

## NOTES:

IN HANDING OVER THE PAPER, YOU SHOULD ALSO NOTE U.S. ENGAGEMENT WILL LIKELY RESULT IN RUSSIA KEEPING A SMALLER FRACTION OF THE ENRICHED URANIUM TO COVER ITS EXPENSES AND HENCE A LARGER RETURN TO UKRAINE THAN WOULD OTHERWISE BE THE CASE. FOR EXAMPLE, SOME IN RUSSIA HAVE MENTIONED THE POSSIBILITY OF RUSSIA KEEPING 50% OF THE ENRICHED URANIUM TO COVER COSTS; WE BELIEVE THE FIGURE SHOULD BE SIGNIFICANTLY LOWER THAN THAT. YOU SHOULD ALSO STRESS THE UTILITY TO UKRAINE OF A FORMAL COMMITMENT BY RUSSIA TO BE A RELIABLE AND SECURE SUPPLIER OF ENERGY.

TALKING POINTS:

O WE HAD USEFUL EXCHANGES ON HOW TO BUILD ON THE MASSANDRA AGREEMENTS IN MOSCOW ON OCTOBER 21 BETWEEN UNDERSECRETARY DAVIS AND DFM MAMEDOV, AND IN KIEV ON OCTOBER 26 BETWEEN UNDERSECRETARY DAVIS AND DFM TARASYUK.

O A PARTICULAR FOCUS WAS COMPENSATION TO UKRAINE FOR THE VALUE OF THE HIGHLY-ENRICHED URANIUM IN THE NUCLEAR WEAPONS TRANSFERRED TO RUSSIA FOR DISMANTLING.

O THE U.S. OUTLINED SOME IDEAS FOR RESOLVING THIS PROBLEM SO THAT THE PROCESS BEGUN AT MASSANDRA CAN BE COMPLETED AND IMPLEMENTED. BOTH RUSSIA AND UKRAINE WELCOMED U.S. INTEREST AND INVOLVEMENT IN RESOLVING THIS PROBLEM AND ENCOURAGED US TO ELABORATE ON OUR IDEAS.

O THIS U.S. NON-PAPER FOLLOWS UPON THE MEETINGS WITH UNDERSECRETARY DAVIS AND DEVELOPS FURTHER THE U.S. SUGGESTIONS FOR RESOLVING THE COMPENSATION ISSUE, WHICH WE WOULD LIKE TO CLOSE AS QUICKLY AS POSSIBLE. OUR AIM IS TO RESOLVE ALL ASPECTS OF THE HEU ISSUE BY THE TIME OF THE MEETING OF VICE PRESIDENT GORE AND PRIME MINISTER CHERNOMYRDIN IN MID-DECEMBER.

O WE LOOK FORWARD TO A PROMPT RESPONSE TO THE U.S. NON-PAPER. OUR INTENTION IS TO WORK INTENSIVELY AND BILATERALLY WITH RUSSIA AND UKRAINE TO DEVELOP THE BASIS FOR A RESOLUTION OF THE COMPENSATION ISSUE, IN ORDER TO OPEN THE WAY FOR THE DISMANTLING OF THE WARHEADS AND THE REALIZATION BY RUSSIA AND UKRAINE OF THE ECONOMIC VALUE OF THE HEU.

- THE HIGHLY-ENRICHED URANIUM REMOVED FROM DISMANTLED NUCLEAR WARHEADS HAS SIGNIFICANT ECONOMIC VALUE. AS WARHEADS ARE TRANSFERRED FROM UKRAINE TO RUSSIA FOR DISMANTLING, UKRAINE SHOULD RECEIVE PROMPT AND FAIR COMPENSATION FOR THE VALUE OF THE HEU IN THEM.

- IN THE U.S. VIEW, THE ACCORD REACHED AT MASSANDRA REPRESENTS A SOUND PRACTICAL APPROACH TO COMPENSATION. RELIABLE AND AFFORDABLE ENERGY IS CRUCIAL TO THE FUTURE OF UKRAINE. NUCLEAR POWER PLAYS A SIGNIFICANT ROLE IN SUPPLYING ENERGY FOR UKRAINE, AND THE ROLE OF NUCLEAR POWER WILL GROW AS STATIONS UNDER CONSTRUCTION ARE COMPLETED IN ACCORD WITH THE RECENT DECISION OF UKRAINE.

- UNDER THE MASSANDRA APPROACH, HEU FROM NUCLEAR WARHEADS TRANSFERRED TO RUSSIA WILL BE CONVERTED TO FUEL FOR NUCLEAR POWER STATIONS AND RETURNED TO UKRAINE. SUCH A SECURE, LOW-COST SUPPLY OF NUCLEAR FUEL IS A VALUABLE FORM OF COMPENSATION. THE MASSANDRA APPROACH THERE IS IN THE INTEREST OF BOTH RUSSIA AND UKRAINE, AND THE U.S. STRONGLY SUPPORTS IT.

- UNDER THE MASSANDRA APPROACH, A PORTION OF THE LOW-ENRICHED URANIUM DERIVED FROM HEU REMOVED FROM NUCLEAR WARHEADS TRANSFERRED FROM UKRAINE WOULD BE RETURNED TO UKRAINE IN THE FORM OF FUEL ASSEMBLIES FOR NUCLEAR POWER STATIONS, AND A PORTION WOULD BE SOLD BY RUSSIA TO COVER ITS EXPENSES FOR DISMANTLING THE WARHEADS, CONVERTING THE HEU TO LEU, AND FABRICATING THE LEU INTO FUEL ASSEMBLIES. THESE PORTIONS SHOULD REFLECT ACTUAL COSTS, WITHOUT PROFITS OR LOSSES TO EITHER SIDE. THE COSTS ASSOCIATED WITH DISMANTLING THE WARHEADS, CONVERTING THE HEU TO LEU, AND FABRICATING THE LEU INTO FUEL ASSEMBLIES ARE A SMALL FRACTION OF THE VALUE OF THE HEU. THEREFORE WE WOULD EXPECT THAT THE MAJORITY OF THE LEU DERIVED FROM THE HEU IN WARHEADS TRANSFERRED TO RUSSIA FOR DISMANTLING WOULD BE RETURNED TO UKRAINE AS FUEL ASSEMBLIES. THE UNITED STATES IS PREPARED TO PURCHASE, UNDER THE TERMS OF THE HEU CONTRACT, THE REMAINING LEU DERIVED FROM THE HEU IN WARHEADS TRANSFERRED TO RUSSIA TO COVER EXPENSES INCURRED BY RUSSIA.

- THE U.S. EXPERIENCE IS THAT RUSSIA IS A RELIABLE SUPPLIER OF FUEL FOR NUCLEAR POWER STATIONS, AND WE EXPECT THAT RUSSIA WILL STRICTLY FULFILL ITS COMMITMENT TO SUPPLY NUCLEAR FUEL ASSEMBLIES WITHIN ONE YEAR OF

THE TRANSFER OF EACH WARHEAD TO RUSSIA FOR DISMANTLING. IN ORDER TO FACILITATE AN OVERALL AGREEMENT ON DISMANTLING OF NUCLEAR WARHEADS AND FAIR COMPENSATION, THE UNITED STATES IS PREPARED TO OFFER TO GUARANTEE THE TIMELY DELIVERY OF NUCLEAR FUEL ASSEMBLIES TO UKRAINE. THE U.S. CAN IMPLEMENT THIS GUARANTEE ONLY IF UKRAINE HAS ENTERED INTO AN AGREEMENT WITH THE INTERNATIONAL ATOMIC ENERGY AGENCY PROVIDING FOR THE APPLICATION OF SAFEGUARDS ON ALL SPECIAL FISSIONABLE MATERIAL IN ALL ITS PEACEFUL NUCLEAR ACTIVITIES, AND HAS ENTERED INTO AN AGREEMENT FOR NUCLEAR COOPERATION WITH THE UNITED STATES. IN THIS CONTEXT, THE UNITED STATES WOULD BE PREPARED TO PROVIDE NUCLEAR FUEL ASSEMBLIES FOR VVER-1000 REACTORS IN THE EVENT THAT RUSSIA IS UNABLE TO MEET ITS COMMITMENTS UNDER THE AGREEMENT. THE COSTS TO THE U.S. IN PROVIDING SUCH NUCLEAR FUEL ASSEMBLIES WOULD BE DEDUCTED FROM PAYMENTS FROM THE U.S. TO RUSSIA UNDER THE HEU CONTRACT.

- WHILE THE MASSANDRA ACCORD ALLOWS FOR THE POSSIBILITY OF COMPENSATION TO UKRAINE IN THE FORM OF CASH RATHER THAN FUEL ASSEMBLIES, THE NUCLEAR POWER PROGRAM OF UKRAINE CAN ABSORB ALL OF THE FUEL DERIVED FROM 50 METRIC TONS OF HEU IN LESS THAN FIVE YEARS, AND RECEIVE COMPENSATION IN THE FORM OF NUCLEAR FUEL.

- IN ADDITION TO IMPLEMENTING THE MASSANDRA ACCORD ON THE DISMANTLING OF NUCLEAR WARHEADS NOW IN UKRAINE AND COMPENSATION TO UKRAINE FOR THE VALUE OF THE HEU, UKRAINE HAS RAISED THE QUESTION OF COMPENSATION FOR THE HEU IN THE TACTICAL WARHEADS TRANSFERRED TO RUSSIA IN THE SPRING OF 1992.

THIS IS A DIFFICULT QUESTION. IN THE SPRING OF 1992 RUSSIA AND UKRAINE REACHED AN AGREEMENT ON THE TRANSFER OF THE TACTICAL NUCLEAR WARHEADS THEN ON THE TERRITORY OF UKRAINE. WE UNDERSTAND THIS AGREEMENT SPECIFIED THAT THESE WARHEADS WOULD BE DISMANTLED, AND ESTABLISHED A MECHANISM FOR REPRESENTATIVES OF UKRAINE TO MONITOR THE DISMANTLING OF THE WARHEADS TRANSFERRED FROM UKRAINE. WE FURTHER UNDERSTAND THAT THIS AGREEMENT DID NOT PROVIDE FOR COMPENSATION.

- GIVEN THIS HISTORY, WE SUGGEST THAT THIS ISSUE BE RESOLVED IN A LARGER CONTEXT.

- IN OUR MEETINGS IN KIEV IN LATE OCTOBER, WE HEARD CONCERNS ABOUT ENERGY FROM BOTH GOVERNMENT OFFICIALS

AND THE PARLIAMENT. RELIABLE AND SECURE ENERGY SUPPLIES ARE CRUCIAL TO UKRAINE. IN TIME, UKRAINE CAN DEVELOP DIVERSIFIED SOURCES OF ENERGY IN ORDER TO ENSURE RELIABLE SUPPLIES AT FAIR MARKET PRICES. IN THE NEAR TERM, HOWEVER, RUSSIA WILL BE THE PRINCIPAL SUPPLIER OF OIL, GAS, AND NUCLEAR FUEL FOR UKRAINE.

- IN THE CONTEXT OF THE COMPLETION OF THE PACKAGE BEGUN AT MASSANDRA, INCLUDING AN AGREED SCHEDULE FOR TRANSFER OF WARHEADS TO RUSSIA FOR DISMANTLING, AND WITH THE COMMENCEMENT OF ACTUAL IMPLEMENTATION, THE U.S. BELIEVES IT WOULD BE APPROPRIATE FOR RUSSIA TO MAKE A FORMAL COMMITMENT TO BE A RELIABLE AND SECURE SUPPLIER OF ENERGY (OIL, GAS, AND NUCLEAR) TO UKRAINE AND TO FORGIVE A SIGNIFICANT PORTION OF THE DEBT INCURRED FOR PAST ENERGY PURCHASES.

- FOR ITS PART, IN THE SAME CONTEXT OF THE COMPLETION AND COMMENCEMENT OF ACTUAL IMPLEMENTATION OF THE PROCESS BEGUN AT MASSANDRA, THE UNITED STATES IS PREPARED TO DIVERSIFY ITS SOURCE OF ENERGY, AND ON ENERGY CONSERVATION MEASURES.

- THE UNITED STATES LOOKS FORWARD TO YOUR RESPONSE TO THESE IDEAS. WE WANT TO WORK INTENSIVELY WITH RUSSIA AND WITH UKRAINE TO RESOLVE THE COMPENSATION QUESTION. WE WOULD LIKE TO RESOLVE THE ENTIRE QUESTION OF COMPENSATION FOR UKRAINE, KAZAKHSTAN, AND BELARUS OVER THE NEXT FEW WEEKS, SO THAT THE BILATERAL HEU CONTRACT CAN BE SIGNED AT THE MEETING OF VICE-PRESIDENT GORE AND PRIME MINISTER CHERNOMYRDIN IN MID-DECEMBER. WE ARE PREPARED TO ENGAGE WITH RUSSIA AND UKRAINE AS NECESSARY TO FIND A MUTUALLY ACCEPTABLE SOLUTION THAT MEETS THE INTERESTS OF RUSSIA, UKRAINE, AND THE UNITED STATES.

WITH RESPECT TO TARASYUK'S QUESTION  
WHETHER THE HEU CONTRACT APPLIES TO HEU OR LEU AND  
CLARIFICATION OF THE PROVISIONS OF THE HEU CONTRACT:

ON FEBRUARY 18, 1993, THE US AND RUSSIA SIGNED A  
GOVERNMENT-TO-GOVERNMENT AGREEMENT FOR THE PURCHASE BY  
THE US OF HEU REMOVED FROM NUCLEAR WARHEADS.

SUBSEQUENTLY AN HEU CONTRACT HAS BEEN PREPARED TO  
IMPLEMENT THE FEBRUARY 18 AGREEMENT. THIS CONTRACT  
CALLS FOR RUSSIA TO CONVERT 500 TONS OF HEU TO LEU  
SUITABLE FOR USE IN COMMERCIAL NUCLEAR REACTORS AND SELL  
IT TO THE US OVER 20 YEARS; THE US WILL SELL THE LEU TO  
COMMERCIAL NUCLEAR POWER STATIONS. THE CONTRACT  
PROVIDES PROCEDURES FOR DETERMINING PRICES, DELIVERY  
SCHEDULES, TECHNICAL SPECIFICATIONS, ETC. WE BELIEVE  
THE CONVERSION OF HEU TO LEU AND SHIPMENT FROM RUSSIA  
ADVANCES OUR SHARED NON-PROLIFERATION GOALS AND IS IN

THE INTEREST OF ALL NATIONS.

WITH RESPECT TO THE QUESTION . REGARDING  
THE US OFFER TO GUARANTEE DELIVERIES OF NUCLEAR FUEL  
ASSEMBLIES:

THE US UNDERSTANDS THAT UKRAINE AND RUSSIA HAVE AGREED  
THAT AS NUCLEAR WARHEADS ARE TRANSFERRED TO RUSSIA FOR  
DISMANTLING, RUSSIA WILL PROVIDE A CERTAIN QUANTITY OF  
FUEL ASSEMBLIES FOR NUCLEAR POWER STATIONS WITHIN ONE  
YEAR OF THE TRANSFER OF EACH WARHEAD. THE US HAS  
OFFERED, IN ORDER TO FACILITATE AGREEMENT ON THE  
COMPENSATION QUESTION, TO GUARANTEE SUCH TIMELY DELIVERY  
OF NUCLEAR FUEL ASSEMBLIES. IF FOR ANY REASON RUSSIA  
SHOULD NOT DELIVER NUCLEAR FUEL ASSEMBLIES WITHIN ONE  
YEAR OF TRANSFER OF NUCLEAR WARHEADS, THE US WOULD  
PROVIDE SUCH NUCLEAR FUEL ASSEMBLIES TO UKRAINE. WE  
HAVE NO REASON TO BELIEVE THAT RUSSIA WILL FAIL TO MEET  
ITS COMMITMENTS, BUT WE ARE PREPARED TO OFFER THIS  
GUARANTEE IN ORDER TO INCREASE UKRAINE'S CONFIDENCE THAT  
IT WILL RECEIVE FAIR AND PROMPT COMPENSATION FOR THE  
VALUE OF THE HEU IN WARHEADS TRANSFERRED TO RUSSIA FOR  
DISMANTLING.

WITH RESPECT TO THE QUESTION REGARDING  
THE US OFFER TO WORK WITH UKRAINE TO DIVERSIFY ITS  
SOURCES OF ENERGY:

ENERGY SECURITY IS IMPORTANT TO ALL NATIONS. ONE ASPECT  
OF ENERGY SECURITY IS THE MAINTENANCE OF DIVERSIFIED  
SOURCES OF ENERGY IN ORDER TO MINIMIZE VULNERABILITY  
SHOULD PROBLEMS DEVELOP WITH ANY SUPPLIER. THE US IS  
OFFERING TO WORK WITH UKRAINE TO IDENTIFY ALTERNATIVE  
SOURCES OF ENERGY TO HELP MOVE AWAY FROM UKRAINE'S  
CURRENT OVERDEPENDENCE ON RUSSIAN ENERGY. WE ARE ALSO  
PREPARED TO ADDRESS THE FINANCIAL, INDUSTRIAL, AND  
INFRASTRUCTURE IMPLICATIONS OF A PROGRAM TO DEVELOP OVER  
TIME THE ABILITY TO DRAW ON A WIDE VARIETY OF ENERGY  
SOURCES. IN ADDITION, WE BELIEVE THAT ENERGY

CONSERVATION MEASURES COULD SUBSTANTIALLY REDUCE  
UKRAINE'S ENERGY NEEDS AND COSTS. WE ARE PREPARED TO  
PROVIDE A TEAM OF US EXPERTS ON THESE MATTERS TO MEET  
WITH UKRAINIAN EXPERTS TO DEVELOP PLANS FOR DIVERSIFYING  
THE SOURCES OF ENERGY FOR UKRAINE AND CONSERVING ENERGY

O UKRAINE HAS URGED THE UNITED STATES TO ENGAGE IN A TRILATERAL PROCESS TO RESOLVE THE QUESTION OF FAIR AND PROMPT COMPENSATION FOR THE VALUE OF THE HEU IN NUCLEAR WARHEADS.

O WE HAVE DONE SO. ON THE MARGINS OF SECRETARY CHRISTOPHER'S VISITS TO MOSCOW AND KIEV WE ENGAGED IN HIGH-LEVEL DISCUSSIONS OF THIS SUBJECT WITH RUSSIAN AND UKRAINIAN OFFICIALS, AND OUTLINED US IDEAS DESIGNED TO BRIDGE THE GAPS BETWEEN THE RUSSIAN AND UKRAINIAN POSITIONS.

O UKRAINE ASKED FOR MORE DETAILS ON THE US IDEAS, AND WE FOLLOWED UP WITH A US NON-PAPER DISCUSSING OUR IDEAS IN MORE DETAIL. THE US NON-PAPER WAS GIVEN TO RUSSIA AND UKRAINE.

O AT THE TIME THE PAPER WAS PRESENTED TO DFM TARASYUK' HE ASKED THREE QUESTIONS, AND WE HAVE PROVIDED ANSWERS.

O YOU HAVE HAD THE US PAPER FOR TEN DAYS. THE NEXT STEP IS FOR UKRAINE TO PROVIDE A RESPONSE TO THE IDEAS IN THE US NON-PAPER, INCLUDING OUR PRAGMATIC IDEAS FOR RESOLVING THE PROBLEM OF COMPENSATION FOR THE VALUE OF THE HEU IN TACTICAL WARHEADS RETURNED TO RUSSIA IN 1992.

O WE NEED YOUR RESPONSE IN ORDER TO CONSIDER HOW TO PROCEED IN OUR EFFORT TO GET THIS ISSUE BEHIND US.

O WE WANT TO RESOLVE THIS ISSUE QUICKLY SO THAT WE CAN BEGIN THE PROCESS OF CONVERTING HEU TO PEACEFUL PURPOSES AND PROVIDING FAIR COMPENSATION TO UKRAINE.