

Urenco is up for sale, is India interested?

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Summary

If Chinese companies eventually end up bidding for Urenco, there is no reason why Indian companies should not do so. India can form a joint-venture with counterparts in Brazil, South Africa and, if needed, China (even Russia) using common interests envisioned through forums like the IBSA or BRICS to enter this race.

It's not every day that a global nuclear industry conglomerate goes under the hammer. The last major corporate shake-up in this industry witnessed the mantle of US nuclear majors (GE and Westinghouse) shifting to Japanese companies (Hitachi and Toshiba), leading to some consolidation as well as complexities. The widely-anticipated sale of the world's second largest uranium enrichment company, Urenco, likely to materialise sometime next year, would mark a new phase of post-Fukushima churning in the global nuclear industry. That not many players operate in this highly-sensitive segment makes it all the more significant on how the supplier community, currently cartelised by the Nuclear Suppliers Group (NSG), will gear up to the impending changes in nuclear supplies, depending on who wins the bid, and also on the likely implications for non-proliferation.

Four global giants are currently dominating the market of enriched uranium. Urenco holds around 31 per cent of the market share with over 50 customers in 18 countries, with only Russia's Tenex leading over it, while France's Areva and the United States Enrichment Corporation (USEC) are the other two prominent players in this domain.¹ Consequently, the buyer of this consortium could emerge to a dominant position in nuclear fuel supplies, especially if it happens be one of the other three competitors, which could enable it to attain a dominant control over this market. Such eventualities apart, the proposed sale plan is ridden with numerous intricacies, including the restrictions posed by the Treaty that led to the creation of Urenco and other treaties that facilitated its expansion, the proliferation and security concerns being debated in the ownership countries, the imperatives of economics which may eventually determine the buyer, and above all, apprehensions on whether the highest bidder will come with a political baggage that will be incongruent for some of the Urenco founders.

Currently owned by a three-nation consortium comprising of United Kingdom, Germany and the Netherlands, each holding one-thirds of the company's stake, the proposed sale plan seems to indicate a creeping trend in the global nuclear industry – that economics could ultimately prevail over considerations of non-proliferation. For, Urenco's orders had taken a hit after the Fukushima disaster, a condition that reflects on most other suppliers, which drives the need for a rescue act that makes fiscal sense. Each of the stake holders, though, have different reasons for the sale (with the British being most enthusiastic), a common factor being their eagerness to exit from the nuclear business. Interestingly, Britain's initial plan in 2005 to divest its shares in Urenco through a flotation scheme was then blocked by the German and Dutch governments. However, London continued to see financial prudence in exiting public utilities like Urenco and tied it with the cash in-flow that will be derived from the privatisation of public enterprises like Royal Mail. After all, the Urenco sale is expected to fetch around •11-13 billion, which the UK Business and Energy Minister, Michael Fallon, said makes “good commercial sense and

¹ There are many companies from Canada, Australia and other countries with uranium deposits that are engaged in trading and mining of natural uranium.

is consistent with our position that assets should be sold where ownership itself does not deliver any policy objective.”² Though Britain has nine nuclear plants, some of which are being phased out, and plans many more, it does not seek to engage in state ownership of nuclear power.

The change of fortunes for the sale plan, though, came early this year after the German government’s decision to support the British initiative. The impetus came from the two German companies, E.ON and RWE, which owns the German stake in Urenco, and found this business to be untenable after Germany’s decision to phase out nuclear power following the Fukushima incident. As a matter of fact, the Japanese disaster had innately derailed the prospects of nuclear energy expansion across Europe. The Dutch government, after initial reluctance, has recently agreed to the sale plan, but has insisted on retaining strict control over key components of Urenco’s business through a ‘set of security mechanisms’ that will safeguard public interest even under private ownership.³

Proliferation concerns

The obvious reference is to proliferation concerns which underlie the reluctance among some sections in the three governments to part with this strategic asset. In a letter to the Dutch Parliament, Finance Minister Jeroen Dijsselbloem maintained that the sale will happen only if public interests in non-proliferation, nuclear safety and security of supply are secured. The British and Germans also share this sentiment and confirm that the sale will be concluded only if security and non-proliferation interests can be protected and value for money is achieved. Observers already feel that the sensitive nature of Urenco’s business and huge sale price will be an impediment in finding the ideal buyer.

But then, why worry about proliferation if the impulse to sell is so strong? The answer will be the past record of Urenco, which attained the disgrace of being a latent contributor to the A.Q. Khan network. According to reports, Khan worked for a Dutch sub-contractor of Urenco, through which he gained access to centrifuge designs, besides liberally accessing Urenco’s facilities in the 1970s.⁴ Khan sourced such material through various European companies to provide the wherewithal for Pakistan’s nuclear programme. Investigations revealed that other proliferators like Iraq and North Korea also benefited from such

² See Alistair Osborne, “Government presses button on £3bn Urenco stake sale,” *The Telegraph*, November 7, 2013, <http://www.telegraph.co.uk/finance/newsbysector/energy/10011464/Government-presses-button-on-3bn-Urenco-stake-sale.html>.

³ Ben Marlow and Danny Fortson, “Dutch clear way for nuclear sale,” *The Sunday Times*, March 17, 2013, <http://www.thesundaytimes.co.uk/sto/business/Industry/article1230770.ece>.

⁴ Craig S. Smith, “Roots of Pakistan Atomic Scandal Traced to Europe,” *New York Times*, February 19, 2004, <http://www.nytimes.com/2004/02/19/world/roots-of-pakistan-atomic-scandal-traced-to-europe.html?pagewanted=all&src=pm>.

channels and had accessed stolen technologies and materials from Urenco's facilities, which then functioned through a network of sub-contractors and research centres.⁵ Jolted by these revelations, Urenco's stakeholders hived off the centrifuge unit into another entity called the Enrichment Technology Company (ETC), which essentially separated Urenco's nuclear fuel business from its centrifuges arm. Interestingly, ETC is not owned by Urenco alone, but has France's Areva as an equal partner, though Areva does not have intellectual property rights and can only buy centrifuges. Partial ownership easily makes Areva the front-runner in this race. Yet, the increasing number of eager buyers and Urenco's organisational complexities could make this a laborious grind.

Urenco - a complex entity

The fact that Urenco was formed through an inter-governmental agreement - the Treaty of Almelo of 1970 - underlines the difficulties of a smooth ownership transfer. Following the Treaty, the European troika formed this enterprise with the aim of establishing a sustainable source of nuclear fuel, independent of the US.⁶ After setting up the first plant in Almelo, the Netherlands, operations were expanded to enrichment units in Capenhurst (Britain) and Gronau (Germany). Notwithstanding the goal of European self-sufficiency, the urge of newer markets prodded Urenco to land up in the US with a facility in New Mexico, made possible by the 1992 Treaty of Washington. Similarly, the tie-up with Areva and the equity for ETC was facilitated through the 2005 Treaty of Cardiff. Thus, in four decades, Urenco's operations and expansion were brought under the ambit of three treaties, which drives the necessity for the sale to be compliant with all these agreements.

Irrespective of the restrictions the other two treaties may impose, the real challenge for the sale is the enshrined objective in the Treaty of Almelo that each owner country should take steps to protect Urenco's enrichment technology. That largely explains the demands of the Dutch to retain a 'golden share' or develop security mechanisms.⁷ In the current scheme, a joint committee of the three nations supervises Urenco's operations, and all three reportedly insist that this arrangement will continue even after the sale - implying that the new owner will have to satisfy itself from the proceeds of the uranium inventory

⁵ Ibid.

⁶ Geert De Clercq and Fredrik Dahl, "Urenco sale plan divides secretive nuclear fuel club," *Reuters*, February 6, 2013, <http://in.reuters.com/article/2013/02/06/urengo-sale-nuclear-idUSL5N0B58MY20130206>.

⁷ The concept of 'golden share' has its precedence in the British Aerospace Systems (BAe). When this aerospace company was privatized in the 1980s, the British government retained a golden share of £1, which gave it a unique 'veto' power, designed to block hostile take-overs or adverse decision-making. Rolls Royce is the other company in which Britain holds a similar share. However, unlike in these cases, the Urenco sale is an initiative of the three governments and hence the possibilities of retaining a golden share will depend on whether the eventual buyer agrees to this provision.

rather than having a decisive say in its operations. This is easier said than done as not many buyers might be open to such restrictions. Further, the future owner of Urenco will have 50 percent stake in ETC, which controls the centrifuge technology. Unless the eventual buyer is Areva, it will be hard for any firewalling or restrictions on management control to be realistically done. (Even Areva might find it odd to be full owner of ETC and yet exercising little control.) Hence, pushing for such formulae may not attract the highest bidder but may lead to selective bidding, suiting only those companies that match European values. It is not just Areva which could be in the race, but many other behemoths whose bids might be higher and possibly backed by their governments.

The race for Urenco

The British has already indicated their preference for a single buyer with 'deep pockets', though the possibility of a consortium emerging as the highest bidder is also not ruled out. There is also talk of exploring the stock market route so that control rests with the present owners, or a M&A (merger and acquisition) option, though it is felt that an outright sale will be better for a quicker exit. The finale of this saga, likely to intensify in coming months, will be determined by the nature and leverage of the bidders.

Areva invariably leads the pack, being a European company with record of joint working with Urenco, and also the inclination to operate within the treaty limitations. Being the only company in the western world which sells reactors as well as nuclear fuel, Areva will be propelled to a leadership position in the global nuclear market if Urenco falls in its kitty. The purchase will make it the single owner of ETC, thus implicitly giving access to its technologies, and probably complete control. But this is also the kind of potential that the other players foresee in the Urenco deal. American giants like Westinghouse and General Electric, and their Japanese owners, will enter into uranium sales by acquiring Urenco and thus be a major competitor to the likes of Areva by providing a multi-product portfolio. There are other players from the expansive uranium domain as well, like Cameco of Canada and Australian mining companies, which could dream of a domineering impact on global uranium sales by incorporating Urenco. There are reports of potential bids by other consortiums, the most notable being the one led by a former ETC chief.

The western media occasionally speculates on wild card options like China and some Japanese companies. The radio silence from USEC and industry leaders like Tenex may be baffling. Meanwhile, the US government and nuclear industry is debating the merits of depending on foreign suppliers for low-enriched uranium and hence may develop interest in the Urenco deal at some point of time.⁸ Suffice to note that the media has not

⁸ USEC announced plans to close down its age-old and only remaining enrichment facility in the US, located in western Kentucky, and open a new advanced facility in Ohio. However, government support has been sluggish as the cash-strapped company reports losses of \$44 million in the third quarter.

applied mind on possible bidding by other wild cards like India, Brazil or the cash-rich Gulf states. The probable reason is the propagated belief that Urenco does not prefer a non-European buyer. Reports suggest that the Treaty of Almelo constrains this possibility, which, if happening, will need a new Treaty to facilitate the sale. Yet, the probability of the highest bid coming from an Australian, Canadian, US or Japanese company is not ruled out nor could be rejected by Urenco, as all these countries are state-parties to the Nuclear Non-Proliferation Treaty (NPT). Though no such criteria, or blacklist, have been officially expounded, the Dutch are reluctant to part the company to a non-European entity. Britain and Germany, though, are more generous on this count, even as all of them hold veto power. Interestingly, the British government has welcomed the Chinese to invest in its nuclear energy expansion.⁹ Considering that China has a very ambitious nuclear programme and a profound appetite for the yellow cake, its investments may be seen as a lifeline by the industry, if not all governments.¹⁰

Should India be interested?

If Chinese companies eventually end up bidding for Urenco, there is no reason why Indian companies should not do so. Assuming that a new treaty could enable the sale to a non-European buyer, it makes abundant strategic sense for an India entity to join the race, either through an exclusive bid or in the form of a conglomerate - a group of likeminded non-European entities or companies from the developing world could join hands for a consolidated bidding. Public sector undertakings like Nuclear Power Corporation of India Limited (NPCIL) or Uranium Corporation of India (UCI) could spearhead such an initiative by forming a joint-venture with counterparts in Brazil, South Africa and, if needed, China (even Russia) using common interests envisioned through forums like the IBSA or BRICS to enter this race. The joint venture by the Oil and Natural Gas Corporation-Videsh Limited (OVL) with various global counterparts like Cairns and KazMunaiGas, as well as the tie-ups to compete for oil blocks will be an ideal model that could be replicated for this purpose.

India's hunger for uranium is legendary, and the country has savoured every bit of uranium that has come its way. Despite gains of the nuclear deal not forthcoming as expected, India managed an early breakthrough after the NSG exemption by facilitating import of uranium from various sources. Soon after the nuclear cooperation agreement

⁹ Ainsley Thomson, Geraldine Amiel and Brian Spegele, "U.K. Invites Chinese Nuclear Investment," *The Wall Street Journal*, October 17, 2013, <http://online.wsj.com/news/articles/SB10001424052702304410204579140852133043892>.

¹⁰ A commodities trading company, partly owned by the Chinese government, had bought a 5 percent stake in USEC

with France, the first shipment of natural uranium arrived in India.¹¹ Besides importing over 300 tonnes from Areva, India made similar agreements with Russia and Kazakhstan for shipments.¹² Similar avenues were explored with nations in mineral-rich Africa as well.¹³ While the agreement with Canada is also expected to bring gains in this front, India is currently negotiating with Australia for a nuclear deal that will assure a flow of uranium from one of the world's largest depositories.

Thence, any possibility of becoming a stake holder in Urenco will make a remarkable difference to India's fissile quest. Though the possibility of an outright purchase by an Indian company may not sound feasible, the potential to participate in a conglomerate is something the Indian government has to seriously consider and strategize. Even a nominal Indian ownership in this company may not just swing the fortunes of India's nuclear energy sector, but may also provide a fillip to its effort to gain a place at the supplier high-table. The potential spin-off of this exercise for India's NSG membership campaign needs to be examined in order to encourage this decision. Moreover, it might be time for New Delhi to appreciate its emerging role as a catalyst for the global nuclear industry, currently reeling under the Fukushima aftermath and the economic downturn. The argument that economic considerations and lure of the burgeoning Indian energy market might have prodded the NSG to approve the India-specific waiver might have greater relevance in this context.

India's private sector has already made giant leaps in Europe's industrial landscape and led the revival of core sectors like steel and automobile. While many domestic companies are contributing in bits and pieces to India's flourishing nuclear energy market, the scope for their enhanced participation has been stymied by lack of suitable policy initiatives. Regrettably, India's return to nuclear commerce has not been complemented by a liberalisation of India's nuclear industry, which is monopolized by state-run enterprises. Facilitating more opportunities for private participation, if not a level-playing field, could have enabled a faster gallop to India's nuclear energy renaissance and the wherewithal to exploit domestic as well as global opportunities like the Urenco sale.

While the nuclear establishment mulls the merits of harnessing such avenues, there is possibility of normative hurdles like the NPT being flagged to discourage proactive Indian

¹¹ Y. Mallikarjun, "First consignment of natural uranium arrives from France," *The Hindu*, April 1, 2009.

¹² Apart from the over 4000 tonnes of uranium from these former Soviet republics, Russia was also to work with the NPCIL to produce fuel for the Kudankulam project. See "India signs uranium contract with Russia," *Indian Express*, February 11, 2009, <http://www.indianexpress.com/news/india-signs-uranium-contract-with-russia/422044>. Also see "India to Receive Uranium from Kazakhstan," May 11, 2009, <http://news.outlookindia.com/items.aspx?artid=659695>.

¹³ Countries like Nigeria, Uganda, Malawi and Zambia have given permits for uranium explorations, which has attracted foreign companies. For more on the African uranium mining scene see, "New Uranium Mining Projects - Africa", 6 June 2008, www.wise-uranium.org/upafr.html#MG.

forays in the global circuit. It may, however, sound hypocritical if NSG members invoke the NPT rider to block an Indian bid on Urenco, or other such deals, after supporting the waiver to allow India's complete and uninterrupted access to global nuclear commerce. Probably, the evolution of India's status from a perennial end-user to that of a producer and stake holder will take some more time so as to permanently mitigate such hindrances. Nonetheless, considering that the NPT rider has not been officially articulated in the Urenco sale, the Indian government or entities representing the country should take note of this opportunity and act in right earnest.

Will a new order emerge?

Nuclear supplies have been a major means of leverage for the Western countries to determine the norms of non-proliferation and nuclear trade. From the time the NSG was formed as a response to India's peaceful nuclear explosion (PNE), western nations have controlled global nuclear commerce and liberally accommodated end-users in their in-group and discarded the deviant ones while maintaining their sway over nuclear supplies and civilian atomic technology. Though this supremacy was fuelled by the initial nuclear energy revolution, this scenario has drastically changed since the Fukushima incident. With the erstwhile votaries themselves discarding nuclear energy in favour of 'safer' means, the industry plunged into a deeper crises.

Consequently, if the recent churning in the nuclear supplier community is any indication, the Urenco sale plan might be embodiment of larger symptoms of this crisis and the solutions that are being formulated. They include: (a) western nations are increasingly phasing out nuclear plants and/or exiting the nuclear business; (b) hopes are placed on emerging economies like China, India and Brazil to salvage the industry, so as to provide stimulus to the fuel suppliers and reactors manufacturers; and (c) for this to happen, economic prudence has to prevail over non-proliferation virtues. The decision of NSG members to give an India-specific waiver from its 1992 guidelines, and collectively overlook China's nuclear misdemeanours with Pakistan, are probable signs that the high-priests of the supplier community are increasingly giving primacy to economics over normative principles of non-proliferation. If these measures are propelled by the belief that emerging economies will be the future propellants for the global nuclear industry, how are these new catalysts liked to be placed in the nuclear high-tables? Will these forums witness a change of leadership and emergence of a new order?