

Sovereign wealth funds – Driving growth of the nuclear power sector



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ABSTRACT

The nuclear industry is experiencing significantly difficult times, and one of the crucial concerns is that the construction of new power plants is being stymied by the lack of long-term investment capital. State-owned investment funds, frequently referred to as sovereign wealth funds (SWFs), represent the fastest-growing group of global investors whose total assets under management have soared from \$2 billion in 2005 to \$6.6 billion in 2014, according to the United Nations Conference on Trade and Development (UNCTAD) are simultaneously looking for investment opportunities with long term horizon and guaranteed stable income.

An example of the symbiotic relationship is the one between Rosatom - the Russian Federation National Nuclear Corporation and the Russian SWFs. It demonstrates a specific business model where the SWF serves as a funding and financial guarantee authority for the state-owned corporation. This kind of relationship offers unique advantages to the entire industry, significantly strengthens Russia's international position, and contributes substantially to government revenues.

Despite its economic and political advantages, this model also involves specific threats, especially in times of economic recession when a large fiscal deficit can have a devastating impact on the whole industry and simultaneously lead to severe damage in international relationships.

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1. Introduction

The purpose of this study is to describe a business model adopted by Rosatom¹ and Russian sovereign wealth funds (SWFs) and, using the Russian example, illustrate the various ways in these funds can leverage the available capital in the nuclear power sector to encourage the key domestic industry sector as well as significantly strengthen political influence in regions of Russian interest (see Figs. 1–3).

This paper will first define the major differences between subjects and the institutions generally known as SWFs. We will then describe Russia's two largest SWFs—the National Wealth Fund and the Reserve Fund and show how these two funds differ from other well know SWFs such as the Chinese Investment Company (CIC), TEMASEK Holding, GIC (formerly, the Government of Singapore Investment Corporation), or the Norwegian Government Pension Fund.

The key section of this paper will explain the business model

built upon the investment capital provided by Russia's sovereign funds, which gives a unique competitive advantage to Rosatom – in terms of offering a turnkey solution for the delivery of the complex construction and operation of the nuclear energy infrastructure.

The specific examples of the financial and technical solutions offered by this business model are demonstrated in terms of the ongoing or proposed Rosatom international projects. A comprehensive list of projects utilizing this business pattern, including prospective customers and expected value of future contracts, points to the market size and potential volume of future contracts.

Section 5 summarizes the advantages and possible drawbacks of the business model and outlines future scenarios for using this pattern in other industries.

2. Definition, classification, and current approach to the sovereign wealth funds

Currently, there is no unanimously accepted definition of SWFs

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¹ ROSATOM is the Russian Federation national nuclear corporation that comprises 400 + nuclear companies and R&D institutions that operate in the civilian and defense sectors. The corporation employees over 100,000 people, generating revenues of \$12.9 billion (2015). Atomenergoprom is a 100% state-owned holding company that unites the country's civilian nuclear industry.

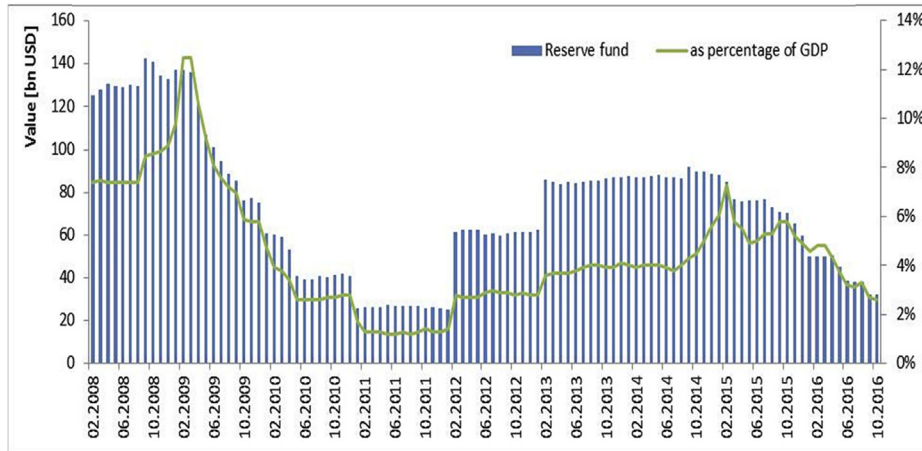


Fig. 1. Value of the reserve fund (billion USD).

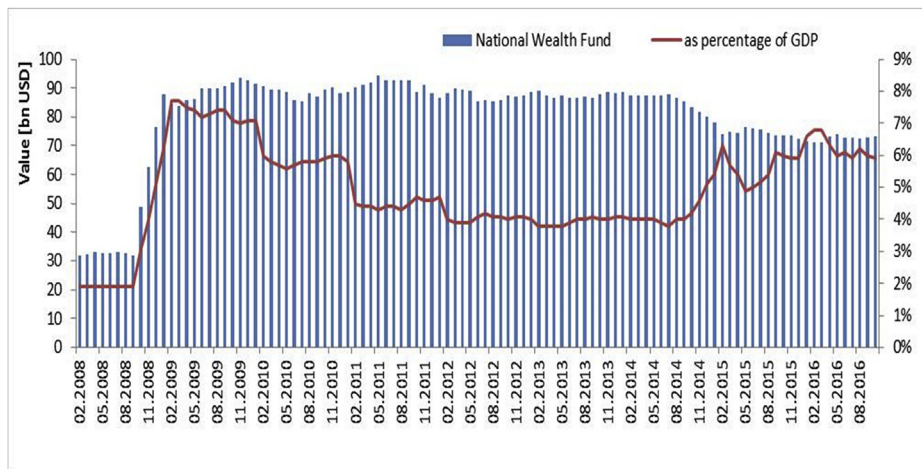


Fig. 2. Value of the national wealth fund. (Billion USD).

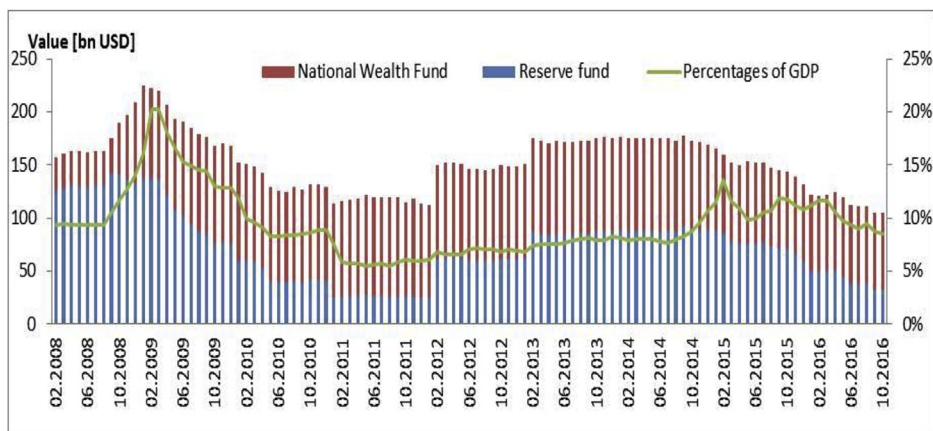


Fig. 3. Value of russian SWFs 2008–2016.

[1]. For the purpose of this paper, the definition of the International

Working Group of Sovereign Wealth Funds (IWG)² will be used - SWFs are defined as special purpose investment funds or arrangements, owned by the general government. Created by the general government for macroeconomic purposes, SWFs hold, manage, or administer assets to achieve financial objectives, and employ a set of

² 2008-International Working Group of Sovereign Wealth Funds – Generally Accepted Principles and Practices.

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