sponsors Capstone Project

UxC is pleased to announce its participation in the Capstone Project of The George Washington University's Elliot School of International Affairs. In this project, UxC is sponsoring a group of four graduate-level students in the Master of Arts in International Trade and Investment Policy program as they analyze the potential for nuclear energy growth in countries that do not currently operate civilian nuclear reactors.

Anna Bryndza, who is originally from the Ukraine and currently interns at the Center for Strategic and International Studies, is investigating the future of nuclear power in Belarus. Ellis Chaplin, who works full time in the U.S. House of Representatives, is looking into Turkey's nuclear plans. Giselle Cubillos, who works at the U.S. Department of Commerce's Bureau of Economic Analysis and whose family comes from Chile, is studying the prospects of nuclear power in that South American nation. And, Mike Lowe, who works in the Office of Investment Security at the U.S. Treasury, is examining Vietnam's nuclear energy ambitions. The results of the GWU students' study will be included in an upcoming edition of UxC's latest product offering, the Nuclear Power Outlook

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