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Letter

The case for state funding must rest on strategic need

From Dr Simon Taylor, director, Master of Finance, Judge Business School

YESTERDAY

Sir, In “The case for public funding of UK nuclear” (editorial, February 14) you argue that market failure justifies government funding of nuclear power in the UK. Market failures, such as externalities and public goods, are cases where the conditions for a free market to work well are absent. But your argument that investors require too short a payback time on investment is doubtful as a case of market failure.

The private sector routinely funds very long investments in technology (companies with no profits), and in bioscience (drugs take many years to come to fruition). We also see private funds for very large capital-intensive investments of high risk and long payback, such as liquefied natural gas in Russia and Australia. In some cases these projects have suffered delays and cost overruns of a scale similar to the troubled nuclear industry.

So the private sector’s refusal to finance new nuclear appears a rational response to the enormous construction risk, a point reinforced by Toshiba’s latest troubles. Nuclear is but an extreme case of the wider private sector unwillingness to invest in greenfield infrastructure. Once built these assets may become acceptably low risk private investments.

The Wylfa project you mention actually has better prospects of success because it plans to use the advanced boiling water reactor (ABWR), which is a proven design that has actually been built on time and budget (in Japan and Taiwan), unlike the reactors in the other new nuclear projects in the UK.

The case for state funding needs to rest on strategic need rather than market failure.

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