



# The Visaginas Nuclear Power Project: Energy Security and the Long-Term View

*Energy security in the Baltic region has been a hot button topic for over two decades. The Visaginas Nuclear Power Project (NPP) – a regional project aimed at providing diversity of energy and reducing reliance on external suppliers – could be a solution, but it continues to languish as the national stakeholders involved (Lithuania, Latvia, and Estonia) assess the economic case for the project.*

*Guest contributors Paul Murphy, Special Counsel in the Washington, DC office of Milibank, and Melissa Hersh, Principal at Hersh Consulting, LLC, provide this special report.*

In an increasingly electricity-driven world where development and innovation rely on a continuous source of affordable energy, access to and stewardship of electricity, free from disruption and other political risk, are paramount considerations for sovereigns.

Energy security in the Baltic region has been a consideration since independence from the former Soviet Union and was achieved when accession to the European Union (EU) occurred; yet, nuclear power is often associated with a negative historical and political legacy, and it has subsequently held a precarious position amongst decision makers. For the last several years, the Visaginas Nuclear Power Project (NPP) – a regional project aimed at providing diversity of energy and reducing reliance on external suppliers – continues to languish as the national stakeholders involved (Lithuania, Latvia, and Estonia) assess the economic case for the project.

Financing an NPP and considerations of revenue generation are two key challenges to their development; Visaginas is no different. In light of the turbulence across the global energy landscape, reliability of supply – for whatever reason, be it natural hazards, political instability, or price shocks – necessitates that national energy strategies look beyond pure project economics to wider “macro” issues as driving forces behind strategic policy decisions.

If the Baltic States only focus on project-level financial modeling, their commitment to energy and economic security will be incomplete.

## **The importance of diversification**

Baltic economic growth projections are [positive](#), and show no signs of slowing down. In order to maintain this growth trajectory, baseload power is vital. Consequently, the macroeconomic benefits of nuclear power should not be undervalued, even if quantifying the ripple and indirect effects of such a project is challenging. Widespread discussions on energy security are figuring prominently on many national agendas, especially given recent regional geopolitical events.



Such discussions naturally migrate into an appreciation of the importance of baseload energy, necessarily doing so within a context of aggressive carbon emission reduction commitments. Developing and implementing an energy security policy that exceeds rhetoric alone requires a strategic national agenda, which by its very nature means making decisions in favor of a long-term, holistic vision.

Electricity is indisputably considered to be critical national infrastructure today; without it, development and innovation stagnate. It then follows that governments must decide upon the means to providing uninterrupted, affordable electricity to its citizens. Based on this premise, it follows that energy security is put at risk whenever a nation must rely on either/both: (1) external supply of electricity, and/or (2) external supply of the fuel needed to generate electricity.

If such reliance exists, as is the case, for example, regarding the supply of natural gas by Gazprom to the EU, client countries might not have the ability to effectively manage their macroeconomic goals, which, in turn, facilitate microeconomic results. External dependencies can expose a country to a number of risks, whether they be geopolitical, economic (e.g., credit, interest rate, currency, price), or operational risks, which, in turn, can have deleterious and cascading effects.

To mitigate these vulnerabilities, countries can internalize their energy supply domestically or in regional partnerships where there are shared benefits, such as achieving superior levels of price stability, enhancing predictability of supply, leveraging national human and technical strengths, and pooling risk.

Furthermore, diversifying fuel sources promotes further energy security by reducing a country's dependence on any one particular type of fuel supply. Choosing to include nuclear energy into one's national energy portfolio can be transformational for national and/or regional growth.

Identifying, articulating, and orchestrating both upstream and downstream local economic benefits is a crucial component of a project's success, both for the project company and for the participating countries. How these opportunities are showcased, selected or procured, and shared across beneficiary States (in the case of Visaginas) is vital.

### **The Baltic context**

For the Baltic region, each nation can contribute its own strengths and capacities to an NPP. Regional optimization of national strengths can provide benefits that exceed predictability of pricing, self-sufficiency, and sustainable baseload power to create opportunities for cross-training, professional and academic exchanges, increased regional trade, and the exchange of administrative, engineering and technical, financial, safety, and security best practices.

The key, however, is for all of the main stakeholders – each of the Baltic States plus Hitachi – to work in collaborative fashion, so that the project benefits the region in terms of both energy security and economic development.



Two months ago, both Latvia and Estonia stated that (1) each will determine its position on the project once each receive economic calculations, and (2) each will participate in the project if it generates a return on investment (ROI). How Latvia and Estonia define ROI is contingent on how each chooses to define the costs and benefits of the project. It is hoped that Latvia and Estonia will not use economic modeling as the sole determinative factor; doing so would undercut the value of the project.

While there has been external support to work with individual Baltic nations to redress some energy independence considerations (e.g., the NordBalt interconnection between Sweden and Lithuania), there have also been moves by individual Baltic nations to self-finance projects that allow for energy diversity (e.g., Lithuania's new LNG terminal). It is these precedents that are crucial to the regional adoption of the Visaginas NPP, as such projects take a more long-term, holistic view to managing one's national position and national development goals.

It is challenging to find metrics to measure, weigh, or model the relative costs and benefits of different types of infrastructure investment; consequently, national and regional strategies may not always make short-term financial sense in favor of longer-term political and security trade-offs.

At a project level, for investors and lenders, energy security is not something that can be factored into a financial model. In this respect, it is similar to intangible values put on similar concepts like "energy diversity", "grid stability" / "capacity", or "clean energy"<sup>1</sup>, as none of these considerations is quantifiable through project financial modeling.

Nevertheless, at a macroeconomic or national level, each of these concepts can be highly valued and translated into political capital by a national government.

NPPs are not "winning" short term propositions from corporations whose results are driven by quarterly or annual statements. The "market" is not driving the desired result, and commercial banks are unwilling to shoulder NPP risk generally, let alone during a period of fiscal constraint. However, creating a 'benefits framework' necessitates a long-term vision. For example, a decision by the national government must consider the benefits to the local economy, as certain construction is localized, jobs are created, businesses to support the facility are developed, and a new tax base is created from such developments.

With all of the data points aligned in Lithuania, environmental and economic impact assessments may not alone be persuasive enough to unencumber Latvia and Estonia from, among other things: (1) near-term financial demands; (2) historical associations with both Ignalina and Chernobyl; (3) promises of a working, connected European grid; and (4) the lasting reputational loss of Fukushima whereby the lessons learned have not been sufficiently being packaged to demonstrate the positive outcomes and upside of risk.

Moreover, tacit acceptance of nuclear energy as a legitimate player as part and parcel of [carbon abatement solutions](#) or [carbon reduction strategies](#) has only come to the fore



recently. Recognizing the inherent limitations of renewable energy (intermittency and scale), a regional power solution – in the form of an emissions-free source of large-scale, baseload generation – will provide each of the Baltic States with a huge leap forward in their individual and collective efforts in meeting EU-wide climate change commitments. The lag time between policy trends and national adoption, however, could be detrimental to Visaginas.

### **Conclusion**

With electricity as a key driver of economic development and overall quality of life, it falls to the national government to ensure and protect supply, as well as factor in other intangible considerations. As such, it becomes difficult for a responsible government to base the provision of such a need on the unpredictability of external energy markets and supplies, which, necessarily, changes the rules by which governments must evaluate energy projects and the support they give.

Certain benefits of an NPP are often not quantifiable. Without taking into account all the beneficial effects of NPP development – by simply limiting the “go/no-go” decision to project-level analysis – the Visaginas Project will fall short. Potential stakeholders will sell the project poorly, and, as a consequence, miss out on the long term benefits and positive legacy that such a project would otherwise provide to the region.

The hope is that the Estonia and Latvia do not limit their examination of Visaginas and the need for significant financial and political capital through a narrow lens, and rather look more broadly at the overall and long-term beneficial impact of the project. In so doing, such a regional project can also become a model for other countries interested in NPP development that might not have the wherewithal to “go it alone” or might look to become a client country for a project developed independently in a neighboring country.

***The original article can be found on:***

<http://globalriskinsights.com/2015/06/the-visaginas-nuclear-power-project-energy-security-and-the-long-term-view/>

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### **About the authors**

**Paul Murphy** is Special Counsel in the Washington, DC office of [Milbank, Tweed, Hadley & McCloy LLP](#) and a member of the firm's Global Project Finance Group. Mr. Murphy is recognized as an expert in the development and financing of nuclear power programs by the International Atomic Energy Agency (IAEA), the OECD's Nuclear Energy Agency (NEA), the International Framework for Nuclear Energy Cooperation (IFNEC), and the US government. He is a graduate of Princeton University's Woodrow Wilson School for Public and International Affairs and a graduate of Harvard Law School.

**Melissa (Mel) Hersh** is a Washington, DC-based risk analyst and consultant, and is a Truman National Security Fellow. Throughout her career she has provided strategic planning, analysis, and management guidance to private sector, intergovernmental, and governmental clients, facilitating operational continuity and resilience to anticipated and unanticipated high-consequence exposures. As Principal of [Hersh Consulting, LLC](#) (HC) Mel works with her clients to mitigate strategic, political, financial, operational, and reputational risk with a focus on critical infrastructure sectors, such as energy, transport, defense and security, and human and animal health.