

Nuclear Renaissance, TVO and the support issue

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Background and Introduction

- ❑ No successful nuclear plant order in Europe and US since early 70ies until 2004
- ❑ New order: TVO Finland Framatome, Siemens Areva consortium for EPR Reactor in 2004
- ❑ **Major lobbying steps towards new breathing**
- ❑ Kyoto
- ❑ EU Security of Supply Green Paper
- ❑ Eastern European Nuclear Accession Countries
- ❑ Rising oil prices

Subsidies to Nuclear

They are pulling our legs -

"More than half of the subsidies (in real terms) ever lavished on energy by OECD governments have gone to the nuclear industry." (The Economist, **Nuclear power Out of Chernobyl's shadow** May 6th 2004, from print edition)

Example US:

- ❑ Wind, solar and nuclear power got around \$150 billion in cumulative US Federal subsidies over roughly fifty years, some 95% of which supported nuclear power.
- ❑ Nuclear power received far higher levels of support per kilowatt-hour generated early in its history than did wind or solar.

Subsidies II

- Between 1947 and 1961: Commercial, fission-related nuclear power development received subsidies worth \$15.30 per kWh.

This compares with

- subsidies worth \$7.19/kWh for solar and
- 46¢/kWh for wind between 1975 and 1989.
- In their first 15 years, nuclear and wind technology produced comparable amount of energy (2.6 billion/Nucl. and 1.9 billion kilowatt-hours/wind), but the subsidy to nuclear outweighed that to wind by a factor of over 40, at \$39.4 billion to \$900 million.

(Source: **FEDERAL ENERGY SUBSIDIES: NOT ALL TECHNOLOGIES ARE CREATED EQUAL** by *Marshall Goldberg*, REPP, July 2000 • No. 11)

Subsidies III: Who pays for back end costs for Nuclear power plants?

- ❑ Example UK
- ❑ De-regulation of UK power markets and privatisation of nuclear power, shareholders of British Energy (BE) were firstly regarded by UK government as being responsible for these costs. After electricity prices fell and BE collapsed, the British government burdened future taxpayers with many of the costs, as much as a century forward. If not done, the book value of BE's equity would have been about (minus) -3.5 billion pounds. BE's liabilities would have been about minus 3.5 billion pounds greater than their assets:

Subsidies: Who pays..? (II)

- *BE's short- and long-term nuclear liabilities are 4199 million pounds.* Nuclear liabilities are here expressed in present value terms. Thus, if all the back-end costs were incurred "today," they would total 4199 million pounds for the UK alone

(see "Viewpoint, De-regulated electric power markets and operating nuclear power plants: the case of British energy, James G. Hewlett Energy Information Administration, US Department of Energy, 1000 Independence Ave, SW, Washington, DC 20585, USA)

- Conclusion: Nuclear industry can only survive under state protected not really market oriented conditions

Subsidies: Reserve funds and shopping spree

Case study: GERMANY

- ❑ Money for reserve funds for future dismantling amounts to estimated 30 Billion Euro in the hands of four energy companies in Germany where two of them hold the major part of it.
- ❑ This is much more than the Gross Domestic Product of for example all three Baltic new EU members have together. It is more the two third of all countries of this earth have as gross domestic product and it would mean place 60 of 183 states of the world.
- ❑ Since liberalisation of the energy markets these funds enable those companies to go on a huge and extensive shopping spree especially in buying electricity and other companies in Germany, in Central- and Eastern Europe but also in other EU countries such as Sweden.
- ❑ This reduced the number of serious competitors drastically and is in breach with the very idea of opening of markets.
- ❑ **And what if they go bankrupt ??? ...**
- ❑ **Who will pay for dismantling in the end (Enron was possible...) ???**

And EU Commission happily continues to discriminate

- ❑ European research for Renewables is a pittance in relation to Nuclear research
- ❑ The European Commission freely and unashamedly acknowledges that funding for renewables and energy efficiency dropped from an average of 138 million EUR per year in Research programme FP-5 (1999-2002) to 108 million EUR per year so far in FP-6 (2003-2006).
- ❑ In comparison, the European Commission proposes to increase the nuclear research budget under the Euratom R&D framework programme from 1352 million EUR in the period 2002-2006, to 3103 million EUR in the period 2007-2011.

Open subsidy case before the European Court
First Instance

Reserve funds for future dismantling of Nuclear
plants in Germany as state aid

- Case EC T-92/02
- Stadtwerke Schwäbisch Hall GmbH et alia ./.. Kommission der Europäischen Gemeinschaften, sec. by: E.ON Kernkraft GmbH u.a.
- Court Decision for 2nd half of 2005 envisaged

Open subsidy cases (II)

- ❑ “TVO complaint” by EREF before EU Commission dated from 14.12.2005
- ❑ Major content of complaint:
- ❑ Syndicated loan leading bank Bayerische Landesbank in 2003/2004 to TVO of € 1.95 bio = more than 60 % of fixed price contract at an interest of 2.6 %
- ❑ State export guarantees over 720 Mio Euro from Sweden and France
- ❑ Violation by TVO of procurement rules for the energy sector
- ❑ Predatory pricing

EPR (Ad)venture in Finland: TVO not without State Aid

- ❑ The new plant project in Finland is welcomed by many including the EU Commission for market oriented non subsidy approach
- ❑ This is fake: Big spenders were the Swedish Government (worth 100 Mio €)
- ❑ French Export Guarantee (COFACE) of non notified amount of 610 million EUR – to AREVA, the second highest ever reported for COFACE
- ❑ Banking Consortium under direct participation of public Bayerische Landesbank which gave in 2003 or in the beginning of 2004 a EUR 1,95 billion syndicated credit for an interest of 2,6% to the Finnish company Teollisuuden Voima Oy (TVO) , apparent participation of Bayerische in the deal: 15 -20 %
- ❑ High risk of violation of Public Procurement rules by TVO

Assessment of different Support schemes

- ❑ There are several types of advantages received by the suppliers, which have to be examined by the European Commission:
- ❑ Those granted by a syndicated loan under the leadership of BLB
- ❑ Those granted by the French Export Credit Agency COFACE and
- ❑ Those granted by the Swedish Government (via SEK)
- ❑ None of those supports can be seen isolated though but underline the importance of co-ordinated performance.

Apparent details of the loan

- 2,6% interest will never allow a normal, adequate return of investment in a market where the average rate is much higher.
- Unprofitable transaction, which a normal commercial bank as investor would not have made alone or without specific guarantees or pressure.
- Especially: TVO has poor credit rating, which would obligatory lead to an increased interest rate needs, also in view of the Basle obligation.
- For comparison with this 2.6 % loan to TVO, a two-year loan for the German republic, and Germany is rated AAA+, amounted for 2,57%. The selected MFI (Monetary Financial Institutions) interest rate on loans to non-financial corporation over EUR 1 million with an initial rate fixation over five years has been, between August 2003 and September 2003, at 4.3%, according to the European Central Bank.[\[1\]](#)



[\[1\]](#) ECB Press release on January 15, 2004, www.ecb.int

Two major export guarantees help to strike the deal

- ❑ The Swedish state apparently contributed to a large bank loan share within the syndicates loan from Nordea, in which bank the State is a large owner.
- ❑ SEK – 100 % owned Swedish State Export Credit insurer gave according to the government from its private business part SEK and “without any element of State aid”- agreed “about a credit of 100 million Euro to the consortium Teollisuuden Voima (TVO) owned by the Finnish State and private companies. The credit is part of a package of offers for the finances of Finland’s fifth nuclear reactor, a project of more than 3 billion Euro of which about 2,5 billion Euro will be financed by bank loans. This project opens up for possibilities for Swedish companies to become involved in the building business and for Swedish export companies through deliveries, which will secure jobs in Sweden.”
- ❑ See: Ministry for Foreign Affairs, Cabinet Minister Östros, To the Swedish Parliament, Response to Question 2004/05:668 from Ingegerd Saarinen regarding export credits for nuclear power

The French Export Agency Coface and AREVA – friends in need

- AREVA is a Public French Company and COFACE acted in this deal for the French Budget from Public funds:
- Guarantee has been granted in the 2nd trimester of 2004 for the contract signed between Areva and TVO in the amount of 610 million EUR - such an amount is the second highest ever reported [1]. This “assurance-credit export” insures the exporters and banks against the risk of non payment due to commercial or political reasons under such contracts, which are not insurable on the private market. It focuses on the contracts for equipment and infrastructure of developing countries. [2] This state guarantee for AREVA is the only one granted for an energy project located in the EU [3].
- [1] The highest amount of EUR 758 million was granted to Chantiers de l’Atlantique in the second trimestre of 2001. Otherwise, few of the guarantees exceed EUR 200 million.
- [2] http://www.cofaceCOFACE.fr/dmt/rubc_asscrexp/indexc.htm
- [3] http://www.COFACE.fr/rub01_gr/gc.htm

Normally the Commission plays tough on intra Community state guarantees – but here....

- Already in 1977 the Commission made it undoubtedly clear that export aid in intra-Community trade “cannot qualify for derogation whatever their intensity, form, grounds or purpose^[1]. This has since been common ruling, as outlined especially in the 1997 Communication of the Commission to the Member States pursuant to Article 93 (1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export- credit insurance.^[2]

^[1] 7th Commission report on competition policy (1977), point 242 ^[2] *Official Journal C 281* , 17/09/1997 P. 0004 - 0010

Fixed price contract and predatory pricing behaviour

- ❑ Fixed price of 3 billion Euro
- ❑ Standard & Poor´s states already the price of 3.2 billion EUR, according to 2003 figures. Framatome's CEO, Ralf Guldner admitted, that the situation is troublesome for his company, given the rising prices of raw materials. The issue of a fixed price is causing problems within the industry itself. German utilities have told Eléctricité de France that its asking price for a share in an EPR to be built in France is too high. They calculated that the EDF's asking price represents cost per installed megawatt of about 25% higher than the price charged to TVO for building Olkiluoto3. [\[1\]](#)

[\[1\]](#) Platts nuclear news Flashes, May 25, 2004

Westinghouse had turned down TVO deal on the grounds of ...

- “-We have decided not to make offer for the reason that it is not possible to recover the initial costs of the project if we are only to build one reactor. Our position is that a series of strictly standardised plants is necessary if nuclear power is to be a competitive alternative to natural gas, says Per Brunzell, managing director of Swedish Westinghouse (previously ABB Atom) in Västerås.” (Translation of short article in the newsletter Kraft-Affärer No 2/2003 page 4.)
- Well, Finland is heading for a sixth reactor...and France may help as well....

Violation of Public Procurement Directive 92/38/EC by TVO

- ❑ TVO itself is not a “public undertaking” but Article 2 para 1 (b) of above Directive states:
- ❑ that it should apply to “*contracting authorities*” which when *they are not public authorities or public undertakings, have as one of their activities any of those referred to in paragraph 2 or any combination thereof and operate on the basis of special or exclusive rights granted by a competent authority of e Member State.*”
- ❑ Art.2 paragraph 3 than states that a *contracting entity shall be considered to enjoy special or exclusive rights in particular where - in case of paragraph 2 (a)- the entity supplies with drinking water, electricity, gas or heat a network which is itself operated by an entity enjoying special or exclusive rights granted by a competent authority of the Member State concerned.*
- ❑ The Finnish Transmission system is such a network enjoying special or exclusive rights granted by the Finnish State, which holds 37% of shares and 50 % of votes in Fingrid Oy.
- ❑ One shareholder of Fingrid Oy is PVO which holds 56,8 % of TVO of TVO and has 33,3 % voting rights in Fingrid Oy

Violation of procurement rules

1. TVO was fully aware of the above predatory pricing scheme of Framatome/ANP and also of the COFACE and Swedish guarantee.
2. Knowing that it was done by public support, TVO was obliged to demand of the applicant in the tendering process to ask if state support schemes were notified to the European Commission.
3. The tendering agency should ask in cases of “abnormally low” offers and according to Art. 34 Directive 93/38/EEC coordinating the procurement procedures of entities operating in the water, energy, transport and telecommunications sector which provides: *„Contracting entities may reject tenders which are **abnormally low** owing to the receipt of **State aid** only if they have consulted the tenderer and if the tenderer has been unable to show that the aid in question has been notified to the Commission...“.*

Very superficial or no evaluation at present by the EU Commission

- DG Comp will probably decide that no state aid is involved in the case
- DG TREN has apparently looked into the case and closed without informing the complainant
- No other DG has looked into the case

Foratom Organigramme – copying the EC Commission's structure

