

# Changing Paradigms



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**The nuclear energy business is changing globally. Indian and foreign suppliers must become alive to that reality**

uphold the basic philosophy of the bill. Thus far the global assumption has been that it is the nuclear power plant operator who is responsible for any and all liabilities that may arise in case of an accident. The bill now gives recourse to the operator to claim compensation from the supplier in case of an accident. Suppliers are protesting that this is not a standard practice; second, that this will have severe financial implications; and third, that there is no insurance mechanism for them to undertake an 80-year obligation as now required by the law.

Today, the nuclear energy business is

stiff competition from upstarts like Korea which has shocked the industry by winning a US \$20 billion contract in the UAE. China is vastly increasing its manufacturing capacity, and by 2025 it will have significant surplus capacity with which it is expected to flood the global market. And of course India is going to compete in the global nuclear business by 2015. This is the new reality that faces both foreign and Indian suppliers.

Secondly, it is said that this bill will cripple cost structures and will drive away any supplier. Nothing could be further from the truth. Let us examine a typical case - a nuclear plant typically may have 200-300 suppliers, but for brevity's sake this column assumes our discussion to be only about one large supplier (like Areva, GE, Westinghouse, RosAtom, Toshiba, Hitachi or Kepco) that shall make up to 30-40 per cent of the total plant cost.

Assuming a 1,650 Mw plant, at US \$2 million per Mw, the total cost of such a new plant in India may be around US \$3.3 billion. At 40 per cent of this, it implies that this supplier will get business to the tune of US \$1.3 billion. Assuming 30 per cent profitability, it implies that this supplier will make a profit of around US \$400 million.

Next, assuming that the maximum liability exposure for the supplier will not be more than the exposure of the operator, it implies a liability limit to the supplier of Rs 1,500 crore (about US \$325 million since this is the limit for the

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undergoing massive changes globally, perhaps for the first time since the 1970s. India is expected to be one of the largest markets in this next wave of atomic energy, to be followed by countries in Asia, Africa and Latin America. Traditional suppliers from the US, France, Russia and Japan are facing

**T**he Civil Nuclear Liability Bill, passed recently by the Indian Parliament, came with its associated loud din of political, business and legal

debates. Upon passage of the bill the political debate has settled; however, there is deep rumbling in the industry that a clause in the bill which includes suppliers within the ambit of liability obligations will make it impossible for Indian or foreign suppliers to do business in the Indian market.

It is the contention of this column that such objections are not valid, premature, and that business in the Indian market will continue as usual. Let us get real. All arguments are struggling to recognize the new lay of the land. They may be knee-jerk reactions, and are surmountable, or even pressure tactics.

Yes, there will be some confusion in the interim; innovations needed in risk allocation and management; hard negotiations; and delays before clarity in new contracts emerge. Also, we may see some amendments to the bill – but any such policy diktat will continue to