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A market in transition

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In March 2011, the uranium market was hit hard by the Fukushima disaster, which stalled the growth in nuclear reactor requirements and is still having a profound effect today with zero Japanese nuclear reactors in operation. To make matters worse, the evolving shale gas revolution has made it difficult for many U.S. merchant nuclear plants to compete with gas-fired plants, leading some of these plants to shut down early.

As Japanese nuclear plants remain offline, uranium inventories have been building, with the market currently sitting on excess supply of about 14 million pounds U₃O₈ for 2014. Due to the current oversupply situation, uranium prices have moved below where the true equilibrium likely should be, especially given that 50% of current uranium production is at a full cost above the current spot price of \$35 per pound.

Although new uranium projects are planned over the next few years, they are not assured of coming online unless market conditions improve. And with more production cutbacks eminent due to the unfavorable economics for some operating and planned uranium mines, the market could find itself in a volatile situation in only a few years with Chinese nuclear generation expected to grow rapidly, and new countries such as the U.A.E. and Saudi Arabia advancing their nuclear power programs. In fact, the pullback in both the spot and long-term uranium prices over the past three years could again create a problem for the market over the next few years since there is currently less impetus to expand uranium production or engage in exploration.

With global nuclear reactor requirements still increasing significantly in the medium- to long-term, more requisite new production will have to be brought online, especially with the U.S.-Russia HEU deal having ended last year, which contributed to up to 24 million pounds of U₃O₈ feed annually. In addition to transitioning from an inventory-driven market to a production-driven one, a significant component of uranium production is linked to regions of the world with higher than average geopolitical risk, which could make the market more vulnerable to potential future supply disruptions.

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