CLEARPATH

IDFC and Advanced Nuclear: The Perfect Pairing

By Spencer Nelson | May 2019

Summary

Historically, the Overseas Private Investment Corporation (OPIC) has been a mechanism to support U.S. companies developing projects internationally at no cost to taxpayers. The BUILD Act greatly expanded OPIC authority and lending capacity as the new International Development Finance Corporation (DFC), which starts in October of 2019. OPIC has had an outright ban on financing nuclear energy exports which was incorporated from the World Bank. Maintaining this prohibition in the DFC is inimical to the larger U.S. strategy to both counter authoritarian governments' influence and develop of low-emissions technology internationally.

DFC and OPIC Overview

Since the end of WWII, with the establishment of the Marshall Plan, the United States has heavily relied on overseas investment and lending as a major tool for national security and economic prosperity. Overseas investments and exports bring financial gains to Americans while strengthening ties with allied nations and supporting human development. Improving development finance tools is an important part of the updated 2017 National Security Strategy, particularly due to the strategic threat of China's rise in the global economy.[1] OPIC has been one of the most successful tools of the U.S. government – supporting over $200 Billion in U.S. overseas investment through a combination of financing, risk insurance, and investment funds.[2]

Despite its success, U.S. tools such as OPIC have been increasingly overshadowed compared to China's massive overseas investments. Through the "Belt and Road Initiative" (BRI), China plans to invest up to $4 trillion across 70 countries over the next decade.[3] Much of this development is aimed at developing economics to support China's political aims. In some cases such as in Sri Lanka and in Ecuador, China has essentially engaged in "debt-trap diplomacy," gaining major leverage over the nation.[4,5]

In recognition of China's growing international investment, the DFC was authorized in September 2018 through the enactment of the BUILD Act. The DFC was created to "provide countries a robust alternative to state-directed investments by authoritarian governments"[6] – which is this case clearly means China. The DFC is the successor to OPIC but makes several improvements including:[7]

---

[1] White House National Security Strategy

[2] OPIC FAQs

[3] CSIS Belt and Road Initiative 5 Years Later

[4] Project Syndicate: China's Debt-Trap Diplomacy

[5] NY Times: It Doesn't Matter if Ecuador Can Afford This Dam. China Still Gets Paid.

[6] BUILD Act Text 2018

[7] CGD: A New Law is "The biggest step forward in U.S. development policy" in 15 Years

- Doubling the lending cap to $60 Billion;
- Allowing equity investments and technical assistance;
- Give preference to U.S. investors without making it a requirement; and
- The authority to make local currency loans, first loss guarantees, and small grants.

Importance of Government Nuclear Export Finance

Civilian nuclear energy is one sector that both Russia and China have identified as a crucial area of international investment. Chinese and Russian state-owned enterprises like Rosatom are actively looking to export indigenously designed reactor technologies and services to the point that over two-thirds of all reactors currently under development globally are of Russian or Chinese design.[8] This trend demonstrate the rapidly dwindling ability of the U.S. to check its rivals' ambitions. Their exports provide significant leverage over their partners as they maintain control over fuel, financing, waste, and in some cases, operation. As many nuclear reactors can operate for up to 80 years and represent a large portion of a country's electricity supply, these exports are a major tool for soft power.

This is a place where the U.S. should be leading. The Department of Commerce estimates the international civil nuclear energy industry to be worth up to $740 billion over the next 10 years,[9] with $100 billion in export opportunities for the United States. China and Russia offer either corporate financing or government to government financing for nuclear nuclear plant exports, and loans can range from 50 to 90% of the total cost of the project.[10]

OPIC/DFC Treatment of Nuclear

When OPIC was reauthorized in 2009 the law included a requirement that OPIC institute environmental and social policy statement (ESPS) "no less rigorous"[11] than the World Bank's, which outlined a prohibition on nuclear energy financing in 2013 because the technology is not universally supported.[12] By utilizing a blanket transfer of ESPS from the World Bank, Congress inadvertently instituted a prohibition that goes against larger national security strategy. Even if the World Bank isn't interested in supporting nuclear energy development, if the United States and the partner nation are, that financing should be allowed.

As the BUILD act states that policies from OPIC should be copied over to the new DFC (which starts operation in October 2019),[13] unless action is taken, the ESPS will continue to prohibit nuclear financing. The United States has a unique opportunity to support non-industrialized countries in developing energy in a responsible, clean, safe, and affordable way with advanced nuclear. The DFC should be part of that discussion.

---

[8] WNA: Plans for New Reactors Worldwide
[9] US Department of Commerce: 2016 Top Markets, Civil Nuclear
[10] IAEA: Financing Nuclear Power in Evolving Electricity Markets
[11] OPIC Reauthorization Act of 2009 Senate Report 111-107
[12] https://phys.org/news/2013-11-world-bank-money-nuclear-power.html
[13] FAA Reauthorization Act of 2018 Title VIII, Division F: Build Act of 2018 Sec. 1466