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HD **Uranium fall dents Olympic outlook**

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BHP Billiton's recasting of its expansion plans for its Olympic Dam **copper**/**uranium** mine in South Australia's outback have been served up a new challenge — the collapse in **uranium** prices.

Spot **uranium** has fallen 30 per cent in the past 12 months to $US28.15 a pound, plunging most of the world's **uranium**-only mines into losses. More telling has been the steady decline from the record price of $US137 a pound in mid-2007, due in part to the fall in demand in the wake of Japan's Fukushima nuclear disaster in 2011.

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BHP dropped plans for a big-bang expansion of Olympic Dam in mid-2012, blaming the $30 **billion** cancellation on the over-heated resources sector and the country's high-cost environment. Concerns about **uranium**'s outlook post-Fukushima was also a factor.

At the current depressed prices for **uranium**, the nuclear fuel represents less than 20 per cent of Olympic Dam's revenue stream. But plug in last year's average industry contract price for **uranium** of $US57 a pound (most **uranium** is sold on a contract basis rather than spot), and the fuel's revenue contribution soars to 30 per cent, substantially enhancing project economics in the process.

When it shelved the big-bang expansion plan, BHP said it would investigate a less capital-intensive design, and one that drew on new **mining** and processing technologies to improve the economics of the project.

BHP chief executive Andrew Mackenzie also undertook in September to say more about plans for the expansion "within about a year''. While that timing is almost up, BHP's considerations of what the price slump means for the future of what is the world's biggest **uranium** deposit makes its planning for an expansion all the more complex.

Like the rest of the industry, BHP will be pinning its hopes on the restart of nuclear power plants in Japan, and the forecast surge in **China**'s nuclear power industry, to eventually produce more sustainable prices — in the context of being able to make a profit from the material at any rate.

John Borshoff, chief executive of the ASX-listed African **uranium** producer Paladin, is Australia's resident bull on the outlook for **uranium**, even if one of Paladin's mines is being put on care and maintenance during the price storm.

Mr Borshoff said it would be wrong to lose sight of the emerging supply shortfall in **uranium** due to the absence of supporting "incentive'' prices needed to underpin new developments.

Mr Borshoff told investors on Paladin's March quarter conference call that according to the **company**'s own analysis, a supply shortfall of 31 **million** pounds could appear in 2020. "It can be strongly argued that this shortfall is now almost certainly structurally embedded in the production growth capability or, more correctly, incapability. Until this is realised, there is real danger ahead,'' Mr Borshoff said.

Continued on Page 20 Continued from Page 19 He said a widening supply gap was set to come into effect from 2016-2017, with **uranium** prices moving ahead in anticipation in late 2014-2015.

Mr Borshoff’s optimism is largely shared by Tim Gitzel, the chief executive of Canadian uranium giant Cameco, which owns two of the world’s biggest undeveloped uranium deposits in Western Australia — Yeelirrie and Kintyre.

But Mr Gitzel is more guarded.

“For the near to medium term, demand remains discretionary while supply is performing reasonably well and utilitie’s requirements remain well covered,’’ Mr Gitzel told analysts.

“As a result, uranium prices continue to suffer downward pressure and we do not see any reason to expect improvement soon.’’ That means that neither Yeelirrie, acquired from BHP, and Kintyre, acquired from Rio Tinto, are not about to be developed anytime soon.

However, Mr Gitzel shares Mr Borshoff’s optimism about the longer-term outlook. Which is just as well, given that the 2008 acquisition of Kintyre, and the Yeelirrie acquisition in 2012, represent a combined $US925 million ($1bn) bet that uranium will eventually work its way back to a level that justifies their development by Cameco.

Mr Gitzel said that tentative restart of Japan’s fleet of nuclear power stations — confirmed in the recent new energy policy — was a positive for uranium.

“We remain confident in the long-term fundamentals, which indicate a clear progression of growth.

“Today, there are 70 reactors under construction around the world representing billions of dollars of investment and significant growth in future uranium consumption,’’ Mr Gitzel said.

Cameco estimates that more than 90 new nuclear reactors will start-up over the next 10 years, with significantly more to follow in the following 10 years.

“Nuclear energy continues to be an integral part of the world’s energy mix because it is one of the most important tools we have to combat climate change and to provide safe, clean, reliable and affordable base-load energy to rapidly expanding economies,’’ Mr Gitzel said.

“So, we remain excited about the future and are prepared, as a company, to meet it head on.’’ For battle weary investors in the uranium sector, it is a well-worn thematic. It was what drove uranium prices to their peak in 2007. But then came a rush of new production, the additional supply that came from the decommissioning of weapons grade material under the now completed “bombs to ploughshares’’ program, and the hit to economic growth and electricity demand from the global financial crisis, which got going in September 2008 with the collapse of Lehman Brothers.

Just as the case for uranium’s role in combating global warming was gaining strength after the GFC, and prices were firming, the March 2011 Fukushima nuclear disaster set uranium on new spiral downwards, one which has helped to take prices to the current lows.

But based on the same sort of market analysis provided by Mr Borshoff at Paladin, and Mr Gitzel at Cameco, there is now broad agreement among analysts that the uranium price has bottomed.

Eddie Rigg, managing director of the resources specialist broking firm Argonaut, said it was not a question of if uranium prices rebound, but when.

He said it had to be remembered that at a price of $US35 a pound and below, no one in the industry was making money.

Given demand growth seems to be on track, Argonaut expects a $US70-a-pound price is the required incentive price needed to ensure future demand is met.

UBS has a long-term price expectation of $US55 a pound, with a restart of Japanese nuclear reactors a near-term catalyst.“Should we see this occur and investment in new mine supply remain low, then the uranium price could exceed our current forecasts,’’ UBS said.

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