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Year of the SWU



The above title may seem a bit surprising given that there has not been much activity in the SWU market or much change in SWU prices this year, while uranium prices have recently moved to their historic lows. However, the conditions that precipitated the current demise in uranium prices were set a couple of years ago, while developments in the enrichment arena this year will likely shape the SWU market for years to come.

Currently, there are three developments whose outcomes promise to have a major impact on the SWU market: the battle over Urenco's ownership, negotiations for future deliveries and prices of HEU SWU, and the sunset review of U.S. trade restrictions against Russia being conducted by the ITC.

With respect to Urenco ownership, first BNFL, then COGEMA, and now apparently a joint venture of BNFL and USEC have made a play for the Dutch and German shares. With each bid, the price goes up, to the point where it is now apparently in the \$1 billion plus range (see story on page 2). On the HEU SWU front, USEC has been negotiating with Tenex for a long-term agreement and has stated that it is seeking market-related prices. Sources also indicate that USEC may be offering to buy commercial Russian SWU as an inducement to Tenex to sign a HEU SWU deal more favorable to USEC.

Finally, the ITC is continuing the sunset review process to determine whether restrictions will remain on the U.S. import of Russian SWU. Results should be known later this summer.

Potential Outcomes - The outcome of these developments could leave the supply side of the enrichment market much different, perhaps vastly different, than it is today. One of the likely

and the future of the HEU deal. More recently, there have been other initiatives in this area. And, Russia's recent suspension of the LEU deliveries, although no fault of USEC, certainly makes the case of government re-involvement, at least in the HEU deal, more compelling. (See stories on page 2.) In addition to taking over USEC, the U.S. government could appoint alternative or additional executive agents for the HEU deal.

A less problematic outcome is that U.S. restrictions on the import of Russian SWU are removed. While it can be argued that the U.S. is not likely to give the Russians commercial access to the U.S. market given that 5.5 million Russian HEU SWU are supposed to enter the U.S. every year, it is also the case that the decline in SWU price and USEC's prospects had little to do with Russian commercial SWU sales. Also, the ITC is more politically independent than the Commerce Department.

Other changes are subtler, but potentially no less significant. At this point, it is not exactly clear what the marketing implications of a COGEMA or USEC participation in Urenco would be, but it is likely that utilities may interpret this as meaning fewer supply choices and less competition. Also, if spot-related pricing is employed in the renegotiated HEU SWU contract, it could lead to vastly different behavior in spot and long-term SWU markets, contracting, and pricing.

Questions about USEC's viability along with USEC's joint bid with BNFL for Urenco (as well as COGEMA's bid for Urenco) have certainly attracted the attention of utilities. In this regard, certain utilities have begun to take steps to mitigate their risks from the potentially negative outcomes of these developments. U.S. utilities are also following the sunset review process with interest.

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"capacity rationalization," shutting down some of the current excess SWU production capacity. Such a shutdown is a foregone conclusion, but would likely be accelerated if USEC buys into Urenco and/or renegotiates the HEU deal in such a way that would include additional commercial Russian SWU being delivered.

The impact of these developments is not just limited to utilities and enrichers. A BNFL/USEC partnership in Urenco may lead to a vertically integrated company that could supply EUP and even fabricated fuel to utilities. Such a development would have implications for uranium producers and other fabricators that would be competing with this new entity.

Another outcome that cannot be dismissed is the government taking over USEC. In a hearing earlier this year, members of Congress expressed concern about USEC's financial viability, the impact of USEC's uranium sales on the U.S. uranium and conversion industry,

This subject, along with the implications for future prices, will be analyzed in more detail in the upcoming issue of our quarterly *Enrichment Market Outlook* report, due out in early June.

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