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## France : EDF and Areva forced to re-evaluate after losing bid

By Peggy Hollinger

The shock came just a few days before Christmas, and for many involved in France's bid to clinch the world's biggest nuclear contract, the after-effects have still not worn off.

Abu Dhabi's decision last December to forgo France's acknowledged experience in nuclear power generation and instead launch its \$20bn reactor programme with market newcomer South Korea has left a sizeable dent in the country's atomic ambitions.

After all, Abu Dhabi was the first big test of President Nicolas Sarkozy's twin-track strategy of using France's nuclear expertise to boost both exports and the country's influence abroad.

But in the end, neither the claim that France's heavy duty 1600MW European Pressurised Reactor (EPR) offered groundbreaking safety features nor the pledge of a military base in the region was enough to overcome two simple facts. On the one hand, the offer was too expensive, with the costs of the two EPRs under construction rising at breakneck speed. On the other, the two bidders, Areva and EDF, had failed to heed the needs of their customer, as they were preoccupied with petty discords.

Now, not only has the government decided to redefine the roles of Areva and EDF, but a debate is even raging over the outspoken and independent Nuclear Safety Authority. Some industry insiders have blamed the NSA for being too vigilant, openly questioning command and control systems for the EPR during the Abu Dhabi bid and forcing costly stoppages to the showcase reactor project at Flamanville, now two years late and €1bn (\$1.3bn) over budget.

François Roussely, the former boss of EDF, whose government-commissioned report on the future of France's nuclear industry was published in July, has suggested the state should reassert its authority over the nuclear watchdog, which was given its independence in 2006.

"The only reasonable logic cannot be the continuous increase in safety demands," he says in the report. Safety demands and economic constraints must be better aligned, he says. "The state must define a modus vivendi with its safety authority. That means reaffirming the sovereign role that it should not have abandoned to an independent authority."

Most of Mr Roussely's 15 proposals have been taken on board by the government, keen to maintain France's reputation as a world leader in nuclear technology. These include giving EDF, operator of France's 58 reactors, the role of "team captain" to organise consortia for tenders where countries have no atomic experience.

EDF could also take a sizeable stake in Areva, along with Middle Eastern and Asian investors, in a move to establish the pecking order between two companies which have for years struggled for leadership of France's nuclear industry.

France has also had to admit that perhaps its complex and costly EPR reactors – now running at between €4bn and €5bn apiece – are not the only answer to the world's nuclear needs.

Custom-designed to respond to post-Chernobyl security fears, the EPR's failure to persuade Abu Dhabi was proof that, even in the nuclear industry, some safety concerns may have to yield to cost. In addition, the civil engineering challenges of the EPR have been gigantic, and the industry has had to relearn the skills of nuclear project management that were lost during decades of underinvestment.

"The EPR has to be rethought and simplified," says Colette Lewiner, head of the Energy and utilities division of Capgemini. "It has to be easier to build."

Size too has been an issue, and France will now attempt to expand its catalogue to smaller and ultimately cheaper reactors.

The stakes are high for a country where exports have for too long focused on mature industries such as aerospace and automobiles. The nuclear renaissance under way in many parts of the world gives France a unique chance to exploit its 40 years of nuclear experience.

The government estimates that France's nuclear industry employs up to 200,000 people, directly and indirectly. State-owned EDF manages the nuclear plants that provide 80 per cent of France's electricity needs.

Areva is both a designer of reactors and the world's biggest miner of uranium with 20 per cent of the market in 2009. It is also a world leader in waste treatment and fuel enrichment.

And roughly 30 per cent of the world's nuclear reactors use turbines supplied by Alstom, while GDF-Suez, EDF's rival, operates seven reactors in Belgium.

Around these champions a network of suppliers has been built up, with 600 companies involved simply in maintaining French reactors. But with virtually all France's nuclear needs already met, growth at home will be limited.

So France's nuclear industry has no choice but to look abroad – both to find new business and to maintain the skills it needs to keep its own reactors running.

The government's hope is that by setting out clear guidelines for how its various champions will tackle new export markets, it will be better placed to compete – and this time with foreign rivals rather than with each other.