

Preliminary Report: Trends on Japanese company's stake in Uranium One
The Need to Strengthen Diplomacy on Kazakhstan's Energy Resources

Tomoko Murakami
Leader, Nuclear Energy Group

On August 9, 2010, three Japanese companies, Tokyo Electric Power Company (TEPCO), Toshiba Corporation, and Japan Bank for International Cooperation (JBIC) have decided to sell the convertible debentures of Uranium One Inc (U1), a Canadian company, which they had held so far and to conclude a long-term uranium concentrate supply contract with U1. This is a revision of the former agreement on the investment to the allocation of new shares to a third party issued by U1 and of the Strategic Relationship Agreement concluded on February 10, 2009. This is the initial "retreating" case for Japan, who has set forward the acquisition of foreign uranium resources, and the background of the retreating due to Japan's defeat against Russia on Kazakhstan. Increasing self-development ratio by acquisition of interests in overseas resources is an important part of Japanese energy policy, clearly stated in the "Basic Energy Plan," therefore we need to further strengthen our diplomacy on resources to Kazakhstan while maintaining close relations with Russia.

On February 10, 2009, TEPCO, Toshiba and JBIC have agreed with U1 on the acquisition of its 117 million shares which were newly allocated to third parties by 2.30 Canadian dollar per share, totaling approximately 270 million Canadian dollars, as well as conclusion on the Strategic Relationship Agreement combined with the uranium trading contract. The newly allocated shares would be undertaken by "Japan Uranium Management Inc" (JUMI), established in British Columbia, Canada. The three Japanese companies would have taken the stakes of 19.95% of U1 through JUMI. TEPCO and Toshiba will take 40% each, JBIC 20%, of the JUMI, respectively. The objectives for this investment are, according to their statements, "to increase the diversity and the economical supply of uranium (TEPCO), to meet customers' demand for uranium (Toshiba), to secure uranium resources for Japan and to increase the competitiveness of Japanese nuclear industry in the world, as well as to support U1 through our direct relations with Kazakhstan (JBIC)." The acquisition consisted with "security of uranium resources," one of the major Japanese national nuclear policies, "Nuclear Energy National Plan" released in 2006. The three Japanese companies had been also planning to send two directors to U1, to set up committees to discuss strategy and to jointly develop uranium resources, all in order to deepen and develop further the mutual cooperation and its strategic and long-term relationship with U1. This implies how much they had focused on this acquisition as a crucial measure to secure

uranium resources in Kazakhstan.

The condition of investment and foundation of JUMI was, however, that the Kazakhstan government should abandon its right on priority purchase of uranium resources. Since the Kazakh government did not accept to abandon the right, the three companies were forced to change the strategy. In December 2009, the three companies acquired convertible debentures which were changeable into equity shares of the same number planned instead of acquisition of the stakes.

Meanwhile, Atomredmetzoloto (ARMZ), one of the group companies of Russian state-owned nuclear energy company Rosatom, has announced a plan to acquire U1. Since the Kazakh government has agreed with Russia on its acquisition of the majority share of U1, ARMZ announced that it has acquired a controlling share of U1 in June 2010. As a result, the major player of uranium development and production operations in Kazakhstan owned by U1 has become the Russian company. Accordingly, the three Japanese companies and U1 have reached an agreement as described above on August 9, 2010. The contents of the contracts are as follows:

- The three Japanese companies will take the right to be sustainably supplied 2.5 million pounds of uranium concentrate per year at the maximum. It is equivalent up to 20% of the annual production level of U1.
- U1 will repurchase the convertible debentures, now held by the Japanese companies, at the price of 101% when Japan had acquired them (Canadian dollar 271.79 million).

The reason of the Kazakh government's refusal to abandon the right on priority purchase of uranium could be because of Russian intention which would not have considered it desirable to increase Japan's presence in Kazakhstan for uranium business. ARMZ already has expressed to invest on U1 by about the same sum as the three Japanese companies in June 2009, which is evident of their expansion of interests in Kazakhstan. Meanwhile, the Kazakh government has easily accepted the Russian expression of acquisition of U1 while refusing the abandon of the right regardless of Japan's proposal for mutual cooperation and long-term relationship. In the background of all these, with regard to a long and close relationship of policies, cultures, and diplomacies between Russia and Kazakhstan and in general, Kazakhstan has been "faithful" to the intentions of Russia.

In February 2009 JBIC had expressed in its press release, "We will support U1 in its business through our direct negotiation skill developed so far in Kazakhstan". In examining the

progress and result, however, the "direct negotiation skill" does not appear to have much effect on this business. Different from Russia, Japan has recently begun to approach Kazakhstan due to its importance on resources. If they had not given a full consideration on Russia's influence on Kazakhstan and their long and close relationship, it would not be an exaggeration to affirm that it is the major cause of the retreatment.

The Japanese companies have stated, "We have had no investment losses since the selling price surpasses the acquisition amounts, and the contract of the long-term uranium supply, 2.5 million pounds per year (1,100 tons intensity), is not bad considering that U1 produced 1,600 tons in 2009". It might be satisfactory in the aspects of private companies' position. In the viewpoint of the energy policy target, however, the Japanese government might have failed to "support the private companies' activities to invest in overseas resource development". The Japanese companies would not have needed to participate in the capital investment if their purpose had been JUST to get favorable long-term contracts in purchasing uranium, and also would not have to declare a joint development plan and sending directors to U1 in February 2009. Therefore, the three Japanese companies should explain the reasons for withdrawal from equity participation considering the recent Basic Energy Plan. At the same time, the Japanese government should reconsider and strengthen the diplomatic strategy to Kazakhstan on resources while paying much attention to the relationships with Russia.

Over

References:

- TEPCO release, February 10, 2009
- TEPCO release, August 9, 2010
- Sankei net news, August 9, 2010 (Japanese only)
- Nikkei net news, August 9, 2010 (Japanese only)

Contact: report@tky.iej.or.jp