



Indo-US Nuclear Deal - Benefits in the Long Run

Event Update

Skepticism often shadows significant changes in policies and their expected outcomes. Such has been the fate of the historical July 2005 Indo-US Agreement, with the detractors opposing it hammer and tong. In recent times, the issue has been heatedly debated with the existence of UPA government itself coming under cloud.

Agreement for Cooperation between the USA and India Concerning Peaceful Uses of Nuclear Energy (123 Agreement)

On July 18, 2005, Prime Minister Manmohan Singh and President George Bush realising the significance of meeting the growing global energy demands in a cleaner and more efficient manner, resolved to establish a global strategic partnership to enable full civil nuclear energy cooperation between the two nations. The scope of the agreement includes transfer of nuclear material, non-nuclear material, equipment, components and information. It also mentions provisions regarding advanced nuclear energy research and development (R&D), development of a strategic reserve of nuclear fuel and nuclear safety matters. Notably, as per the terms and conditions, both parties have been bestowed the right to terminate the agreement with one year's prior written notice.

Left Parties stand to differ

The Left Parties have been continuously opposing the deal citing that it would severely undermine India's independent Foreign Policy and strategic autonomy. The CPI(M) General Secretary, Prakash Karat has stated, "Our independent Foreign Policy will be in peril if we go for defence and military cooperation, strategic and economic partnership and civil nuclear deal with the US". However, with the Samajwadi Party now supporting the deal, the government intends sealing the deal before the November 2008 elections in the US.

Relevance for India

The deal would be a significant milestone in the annals of India's Atomic Energy Policy. Since several decades, India has been denied access to Nuclear Power Technology. With this deal, India will not only gain recognition for its nuclear weapon status, but will also obtain nuclear technology to augment its Atomic Energy program. The deal will also facilitate India to secure critical uranium for its nuclear power plants. It is pertinent to note that the country has high base load deficit of 9.8% and peak load deficit of 16.6%

(2007-08). Currently, nuclear power contributes a miniscule 2.8% of the total electricity production in the country while the same contributes around 15% of the World's electricity production. However, with the deal likely to see the day of light, the contribution of nuclear power could go up substantially in the ensuing years.

The Atomic Energy Commission Chairman, Anil Kakodkar, has also supported the deal and stated that our reactors are operating at 50-55% capacity due to the mismatch between uranium supply and need. In addition, besides providing a clean and cheap source of energy, the deal would also be beneficial for the Medical and Agriculture sectors.

Economics of Nuclear Power Plant - Nuclear Power Plants have very high capital costs. But, over the long run, it works out to be economical as it has the lowest variable (fuel) costs.

Exhibit 1: Life-Cycle Cost of Power Plants (World Figures)

Fuel Mix	Levelised Cost of Electricity Generation (\$/MWh)		Construction Costs
	5% discount rate	10% discount rate	
Coal	25-50	35-60	1,000-1,500
Gas	37-60	40-63	400-800
Nuclear	21-31	30-50	1,000-2,000
Wind	35-95	45-140	1,000-2,000
Hydro	40-80	65-1000	NA
Solar	150	200	NA
Heat&Power	25-65	30-70	NA

Source: International Energy Agency

Conclusion

We believe though the approval of the deal would boost sentiments for Power and Allied Capital Goods sector, no companies stand to benefit particularly in the near term. Notably the deal has already been talked about for more than 3 years and the approval from the Nuclear Suppliers Group (NSG) and the International Atomic Energy Agency (IAEA) are the vital next stages in the path to fructify the deal. Hence, there won't be any accretion to the bottom-line of the companies in the near term. **Though difficult to quantify the materiality and the timeline of the benefits at this juncture, few companies including BHEL, L&T, NTPC, ABB, Areva T&D, Alstom Projects, Rolta India and HCC would tend to be the key beneficiaries out of the deal albeit in the long run.**

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