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Uranium: The New Green Metal

A Monday Morning Musing from Mickey the Mercenary Geologist

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Uranium is commonly known as "the other yellow metal," because the uranium oxide concentrate produced by early mines and mills was a bright yellow, coarse powder called "yellowcake."

However, there is now good reason to consider uranium "green." Nuclear power plants produce electricity with only a minute amount of greenhouse gases. With the current worldwide emphasis on reducing carbon emissions, environmental, scientific, and political communities are supporting expansion of nuclear power production as a green technology.

Even the co-founder of Greenpeace Patrick Moore supports nuclear power as a means of mitigating climate change.

My how times have changed!

The U.S. domestic uranium business was devastated in 1979 with the accident at Three Mile Island. That event combined with the fictional movie about a nuclear reactor meltdown starring Jane Fonda (*The China Syndrome*) led to massive protests against nuclear power by environmentalists. Numerous plants in the planning stage or under construction were cancelled due to permitting difficulties, construction delays, and cost overruns. The uranium price collapsed and nearly all domestic mines were shut down by the mid to late 1980s.

Although nuclear energy continues to supply nearly 20 percent of our electricity, it's been 14 years since a new nuclear power plant has been commissioned in the United States. The de facto moratorium on new construction will end with President Obama's recent announcement of government loan guarantees for building two new nuclear reactors in Georgia. But the damage has been done: during the past 30 years the United States has gone from a net exporter of uranium to a massive importer. We currently consume 55 million pounds while producing only four million pounds of uranium a year.

Worldwide, nuclear energy supplies about 13 percent of electrical power and that percentage is projected to grow substantially over the next two decades. There are currently 56 new nuclear reactors under construction in the world and more than 200 are on the drawing board. There will be a substantial increase in uranium demand over the next 20 years.

Nearly half of the world's 2009 uranium mine supply came from countries that are geopolitically unstable, corrupt, or unfriendly to the West. The top ten producers include Kazakhstan (which recently became the world's largest), Russia, Niger, Uzbekistan, China, and Ukraine.

This is not an all-star cast of model governments. Kazakhstan is increasingly nationalizing its nuclear power industry. Leaders of the country's state-owned uranium mining company were charged with corruption last year. Niger had a military coup that overthrew its despotic president one year ago. And Uzbekistan recently closed its border with Kyrgyzstan to refugees fleeing ethnic bloodshed, as a result of the government coup.

I doubt few Americans would consider two other countries on this list, Russia and China, to be our trusted friends. Ukraine is a former Soviet republic and lies within the Russian sphere of influence.

As if this was not enough, one-half of our domestic uranium consumption for the past 15 years has been supplied by the dismantling of Russian nuclear weapons and the conversion of weapons-grade uranium to reactor-grade uranium. Known as the "Megatons to Megawatts" program, that supply agreement expires in 2013.

So, where will the United States get its uranium supply in the next 20 years? The current yearly deficit is over 50 million pounds and the Russians are cutting half of that supply in three years.

I think a partial answer lies in revitalizing our domestic uranium mining industry. There are numerous uranium projects in advanced permitting, construction, and development stages in the Western United States and Texas. However, with a recent spot uranium price of $46 per pound and a long-term contract price of $60 per pound, little investment interest currently exists for uranium explorers, developers, and miners.

The uranium sector of our micro-cap junior resource market has been beaten up and trounced upon since the uranium spot price collapsed from $135 per pound in mid-2007. It is a forgotten commodity with a few strong companies surviving from the many juniors that piled into the sector during the uranium bubble days.

And that is precisely why I am interested.

As subscribers and regular readers know, I employ a contrarian philosophy and strive to identify sectors that are out of favor with the speculating investment community and choose undervalued companies with the right combination of share structure, people, and projects that will lead to rewards for shareholders.

I like to buy when volumes and prices are low to be well-positioned for a run-up when the sector comes back on the investor's radar screen.

In the gold sector, I commonly invest in exploration companies that operate in countries with significant geopolitical risk. Since these emerging market countries have not had every meter of ground trod upon by curious geologists in the past, giant gold deposits still can be discovered by the tried and true methods of "boot leather and drilling."

However, I am unwilling to take those sorts of risks in the highly sensitive and geopolitically risky uranium business.

The companies that draw my interest are exploring and developing projects in past and/or currently producing major districts in North America. These geologically and geopolitically favorable areas include the largest and highest grade uranium province in the world, Saskatchewan's Athabasca Basin; the world's second largest producer, New Mexico's Grants Mineral Belt; the Wyoming Basins; and the South Texas Uranium district.

In my opinion, the junior uranium sector offers good speculative risk/reward with current market valuations. I see opportunities to make some "green" with my uranium plays.

My favorite uranium company is project developer Strathmore Minerals Corp (Mercenary Musing, April 7, 2010). Please note that I am a shareholder and the company sponsors my website.

Folks, I urge you to do your own research and due diligence, assess your personal risk profile, and decide if there are companies in this space that are worthy of your investment.

Ciao for now,

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Mickey has worked for junior mineral explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Chile, Canada (British Columbia), and the United States (Nevada).

Mickey is well-known throughout the mining and exploration community for his ongoing work as an analyst, newsletter writer, and speaker.

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