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Russian Deputy N-Minister Interviewed on US HEU-LEU Contract

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[Unattributed interview with V. Vinogradov, Russian Federation first deputy minister of atomic energy; date and place not specified: "Talks Are Always a Compromise"]

[FBIS Translated Text]

On 21 February 2002 the Tekhsnabeksport Open Joint-Stock Company, the authorized agent for the Russian Ministry of Atomic Energy, and America's USEC corporation -- the US Government's authorized agent -- agreed terms for continuing shipments to the United States of low-enriched uranium within the framework of the 1993 intergovernmental agreement on the use of high-enriched uranium removed from Russian nuclear warheads for peaceful purposes. Under this agreement, which is still known as the "HEU-LEU Agreement" or the "Megatons to Megawatts" program, high-enriched uranium (HEU) processed at Russian enterprises into low-enriched uranium (LEU) is delivered to the United States for use as nuclear fuel in American nuclear power stations. The commercial aspect of the deal is not being divulged, but, according to information from authoritative sources -- such as Ux Weekly -- under the new contract, which will run until 2013, USEC will pay \$90 per separative work unit (SWU) in 2002 and around \$77 in 2003. The Russian Ministry of Atomic Energy refused to confirm those figures, noting merely that, under the terms of contract, the price of the uranium supplied will be determined on the basis of its average market value over the past three years. Vladimir Vinogradov, Russian Federation first deputy minister of atomic energy and one of the most authoritative officials in the Russian nuclear department, answered Nuclear.ru's questions.

[Nuclear.ru] The previous contract under the HEU-LEU Agreement expired 31 December 2001 and the new contract was only signed in late-February 2002. How has the sector been funded during this period, given that revenue from exports of low-enriched uranium to the United States represent a

considerable proportion of the Ministry of Atomic Energy's budget?

[V. Vinogradov] First, the repayment period for products supplied can be up to 60 days. We supplied uranium right up until December 2001 -- consequently, in the first quarter of this year we are earning money for products that were dispatched last year. Second, shipments in January and February are always minimal -- that is linked to the time taken for refueling at nuclear stations. When there were periods of a uranium shortage in the market, operating companies tried to build up stocks to last three or four years in advance -- uranium consumers now believe that it is sufficient for them to have fuel reserves for six months or a year. And certain stations, in South Korea for instance, work in general on a "just-in-time" basis, without any stocks at all. If it is necessary to refuel a unit in March, they order the fuel for March. So there has been no disruption to funding. The money for last year will be coming in until April this year, we are resuming our deliveries in March, and, consequently, money will start coming in under the new contract in May-June.

[Nuclear.ru] In the wake of the signing of the agreement a number of experts -- mainly Westerners -- stated that the new contract is more advantageous to **USEC** and that Russia had had to make concessions at the talks and accept the US side's terms. How would you comment on that point of view?

[V. Vinogradov] In principle talks are always a compromise. The sides make reciprocal concessions -- consequently, the claim that the terms of the contract benefited the Americans is rather debatable. What does the American side gain? The shipments under the HEU-LEU contract meet around 55 percent of the US market requirement for nuclear fuel. Currently only one **USEC** enrichment plant -- at Paducah -- is operational; the other at Portsmouth has been shut down. To a certain extent our partners agree that US power generation cannot operate without Russian uranium, and they take this into account at all negotiations. For us it is very important that we have signed a contract until 2013, ensuring a normal flow of funds into the budget for the duration of this period and creating a reliable foundation for the funding of our work. In that respect, I believe that each side observed its own interests.

As far as prices are concerned, the new contract adopts a market approach towards their formation. The uranium market is a very delicate market -- sharp price differentials can occur within it. Consequently, it was decided that in determining the price for each subsequent year we would be guided by the three previous years. What does this mean? If there are any sharp downward fluctuations, the Russian side will benefit since the two preceding years will make it possible to "smooth over" that differential. If the price were to rise suddenly, the American side would have an advantage. We discussed the possibility of determining the price on the basis of the two previous years -- which is more advantageous for us if prices are continually rising. But if they fall or fluctuate, a three-year period is more advantageous. Consequently, we concluded that when determining the baseline price we would proceed on the basis of a three-year period. Moreover, it needs to be borne in mind that we gain a substantial presence in the US market. A presence that is more political than market-based, but nonetheless. Moreover, the gas-diffusion method of uranium enrichment that is employed by **USEC** cannot compete with the centrifuge technology used in Russia and in Europe. The United States needs time to develop competitive production. **USEC** has no plans prepared, so it will either have to cooperate with Russia or with European producers such as Urenco.

[Nuclear.ru] But there is a plan to build a centrifuge plant that has been put forward jointly by Urenco, Exelon, and Duke Power. It is valued at \$1 billion and, if adopted, the plant could come on line in 2008.

[V. Vinogradov] Indeed, those plans do exist, but this is not a commercial project as yet -- it is at

the negotiating stage. Even if the proposal is supported, it will be impossible to immediately build capacity that could fully meet the needs of the US nuclear power generation sector -- that will take many years. I think that the Americans will compare the economy of Russian production and Russian technology. And I can claim with a great degree of certainty that our technology will prove to be economically more attractive to them.

[Nuclear.ru] In the opinion of Thomas Neff, one of the architects of the "Megatons to Megawatts" program, USEC's extra profit from the terms of the new contract will come to \$120-220 million a year. Do you agree with that assessment?

[V. Vinogradov] There are different ways of calculating. According to our calculations, the figure comes out at a third of this. You should not merely take into account the price factor, you should also bear in mind the associated costs. USEC is meeting our demand to observe the shipment timetable. We dispatch a certain quantity every month -- slightly more or slightly less depending on our enterprises' potential -- and they pay us just as regularly. Although their consumers take their products by no means as regularly, uranium is bought to refuel stations. Under our European contracts the main payments traditionally occur at the end of the third or fourth quarter. In other words, even after concluding a contract and supplying the product, enterprises receive no payment from their customers for more than six months and are forced to take out loans. Furthermore, there is the transportation issue. Low-enriched uranium is supplied to the United States on St Petersburg FOB [Free on Board] terms. USEC is responsible for insurance, transportation, and storage at enterprises -- which is quite expensive, incidentally. Consequently, there may be a net price differential. But if associated factors are taken into account, I would not say that Russia has lost much. At any rate, we gain stability for more than 10 years, and that is important.

[Nuclear.ru] As is well-known, a number of US companies -- specifically, Duke Power and Exelon -- have proposed that President G. Bush appoint a second executive agent under the HEU-LEU agreement. Is that possible, in your view?

[V. Vinogradov] Indeed, with the arrival of the G. Bush administration, all relations with Russia in the nuclear sphere -- including the HEU-LEU contract -- were analyzed. They had a commission which assessed how beneficial it was to the United States and how effective it was for the nuclear nonproliferation process. At the time there were quite a lot of proposals from companies which wanted to see themselves in the role of second agent. But when I am told that there will be a second agent and the price will automatically rise, I doubt it. Suppose some group of power-generation companies were to become the second supplier. They, unlike USEC, would have no transportation infrastructure, no storage facilities, no containers, and much else besides. They would have to buy all that. Out of what? Out of the money they would make from selling uranium. Let me quote the following example. For 8-10 years, when the situation on the natural uranium market was difficult, we worked with the well-known Benton. (Oren Benton, a US citizen. He was one of the major world uranium traders in the eighties and nineties. His creditors included Russian, Chinese, and US companies. He was declared bankrupt in 1995. According to certain estimates, O. Benton owed the Russian side around \$100 million -- Nuclear.ru). He was accused of buying output in Russia at patently understated prices. Representatives of Australia came to see us and expressed a readiness to buy uranium on more advantageous terms. We held negotiations with them, and what came of it? They offered terms even worse than those offered by Benton! Moreover, we did not receive proposals from any of the potential agents under the HEU-LEU contract detailing the terms on which they would have been prepared to buy uranium from us. So we need to go down the road that we have outlined -- to gain government approval and work normally until 2013, providing financial resources to the sector.

[Nuclear.ru] Is it possible to sell Russian low-enriched uranium on the US market outside of the HEU-LEU contract?

[V. Vinogradov] The United States has imposed antidumping sanctions on us. The sale of uranium within the framework of joint sales was envisaged as a form of compensation. We have tried to get the sanctions lifted, but for the time being the US Department of Commerce disagrees with our arguments -- consequently, we have no free access to the US market. I think that sooner or later these restrictions will be lifted, but that is not the question, the question is -- will we enter the US market independently or with somebody else? That question is currently under discussion, we are drawing up a certain strategy since we believe that our potential for exporting uranium to the United States is greater than what we are currently supplying. The HEU-LEU agreements are not affected by the antidumping sanctions.

[Nuclear.ru] Won't the shipments of LEU to the United States damage our uranium stocks for our own needs?

[V. Vinogradov] That issue has been the subject of studies and questions from many deputies in our parliament. We have been checked out by the Russian Federation Comptroller's Office, we have provided all information on our uranium stocks -- what is held in warehouses, what is held at enterprises as unfinished production, as well as figures on known deposits and current production. The Comptroller's Office concluded that in the next few decades the Russian nuclear power generation sector and programs to build nuclear power stations abroad will be supplied with uranium. As regards the level of supply for defense programs, there is no basis for any concern in that area either, because those reserves are controlled not only by the Ministry of Atomic Energy, but also by the Defense Ministry. This area, as a "sacred cow," has never been touched and will not be touched. Moreover, we are working with Ukraine, Kazakhstan, and Kyrgyzstan to integrate the former nuclear industry of the USSR into a single conglomerate. The era when it was thought that Russia offended everyone is over -- we are now seen as a normal, honest partner. Consequently, Ukraine is working with Russia -- albeit with certain provisos. Kazakhstan and Kyrgyzstan are also moving closer toward us. If we are able to pool our efforts in the uranium market, all of these countries will gain good working conditions and very good prospects for development.

[Nuclear.ru] As regards the question of deputies -- a number of parliamentarians are rebuking the Ministry of Atomic Energy for the fact that right up until the current year the secret nature of the Russian Federation Ministry of Atomic Energy fund, into which revenues from sales under the HEU-LEU contract were received, has hampered the targeted expenditure of funds....

[V. Vinogradov] I do not want to offend any deputies, I know many of them and am well disposed toward them. But very often they produce statements that bear absolutely no relation to reality. First, the fund has never been secret. All of the work that has been done through the fund has been duly discussed at the Ministry of Atomic Energy, and the range of projects needing to be funded has been selected. We have always coordinated those projects with the Economy Ministry, and the expenditure with the Finance Ministry. For the past three or four years we have been subject to continual checks by the Comptroller's Office, and all of the material drawn up on the basis of the checks is available to both the State Duma and the Federation Council. Deputies who have the right to access those documents can familiarize themselves with them. All of our reports are sent on a monthly basis to the Economy Ministry, the Finance Ministry, the Comptroller's Office, and to the government if required. This year deputies wanted the fund to have a separate entry in line with budget classification line items. We did not object. The expenditure areas previously ratified by the government were transferred to budget line items. Consequently, there is simply no fund more open than the Ministry of Atomic Energy fund!

[Nuclear.ru] Nonetheless.... The Ministry of Atomic Energy leadership is stating that the money allocated from the budget for environmental programs (131 million rubles [R]), is insufficient. This, incidentally, was one of the arguments behind the need to import spent nuclear fuel from abroad into the country. At the same time, R2.3 billion is being allocated in the targeted fund line items for, and I quote, "expenditure on measures to enhance nuclear, radiation, and environmental security and to support fundamental and applied science." But that figure is not mentioned anywhere....

[V. Vinogradov] R2.3 billion has never been allocated to solve environmental problems. R131 million represented budget funds under the "Russia's Nuclear and Radiation Safety" federal targeted program. In addition, we are allocating quite a large amount of money out of our targeted budget fund -- more than R1.5 billion -- to eliminate the consequences of developing nuclear weapons and holding nuclear tests, to recycle nuclear submarines, and so forth. Although, in my view, the thrust of the targeted budget fund should be somewhat different. We need to convert military production, and the bulk of the money should be used to develop new jobs. For instance, there are still three reactors for the development of weapons-grade plutonium operational at the Siberian Chemical Combine and the Krasnoyarsk mining and chemical combine -- and these need to be decommissioned. But there are several thousand people working there! Correspondingly, a great deal of investment will be needed, because a normal, modern job costs \$20,000. Whatever we may say, the Ministry of Atomic Energy arose out of fundamental science. Support for scientists and support for new research is its main task. Doesn't our Nobel prize winner Zh. Alferov, who is working with equipment that is 20 or 30 years old, deserve better conditions?

As far as environmental rehabilitation is concerned, we will be able to solve this problem by bringing in spent nuclear fuel from abroad. People do not believe us. In particular, Mr. Yavlinskiy says that we will be stealing the money! But it could just as easily be said that we are stealing the money under the HEU-LEU contract. Previously, before the introduction of the treasury system, the funds went into the Ministry of Atomic Energy's accounts, and we could spend them independently. Then, after checks, we could identify a nontargeted utilization of funds, but the money had already gone! The situation now is different. The money goes into a Tekhsnabeksport holding account and is transferred the same day to the Finance Ministry's Federal Treasury account. Without any involvement on the part of the Ministry of Atomic Energy. The money is later paid into the fund account. In order to obtain the money, we supply the Finance Ministry with all the ratified programs and documentation about the work done in every area. After these have been checked, the money is transferred to the Moscow treasury account, and we channel it to local treasuries. Enterprises there provide the same documentation on work done, and it is only then that money enters individual accounts. The system is organized in such a way as to make the nontargeted utilization of funds impossible. The same system will be used for the funds obtained from imports of spent nuclear fuel. These will not be available for us to use, they will go to the budget. The Ministry of Atomic Energy will receive compensation only for enterprises' costs. The rest of the money will be used to improve the environmental situation, since these are targeted funds -- they cannot be used to build housing or to help agriculture.

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