The Economist

Power in Japan

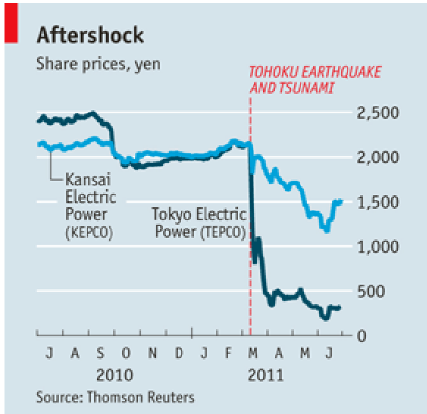
The troubles of TEPCO

The fallout from the Fukushima nuclear disaster is spreading throughout Japan's energy industry

Jun 30th 2011 | TOKYO | from the print edition

"THROW yourself into a nuclear reactor and die!" one investor shouted. Japanese shareholders are usually more polite, but this was the annual meeting of TEPCO, the Japanese power company that owns the Fukushima nuclear plant. Since an earthquake in March caused a meltdown, TEPCO faces unlimited demands for compensation. Its shares have fallen by nearly 90% (see chart). A man at the meeting on June 28th suggested that the board take responsibility by committing *seppuku*, or ritual suicide.

Not everything went wrong for TEPCO. A shareholder motion to close all its nuclear plants was defeated. But apart from that, things look grim. TEPCO faces claims for compensation that, in a worst-case scenario, could exceed its assets of ¥15 trillion ($186 billion). No one knows how much it will have to pay. (Oddly, it is the education ministry's job to issue guidelines for



nuclear compensation.) Estimates of TEPCO's liabilities range between ¥4 trillion and ¥25 trillion. The firm also owes ¥7.8 trillion to bondholders and bank creditors. If TEPCO goes bust, these people take precedence over those affected by the disaster, a fact that is politically radioactive.

Four months ago, TEPCO was the cornerstone of corporate Japan. Some 750,000 people, many of them elderly, still own its shares. The company, which accounts for a hefty 8% of Japan's total domestic debt market, had its bond rating cut to junk by Moody's on June 20th, following a similar downgrade by Standard & Poor's in May.

Only the government can save TEPCO from bankruptcy. A bill submitted on June 14th to the Diet, Japan's parliament, aims to enable the firm to pay compensation without going under. It would establish a mechanism for the government to channel truckloads of money to TEPCO, which the firm would then pass on to the victims. This would be repaid from TEPCO's earnings, with help from other nuclear operators. The new entity could purchase TEPCO assets. One insider thinks this will lead to partial nationalisation. Another reckons that the new entity might buy fresh bonds that TEPCO could issue to meet its obligations.

The bill has not been seriously debated in the Diet, in part because of political paralysis. But officials believe it will be ratified before the end of the summer because the consequences of shelving it are unthinkable. Compensation must be paid, the recovery work at Fukushima must go on and the lights in Tokyo must stay on.

However, the bill is only a stop-gap. It may soothe TEPCO's creditors. It may even reassure the public that payouts won't lead to higher electricity bills. But critics grumble that the plan protects shareholders at the expense of taxpayers.

The long-term solutions being considered include bankruptcy, temporary nationalisation for the purpose of selling off assets, or capping TEPCO's liability and making it, in addition to an energy provider, a vehicle for compensation payments. TEPCO favours a liability cap. Only this, the thinking goes, will lure back investors and let TEPCO become a normal company again. But this may scupper any chance of energy-sector liberalisation, since the company would need fistfuls of profits in order to make its payouts. “When I meet with TEPCO officials, I don't see any change in mindset; it's as if nothing has changed," sighs a nuclear-energy official.

Bankruptcy or temporary nationalisation would be bolder. Either could herald energy deregulation, since a regional monopoly would be broken up and sold. The government could then separate energy generation and transmission, which the prime minister, Naoto Kan, supports but few other politicians do. Outsiders, such as Softbank, a mobile-phone operator, are keen to enter the energy business. But big business, which ought to favour competition to lower energy prices, is against deregulation. This may be because so many big firms act as suppliers to the utilities, which pay high prices to reward loyalty.

Across Japan, regional power companies are caught in Fukushima's fallout. Most prefectural governors are refusing to restart nuclear plants that shut for regular maintenance. Power shortages loom. Other shareholder meetings have been almost as stormy as TEPCO's. The biggest shareholder of KEPCO, the utility in the Kansai region, is the city of Osaka, which has a 9% stake. Its mayor turned up at the annual general meeting and urged the firm to diversify away from nuclear energy. Such demands are popular. Three-quarters of Japanese want to reduce or eliminate the country's reliance on nuclear power—many more than before the accident.

The utilities now face more scrutiny and tighter energy supplies. They are also unlikely to win permission to raise rates. (As regional monopolies, their prices are set and their profit margins are guaranteed by regulators.) Their solid credit ratings could liquefy. KEPCO and another utility recently cancelled new corporate-bond offerings because yields soared.

Firms that had cross-shareholdings in the utilities have also taken a hit. Even banks are affected: cabinet members have suggested they share the pain by forgiving a portion of TEPCO's pre-quake loans. Naturally, this whacked their share prices.

The Fukushima disaster presents an opportunity for radical reform. But in a crisis people often grow conservative. Since the government holds the purse-strings, it can more or less dictate terms to TEPCO. The fear is that it will bankroll a return to business as usual.

from the print edition | Business