



Can Cameco (and Others) Reap the Fallout of an Expired Treaty?

Description

By Cameron Conway

The end of this year will mark a paramount shift in the nuclear energy sector with the expiration of the “Megatons to Megawatts” treaty. Signed between the United States and Russia at the end of the Cold War in 1993, this 20-year agreement gave the Russians needed funds as it entered a new era in its history, and it gave the Americans some peace of mind ... and access to uranium that was previously pointed at its population.

Now that this landmark treaty is coming to a close, how will it affect Canadian and global uranium producers? Could it serve as a catalyst for [surprise Q3 earner Cameco](#) (TSX:CCO, NYSE:CCJ) or competitor **Denison Mines** ([TSX:DML](#))? Or are there lines being drawn overseas that could complicate the future of uranium production? Let's dig in.

A history of avoided fallout

Under the treaty, 472.5 metric tons of high enriched uranium (HEU) taken from 18,899 nuclear warheads (including the dreaded Tsar Bomba class) have been blended down to 13,603 metric tons of low enriched uranium (LEU) for power plant grade material. Over the past 20 years it is estimated that 10% of electricity produced in America originated from these former Russian warheads.

On Aug. 21, the last shipment of downgraded uranium left the conversion facility en route to the United States. For the Russians, it's been a good deal — over the life of the treaty, \$13 billion has flow into its federal coffers. But is it still a good deal for Russia today? Do the Russians renew the treaty with the U.S., keep the supplies for themselves, or sell to other nations (mainly the Chinese)?

China the radioactive dragon

China currently has the eighth-largest fleet of nuclear reactors, with 17 in operation. But it will move up that list with the 28 plants currently under production, 50 planned, and 120 proposed. A deal with the Chinese could be more appealing and less politically entangling for the Russians. But the recent \$1.3 billion purchase and delisting of Canadian-based Uranium One by Russian state-owned Rosatom raises even more questions.

The United States still has the largest fleet of nuclear reactors in the world — the country's more than 100 sites make up almost a quarter of the global fleet. To maintain, the U.S. requires 29% (or 50 million pounds) of global uranium supplies each year, 90% of which comes from foreign markets such as the Russian treaty and, of course, Canada.

Canadian opportunities

While most of us are aware of our vast natural resource supplies here in Canada, it may come as a surprise that the Great White (slightly radioactive) North was the world leader in uranium production until 2009 (when we were surpassed by Kazakhstan). These Canadian mines — including the world's largest in McArthur River Saskatchewan — still contribute 22% of global production.

Defcon: Conclusion

This is a risky sector — just look at the track records for any company in the space not named Cameco.

There is so much uncertainty up in the air fuelled by politics, treaties, growing distaste of nuclear power, and the lower costs of other means of power. This could either turn out to be a rich prospect, or it could leave you as broken as the Soviet Union.

But between the ending of the treaty and the growth possibilities in China, Canadian mines could be the benefactor of this macro wave. Investors interested in this larger trend should look closely at Cameco.

For more analysis on uranium stocks, check out The Motley Fool's special FREE report, "[Fuel Your Portfolio With This Energetic Commodity](#)," which details two great stocks that are positioned to capitalize on this theme. Just [click here](#) to download your free copy!

Disclosure: Cameron Conway does not own any share in the companies listed.

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