



## **In the Wake of the Saudi Nuclear Energy Shortlist The Case for International Cooperation**

*July 12, 2018*

*By Alan Ahn*

---

### Current Developments

On July 1st, the South Korean Ministry of Trade, Industry, and Energy (MOTIE) [issued a statement](#) that Korea Electric Power Corporation (KEPCO) was shortlisted—along with other consortia from the United States, Russia, China, and France—as a preferred bidder for the construction of Saudi Arabia's first commercial nuclear reactors. MOTIE reportedly received notice of the shortlist from the King Abdullah City for Atomic and Renewable Energy (KACARE), which also indicated its plans to make a final decision on the two-unit (2.8 GW total) project tender sometime in 2019.

Reports of the shortlist [initially emerged](#) from South Korea's Yonhap News Agency. The Saudi Gazette has also published news of the shortlist, [focusing on the merits of the Russian bid](#) and Rosatom's extensive international nuclear construction experience.

On July 8th, Axios reported that Israel had [communicated a set of "red line" conditions](#) to the Trump administration with respect to U.S. involvement in the Saudi civil nuclear program; the conditions included total openness on negotiations with Riyadh, full disclosure of what nuclear equipment would be sold to the Saudis and where they would be located, clauses restricting uranium enrichment on Saudi territory, and guarantees that the U.S. would be the sole supplier of nuclear fuel to Saudi Arabia and reclaim the fuel after it was used. This list of stipulations was reportedly transmitted via Israeli energy minister Yuval Steinitz, who [expressed confidence in U.S. compliance](#) with Israel's requests and commitment to uphold nonproliferation standards in any civil nuclear deal with Saudi Arabia.

However, in seeking such assurances from the U.S., Israel is arguably issuing parameters that are self-conflicting and counterproductive. Attempts to impose an absolute restriction on enrichment (a superfluous condition given that it is [high-](#)

[impossible for Riyadh to achieve such a capability](#) within any conceivable timeframe) would in all likelihood [preclude U.S. participation in the Saudi nuclear market](#), thereby compromising prospects for transparency regarding the Saudi program and effectuating Israel's preferred fuel cycle arrangements. Back in March, Saudi energy minister Khalid al-Falih [underscored the kingdom's non-U.S. alternatives](#): "If the U.S. is not with us, they will lose the opportunity to influence the program in a positive way."

#### What the Shortlist Means

Contrary to original expectations that the shortlist would only contain two to three preferred bidders, Saudi Arabia decided to [retain all five suppliers](#) that responded to its Requests for Information (RFI) back in 2017.

The South Korean Minister of Trade, Industry, and Energy, Paik Un-gyu, expressed that Saudi Arabia's decision may be intended to maximize competitive pressures among the bidders in order to attain the greatest possible negotiating leverage. During a government meeting, [Paik stated](#): "We expect fierce competition in the bidding process with all the tenders picked as preferred bidders instead of three as we previously anticipated. We believe this is part of Saudi Arabia's strategy to maximize its leverage in the deal... we must closely monitor the situation and respond cautiously."

The timing of the shortlist may also imply Saudi difficulties with the information gathering and evaluation process. The announcement of the shortlist was expected to take place months ago, and KACARE had officially declared that a [final decision would be made by the end of 2018](#) when the tender process was launched. Delays and deviations from the original timetable suggest that more time may be necessary for Saudi Arabia to assimilate all the relevant facts and details required to arrive at an informed conclusion. The fact that none of the five major competitors have been excluded will require the Saudis to process a greater volume of information, auguring further postponements down the road.

Perhaps an additional implication of the shortlist is that the Saudis perceive none of the bids to be truly ideal. What likely complicates the evaluation process for Saudi Arabia is that while all the bidders have their relative strengths, none are without drawbacks—Russia has close cooperation with Saudi regional rivals, U.S. and French nuclear companies have experienced financial distress from construction delays and cost overruns, etc. Earlier in the tender process, many experts [contended that South Korea was the frontrunner](#) to win the deal based on its nuclear construction experience in the neighboring United Arab Emirates (UAE). However, there have been recent signs that the competition may be narrowing any presumed gaps. Saudi media descriptions of the benefits of nuclear cooperation with Russia [have not been lost on outside observers](#). In late June, it was reported that Westinghouse would ["emerge from bankruptcy with sufficient equity"](#) and be further bolstered by the [operational start of AP1000 units in China](#). More recently, the French engineering firm Assystem was contracted by KACARE to [evaluate and assess potential sites for the first Saudi units](#).

In Korea, the news that Saudi Arabia kept all five bidders was met with some concern; following the announcement, Korean pursuit of the deal was described as an "[uphill battle](#)." In response, the Korean government has redoubled its efforts with respect to the Saudi nuclear project. MOTIE [organized a July 2nd meeting](#) to more closely coordinate KEPCO, Korea Hydro & Nuclear Power (KHNP), and other companies involved in the Saudi bid. Furthermore, a [nuclear export support center was established](#) within KEPCO's office in Seoul and Korea's nuclear-related industries are [planning a roadshow to Saudi Arabia later in 2018](#).

#### The Logic of Cooperation

In addition to the aforementioned initiatives, Korea is also pursuing international collaboration as a means to strengthen its competitive position. Korea has an existing agreement with the UAE for [cooperation in third country nuclear markets](#), and both Korean government and industry are seeking to [expand partnerships with the U.S.](#)

Such international cooperation can potentially create significant benefits not only for the supplier/investor countries involved, but also client states. A broader, multinational consortium can help address the weaknesses and deficiencies of individual bidders. In the case of Saudi Arabia, expanded international partnerships can help restore negotiating leverage to the suppliers, while also affording the Saudis access to more complete and favorable project options. Consolidation of bids would also greatly simplify the decision-making process for Saudi Arabia.

Moreover, multinational involvement in Saudi Arabia's nuclear program would provide maximum transparency to alleviate proliferation worries. A multinational consortium would also be better positioned to provide a more comprehensive suite of fuel cycle services—a scenario that would be ideal for both Saudi Arabia and regional nonproliferation objectives. On its own, the U.S. would be [hard-pressed to execute the cradle-to-grave fuel arrangements](#) of the nature that Israel expressly desires.

Global America Business Institute | 1001 Connecticut Avenue NW, Suite 435,  
Washington, DC 20036 | 202-499-7979 | [FLL@thegabi.com](mailto:FLL@thegabi.com) | [www.thegabi.com](http://www.thegabi.com)

STAY CONNECTED:

