

Foreword

What's at Risk?

Henry Sokolski

In Washington, where immense power and stupendous budgets come together, it is tempting to think any financial proposal formally approved is money in the bank. This, however, is misguided: Any investment, even one made by Congress, poses risks and has costs. Some, as the recent controversy surrounding the Solyndra project demonstrates, can clearly lose money.

This volume spotlights the costs and risks associated with federal clean energy loan guarantees. To be sure, these costs are difficult to calculate to the last penny. Critics of loan guarantees emphasize the risks that guaranteeing loans to large renewable projects, clean coal plants and nuclear entities can run. They point to the half billion dollars Solyndra has already cost U.S. taxpayers.

Proponents, however, insist that Solyndra was an anomaly, that there will be no more defaults and that, henceforth, the cost of clean energy loan guarantees to the taxpayer will be zero. This, of course, is rebuttable. After all, if the clean energy projects applying for federal loan guarantees are certain to make money, why are there no private investors willing to back them?

Still what makes granting such guarantees difficult to resist is that the initial cost of awarding such loans is negligible. Also, such loan guarantees are almost entirely off-budget. Certainly, whatever the final costs might be are most likely to be incurred well after the loans have been granted. These costs, though, do have to be paid and when

they are incurred, there can be substantial political fallout. Again, the Solyndra Corporation's default makes this painfully clear.

Beyond having to pay for actual defaults, though, there are two other significant risks associated with these loans. The first is the moral costs of government officials backing commercial projects that turn out to be significant money losers. Such misjudgments are rarely conceded until very late in the game (e.g., synfuels in the 1970s, the Clinch River Breeder Reactor in the 1980s, and corn ethanol in the 1990s). Worse, in some cases, the government must cover its tracks by mandating that the public buy the product produced (e.g., ethanol) even though it clearly is not cost effective against less expensive alternatives. The net effect of such fiscal cynicism is the diversion of financing – public and private – from more worthy energy innovations to projects that otherwise would fail financially. More important, public faith and credit in the federal government suffers with each transaction.

Yet another set of concerns, which has drawn my center's attention, is the corrosive effect these subsidies can have in the case of nuclear projects on U.S. and allied nuclear nonproliferation policy.

As the last four decades of nuclear weapons proliferation have demonstrated, countries' "peaceful" nuclear programs (e.g., in India, Iran, Iraq, North Korea) can and have been used to develop nuclear weapons programs. None of these "civilian" programs ever made much commercial sense. Historically, this is an important point that the U.S. and other like-minded governments have spotlighted to challenge these programs. Yet, the more heavily the U.S. and its allies have subsidized their own commercial nuclear programs, the less authority they have had to spotlight how uneconomical other states' nuclear plans might be.

We have already seen how costly this can be in the case of Iran. Before the Bush Administration established multi-billion-dollar commercial nuclear loan guarantees under the Energy Policy Act of 2005, both the Bush and Clinton administrations publicly criticized Tehran for subsidizing an uneconomical nuclear power program when it was flaring millions of cubic feet of relatively clean natural gas. This criticism was one Tehran had difficulty deflecting.

After 2005, though, the U.S. stopped making this case and instead conceded that Iran had a right to develop nuclear power no matter how uneconomical it might be. Although passage of the 2005 act did not cause the change in U.S. policy, it came just before this policy shift was announced and made any attempt to return to the previous sounder nuclear economic critique of Iran far more awkward.

Yet another dimension of this problem is the U.S. Department of Energy's recent granting of conditional nuclear loan guarantees to French government-owned nuclear firms to build nuclear plants in the U.S. Granting these loan guarantees has unintentionally rewarded a foreign nuclear supplier that has been undermining U.S. nonproliferation standards overseas.

In specific, the French have undercut the new U.S. Gold Standard for nuclear nonproliferation created under the conditions of the 2009 U.S.-United Arab Emirates (UAE) nuclear cooperative agreement. This agreement required the UAE to forswear making nuclear fuel and to ratify an intrusive International Atomic Energy Agency inspections agreement known as the Additional Protocol. The U.S. asked the French to uphold this standard but the French instead have consciously decided not to do so.

This has caused Congress to question how serious the Executive Branch is about pushing the standard. When the U.S. Department of Energy awarded conditional loan guarantees to French firms to build nuclear plants in 2010, Congress, nonproliferation experts, and the press took note. They noted that whatever else the U.S. government should be doing to promote nuclear energy, it ought not to be using the U.S. Treasury to help foreign nuclear firms expand their business in the U.S. if they are simultaneously undermining U.S. nonproliferation standards overseas.

This, of course, is a distance from the political and economic controversies surrounding such headline grabbers as Solyndra or, more recently, the United States Enrichment Corporation's political difficulties in securing a \$2 billion federal loan guarantee for a new, commercial enrichment project. Still, it highlights the unintended, negative knock-on effects of such politicized loan making.

Washington insiders' cynical rejoinder to such arguments is that for most Americans these worries are simply too complicated to be comprehended, have no political visibility, and, therefore, can be ignored.

This small monograph, however, assumes that after Solyndra, just the opposite is possible. Its aim is to clarify what otherwise might seem complicated. Although none of the authors of the essays it contains necessarily agree with one another on the importance of promoting nuclear power or any other specific form of electrical generation, each presents a clear set of evidence on why Congress and the Executive should stop increasing the amount of federal dollars available for making such loans. Some of this analysis is detailed. Some comes in brief op-ed length pieces. None are obscure. The hope is that each in its own way is persuasive regarding the bottom line: Continuing to pile on more clean energy loan guarantees constitutes nothing less than pure risk, i.e., creating a situation where there is a chance of running loss but no chance of gain.