

CLINTON-GORE ADMINISTRATION BLAMED FOR TODAY'S SOARING URANIUM PRICES

Strathmore Minerals Consulting Geologist Explains Why Uranium Prices Should Continue Rising

How long will the price squeeze continue?



The Clinton-Gore "Swords to Plowshares" program may be the reason why uranium prices are shattering the 20-year highs.

StockInterview.com's Andy Barrett continues his four-part interview with Wyoming legislator, David Miller, who is also an expert on uranium exploration and a consulting geologist to Strathmore Minerals (OTC Pinks: STHJF; Toronto Venture Exchange: STM). In this third interview, Mr. Miller blames the Clinton-Gore administration for privatizing the Department of Energy's enrichment program and creating a Wall Street IPO, the United States Enrichment Corporation (NYSE: USU). Mr. Miller said, "The Clinton-Gore administration took the enrichment part of the DOE and made a private corporation out of it. They made an IPO on Wall Street, I think in 1997, and also guaranteed a dividend. To fulfill that dividend, the DOE gave them 70 million pounds of what we call yellowcake, which is the finished mined product...The only way they could pay that dividend was to unload that yellowcake into the marketplace. The price of uranium at the time this occurred was \$16. It immediately started going down. Spot uranium bottomed out about \$7 about a year or two ago. They got rid of all that uranium. Since then, the price of uranium has been marching up."

StockInterview:

How did the uranium market get to this point? If there is such an abundance of uranium, then how could we ever have a shortage?

David Miller:

The problem with the uranium market is from the early days. Since the end of World War II, until the 1960s, the government had huge incentives for people to go out and find uranium. Frankly, they found huge amounts of it. We also mined huge amounts of it back in the 1950s and 1960s. The nuclear power industry took off in the late 1960s through 1980. After the government quit setting certain prices for uranium, the private sector stepped in and contracted for vast amounts of uranium, from 1965 until nearly 1980.

StockInterview:

What happened then?

David Miller:

In the 1970s, approximately 250 power plants were planned across the United States. Utilities contracted for a vast amount of uranium to go along with those nuclear power plants. As we all know, Three Mile Island rolled around in 1979. While it was a significant accident, no one was actually harmed by the radiation from that accident. What it did harm was building all of these nuclear power plants. We only ended up building 103 that are operating right now. Over half of those were cancelled. The utilities had subscribed for all this uranium to fill the reactors for these nuclear power plants. So the utilities, themselves, became net sellers of uranium into the marketplace. That caused the collapse of uranium prices from the early 1980s until the early 1990s. Then, we had the collapse of the Soviet Union with the sword-to-plowshare program. That was when Russian uranium, especially the highly enriched uranium, was downgraded to reactor grade fuel. That supplied another over-abundance of uranium into the market during the 1990s.

StockInterview:

And where does that leave us now?

David Miller:

As a general picture, we can look it at this way. From 1950 until 1983, on a worldwide basis, we produced far more uranium than we consumed. Since 1983 through the present, we've been consuming far more uranium than we produced. Right now, the current worldwide production is somewhere around 90 million pounds per year. The current worldwide consumption is around 160 to 180 million pounds per year. We have a huge deficit of consumption versus production as it looks like we are moving into normal market conditions.

StockInterview:

What do you mean by 'normal market' conditions?

David Miller:

By normal market conditions, I mean that we don't have huge surpluses standing over our heads. First it was the utilities that decided to not complete their nuclear power plants. They had this asset that was worth some dollars - they may have paid \$40 or \$50 or \$60 per pound for this - but if they didn't build their nuclear power plants, they just got rid of it. For whatever price they could. They were just clearing their balance sheet. They had an asset (uranium) that no longer had a value to it so it was "get whatever you can for it." That was why we had a collapse in the price.

StockInterview:

Why is the uranium market now marching up after its collapse?

David Miller:

Basically, we're still consuming a lot of uranium. The whole dynamics of the marketplace have changed. For over twenty years, it's been a buyer's market. There's been way too much uranium available - more than the utilities were consuming. Not because we were producing a lot, but because the government and the utilities had all of their uranium in inventories. For twenty-one years, we've been chipping away at those inventories. And it looks like finally, we are entering a normal market, where you have a demand and you have a supply. And we don't have a huge surplus overhanging the market.

StockInterview:

Wasn't there a second collapse, specifically after a strong uranium price rally in 1996-97?

David Miller:

There was a rally then, and it was encouraging at that time. That was when Strathmore Minerals got me to quit my twenty-year career with Cogema, the French uranium mining concern. What killed that boom was the privatization of a company called United States Enrichment Corporation, USEC (NYSE: USU; (<http://www.usec.com/>). They took Department of Energy (DOE) assets, from where we get enriched uranium and highly enriched uranium, and downsized the government programs. The Clinton-Gore administration took the enrichment part of the DOE and made a private corporation out of it. They made an IPO on Wall Street, I think in 1997, and also guaranteed a dividend. To fulfill that dividend, the DOE gave them 70 million pounds of what we call yellowcake, which is the finished mined product. They had that much in inventory, which was part of the privatization process. (http://www.usec.com/v2001_02/HTML/megatons.asp). The only way they could pay that dividend was to unload that yellowcake into the marketplace. The price of uranium at the time this occurred was \$16. It immediately started going down. Spot uranium bottomed out about \$7 about a year or two ago. They got rid of all that uranium. Since then, the price of uranium has been marching up.

StockInterview:

Was the second uranium price collapse simply because the Clinton-Gore administration wanted a dividend paid to attract investors?

David Miller:

That's part of it. The HEU (Russian Highly Enriched Uranium) program was still going strong at that time (1997). That was the Russian program, which was uranium being down-blended, from bomb-grade material to reactor-grade material, at a great cost. It was a very positive program because we were getting rid of fissionable material that could be used to make nuclear weapons. It was downgraded and then put into reactors to burn it up.

StockInterview:

It sounds almost like the United States Enrichment Corporation is like a little Enron trading corporation in the works, controlling the price of uranium. Do they control the price of uranium, as Enron once did with California electricity?

David Miller:

I wouldn't give them that much credit. They don't produce any raw uranium. They are trader of, and an enricher of, uranium. I don't think it made a lot of sense to privatize that particular group. To take the arm of government that makes highly enriched uranium and privatize it, to me is not a free market function. If it's anything that should be controlled by the government, it's the folks that make highly enriched uranium. That scares me.

StockInterview:

Is China a net buyer of uranium?

David Miller:

I think they probably are right now (net buyers of uranium). I think we're still at low prices. In December, I was in China on an IAEA (International Atomic Energy Agency) contract to teach uranium geology, exploration and in situ leach mining to the Chinese. I spent two weeks with two government-run institutes over there. The bottom line is they are looking for uranium. They probably have more people looking for uranium in China than all the other companies around the world combined. The geology is favorable for discovering uranium deposits. They have found several uranium deposits. And they're trying to mine them right now. But the Chinese look to nuclear for supplying a large amount of their electrical needs in the future. I heard they are going to build one or two nuclear power plants per year for the next fifteen or twenty years. They also need the uranium to supply that. The uranium mining and exploration is still controlled by the government in China. I don't think they'll be real successful in finding new deposits in China until that sector is privatized. I think if they privatize it, then they'll find plenty of uranium. Until they do that, I think they will be net buyers on the world market.

StockInterview:

How does the nuclear energy situation in Iran impact uranium prices?

David Miller:

I see Iran as insignificant. The amount of uranium they're going to be demanding is one or two nukes worth. China has announced thirty-five new plants, and they are currently constructing half of them. That's a significant number. Any increasing demand is going to - well, the squeeze is so big right now, one or two plants here and there isn't going to make a difference. Everyone knows China is bullish on nuclear. All the eastern bloc countries are bullish. Energy companies in the United States have announced they want more nuclear reactors.

Editor's Note: In May 2004, it was announced through the DOE that three energy groups are in discussions to test a new licensing process for building and operating at least one advanced nuclear reactor in the United States.

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Mr. Miller, is a minerals industry expert in exploration, acquisition and operations. His primary focus has been on uranium, coal bed methane and gold. David worked with Cogema, the second largest producer of uranium in the world, the last 4 as its chief geologist for in-situ operations in the US. Mr. Miller has over 25 years of experience in exploration and acquisition of uranium properties. Mr. Miller has consulted in uranium exploration, deposits, mining, and "in-situ" recovery for the IAEA. Mr. Miller is also an elected member of the Wyoming Legislature, committee assignments include Minerals and the Energy Council.

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