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FM AMEMBASSY MOSCOW

TO SECSTATE WASHDC IMMEDIATE 6423

INFO AMEMBASSY KIEV IMMEDIATE

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STATE FOR S/NIS (COLLINS), EUR/ISCA/CAST
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BARKLEY/HARNISH), AND EUR/RPM (CAGAN)

DOE FOR SECRETARY'S OFFICE (BERLS) AND PO-70

NRC FOR OIP (STOIBER)

USVIENNA FOR USVIE

WHITEHOUSE FOR OVP (FEURTH) AND NSC (BURNS)

E.O. 12356: N/A

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TAGS: TRGY, ENRG, PARM, PREL, ECON, BEXP, RS, US
SUBJECT: SIGNING OF HEU CONTRACT

SUMMARY

1. THE USD 12 BILLION, 20 YEAR CONTRACT FOR THE SALE OF 500 METRIC TONS OF HEU FROM DISMANTLED SOVIET-ERA NUCLEAR WEAPONS TO THE UNITED STATES WAS SIGNED IN MOSCOW ON JANUARY 14 IN THE SAME MEETING ROOM WHERE SOVIET SCIENTISTS MET TWO GENERATIONS AGO TO DESIGN THE FIRST SOVIET NUCLEAR BOMB. WHILE THE SIGNING CEREMONY AND SPEECHES WERE GENERALLY UPBEAT, RUSSIAN MINISTER OF ATOMIC ENERGY MIKHAILOV ALSO HIGHLIGHTED THE HIGH COST OF NUCLEAR WEAPONS DISMANTLEMENT AND, USING UKRAINE AS AN EXAMPLE, SAID THAT THERE MAY NOT BE ANY PROFITS TO SHARE FROM THE HEU REMOVED FROM DISMANTLED WARHEADS. MIKHAILOV ALSO UNDERScoreD SOME UNHAPPINESS WITH THE CONTRACT THAT WAS SIGNED AND LIMITED OFFICIAL USE

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NOTED THAT THE BATTLE FOR WORLD URANIUM MARKETS HAS BECOME A GENUINE "HOT WAR." BASED ON MIKHAILOV'S COMMENTS, IT IS CLEAR THAT THE U.S. WILL NEED TO PAY ESPECIALLY CLOSE ATTENTION TO MINATOM'S FUTURE BEHAVIOR IN THE INTERNATIONAL URANIUM MARKET AND TO THE COSTS THAT MINATOM AND ITS AFFILIATES WILL CLAIM UNDER THE CONTRACT. THE SIGNING WAS ATTENDED BY NUMEROUS OFFICIALS FROM THE MINISTRY OF ATOMIC ENERGY (MINATOM), OTHER GOR MINISTRIES, EMBASSY AND THE U.S. ENRICHMENT CORPORATION (USEC). IN ADDITION, BOTH RUSSIAN AND FOREIGN PRESS WERE WELL REPRESENTED. END SUMMARY.

SETTING

2. WILLIAM TIMBERS, DIRECTOR OF THE USEC, ALBERT SHISHKIN, PRESIDENT OF RUSSIA'S TECHNABEXPORT (TENEX), AND ALEXEI GREGOREV, DIRECTOR OF RUSSIA'S URANSERVICE SIGNED A 20 YEAR, USD 12 BILLION CONTRACT FOR THE PURCHASE BY USEC OF 500 METRIC TONS OF HIGHLY ENRICHED URANIUM (HEU) DERIVED FROM DISMANTLED NUCLEAR WEAPONS AT 9:00 AM ON JANUARY 14, ONLY 30 MINUTES BEFORE THE SCHEDULED SIGNING OF THE TRILATERAL U.S.-RUSSIA-

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UKRAINE STATEMENT ON THE DISMANTLEMENT OF NUCLEAR WEAPONS. UNDER THE CONTRACT, THE HEU WILL BE BLENDED INTO LOW ENRICHED URANIUM (LEU) BEFORE IT IS TRANSFERRED TO USEC. THE HEU CONTRACT SIGNING WAS WELL ATTENDED BY BOTH RUSSIAN AND FOREIGN PRESS.

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MIKHAILOV'S COMMENTS

3. IN A SPEECH (NO TEXT AVAILABLE) BEFORE THE ACTUAL SIGNING TOOK PLACE, MINISTER OF ATOMIC ENERGY MIKHAILOV EXPLAINED THE TWO-YEAR PROCESS WHICH LED TO THE SIGNING AND EXPRESSED HIS HOPES FOR THE FUTURE. IN HIS REMARKS, MIKHAILOV SINGLED OUT U/S LYNN DAVIS, ENERGY SECRETARY O'LEARY AND USEC DIRECTOR TIMBERS AS BEING AMONG THE KEY PLAYERS WHO HAD WORKED TO BRING THE CONTRACT INTO BEING.

4. IN RESPONSE TO A QUESTION ON THE UKRAINIAN GOVERNMENT'S SATISFACTION WITH THE AGREEMENT, MIKHAILOV STATED THAT UKRAINE SHOULD BE SATISFIED SINCE THE GOU WILL BE RELIEVED OF DEBTS, SUPPLIED WITH ENERGY, AND PAID CASH ALL IN EXCHANGE FOR ALLOWING RUSSIA TO UNDERTAKE THE DIFFICULT AND DANGEROUS TASK OF DISMANTLING NUCLEAR WEAPONS LOCATED ON UKRAINIAN SOIL. IF UKRAINE DOES NOT RETURN THE MISSILES TO RUSSIA FOR DISMANTLEMENT AT THIS TIME, MIKHAILOV ADDED, THEY WILL HAVE TO PAY A GREAT DEAL OF MONEY IN THE FUTURE IN ORDER TO RECEIVE THIS SERVICE.

5. WITH RESPECT TO THE QUESTION OF THE FINANCIAL BENEFITS OF THE CONTRACT TO NATIONS OTHER THAN RUSSIA, MIKHAILOV USED UKRAINE AS AN EXAMPLE AND EXPLAINED

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SUBJECT: SIGNING OF HEU CONTRACT

THAT WHILE AGREEMENTS STIPULATE THAT UKRAINE WILL RECEIVE A PORTION OF THE PROFITS DERIVED FROM THE HEU REMOVED FROM DISMANTLED NUCLEAR WARHEADS, THE PROCESS OF DISMANTLING THE WARHEADS IS SO EXPENSIVE THAT REVENUE EARNED FROM THE HEU SOLD MAY COVER ONLY A PORTION OF THE DISMANTLEMENT COST. HE SAID THAT IT WAS POSSIBLE THAT THERE MAY BE NO PROFITS TO DISTRIBUTE. TO FURTHER ILLUSTRATE HIS POINT, MIKHAILOV STATED THAT THE UNITED STATES SPENDS BETWEEN 30,000 AND 100,000 TO DISMANTLE EACH NUCLEAR WARHEAD WHILE RUSSIA SPENDS APPROXIMATELY ONLY 10 PERCENT OF THAT AMOUNT OWING TO THE FACT THAT RUSSIAN SALARIES ARE ONLY 10 PERCENT OF AMERICAN SALARIES. DESPITE THE CLAIMED LOW COST TO RUSSIA OF DISMANTLING THE WARHEADS, MIKHAILOV CONTINUED ON TO SAY THAT MINATOM WILL USE WORLD WAGE AND COST RATES RATHER THAN RUSSIAN LIMITED OFFICIAL USE

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DATA WHEN COMPLETING CALCULATIONS TO DETERMINE IF ANY
BENEFIT REMAINS FROM HEU SALES.

6. TURNING TO THE U.S., MIKHAILOV MADE IT CLEAR THAT HE WAS NOT COMPLETELY HAPPY WITH ALL ASPECTS OF THE CONTRACT THAT HAD BEEN SIGNED. WHILE HE EXPRESSED GREAT HOPE FOR THE FUTURE OF THE MINATOM-USEC RELATIONSHIP AND FOR THE SUCCESS OF A U.S.-RUSSIAN JOINT VENTURE TO BE FORMED UNDER THIS AGREEMENT, MIKHAILOV MADE SOME POINTED COMMENTS ABOUT THE U.S.'S DOMINANCE IN THE WORLD URANIUM MARKET. AFTER STATING THAT RUSSIA HAS THE WORLD'S LARGEST NUCLEAR INDUSTRIES AND MODERN TECHNOLOGY FULLY UP THE HIGHEST WORLD LEVELS, MIKHAILOV POINTED OUT THAT THE U.S. CONTROLS 50 PERCENT OF THE WORLD MARKET FOR URANIUM WHILE RUSSIA CONTROLS ONLY 5 PERCENT.

7. FOLLOWING A STATEMENT OF THANKS TO THE U.S. FOR ITS WILLINGNESS, AS HE PUT IT, TO SHARE A PORTION OF THE WORLD URANIUM MARKET WITH RUSSIA, MIKHAILOV OBSERVED THAT WHILE THE COLD WAR MAY BE OVER THE BATTLE FOR WORLD URANIUM MARKETS HAS BECOME A GENUINE

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"HOT WAR." MIKHAILOV FOLLOWED HIS COMMENTS ON THE SIGNIFICANCE OF THE USD 12 BILLION TO BE PROVIDED TO RUSSIA UNDER THE DEAL WITH THE OBSERVATION THAT WHILE RUSSIA WILL SUPPLY THE RAW MATERIALS FOR THIS VENTURE, THE U.S. WILL BE THE RECIPIENT OF MASSIVE INVESTMENT IN HIGH TECHNOLOGY. MIKHAILOV STATED THAT THE URANIUM ENRICHMENT PLANT WHICH WILL BE BUILT IN THE U.S. TO PROCESS THE URANIUM RECOVERED FROM BOTH U.S. AND RUSSIAN WARHEADS WILL BE THE LARGEST AND MOST MODERN LIMITED OFFICIAL USE

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FACTORY IN THE WORLD.

8. MIKHAILOV NOTED THAT NOT ONLY WAS THE SIGNING ITSELF AN HISTORIC OCCASION, IT TOOK PLACE IN A FITTING AND HISTORIC LOCATION. HE SAID THAT THE ROOM IN WHICH THE SIGNING OCCURRED SERVED AS THE PRIMARY MEETING ROOM IN WHICH SOVIET SCIENTISTS AND GOVERNMENT OFFICIALS MET TO PLAN AND IMPLEMENT THE CONSTRUCTION OF RUSSIA'S FIRST NUCLEAR WEAPONS AND THE DEVELOPMENT OF RUSSIA'S MILITARY NUCLEAR INDUSTRIES. FOREIGNERS HAD NEVER BEFORE BEEN ALLOWED TO ENTER THE ROOM, HE ADDED.

TIMBERS COMMENTS

9. IN HIS PREPARED COMMENTS AND IN HIS RESPONSE TO A REPORTER'S QUESTION, WILLIAM TIMBERS PRESENTED A POSITIVE, FORWARD LOOKING ASSESSMENT OF U.S.-RUSSIAN COOPERATION IN NUCLEAR POWER, CONGRATULATED THE LEADERS OF THE U.S., RUSSIA AND UKRAINE FOR THEIR COURAGE IN PUSHING FORWARD THE UNPRECEDENTED AGREEMENTS WHICH MADE THE CONTRACT POSSIBLE, AND EMPHASIZED THE HISTORIC SIGNIFICANCE OF SIGNING A CONTRACT UNDER WHICH THE MEANS OF MASS DESTRUCTION

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WILL BE PUT TO THE PURELY PEACEFUL TASKS OF PROVIDING
HEAT AND LIGHT FOR PEOPLE'S HOMES.

COMMENT

10. BOTH IN HIS PREPARED STATEMENTS AND IN A BRIEF (10
MINUTE) PRESS CONFERENCE HELD AFTER THE SIGNING,
MINISTER MIKHAILOV COMBINED PRAISE AND HOPEFUL
STATEMENTS CONCERNING THE FUTURE OF MINATOM'S
COOPERATION WITH USEC WITH THINLY VEILED COMPLAINTS
AND CRITICISM OF THE UNITED STATES AND UKRAINE.
MIKHAILOV EXHIBITED HIS CHARACTERISTIC PENCHANTS FOR
REFUSING TO LET SETTLED ISSUES LIE AND FOR MAKING HIS
OWN (AND WE PRESUME NOT GOR-AUTHORIZED) COMMENTS ON
POLICY ISSUES. HIS COMMENTS ON UKRAINE, IN
PARTICULAR, APPEARED DESIGNED, BY ACCIDENT OR D
ESIGN,

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TO AROUSE UKRAINIAN DISTRUST OF RUSSIA'S INTENTIONS.

11. AS WE MOVE FROM THE SIGNING OF THIS CONTRACT TO
ITS IMPLEMENTATION, IT WILL BE IMPORTANT TO MONITOR
THE ACTIVITIES OF MINATOM AND ITS AFFILIATED COMPANIES
TO INSURE THAT THE AGREEMENT IS ADHERED TO FAITHFULLY
AND THAT MINATOM DOES NOT PAD ITS COSTS IN AN EFFORT
TO CLAIM A BIGGER SHARE OF THE MONETARY PIE OR
OTHERWISE TAKE ACTIONS WHICH COULD ULTIMATELY SERVE TO
ALIENATE OTHER PARTIES AND JEOPARDIZE THE NUCLEAR
DISMANTLEMENT PROCESS. ON ISSUES RANGING FROM THE
SALE OF NUCLEAR REACTORS TO IRAN TO NUCLEAR SAFETY IN
RUSSIA, MIKHAILOV HAS ALREADY DEMONSTRATED A TENDENCY
TO PLACE WHAT HE BELIEVES IS HIS MINISTRY'S INTERESTS
ABOVE LARGER ISSUES SUCH AS NONPROLIFERATION OR EVEN
HIS OWN GOVERNMENT'S POLICIES. END COMMENT.
PICKERING

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