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Fuel Maker for Reactors Has China as Investor

By KEITH BRADSHER

HONG KONG — A company here that is partly owned by the Chinese government has quietly purchased a 5.1 percent stake in the only American-owned provider of enriched uranium for use in civilian nuclear reactors.

The company that bought the stake, the Noble Group, is the world's second-largest commodities trading and logistics company after Cargill and is based here. One of its minority owners is the Chinese government's sovereign wealth fund.

The American company is USEC, which is based in Bethesda, Md., and enriches uranium so that fission can occur in nuclear reactors. It currently supplies enriched uranium for use in the United States, Japan, South Korea and Taiwan.

Noble said in a filing with the Securities and Exchange Commission that it had purchased the shares on the open market from May 25 to June 2.

Noble wants to become USEC's partner in marketing uranium enrichment for reactors in Asia, particularly mainland China, according to Richard Elman, Noble's founder and executive chairman. USEC has had American regulatory clearance for years to sell enriched uranium to mainland China, but has not actively pursued such sales.

China, though, could prove to be a ready buyer of USEC's product. It has a major nuclear power plant construction program under way to help meet its ravenous energy demands. And while

China has its own fuel processing factories, it has struggled to obtain the uranium purity and low costs that the United States and particularly France have achieved, according to nuclear fuel experts.

Even a passive Chinese government stake in USEC could draw attention in Washington for its strategic and diplomatic implications. USEC, the parent of the United States Enrichment Corporation, is a cornerstone of America's nuclear establishment, with classified operations that date back to the initial development of the atomic bomb during the Manhattan Project in World War II. Yet there would appear to be no direct role for the Chinese government in the Noble-USEC relationship. China's sovereign wealth fund, the China Investment Corporation, bought 15 percent of Noble for $850 million last September. But it has no seats on the board and has said that it wants to be a passive investor.

And Mr. Elman, who is British, said that he had not told anyone in the Chinese government about the purchase.

"They know nothing about it," he said in an interview Friday. "I run the business and always have, I don't need any agreement from anyone."

Mr. Elman said that he saw the investment in USEC as a commercial transaction. He emphasized that he had no interest in weapons-grade uranium — a business in which USEC is not involved.

He said that nuclear energy was becoming an ever more attractive investment, and that the Gulf of Mexico oil spill could only help make nuclear power seem a safer and less-polluting alternative to oil than before.

Steven Wingfield, the investor relations director at USEC, said that the company had notified the Nuclear Regulatory Commission about Noble's stock purchase and had held initial discussions with Noble on nuclear fuel marketing in Asia. He declined to specify when USEC became aware of Noble's stock purchases, citing a company policy of not discussing communications with investors.

With $2 billion a year in sales, USEC holds about 30 percent of the worldwide uranium enrichment market for commercial reactors.

And it has been at the center of an Energy Department-administered program to take highly enriched uranium from former Soviet military stockpiles and dilute it for USEC to sell as fuel in civilian nuclear reactors, the so-called megatons-to-megawatts program. It may now do the same for the United States military after President Obama and President Dmitri A. Medvedev of Russia signed an agreement in April calling for deep cuts in nuclear weapons.

USEC's enrichment complex in Paducah, Ky., is the single largest user of electricity in the United States, spending $700 million a year on electricity.

That plant's contributions to weaponry, though, are largely a thing of the past. It performed the first of two stages of production for highly enriched uranium for nuclear weapons until 1964, when the United States halted production for that purpose because the military had accumulated a huge stockpile.

A separate USEC-operated factory in Piketon, Ohio, performed the second stage. It was mothballed in 2001, after the United States also stopped the production of highly enriched uranium for reactors to propel submarines and aircraft carriers, and for research reactors used to make medical isotopes. The Energy Department is now taking proposals to decontaminate and dismantle the Ohio factory.

Mr. Elman said that he had no immediate plans to buy further shares of USEC. But he declined to rule out future purchases, saying only that, "Time will tell."

Mr. Elman owns 25 percent of Noble and was ranked by Forbes in March at No. 437 among the world's billionaires, with a fortune of $2.2 billion.

The Committee on Foreign Investment in the United States, an interagency panel coordinated by Treasury, has the authority to examine foreign purchases of stakes in American companies and block deals that threaten national security. A Treasury spokeswoman declined to comment on whether the committee was aware of the Noble transaction or would examine it, citing a secrecy provision in the committee's rules.

Mr. Elman said that he was well aware of the nationalistic reaction in the United States

Congress five years ago that prompted the state-controlled China National Offshore Oil Corporation to withdraw its bid for the American oil company. But he said he hoped that the USEC investment would prove less controversial because Noble had initially acquired only 5.1 percent of the company.

The Chinese government's sovereign wealth fund's role as a passive investor with a minority stake in Noble might raise fewer concerns in Congress than if, for example, a Chinese nuclear technology company were to seek a direct investment in USEC.

Noble paid just $30.2 million for the stake, as its purchases went little noticed in the market and USEC's stock has been severely depressed. It fell more than 80 percent from its peak in 2008 as commodity prices crashed, and has shown little sign of recovery since then. The shares closed Friday at $5.13 — about where they were a year ago. USEC has long relied on an older, electricity-intensive technique, known as gaseous diffusion, that involves pushing uranium gas through membranes. The company has been struggling to adopt lower-cost centrifuge technology, which involves spinning uranium isotopes to separate them by weight — an approach already used by European rivals moving to open factories in the United States.

USEC was part of the Energy Department until 1998, when it was privatized with a requirement for majority American ownership to retain its Nuclear Regulatory Commission license.

Mr. Elman said that the "final trigger" for Noble to begin buying shares in USEC came on May 25. That was when Toshiba of Japan and Babcock & Wilcox, an American engineering company, announced a deal to buy $200 million of convertible preferred stock in USEC and warrants for its common stock, helping the company raise money to expand its uranium-enrichment capacity.

Toshiba owns Westinghouse Nuclear, and it has already been thoroughly screened by American government agencies for foreign ownership of American nuclear technology. With Toshiba setting a precedent for a foreign stake in USEC, Noble began buying up the company's shares the same day, Mr. Elman said.

Matthew L. Wald contributed reporting from Washington.