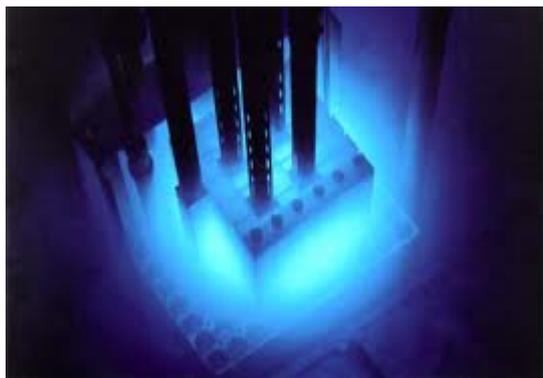


# Japanese elections hail the return of Nuclear Energy, a Uranium Revival and Shift in Rare Earths Sourcing



The election of Shinzo Abe as Japan's prime minister has reshuffled the energy supply cards in favor of nuclear power. The Japanese people, who are well aware of Abe's policies and views on the matter seeing as Abe served as prime minister from 2006 to 2007,

have given the incoming prime minister a strong win. Japanese voters were well aware that Abe and his LDP Party, in spite of massive anti-nuclear demonstrations, received strong backing from the atomic lobby them, adding even more conviction to the nuclear revival.

Abe, leader of Japan's Liberal Democratic Party, has secured a strategic alliance from the Buddhist 'New Komaito' party, earning him the support of two thirds of the Lower Chamber of the 'Diet' (Japan's parliament), meaning that Abe will be able to pass laws even without the Upper House's approval. The strength of Abe's victory suggests that a good majority of Japanese voters are in favor of re-starting nuclear reactors. Moreover, during the campaign blamed outgoing Prime Minister Yoshihiko Noda for putting nuclear energy aside, in the wake of the Fukushima disaster. Abe said this was a costly decision for Japan in terms of competitiveness and energy efficiency in exchange of a short term need to appease a need for safety, which could have been addressed by targeted investments toward improving technology rather than the outright repudiation of nuclear reactors that supplied some 30% of all Japanese power

generation. Not surprisingly, shares of Tepco (9501:JP), the private company that managed the Fukushima nuclear power station, rose by almost 30% at the Tokyo Stock Exchange today; shares of other nuclear energy providers such as Kansai and Chubu also rose sharply in response to Abe's electoral win, gaining 17% and 9% respectively.

In Australia, which responds promptly to market trends in Japan, uranium and nuclear energy stocks responded in kind as Paladin Energy and Energy Resources of Australia rose 8.4% and 5%. Japanese politics and international markets are pointing toward an overall uranium market revival in 2013, prompting more exploration and production. The market decline has contributed to a uranium shortage in the two years, discouraging new uranium projects from developing as miners have been holding off waiting for prices to recover. North American juniors such as Strathmore Capital (TSX: STM) with a project in New Mexico, U308Corp developing uranium at its Berlin Project in Colombia or Rockgate Capital (TSX: RGT) exploring for uranium in Mali, should start seeing some growing, and bullish, attention from investors. While Japan and China are not on the best of terms now – and this is a situation that has little chance of improving, given Abe's more nationalist politics – the resumption of interest in nuclear energy in Japan will surely boost Beijing's own plan to build 100 new reactors by 2020. As for the established uranium plays, production was deferred in the wake of Fukushima further contributing to a shortage of supplies; the prospect of higher prices should translate to an increase in production in the next year.

China, meanwhile, will have suspicions about the LDP victory in Japan; especially insofar as the Senkaku/Diaoyu Island dispute is concerned. On December 13, two days before the vote, China sent a reconnaissance aircraft to the Islands, boosting nationalist sentiment in Japan. This too may have contributed to the LDP victory. Chinese media have followed

the Japanese elections closely, warning of Japan's potential right turn and commitment of LDP to revise Japan's pacifist constitution, transforming the Self-Defense Forces in Force national defense. Despite the rhetoric of nationalism and the commemoration in style of the Nanjing massacre perpetrated by Japanese troops, China hopes the change of government in Tokyo can be an opportunity to improve relations, but is not prepared to renounce claims to the Senkaku. However, a strong Japan may be able to extract more concessions from China, which could be discouraged from pursuing its own grander ambitions in South East Asia, should Japan raise its military profile – a likely prospect in view of the LDP's positions on increasing Japan's arsenals with more offensive capability weapons.

This should result in an interesting situation for rare earths. In the recent past, Sino-Japanese tensions over the Senkaku Islands have typically prompted Beijing to retaliate by cutting off Chinese supply of rare earths. Most pundits, and certainly the Chinese public at large, will be expecting such an announcement; nevertheless, this time the situation is not as predictable as in the recent past. Indeed, the rare earth market is different now. China has been reducing rare earth exports and the number of rare earth mining permits (by a significant 40%) in order to exercise greater control over these minerals. While, it is difficult to determine just how much these new regulatory measures will affect production, the lower production targets are also reflecting a lower economic growth rate in China. Chinese trade restrictions have also intended to 'encourage' end users and downstream to move their processing and magnet manufacturing operations to China. However, this strategy may not be as effective as expected now that China has seen its rare earth production monopoly starting to be eroded in the past few months and as new sources start to come online.

Japan has already been looking elsewhere. Ever since China

blocked rare earth exports to Japan in 2010, during another bout of the periodical tensions over the Islands, Japan went from Kazakhstan to India in search of rare earths. Indeed, Japan has already reduced reliance on Chinese rare earths by 50%. The rare earth market is also changing thanks to expectations of far greater production in Malaysia from Lynas Corporation (AUX: LYC), which has been granted a temporary production license (after a long struggle) to process rare earths. Meanwhile, Molycorp (NYSE: MCP) has also started to produce rare earths; indeed, the announced Chinese revision of its mining licenses may likely have contributed to a two-day rally for Molycorp. Chinese rare earth dominance will further erode as more supplies from African and North American plays also start to flow. New resources coming on stream – Lynas is producing, Molycorp has a new CEO- and they have started to chip away at China's rare earth monopoly and the tensions over the Senkaku islands have serendipitously served to highlight this. China, may yet decide to cut off its rare earth supplies to Japan, but it would be akin to shooting itself in the foot this time.