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Recommendation for a

COUNCIL DECISION

on the position to be adopted by the Community in the international negotiations on conditions governing officially-supported export credits for nuclear power stations

(submitted to the Council by the Commission)

COM(82) 793 final

EXPLANATORY MEMORANDUM

I. BACKGROUND

1. The new Arrangement ("Consensus") on export credits which came into force on 6 July provides that the participants shall open negotiations for an agreement on export credit terms for nuclear power stations.

2. Nuclear power stations are not covered by the Consensus; instead, this sector has been governed since 1975 by a "standstill" agreement within the OECD, whereby participants undertake not to offer credit terms more favourable than those obtaining in 1975.

3. There has already been a series of exploratory talks on nuclear power stations, including two recent meetings of experts at the OECD. The matter has also been discussed in detail within the Community.

4. Pursuant to the undertaking given by Consensus participants, the Commission hereby recommends that the annexed directives be adopted for negotiations on nuclear power stations.

II. THE MARKET

5. The nuclear sector expanded rapidly in the 1970s, on the strength of the ambitious plans for the growth of nuclear power in OECD countries. In 1970, it was estimated that total installed nuclear generating capacity in those countries, which then stood at 16 GWE, would reach almost 300 GWE in 1980. In the event, however, it had barely risen beyond 130 GWE by the end of 1981. This yawning gap between forecast and actual development is at the root of today's overcapacity in the nuclear industry.

6. Given this generalized overcapacity, the position of any national nuclear industry depends (a) on the development of the domestic energy sector and (b) on export orders.

This dependence of the industry on domestic energy programmes is well illustrated in the United States, where a spate of cancellations of nuclear power station projects has driven the companies to an increasingly desperate search for export orders.

The situation of the nuclear industry of Community countries is fundamentally the same.

7. The majority of new orders will be coming from OECD countries, but orders from developing countries are also likely to increase. Clearly, with the industry in a state of manifest overcapacity worldwide, there will be all-out competition for export orders from developing countries or non-producing OECD members.

8. Only a small number of countries export nuclear equipment - currently seven in all, three of them Community Member States.

III. THE COMMISSION'S RECOMMENDATIONS

9. In the light of the exploratory talks (see point 3) it appears that the negotiations will probably centre on two issues: maximum repayment terms, and minimum interest rates.

(a) The United States, the world leader in the nuclear construction industry, advocates extremely long-term credits - 15 or 20 years. Repayment terms of this sort can be financed on the US capital market, but would cause serious difficulties for European manufacturers, who lack access to similar facilities. It must be borne in mind that the construction of a nuclear power station can take eight years or more, and repayment of export credit will not begin until after that. The Commission therefore regards the sort of repayment terms envisaged by the USA as unacceptable. However, there seems little prospect of agreement being reached if the Community is not prepared to go beyond the general ten-year limit laid down in the Consensus. It therefore recommends that for nuclear power stations a twelve-year limit be set, the same as the maximum repayment term prescribed in the Consensus for conventional power stations.

(b) As far as interest rates are concerned, some countries outside the Community feel they should be set with reference to a "benchmark" rate, i.e. the rate prevailing at the time when construction is completed. This would make it impossible for the exporter, when negotiating with the customer, to say what the actual interest rate would be. But the customer has to be able to work out what export credit will cost, so there should be a set rate known in advance. In the Commission's view the Consensus minimum rates also provide a suitable point of departure for deciding on the rates to be available for financing the sale of nuclear power stations. In order to take account of the different economic situations of purchasing countries the Commission would also recommend that the minimum rates should be differentiated according to the country classifications as defined in the Consensus . Furthermore the sectoral agreement should follow the Consensus arrangements with respect to currencies whose commercial interest rates are lower than the agreed minimum rates.

10. There remains nevertheless a considerable gap between the Community's position and that of certain other participants especially the US and Canada, who favour much longer repayment terms and are able at the moment to go up to 15 years under the current standstill. It will thus be very difficult to arrive at an agreement on this question. In any case such an agreement is only possible if the Community agrees to participate in other measures which will tighten up general discipline in this area and will contribute in a general way to reduce subsidies and diminish risk exposure. Such measures, in the Commission's view, should cover :

- period of validity of commitments,
- cash payments,
- local costs,
- interest payable during construction period,
- tied aid credits,
- guarantee against cost escalation,
- additional costs notably insurance premiums,
- financing the supply of nuclear fuel.

The recommended directives thus contain proposals on these points.

Obviously, such measures would have to form part of a package deal and could only be contemplated if they made it possible to come to a comprehensive agreement.

11. If it still turns out to be impossible for participants to reach an agreement in the near future along the lines indicated above, pending further efforts to find a compromise, an interim solution might be envisaged which would consist of trying to establish a suitable information and consultation procedure to enable nuclear plant producers to take a common line on whatever specific projects come up before the conclusion of the negotiations. The likelihood of success of such a provisional solution might be enhanced by the fact that the number of projects and competing countries is limited.
It should be possible to achieve this, given the currently small numbers of orders and competing countries concerned, by making it mandatory for participants intending to export a nuclear power station to use the OECD's EIS (exchange of information) system and requiring a certain amount of advance notification.

12. As regards the general clauses of the agreement, the Commission would make the following recommendations:

(a) Scope: nuclear core plus conventional parts. Any other arrangement would be impractical.

(b) Other provisions should correspond to the Consensus rules, with regard, inter alia, to:

- starting point of credit,
- maximum amount of officially-supported financing,
- matching and notification procedures (but see also point 11),
- periodical review of credit terms.

12. As regards the review of interest rates in particular, the Commission's Communication to the Council (COM(82)9 final) of January this year concerning the last round of Consensus negotiations considered the feasibility of a system of "semi-automatic" adjustments. The recent evolution of the capital markets has convinced the Commission that such a system would undoubtedly have advantages for the Community. It might be asked if such a system should not be introduced into a future sectoral agreement.

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THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community, and in particular Article 113 thereof,

Having regard to the Recommendation from the Commission,

Whereas by Decision dated 28 July 1982 the Community accepted the results of the negotiations on the modification of the Arrangement on Guidelines for Officially Supported Export Credits and agreed in Annex II to that Decision to open negotiations for agreements on export credit terms for aircraft and nuclear power stations;

Whereas in view of the situation of the world economy it remains necessary to keep wasteful competition on officially-supported export credits to a minimum, and to improve international cooperation in order to prevent a deterioration of such credit terms;

HAS DECIDED AS FOLLOWS:

Sole Article

In the international negotiations on the conditions governing officially-supported export credits for nuclear power stations, the Commission shall express the Community's position in accordance with the directives contained in the Annex.

It shall proceed in consultation with the Special Committee provided for in Article 113 of the Treaty, which shall assist it in its task.

Done at Brussels,

For the Council

The President

ANNEX

NEGOTIATING DIRECTIVES

1. SCOPE

The credit terms set out below shall apply to:

(a) the nuclear part of the power station, comprising the nuclear steam supply system (NSSS) and the turbines, and

(b) the conventional part.

2. DURATION

The maximum repayment term shall be twelve years.

3. INTEREST RATES

(a) Purchasing countries shall be classified in three groups, in accordance with the definitions set out in the Consensus.

(b) Minimum interest rates should be of the same order of magnitude as the higher figure of the minimum rate bracket laid down in the Consensus for each class of country.

(c) If the interest rate on commercial loans in the currency of a participating country is beneath the lowest level so established, the rate of interest on wholly or partly officially-supported export credits must not be less than the commercial reference rate, plus a margin of 0.3 percentage points per annum.

4. OTHER CONDITIONS

(a) Commitments shall be valid for six months.

(b) Cash payments shall be of the order of 20%.

(c) Financing of local costs shall not be officially supported.

(d) Interest due for the period prior to the starting point of the credit shall not be capitalized.

(e) The parts of a project covered by these terms (see § 1, "Scope") shall not be financed by tied aid credits.

(f) Participants shall not provide guarantees against cost escalation.

(g) There shall be no waiver nor reduction of additional costs, notably insurance and guarantee premiums.

(h) Official support for the financing of the supply of nuclear fuel shall not extend beyond the first delivery and the maximum repayment term shall not exceed five years.

5. <u>GENERAL PROVISIONS</u>

Other provisions, including those relating to the starting point of credit, the maximum level of official support for financing, matching and notification procedures and the annual review shall be established with reference to the terms of the Consensus.