

Global Risks Report proposes development of international 'nuclear insurance fund'



Global Risks 2008, published by The World Economic Forum (WEF) in cooperation with Citigroup, Marsh & McLennan Companies, Swiss Re, the Wharton School Risk Centre and Zurich Financial Services, highlights key areas of risk that were a focus of discussions by business leaders and public policy-makers at the World Economic Forum Annual Meeting which took place in Davos, Switzerland. The report is based on input from a network of more than 100 top business leaders, decision-makers, scientists and other leading academics that convened throughout 2007 as part of the World Economic Forum's Global Risk Network. It focuses on four emerging issues, which will impact the world economy and society in the decade ahead: systemic financial risk; food security; supply chain vulnerability; and energy.

Turning risks into opportunities

Global Risks 2008 says that the availability of energy resources is key to the global economy, but guaranteeing a safe, secure and sustainable supply - and doing so in line with global commitments to reduce greenhouse gas emissions - is increasingly problematic. With the dollar price of oil at record highs, the report recommends an improved approach to securing viable energy supplies in the years ahead. According to the report, "the incentives in place to reform the global energy economy in a way which reduces global risk holistically are not in place." The report notes "concerns over climate change and long-term energy security have put nuclear power firmly back on the 2007-2008 global agenda." The report suggests that one solution could be to develop an international "nuclear fuel insurance fund". It says, "Turning the risk of the spread of nuclear technologies into an opportunity to create a

sustainable framework for the production of safe, clean and secure electrical power should be a major objective of global policy." The report adds, "The innovative use of financial markets may offer a way to achieve it."

Partnership between financial industries and governments

The WEF says that a "truly innovative concept", known as "insure to assure", has been proposed by a joint team from the Wharton Business School and Harvard's Kennedy School. The proposal - complementary to the efforts of the International Atomic Energy Agency (IAEA) and others - imagines a partnership between financial industries and governments to create the world's first international nuclear fuel insurance fund. Under the concept, premiums collected from all member countries would be deposited in a mutual insurance company (MIC) which, in turn, would use some of the money to build a cash reserve and to purchase supply options. Residual funds would go to a consortium of insurers and reinsurers that would provide layered financial protection to all participating countries. The IAEA member governments

would serve as a financial backstop for the consortium. In the event of a fuel disruption, the MIC would exercise its options and work with fuel suppliers, energy producers and transporters to arrange timely fuel delivery or alternative electricity purchases off the energy grid (if available). The insurance consortium would compensate member countries and others involved in replacing fuel for any loss of efficiency as previously contractually agreed. According to the WEF, "the proposal is now being studied by different stakeholders" It says that the proposal "would bring together two worlds that rarely talk to one another: the worlds of international security and international finance." The report states that the proposal currently only deals with nuclear fuel supplies, but says that there is "no reason why a larger mutual insurance company could not help turn wider global energy interdependence from a source of perceived vulnerability to a source of systemic coherence and security."

Sources: World Economic Forum (weforum.org), World Nuclear News, SONE
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