Global Counsel

# Disappearing over the Horizon

**Blog post by Senior Associate Andrea Ninomiya, 11 January 2019**

During Japanese Prime Minister Shinzo Abe's visit to the UK yesterday, he and Theresa May were asked about the fate of Hitachi's Horizon nuclear plant at Wylfa in Wales. Abe's response, that they did not discuss it, did nothing to reduce anxiety about the multi-billion-pound project. Overnight, Japan's Nikkei newspaper reported that Hitachi has decided to freeze the project. In response, Hitachi's share price rose by 6%. Despite Hitachi's denials, the project appears to be on the brink of collapsing, with neither the Japanese nor the British able to find a combination of investors and government support to finance the costs.

The project is important for both nations. Horizon would provide 2.9GW of decarbonised power capacity in the UK when completed, part of the 13GW of new nuclear build included in government projections out to 2035. In Japan, the Hitachi project is part of Abe's policy of exporting Japanese nuclear energy expertise to solve the dilemma of a huge nuclear industry that remains unable to construct new build in post-Fukushima Japan. Recently, this policy has been cast into doubt, with Toshiba winding up the NuGen plant in Moorside in the UK, and Mitsubishi pulling out of new build in Turkey. If the Hitachi deal fails, it will be another blow. But with both countries facing such strong incentives for the deal to go through, why isn't it an easy win-win?

The bottom line is that neither the UK nor Japan want to pay for it. The project is important to Abe but the Japanese treasury's purse strings are tied tightly. In the past, 'Japan Inc', a combination of Japanese government and business, not only backed projects of this scale for Japanese companies but were willing to bail them out if they got into trouble. This is now in question, as demonstrated by the failure to find Japanese buyers for Toshiba's precious memory chip business, ultimately sold to an international consortium led by Bain Capital. Instead, 'Japan Inc' appears to be changing. In order to address a shrinking domestic market, low interest rates and stronger shareholder pressures, government policy has put greater emphasis instead on supporting Japanese companies' entry of overseas markets via acquisitions of foreign companies, as the recent £42 bn takeover of Shire by Japanese pharmaceutical Takeda indicates.

So, what would Horizon's failure mean for Japan and the UK? In Japan, in the long-term, this could presage a rethinking of a major industrial strategy as the nuclear industry faces blockages both at home and abroad. In his new year's address, the Hitachi CEO remarked that the Horizon project has "reached its limit" and reflected on the difficulty of constructing new build in Japan within the current political climate. These comments should not be taken lightly, as Mr Nakanishi is also chair of the powerful Japanese lobby group Keidanren. Aside from the industrial implications, this raises serious questions of the future energy mix. METI is aiming for nuclear to account for 21% of electricity generation by 2030, up from 2% in 2016, requiring nearly 20GW of nuclear restarts that remain in doubt.

For the UK, the fall of Horizon would cast significant doubt on the UK's putative nuclear revival. Following the NuGen failure last year, Hinkley Point C is the only new plant on course to be built. Central to UK decarbonisation policy, BEIS's projections indicate nuclear making up nearly 30% of power generation by 2035. Yet, government support has become more equivocal, with Secretary of State for Business, Energy and Industrial Strategy Greg Clark, raising the benefits of a nuclear revival for British job creation but reiterating the need for the costs of nuclear to fall by 30% for it to be a viable competitor to other technologies. Nuclear has many merits, not least as a source of non-intermittent zero carbon power, but it appears that neither Japan Inc nor the UK government can bear the costs.