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SWUtanic?



After listening to the USEC hearing on Thursday (see story on page 2) and realizing that it preceded the anniversary of the sinking of the Titanic by a day, one cannot but help draw some parallels between USEC's current situation and the fate of that "unsinkable" ship.

The image in the hearing was clear. USEC's ship was going down, and the Congressmen clearly worried about its future viability.

Bodies were already in the water in the person of laid-off GDP workers, the stockholders who had purchased USEC shares at premium prices. Were U.S. miners far behind, weighted down by the uranium that they alleged USEC was dumping? Congress asked whether USEC's management had a plan for rescuing the company, perhaps wondering if they were simply rearranging the deck chairs as the ship continued to sink.

It went further than this, getting personal at times. In questioning Mr. Timbers about his compensation, the Congressmen seemed to be wondering why the captain refused to go down (financially) with his ship. In discussing his severance package, were they also taking note that Mr. Timbers had his own personal lifeboat?

And then there is the HEU. Before its launching, USEC was entrusted to give safe passage to this precious cargo, and willingly took it on board. However, soon after it was underway, USEC found that this cargo was slowing it down, and threatened to jettison it, unless aid was given. There were other, faster ships from Europe passing it on the way to the U.S. market.

There is one major difference between the Titanic, which struck an iceberg, and

Our own analysis projected enrichment prices would fall. In our February 1998 Enrichment Market Outlook, the lower part of our base case range (the portion that most applied to the U.S. market), showed that prices would dip to \$85 and then to \$80. Admittedly, this has occurred somewhat more quickly than that forecast showed. However, in that same report, our low price scenario, which had a rather large probability of 30%, projected price going below \$80 by as early as last year.

Just before USEC's privatization, we also forecasted that uranium prices would be under downward pressure, returning to the \$8 range, based on the inventory transferred to USEC and USEC's announced sales plans at that time. Even lower prices were forecast for the case where DOE sold its remaining inventory. However, as noted at the time, political pressure would likely keep DOE from selling this material.

None of this was very difficult to foresee. With a high-cost technology and a strong U.S. dollar working against it, USEC's prospects in the enrichment market were not good. It was also clear that the uranium market could not absorb the quantities of uranium that USEC planned to sell without negatively impacting price. As we said in the analysis, it was not even necessary for USEC to sell as much as planned, just that the market perceived that this would be the case.

As an afterthought, and it is always an afterthought, it was clear that the conversion market would be punished as well.

Now Congress and the administration are left to ponder the fate of not only USEC, but the entire front-end of the U.S. nuclear fuel cycle. It is clear that they are not encouraged by what they see. In this respect, Rep. Strickland

remarked that while USEC could fail, Congress would not allow the U.S.

USEC's story. USEC's sinking has been more gradual than that of the Titanic, although it has picked up momentum recently. In the hearing, Mr. Timbers brought up the notion that USEC faced its own iceberg in the form a fundamental change in the enrichment market that occurred after it privatized. This is simply not the case.

Long before USEC set sail, cries were heard throughout the industry that we would see Elvis before AVLIS. Smart people like Joe Stiglitz and Tom Neff warned of inherent conflicts between privatization and stewardship of the HEU deal that could require the U.S. to bail out the ship. Their warnings went unheeded.

nuclear fuel industry to fail. The question is what can be done to salvage the situation. Will NRC revoke USEC's charter after reviewing its financial viability? Will the HEU oversight committee take the HEU cargo away from USEC? Will an effort be made to impound USEC's ship, in essence taking it back into the government, as implied in the hearing? Perhaps most importantly, there is the question of whether Congress and the administration will act quickly enough, before USEC slips below the surface, sucking the U.S. industry along with it.

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