CONFIDENTIAL

10 DOWNING STREET

THIS FILE MUST NOT GO OUTSIDE 10 DOWNING ST

FILE TITLE: Nuclear Safety

SERIES: SHERPA

PART: 1

PART BEGINS: 1st September 1997

PART ENDS: 31st March 1998

CAB ONE:

Part 1 Closed

LABOUR
ADMINISTRATION

PREM 49/248

CONFIDENTIAL

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PART

CLOSED

Series : **SHERPA**

File Title : **Nuclear Safety**

Part : **1**

Date	From	To	Subject	Class	Secret
21/11/97	Cab Off	FA/PS	G7 Nuclear Safety:Chernobyl Funding	U	0
24/11/97	Sherpa/Germany	Sherpa/USA	Draft letter to the President of the EBRD:German Agreement	U	0
26/11/97	Sherpa/Italy	Sherpa/USA	Draft letter to the President of the EBRD:Italian Agreement	U	0
26/11/97	Sherpa/France	Sherpa/USA	Draft letter to the President of the EBRD:French Agreement	U	0
26/11/97	Sherpa/USA	FA/PS	Letter from President Clinton to the President of the Ukraine:Status	U	0
27/11/97	FCS	CST	Chernobyl Sarcophagus:Funding UK's bilateral contribution	U	0
28/11/97	FA/PS	Sherpa/USA	Draft letter to Larosiere:UK comments	U	0
28/11/97	FCO	FA/PS	G8:Chernobyl Pledging Conference-Reply to Larosiere	U	0
01/12/97	Sherpa/Japan	Sherpa/USA	Draft letter to the President of the EBRD:Japanese approval	U	0
01/12/97	Sierra Leone	FA/PS	Letter to the President of the EBRD:The Chernobyl Shelter Impleme	U	0
04/12/97	PboT	FCS	UK's agreed contribution to the G7 funding of Chernobyl	U	0
08/12/97	FCS	CST	Chernobyl Sarcophagus:Funding UK's bilateral contribution	U	0
11/12/97	DID	DTI	Chernobyl Sarcophagus	U	0
09/01/98	MS/DTI	FCS	UK Chairmanship of the G7's Nuclear Safety Working Group (NSWG	U	0
28/01/98		Sherpa/USA	Critical Issues for the Shelter Implementation Plan:Letter from The Pr	C	0
02/02/98	Sherpa/USA		EBRD financing for the R4/K2 Nuclear Plant completions and status r	U	0
03/02/98	DPM	MS/DTI	Proposed Key Objectives for the G7 Nuclear Safety Working Group (	C	0
06/02/98	FCS	PboT	G7 Nuclear Safety Working Group (NSWG)	U	0
05/03/98	PMG	MS/DTI	G7 Nuclear Safety Working Group	U	0
20/03/98	FCO	FA/PS	Draft Letter to G7 Sherpas:Nuclear Safety and Kursk 1	U	0
20/03/98	FA/PS		Letter to G7 Sherpas:Draft Letter to Russian Sherpa concerning Kurs	U	0
23/03/98	Sherpa/France	FA/PS	Draft letter to Russian Sherpa concerning Kursk 1:French Comments	U	0
24/03/98	Sherpa/Canada	FA/PS	Draft letter to Russian Sherpa concerning Kursk 1:Canadian Comme	U	0
24/03/98	Sherpa/USA	FA/PS	Draft letter to Russian Sherpa concerning Kursk 1:US Comments	U	0
24/03/98	Sherpa/Italy	FA/PS	Draft letter to Russian Sherpa concerning Kursk 1:Italian Agreement	U	0
24/03/98	Sherpa/Japan	FA/PS	Draft letter to Russian Sherpa concerning Kursk 1:Japanese Comme	U	0
24/03/98	Sherpa/EC	FA/PS	Draft letter to Russian Sherpa concerning Kursk 1:EC Comments	U	0
25/03/98	FCO	FA/PS	G7 Nuclear Safety:Draft letter to President Kuchma of the Ukraine	U	0
26/03/98			Moscow Tel No:382-Russia,G8,Kursk 1	U	0
27/03/98	Sherpa/France	FA/PS	Draft letter from the Prime Minister to the President of the Ukraine on	U	0
30/03/98	Sherpa/USA	FA/PS	Draft letter from the Prime Minister to the President of the Ukraine on	U	0
30/03/98	Sherpa/EC	FA/PS	Draft letter from the Prime Minister to the President of the Ukraine on	U	0
30/03/98	Sherpa/Japan	FA/PS	Draft letter from the Prime Minister to the President of the Ukraine on	U	0

Series : **SHERPA**

File Title : **Nuclear Safety**

Part : **1**

Date	From	To	Subject	Class	Secret
01/09/97	Sherpa/Italy	Sherpa/USA	Draft letter to President Kuchma:Italian Comments	U	0
01/09/97	FCO	FA/PS	G7 R4/K2:Letter to Cloos	U	0
01/09/97	FA/PS	Sherpa/EC	Draft communication on the R4/K2 reactors	U	0
01/09/97	Sherpa/EC	Sherpa/USA	The closure of Chernobyl and the draft letter from President Clinton t	U	0
02/09/97	Sherpa/USA	FA/PS	World Association of Nuclear Operators (WANO) peer review of oper	U	0
03/09/97	Sherpa/Italy	Sherpa/USA	Draft letter from President Clinton to President Kuchma:Italian Obser	U	0
04/09/97	Sherpa/Germany	Sherpa/USA	Draft Letter from President Clinton to President Kuchma:German Ob	U	0
12/09/97	Sherpa/EC	Sherpa/USA	Aide Memoire from the European Commission on the Ukraine-G7 Me	U	0
17/09/97	Sherpa/Germany	Sherpa/USA	G7 obligation to Chernobyl:German Political talks with President Kuc	U	0
18/09/97	HMT	HMT	Chernobyl:G7 Bilateral Shares of the Shelter Fund	U	0
23/09/97	Sherpa/Canada	Sherpa/USA	Canadian financial pledge towards the Chernobyl Sarcophagus fund	U	0
25/09/97	Sherpa/USA	colleagues	Draft letter to Kuchma :Thank you for suggestions	U	0
01/10/97	Sherpa/Germany	Sherpa/USA	Revised draft from President Clinton to Kuchma :German observatio	U	0
01/10/97	Sherpa/Italy	Sherpa/USA	Kuchma Text agreed	U	0
02/10/97	Sherpa/France	Sherpa/USA	Revised draft from President Clinton to Kuchma :French comments	U	0
03/10/97	FCO	FA/PS	G7 Nuclear Safety:Draft reply Clinton/Kuchma letter	U	0
03/10/97	FA/PS	Sherpa/USA	Revised draft from President Clinton to Kuchma :UK views	U	0
06/10/97	Sherpa/Canada	Sherpa/USA	Revised draft from President Clinton to Kuchma :Canadian comment	U	0
07/10/97	Sherpa/Japan	Sherpa/USA	Revised draft from President Clinton to Kuchma :Japanese Comment	U	0
07/10/97	Sherpa/EC	Sherpa/USA	Revised draft from President Clinton to Kuchma :European sherpa vi	U	0
16/10/97	Sherpa/USA	colleagues	Agreed levels of funding Chernobyl Sarcophagus	U	0
17/10/97	Sherpa/France	FA/PS	G7 contributions to the Chernobyl Shelter Fund	U	0
17/10/97	DTI	FA/PS	Chernobyl Sarcophagus:Commonwealth Heads of Government Meet	U	0
17/10/97	Sherpa/USA	FA/PS	Revised letter from President Clinton to President Kuchma on R4/K2	U	0
22/10/97	Sherpa/USA	FA/PS	Revised draft of President Clinton's letter to President Kuchma on R4	U	0
22/10/97	Sherpa/USA	FA/PS	The Chernobyl Shelter Implementation Plan and Pledging Conferenc	U	0
22/10/97	FCO	FA/PS	G7:Chernobyl Funding	U	0
22/10/97	Sherpa/EC	Sherpa/USA	Agreed levels of funding Chernobyl Sarcophagus:EC contribution wo	U	0
22/10/97	FA/PS	Sherpa/France	Chernobyl Shelter Fund:Proposed revised shares between EU memb	U	0
23/10/97	Sherpa/Japan	Sherpa/USA	Revised draft of President Clinton's letter to President Kuchma:Japa	U	0
23/10/97	Sherpa/France	Sherpa/USA	G7 contributions to the Chernobyl Shelter Fund:Discussions by the Fi	U	0
23/10/97	Sherpa/France	Sherpa/USA	Revised draft of letter to President Kuchma on MOU implementation:	U	0
23/10/97	CST	FCS	Chernobyl Sarcophagus:Funding UK's Bilateral contribution	R	0
24/10/97	FCO	FA/PS	G7 Chernobyl:Clinton letter to Kuchma	U	0
27/10/97	Sherpa/Italy	Sherpa/USA	Draft letter to President Kuchma:Italian remarks	U	0
27/10/97	Sherpa/EC	Sherpa/USA	Revised draft from President Clinton to President Kuchma on the clo	U	0
27/10/97	Sherpa/Canada	Sherpa/USA	Canadian comments on the latest draft of the letter to President Kuc	U	0
28/10/97	Sherpa/Japan	Sherpa/USA	Funding for the Chernobyl Sarcophagus	U	0
28/10/97	Sherpa/Germany	Sherpa/USA	Draft letter from President Clinton to President Kuchma on the closur	U	0
28/10/97	FA/PS	Sherpa/USA	Revised draft letter to President Kuchma:UK comments	U	0
29/10/97	Sherpa/Italy	Sherpa/USA	Italian contribution towards the Chernobyl Sarcophagus Fund	U	0
04/11/97		PM	(H) Appeal to participate in the Chernobyl Pledging Conference	U	0
04/11/97	SS/DID	CST	Chernobyl Sarcophagus:Funding UK's Bilateral Contribution	R	0
05/11/97	FA/PS	FCO	Chernobyl Pledging Conference:	U	0
14/11/97	FA/PS		Thank You for invitation to the Chernobyl Pledging Conference	U	0
14/11/97	FCO	FA/PS	G7 Chernobyl Pledging Conference	U	0
14/11/97	Sherpa/USA	FA/PS	Draft letter to the President of the EBRD:The Chernobyl Shelter Fun	U	0
19/11/97	DTI	FA/PS	Chernobyl Sarcophagus:UK contribution for the Shelter Implementati	U	0
19/11/97	Sherpa/EC	Sherpa/USA	Draft Letter to the President of the EBRD:EC Agreement	U	0
20/11/97	Sherpa/Canada	Sherpa/USA	Draft letter to the President of the EBRD:Canadian Agreement	U	0

THE WHITE HOUSE

WASHINGTON

March 30, 1998

Dear John:

Thank your for your letter dated March 26, conveying a draft letter from Prime Minister Blair to President Kuchma on the Memorandum of Understanding on the closure of Chornobyl. We agree with the overall thrust of the paper.

In reviewing and commenting on the letter, we tried to bring greater focus to the importance of Ukraine reforming its electricity sector and the benefits this would entail for Ukraine, including increased revenues and increased access to international financing. Our suggested comments essentially use the text from your letter, but reorganizes it with the above objectives in mind. In that light, we would like to offer the attached revisions to paragraphs 3 through 5. (Plain text is from the original draft. Italicized text is from the original draft, but reorganized. Underlined text is new.) Though we did not incorporate Jean-David's or Jim's comments in our revised text, we agree with the comments and would support their inclusion in the letter.

I hope you find these suggested changes useful. I am copying this letter to our G-7 Sherpa colleagues.

Sincerely,

James B. Steinberg
Deputy Assistant to the President
for National Security Affairs

Mr. John Holmes
Principal Private Secretary
to the Prime Minister
10 Downing Street
London, England

Replace for paragraphs 3 through 5:

The G-7 fully recognizes the importance you attach to the projects for enhancing Ukraine's power sector which are to be funded by the World bank and EBRD. [Possible sentence to be added to reflect the outcome of the March 25 EBRD Directors' workshop.] *We fully share your desire to see early progress on least cost energy investments envisaged in the MOU to ensure that, well before permanent closure of Chornobyl by 2000, firm plans are in place for meeting Ukraine's future electricity needs.* Bill Clinton's letter to you from last year provided an excellent summary of the full range of projects proceeding under the MOU. *But, as recognized in the MOU, energy sector investments can only go forward in a competitive market-based power sector.* By beginning immediate implementation of its Financial Recovery Plan and adhering to the plan's milestones agreed with the World Bank over the next year, Ukraine will firmly establish the key elements of such a competitive power sector.

Ukraine will benefit significantly from creating a competitive and effective market for electricity that secures the revenues needed to purchase fuel, maintain power plants and finance new investments. In addition, these efforts will encourage the World Bank to restore its loan for power market development which is critical to progress on other lending in the sector. Rapid implementation of the FRP will enhance the chances for making progress in developing the EBRD loan for the Rivne 4/Khmelnitsky 2 reactors. We understand that the EBRD will shortly send clear guidance on the further action which Ukraine needs to take to satisfy the conditions for EBRD financing. I strongly urge you to meet those requirements so that this project, which is envisaged in the MOU, can be brought to fruition.

The G-7 is firmly committed to maintaining progress under the MOU and, with the help of Ukraine, we are winning the support of a wider community of international donors. In order to sustain this, both the G-7 and Ukraine must demonstrate their continued adherence to the MOU's principles. The MOU makes no link between completion of the R4/K2 reactors and the date for closing Chornobyl. I urge, therefore, that you continue to adhere to your announced policy of closing Chornobyl by the year 2000.

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

G7 SHERPA CORRESPONDENCE

March 30, 1998

Dear John,

Thank you for your letter of 26 March. Concerning a letter from your Prime Minister to President Kuchma, I find it appropriate to express our concern about this subject to Ukrainians. I agree with your drafted letter emphasizing the importance of further energy sector reform in Ukraine and also with Jean-David's proposal of additional sentences.

I am copying this letter to G7 Sherpa Colleagues.

Sincerely yours,

Koichi Haraguchi

1. fax cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, ERD
Mr Lyscom, EBRD
Mr Hinton, DTI
Mr Peretz, HMT
Mr Kerley, DfID

2. Mr. Crowder

3. PS MFS 166/1

30/3

EUROPEAN COMMISSION
Cabinet of the President

Head of Cabinet

G7 SHERPA CORRESPONDENCE

Brussels, 30 March 1998
D(98) 81748

1. Fax cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Wedderburn, ERD
Mr Lyncar, ESRD
Mr Hunter, DTI
Mr Perry, HMT
Mr Kerby, DFID

2. Mr Gaunder FCO.
3. PA-MFS 166/1

30/3

Dear John,

Thank you for your letter of 26 March 1998 with a draft letter of Prime Minister Blair.

I agree with the draft, but would put the language at the end of the second paragraph on the second page somewhat stronger: "*I urge, therefore, that you continue to adhere to your commitment to close Chernobyl by the year 2000.*"

I am copying this letter to the other G-7 Sherpa colleagues.

Yours sincerely,

Jim CLOOS

John HOLMES
Principal Private Secretary
to Prime Minister Blair

Rue de la Loi 200, B-1049 Bruxelles/Wetstraat 200, B-1049 Brussel - Belgium - Office:
Telephone: direct line (+32-2)295.98.49, exchange 299.11.11. Fax: 296.50.09
Telex: COMEU B 21877, Telegraphic address: COMEUR Brussels.

G7 SHERPA CORRESPONDENCE

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Le Conseiller Diplomatique

Paris, March 27, 1998.

1. Fuso cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, BRD
Mr Lyscom, BRD
Mr Peretz, HMT
Mr Sinka, DTI
2. Mr Crowder F.a.
3. PA MFS 166/1

— grateful for views on these suggestions to Mr Crowder 29/3

Dear John,

Thank you for your letter dated March 26, 1998 conveying a draft letter from Prime Minister BLAIR to President Koutchma on Chernobyl.

I agree with the general orientation of your draft : it will give Ukraine the appropriate message just after the new Parliament is elected.

I suggest three additions to the text you circulated :

- paragraph 1, before the last sentence, add : *« G7 are determined to its full implementation : while agreed upon reforms will be carried out by the Ukrainian authorities, G7 will take upon all their responsabilities ».*

- paragraph 2, after the first sentence, add : *« In this regard, I noticed with great satisfaction Dr Hans BLIX appointment as Chairman of the Chernobyl Shelter Fund Donors'Assembly »*

- paragraph 3, after the first sentence, add : *« The positive results of the least cost and safety studies on R4 K2 have been confirmed in a recent workshop of the EBRD Board of Directors, with a strong support of the G7 Directors. This is a major step on the way to the decision of funding from the Bank and other donors ».*

I copy this letter to our G7 colleagues.

Yours sincerely,

Jean-David

Jean-David LEVITTE

Mr John HOLMES
Principal Private Secretary

TELEGRAM RETRIEVED FROM DATABASE 27 March 98

RESTRICTED
FM MOSCOW
TO IMMEDIATE FCO
TELNO 382
OF 260445Z MARCH 98
INFO PRIORITY PARIS, BONN, WASHINGTON, OTTAWA, TOKYO, ROME
INFO PRIORITY UKDEL EBRD

RUSSIA: G8: KURSK 1

YOUR TELNO 311 (NOT TO UKDEL EBRD)

SUBJECT: RUSSIA: G8: KURSK 1

SUMMARY

1. Action taken with Livshits and Denisov. No substantive response. Assessment of Denisov.

DETAIL

2. I spoke to Livshits on 25 March as instructed in TUR and handed over a copy of Holmes's letter, which he had not yet seen. Livshits agreed that the question of the Kursk reactor should be solved at the Sherpa and Sous-Sherpa level and should not be allowed to sour the Energy Ministerial or Birmingham Summit. He was not willing to comment further, claiming to be no expert.

3. Political Counsellor called on Denisov to repeat the message, leaving a copy of the letter (plus unofficial translation). Denisov too agreed that this subject should not spoil the atmosphere of the G8 Ministerial meetings. He understood our need for early progress on closing the reactor but could not give a clear response. This was a difficult requirement which needed a lot of work. If it depended on him alone, he would close it down immediately. However, this was a technical question which only MinAtom could answer. He hoped that Livshits could lean on MinAtom. We pressed, emphasising the political as well as technical aspects of the problem, but Denisov fell back on the response that it was for MinAtom and the EBRD technical experts to resolve. The latter would, of course, be given all the help required. Denisov said that he knew the London meeting would be difficult (because he would be pressed on this subject) but he did not expect to be able to say more than he had told us.

4. You asked for our assessment of Denisov. He is 45, affable but diffident about his new G8 portfolio. He has been Director of the MFA's Economic Cooperation Department for only three months. He previously served in China. His English is limited and this will be his first visit to the UK. On the evidence of our call, his response to pressure on Kursk 1 is likely to be to invoke MinAtom as the answer to all questions. Indeed he hinted that were the matter for the MFA to decide, the problem over Kursk could be resolved quickly.

WOOD

YYYY
MAIN 9

FCO JL 27/3

1. fax cc Mr Holmes, NSU
2. Copy for me pse
3. Mr Cowdery
4. Po MFS 166/1

27/3

although we had despatched it

the Embassy here told me he did not need an interpreter

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ESED                                0
CED                                 0
EASTERN D                           0
EASTRG                              1
CCD                                 0
CEEARG                              1
NAPRG                               1
AFRG                                1
EUD(E)                              0
ERD                                 0
GIRG                                1
WSERG                               1
PS PUS                              1
PS MR FATCHETT                      0
POLDIR                              1
DUS ECON EU                         1
DIR EUROPE                          0
UND//DIR GLOBAL ISS                 0

ADVANCE       1
POLDIR                              1

ADDITIONAL    0
CAOFF1                              0
CAOFF2                              0
DFID2                               0
HMT                                 0
DETR1                               0
DETR2                               0
DTI                                 0
[FIEL]

MXLNAN 8300
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Foreign &
Commonwealth
Office

London SW1A 2AH

Telephone: 0171

Our reference: MFS 166/1

25 March 1998

John Holmes
10 Downing Street

Dear John,

G7 NUCLEAR SAFETY: LETTER TO KUCHMA

1. At the last Sherpa meeting, you agreed to circulate a draft letter from the Prime Minister to President Kuchma, to be sent immediately after the elections on 28 March. I enclose a draft letter asking for clearance from your G7 colleagues.

Yours,

Catherine

Catherine Nettleton
Economic Relations Department

270-2571

cc: Mr Budd
Mr Brenton
Mr Westcott, ERD
Mr Lyscom, ESED
Mr Hirst, DTI
Mr Peretz, HMT
Mr Kerby, DFID

D R A F T

Date

At our last meeting, I agreed to circulate a draft letter from the Prime Minister to President Kuchma about the Chernobyl SIP and the need for energy sector reform. As we aim to send the letter immediately after the elections on 28 March, I should be grateful for your comments on the attached by the end of the week. We ~~shall~~ will need to update the draft anyway in the light of the EBRD's workshop ~~today~~.

JOHN HOLMES

G7 Sherpas

D R A F T

date

Bill Clinton wrote to you last November, on behalf of the G7 leaders, about the Memorandum of Understanding (MoU) between G7 and Ukraine on Chernobyl closure. As the holder of the G7 Presidency this year, I am glad to assure you that a key objective for 1998 is to maintain momentum on implementation of the MoU. Within the G7, our discussions are being fully informed by the valuable contacts our officials have had with yours.

I am encouraged by the substantial progress on the grant-funded projects covered by the MoU, particularly the Shelter Implementation Plan (SIP). The Project Management Unit supervising the SIP is in place and contracts for the early biddable projects will be let over the next few weeks. Officials in Kiev and G7 capitals are working closely together to help attract the additional funds - public and private - which will be needed to ensure that the SIP can be completed within its 8-10 years timeframe.

The G7 fully recognises the importance you attach to the projects for enhancing Ukraine's power sector which are to be funded by the World Bank and EBRD. *[Possible sentence to be added to reflect the outcome of the 25 March EBRD Directors' workshop on R4/K2.]* But, as recognised in the MoU, energy sector investments can only go forward in a competitive market-based power sector. Thus, for both the restoration of

the World Bank's loan for power sector market development and the chances of making early progress in developing the EBRD loan for completing the Rovno 4/Khmelnitsky 2 reactors, it is essential that Ukraine endorse a Financial Recovery Plan for the power sector and ensures that the milestones agreed with the World Bank are achieved. We understand that the EBRD will send shortly clear guidance on the further action which Ukraine needs to take to satisfy the conditions for EBRD financing. I strongly urge you to make all possible efforts to meet those requirements so that this project, which is envisaged in the MoU, can be brought to fruition.

Whilst the MoU makes no link between completion of the R4/K2 reactors and the date for closing Chernobyl, we fully share your desire to see early progress on least cost energy investments as envisaged in the MoU to ensure that, well before permanent closure of Chernobyl by 2000, firm plans are in place for meeting the country's future electricity needs. Progress under the MoU can only be sustained while both the G7 and Ukraine maintain their commitments to its principles. I urge, therefore, that you continue to adhere to your announced policy of closing Chernobyl by the year 2000.

Implementation of the MoU is of course the most important, but by no means the only, link between the G7 and Ukraine. The Birmingham Summit in May will also be considering a number of issues that affect Ukraine, and I should like to inform you of them briefly. Besides discussing action on jobs and how to combat international crime, we will focus much of our attention on the global economy in the aftermath of the Asian crisis. I hope that this discussion can look in turn at issues of international trade, development of poorer

countries, the challenge of climate change, and energy resources. If you have any thoughts on these subjects, please do let me know.

Tony Blair

Leonid Kuchma
President of Ukraine

Department of Foreign Affairs
and International Trade

Deputy Minister

Ministère des Affaires étrangères
et du Commerce international

Sous-ministre

MAR 24 1998

Mr. John Holmes
Principal Private Secretary
to Mr. Tony Blair, Prime Minister
10 Downing Street
LONDON, England

fax cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, ERD
Mr Lyncar, R&ED
Mr Perete, HMT
Mr Hunt, DTI

Dear John:

Thank you for the proposed outline for a letter to President Kuchma from Prime Minister Blair distributed at the last meeting in London. The outline reflects the concerns we all share that Ukraine must implement necessary reforms and adhere to the conditions of the MOU on the closure of Chornobyl. I would suggest a few additional points and refinements.

We need to broaden and strengthen the message to reflect G7 concern about the slow rate of progress in implementing economic reforms. We should emphasize the importance of moving ahead with reforms as a precondition of continued support and incremental assistance from the donor community. This could be followed by an expression of our shared determination that the MOU process succeed and a restatement of continued G7 and donor community support, including mobilization of funds and investment, as reforms are realized.

We do not think it appropriate at this stage to get into the repercussions of not closing Chornobyl. Notwithstanding what the Ukrainian government has threatened to do, when judged on their track record, they have met their commitments under the MOU. We would prefer a more positive statement to encourage the Ukrainian government to stay on track to close Chornobyl in 2000.

I am copying this letter to our Sherpa colleagues.

Yours sincerely,

Donald W. Campbell

125 promenade Sussex Drive
Ottawa, K1A 0G2

THE WHITE HOUSE
WASHINGTON

Dear John:

I concur fully with your March 20 draft letter to Alexander on the issue of Kursk 1. I also endorse the comments offered by Jean David. Additionally, I would suggest, at your discretion, replacing the penultimate sentence with the following: "But as you know, this depends on the issuance of a long-term operating license based on the in-depth safety assessment and on results of the least-cost economic assessment of the Central power region of Russia."

Also, I understand your not wanting to dilute the message on Kursk 1 by raising the issue of the Shelter Implementation Plan in your letter. Nevertheless, I anticipate that our Foreign Affairs Sous-Sherpas will want to discuss Russian association with the SIP at their meeting, as it offers a timely opportunity to discuss how best to take advantage of this promising, positive nuclear safety outcome.

Sincerely,

James B. Steinberg
Deputy Assistant to the President
for National Security Affairs

Mr. John Holmes
Principal Private Secretary
to the Prime Minister
10 Downing Street
London

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

G7 SHERPA CORRESPONDENCE

UCD/ 537
Roma, 24 MAR. 1998

Dear John,

Thank you for your proposal to write to our Russian colleague with special reference to Kursk 1. I find that this is indeed appropriate.

I also agree on the contents which you suggested.

Yours sincerely

Roberto Nigido

Mr. John HOLMES
Principal Private Secretary
10, Downing Street
LONDON

fax cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, ERD
Mr Lyscom, ERD
Mr Hinsley, DTI
Mr Perete, HMT

Mr Crowder

PA MFS 166/1

24/3

Ricmo - Ki Poligr. • Zecca dello Stato - P.V.

EUROPEAN COMMISSION
Cabinet of the President

Head of Cabinet

G7 SHERPA CORRESPONDENCE

Brussels, 24 March 1998
D(98) 81625

1. Fax cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, FCO
Mr Lyscom, EST D
Mr Hunt, DTI — OK ?
Mr Peretz, HMT

G7
25/3.

Dear John,

2 Back to me.
24/3

I agree with the draft letter to Alexander and with the amendments proposed by Jean-David. Simply, I would start Jean-David's addition to paragraph 4 with "*In our view*" and delete the last sentence (which is already covered in paragraph 6), while in his addition to paragraph 6 I would replace "*suspending*" by "*the suspension of*". yes

I am copying this letter to the other G-7 Sherpa colleagues.

Yours sincerely,

Jim CLOOS

John HOLMES
Principal Private Secretary
to Prime Minister Blair

Rue de la Loi 200, B-1049 Bruxelles/Wetstraat 200, B-1049 Brussel - Belgium - Office:
Telephone: direct line (+32-2)295.98.49, exchange 299.11.11. Fax: 296.50.09
Telex: COMEU B 21877. Telegraphic address: COMEUR Brussels.

G7 SHERPA CORRESPONDENCE

Dr. Jürgen Stark

Staatssekretär im
Bundesministerium der Finanzen

53117 Bonn, 24. März 1998

Graurheindorfer Straße 108
Telefon: (02 28) 6 82 - 42 93
Telefax: (02 28) 6 82 12 44

1. Foss cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, FRS
Mr Lyncan, FRS
Mr Hird, DTI — grateful views on how we should change draft ASAP.
Mr Rock, HMT

2 Back to me
24/3

Mr John Holmes
Principal Private Secretary
10, Downing Street
London SW1A 2AA

Great Britain

Dear John:

Thank for your letter dated March 20, 1998 with the draft reply to our Russian colleague.

In principle I agree with the approach taken in the draft. But it could be stressed more clearly that the priorities set by the Russian side concerning Kursk I are not in accordance with the NSA Agreement. I would therefore suggest to amend the penultimate paragraph in the following way:

„Naturally, I understand that priority has been given to a major investment to upgrade the Kursk I reactor, and I recognise that the Nuclear Safety Account agreement does not rule out the eventual re-start of the reactor after a long-term operating licence has been granted. But, as you know, this depends on an in-depth safety assessment and an economic assessment of the Central power region of Russia both of which have unfortunately been delayed."

Yours sincerely,

cc.: Messrs. Campbell, Cloos, Haraguchi, Levitte, Nigido, Steinberg

2137

THE WHITE HOUSE
WASHINGTON

March 23, 1998

Dear John:

I also would endorse Jean-David's suggested additions ——— further

I concur fully with your March 20 draft letter to Alexander on the issue of Kursk 1. I would only suggest, at your discretion, replacing the penultimate sentence with the following: "But as you know, this depends on the issuance of a long-term operating license based on the in-depth safety assessment and on results of the least-cost economic assessment of the Central power region of Russia."

Also, I understand your not wanting to dilute the message on Kursk 1 by raising the issue of the Shelter Implementation Plan in your letter. Nevertheless, I anticipate that our Foreign Affairs Sous-Sherpas will want to discuss Russian association with the SIP at their meeting, as it offers a timely opportunity to discuss how best to take advantage of this promising, positive nuclear safety outcome.

fine

Sincerely

James B. Steinberg

Mr Holmes, No 10
fax cc Mr Hunt, DT 1
– a hotleg copy.

24/3

Mr. John Holmes
Principal Private Secretary
to the Prime Minister
10 Downing Street
London, England

TOP: JEH
cc: JOP
PB
PRESS
PL

G7 SHERPA CORRESPONDENCE

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

March 24, 1998

Dear John,

Thank you for your letter dated March 20 concerning your proposal for writing to Alexander. I find it appropriate to focus our attention upon Kursk 1 for the time being and agree with you to send him a message as you drafted lest this problem shadow the series of Summit process.

We should continue to take up this matter to Russians at every appropriate occasion. We already took up this matter and clearly expressed our serious concern on Kursk 1 on the occasion of the latest Japan-Russian nuclear consultations on March 23-24 in Tokyo.

I am copying this letter to G7 Sherpa colleagues.

Sincerely yours,

Koichi Haraguchi

1. For cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, FRD
Mr Lyscom, ESED
Mr Hunt, DTI
Mr Peretz, DEMT

2. Mr Crowder
3 PA MFS 166/1

24/3

Top: JEH
cc: RB
JOP
PRESS

G7 SHERPA CORRESPONDENCE

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Le Conseiller Diplomatique

Paris, March 23 1998

FCO
25/3,

1. Fax cc Mr Holmes, No 10
Mr Budd
Mr Brenton
Mr Westcott, ECD
Mr Lyncar, ESED
Mr Hurd, DTI – can we accept these?
Mr Perete, HMT

Dear John,

2. Mr Cannadine
3. L+R MFS 166/1

Thank you for your letter dated March 20 1998, and the draft reply to Alexander.

24/3

I agree with your general approach : the situation is critical and deserves a strong message. In that spirit, I suggest the following additions to your draft :

- in paragraph 4, add in the end : « It is clear that any re-criticality of a reactor is part of the restart procedure and must therefore follow the principles agreed upon in the Nuclear Safety Account Agreement. In particular, it is subject to prior in-depth safety and economic assessments, which have not been carried out ».

- in paragraph 5, add before the last sentence : « Such documentation must cover all steps from the end of reconstruction to the recent tests and the activities envisaged in the future ».

- in paragraph 6, I propose to add in the end : « Furthermore, we will consider suspending testing activities as a sign that Russia is willing to cooperate without restriction on nuclear safety issues in the spirit of the April 1996 Moscow Sommit ».

I copy this letter to our G7 colleagues.

Yours Sincerely,

Jean-David

Jean-David LEVITTE

John HOLMES
Prime Minister Office
LONDON

TOTAL PAGE(S) 02

24-MAR-1998 08:45 ERD 071 270 6503

071 270 6503 P.01

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

20 March 1998

Dear colleague,

You will all have seen Alexander's letter of 19 March to Jim Cloos about Kursk 1. We remain concerned about the lack of progress we are making with our Russian colleagues. As this has serious consequences for Russian commitment to the Nuclear Safety Account agreement, I propose that I write to Alexander on the lines of the attached draft. We should make clear that, if we cannot resolve this at official level, we shall have to risk souring the atmosphere of the Energy Ministerial and even the Summit.

I should be grateful for your comments on this draft, if possible by first thing on Tuesday 24 March, since I would like to write to Alexander sufficiently in advance of the sous sherpa meeting next week for them to give a constructive answer on that occasion.

You will note that the draft does not mention our wish to cover the Chernobyl Shelter Implementation Plan in the G8 Foreign Ministers' conclusions. I thought this unnecessary as we shall be circulating draft conclusions soon and I did not want to dilute the message on Kursk 1.

Yours ever

JOHN HOLMES

G7 Sherpas

D R A F T

Date

Your letter of 19 March to Jim Cloos covered the progress report on Kursk 1 which you promised at our last meeting. Many thanks for that.

I fear that nuclear safety is an awkward issue and I am very anxious that we should use the G8 process in the most constructive way in order to resolve problems and develop successfully our cooperation in this area. It would be unfortunate if unresolved issues became a preoccupation of the forthcoming Energy Ministerial or the Summit itself.

Your progress report is extremely helpful and will be a useful basis for a further discussion by Foreign Affairs Sous-Sherpas when they meet on 27-28 March, in advance of the Energy Ministerial. Since this will be Mr Denisov's first Sous-Sherpa meeting, it may be helpful if I clarify our continuing concerns, to which I hope he will be able to respond.

You have confirmed that the Kursk 1 reactor has in fact already been operating on a test basis. It would be helpful to know what basis you see the Nuclear Safety Account

Agreement as providing for this and, crucially, whether MINATOM are able to commit themselves to a firm date in the near future by which the current testing phase will be complete and the reactor shut down.

You have also helpfully confirmed Russia's willingness to adopt a transparent approach on the Kursk 1 licensing position. The development of strong licensing authorities was, of course, one of the central themes of the Moscow Summit on nuclear safety. I hope that it will be possible for the relevant documentation you promised to be made available to the EBRD's team when they visit Moscow on 27 March. This would enable the NSA donors to have an informed discussion of the issue at their meeting the following week.

Naturally, I fully understand that a major investment has been made in upgrading the Kursk 1 reactor, and recognise that the Nuclear Safety Account agreement does not rule out the eventual re-start of the reactor. But, as you know, this depends on an in-depth safety assessment and an economic assessment of the Central power region of Russia.

I am copying this to G8 Sherpa colleagues.

JOHN HOLMES

Alexander Livshits

Foreign & Commonwealth Office

London SW1A 2AH

Telephone: 0171

Our reference: MFS 166/1

20 March 1998

John Holmes
10 Downing Street

Dear John,

LETTER TO G7 SHERPAS: NUCLEAR SAFETY

1. Since my letter of 19 March, Livshits has written to G7 Sherpas about Kursk 1 (copy attached, with a letter from Steinberg). I attach a revised draft to G7 Sherpas asking for their agreement to the draft letter to Livshits. We are anxious to send this out before the weekend. Once cleared by G7 Sherpas, we propose that you send it to Livshits, copying to the other seven.

2. We have tried to adopt the most conciliatory tone possible, but the letter does amount to a series of demands and may not be well received. The Russians have invested a lot of money in Kursk 1 and, although we think their position indefensible, may take a tough line. It will take a major effort by the G7 to get them to back down and we may need to consider a compromise at some stage.

3. On a separate nuclear safety issue, you will recall that, at the last Sherpa meeting, we agreed to circulate a draft letter from the Prime Minister to President Kuchma, to issue immediately after the 28 March elections. This should be ready early next week, but we should go ahead with the more urgent Kursk 1 letter in the meantime.

Yours ever,
Catherine

Catherine Nettleton
Economic Relations Department

270-2571

cc: Mr Budd
Mr Brenton
Mr Westcott, ERD
Mr Lyscom, ESED
Mr Peretz, HMT
Mr Hirst, DTI

D R A F T

Date

You will all have seen Alexander's letter of 19 March to Jim Cloos about Kursk 1. ~~I~~ we remain concerned about the lack of progress we are making with our Russian colleagues. As this has serious consequences for Russian commitment to the Nuclear Safety Account agreement, I propose that I write to Alexander on the lines of the attached draft. We should make clear that, if we cannot resolve this at official level, we shall have to risk souring the atmosphere of the Energy Ministerial and even the Summit.

I should be grateful for your comments on this draft, if possible by first thing on Tuesday 24 March, since I would like to write to Alexander sufficiently in advance of the sous sherpa meeting next week for them to give a constructive answer on that occasion.

You will note that the draft does not mention our wish to cover the Chernobyl Shelter Implementation Plan in the G8 Foreign Ministers' conclusions. I thought this unnecessary as

we shall be circulating draft conclusions soon and I did not want to dilute the message on Kursk 1.

G7 Sherpas

JOHN HOLMES

basis for a further discussion by Foreign Affairs Sous-Sherpas when they meet on 27-28 March, in advance of the Energy Ministerial. Since this will be Mr Denisov's first Sous-Sherpa meeting, it may be helpful if I clarify our continuing concerns, to which I hope he will be able to respond.

You have confirmed that the Kursk 1 reactor has in fact already been operating on a test basis. It would be helpful

D R A F T

Date

Your letter of 19 March to Jim Cloos covered the progress report on Kursk 1 which you promised at our last meeting. Many thanks for that.

I fear that nuclear safety is an awkward issue ~~on the topic of nuclear safety~~ and I am very anxious that we should use the G8 process in the most constructive way in order to resolve ~~them~~ and develop successfully our cooperation in this area. It would be unfortunate if unresolved issues became a preoccupation of the forthcoming Energy Ministerial or the Summit itself.

Your progress report is extremely helpful and will be a useful basis for a further discussion by Foreign Affairs Sous-Sherpas when they meet on 27-28 March, in advance of the Energy Ministerial. Since this will be Mr Denisov's first Sous-Sherpa meeting, it may be helpful if I clarify our continuing concerns, to which I hope he will be able to respond.

You have confirmed that the Kursk 1 reactor has in fact already been operating on a test basis. It would be helpful

to know what basis you see the Nuclear Safety Account Agreement as providing for this and, crucially, whether MINATOM are able to commit themselves to a firm date in the near future by which the current testing phase will be complete and the reactor shut down.

You have also helpfully confirmed the Russia's willingness to adopt a transparent approach on the Kursk 1 licensing position. The development of strong licensing authorities was, of course, one of the central themes of the Moscow Summit on nuclear safety. I hope that it will be possible for the relevant documentation you promised to be made available to the EBRD's team when they visit Moscow on 27 March. This would enable the NSA donors to have an informed discussion of the issue at their meeting the following week.

Naturally I fully understand that a major investment has been made in upgrading the Kursk 1 reactor, and recognise that the Nuclear Safety Account agreement does not rule out the eventual re-start of the reactor. But, as you know, this depends on an in-depth safety assessment and an economic assessment of the Central power region of Russia.

I am copying this to G8 Sherpa colleagues.

JOHN HOLMES

Alexander Livshits

THE WHITE HOUSE
WASHINGTON

March 19, 1998

Fax cc Mr Hunt, DTI

20/3

1. c/c Mr Budd
Mr Brenton
Mr Westcott, BRD
20/3 Mr Lyncan, ESRD
Mr Perez, HMT

2. Back to me

20/3

Dear John:

I understand from our nuclear safety expert that you intend to circulate for G-7 clearance a draft letter from you to Alexander, asking for him to instruct his foreign affairs Sous Sherpa to be prepared to discuss nuclear safety issues at next week's London meeting. I also understand that you will propose a way forward for addressing our concerns about Kursk, both in the context of preparing for Birmingham and for the upcoming Moscow G-8 Energy Ministerial. As described to me, the way forward allows us to use the upcoming Ministerial to make progress on this issue, while not setting goals so high that we provoke a Moscow failure that would prove counterproductive to our long-term efforts.

I wanted you to know in advance that you have my full support for this approach.

Sincerely,

James B. Steinberg
Deputy Assistant to the President
for National Security Affairs

Mr. John Holmes
Principal Private Secretary
10 Downing Street
London

Mr Crowder
PS MFS 166/1

20/3

АДМИНИСТРАЦИЯ
ПРЕЗИДЕНТА
РОССИЙСКОЙ ФЕДЕРАЦИИ

«19» марта 1998 г.

№ А4-3234Пл

МОСКВА

G-8 SHERPA CORRESPONDENCE

Pass/c Mr Hill, DTI - pre can we discuss

AB 20/3

20/3

March "19", 199

— why to Cloos?

Dear Jim,

As we agreed during our last meeting on 27-28 February, please fin attached the information on Kursk I NPP.

I am copying this letter to other G8 Sherpa colleagues.

Sincerely yours,

Alexander Livshit

1. c/c Mr Budd
AB Mr Brenton
20/3 Mr Wescott, ERD
Mr Lyscom, ESED
Mr Pereira, EMT

2. Back to me

20/3

Mr. JIM CLOOS
Director of the President's Cabinet
European Commission
Brussels

PROGRESS REPORT ON THE IMPLEMENTATION OF NSA AGREEMENT FOR KURSK NPP UNIT I

As it is known, in accordance with the Agreement between the Government of the Russian Federation and the European Bank for Reconstruction and Development on Nuclear Safety Account Projects in the Russian Federation, signed on June 9, 1995 (hereinafter referred to as NSA Agreement), the operation of a number of NPP units with first generation reactors is possible only under the condition of fulfillment of some special requirements by the Russian Side. On the whole this relates to 10 NPP units.

First of all, the requirements relate to Kursk NPP Unit I (hereinafter - Kursk 1).

NSA Agreement stipulates that the operation of this unit can be resumed after the completion of upgrades in case three preconditions are complied with:

1. RF Gosatomnadzor should issue a long-term operational licence on the basis of in-depth safety assessment (further - IDSA).
2. The electric power generated by this unit is required within the context of the overall power strategy.
3. The expenditures for upgrading and safety enhancement measures are justified within the frames of the plan for the least-cost investments, constituting a component of the overall power strategy.

NSA Agreement also states that the re-commissioning of Kursk I is expected not earlier than in 1998.

Presently the first stage of Kursk-1 upgrading is close to completion. The major part of safety-related systems and pieces of equipment is replaced or substantially upgraded. Kursk NPP has started stage-by-stage testing of Kursk-1 at different power levels with the objective of specifying neutron-physics characteristics and confirmation of the relevancy of technical and managerial measures implemented in the course of upgrading.

At the same time Kursk NPP together with Russian scientific and project organizations performs the preparation of IDSA report. Unfortunately due to the lack of funds the IDSA report preparation began later than it had been initially planned. We highly appreciate EBRD efforts for securing additional funds of the contributors for these purposes and expect the acceleration of the works in relation to US DOE decision on the appropriation of such funds.

We believe that the concerns of the world community are caused by the very fact of Kursk-1 power start-up, which in the opinion of some experts means its re-commissioning and hence, the violation of NSA Agreement terms.

In fact, the objective of our efforts is to get confidence in the reliability and safety of Kursk-1, to get the realistic picture of its present condition, to acquire some data required to perform IDSA and, if needed, to perform additional upgrading of its systems. "Rosenergoatom" Concern and Kursk NPP have prepared a test program for Kursk-1 and a plan for IDSA for the time period of three years. Only the completion of the above mentioned activities makes it possible to obtain the long-term operational licence envisaged by NSA Agreement.

To remove EBRD and NSA contributors' concerns the Russian Side is ready to provide the experts, designated by EBRD, with the documentation submitted to RF Gosatomnadzor to get the permissions for conducting tests as well as IDSA provisional data. We are ready for active cooperation with EBRD and international experts in this area.

Simultaneously the work is performed on the assessment of energy requirements in the Central Black-Earth Region of Russia which to a great extent are satisfied by Kursk NPP. This assessment also covers the cost-effectiveness of Kursk-1 upgrading measures. The Russian Side is prepared for comprehensive cooperation in this area as well.

All Russian organizations participating in the implementation of NSA Agreement, primarily Minatom of Russia and RF Gosatomnadzor, will continue to comply with the provisions of NSA Agreement basing on the fact that this Agreement is the commitment in force of the Government of the Russian Federation that considers it as extremely important for achieving the goals of the Moscow Nuclear Safety and Security Summit of the G-8.

G:\PMG98\Feb98\197.WPD

Treasury Chambers, Parliament Street,
London, SW1P 3AG

TOP JEH
PB

John Battle Esq MP
Minister of State for Science, Energy and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1H 0ET

F.6 9/3.

5 March 1998

Dear John,

G7 NUCLEAR SAFETY WORKING GROUP

Gordon Brown has passed to me your letter of 9 January to Robin Cook, about the UK's objectives for its Presidency of the G7's Nuclear Safety Working Group (NSWG).

I join Robin Cook and John Prescott in supporting the objectives you propose.

Clearly, the main aim is to keep the closure of Chernobyl by the year 2000 on course. Ukraine has linked closure to EBRD loans to fund R4/K2. But, unless the MOU commitment to energy sector reform is delivered, those loans are unlikely to be made and the whole of the MOU could collapse.

Closing the funding gap for the Chernobyl shelter must also be high on our agenda. The initiative came from the G7 and, unless more donors can be found, we will find ourselves under pressure to contribute more.

While we should not rule out Russia joining the NSWG, I agree the time is not yet right. As a minimum, Russia must first meet the commitments it made at the Moscow Summit on nuclear safety. Nor do I see benefit in including Russia in deliberations on the Shelter Implementation Plan. The time for debate is passed, the Plan has been accepted and the task ahead of us is to get the work done.

As Robin says, any substantial international effort to address the nuclear problems in North West Russia should be under the EU banner. If this is a legitimate use of existing provision in the TACIS budget, then that should be the preferred source of any contribution from the UK. The G7 will have its hands full trying to ensure Ukraine delivers the MOU.

We should certainly take credit for the successes and progress achieved by the NSWG. A pamphlet would seem to be a sensible vehicle.

Copies of this letter go to the Prime Minister, John Prescott, Robin Cook, Clare Short and Sir Richard Wilson.

Yours,

GEOFFREY ROBINSON

FCS/98/020

PRESIDENT OF THE BOARD OF TRADE

c: PB.1C

file
M 13/2.

G7 Nuclear Safety Working Group (NSWG)

1. John Battle's letter of 9 January set out your key objectives and strategies for 1998 while in the Chair of the G7 Nuclear Safety Working Group (NSWG).

2. Overall, I support the views John expresses. The NSWG will face a balancing act between stressing progress on Chernobyl to keep Ukraine loyal to her MoU commitments for closure by 2000, and encouraging further energy sector reform to meet the World Bank criteria for the R4/K2 loan. This means a busy year for the Group, and for the Chair in particular, with some difficult hurdles to cross. You can of course count on the continuing support of my officials both here and overseas, who will be ready to help you carry out your objectives in any way they can.

3. John mentioned the G7's relations with Russia in the NSWG context. Handling of Russian membership of the Group will need careful thought. As you rightly state, they do not share our standards of nuclear safety. But their exclusion from the NSWG can cause problems for the G7, as we have seen with rumours of a rival Russian loan for R4/K2. Perhaps it would be worth our officials looking to see whether there is any possibility of including Russia in deliberations on the SIP, even if not R4/K2.

4. On a related topic, I have been increasingly concerned in recent months about the enormous nuclear problems in the North West of Russia. It is difficult to exaggerate their scale: between 20 and 40% of the world's total nuclear

waste including a large number of decommissioned nuclear submarines (with more to come thanks to START3). Ultimately, the Russians must themselves find ways to tackle the problem. But I am in no doubt that we should be willing to do what we can to encourage them along the way. The US, Norwegians and the EU are already active. I think we need to find ways to do more.

5. I know from my recent discussions with Madeleine Albright that the Americans are eager to contribute more to an international effort. For our part, I think it makes sense to operate through the European Union (which is already spending considerable sums on Russian nuclear problems), rather than pursuing a purely national programme, or adding further to the heavy G7 NSWG workload. The Commission are clearly interested. I hope that it will be possible to announce a reasonably major initiative at the EU/Russia Summit (now likely to take place in May). This would be a public commitment to work with our Russian partners; and a demonstration to the British public that the European Union is capable of getting to grips with the major challenges which face us all.

6. We are not talking about a major, short-term threat to the United Kingdom (although one can never exclude a nuclear accident similar to that at Chernobyl). But preventing a process of gradual nuclear contamination in a large area of Northern Europe is something which will have real resonance in this country. It will help lessen the likelihood of a nuclear accident, which would have major implications for our own industry. There is also clearly potential for UK companies, which have a great deal of expertise in this area, to benefit from EU programmes.

7. I am copying this minute to the Prime Minister, John Prescott, Gordon Brown, George Robertson, Clare Short, Sir Richard Wilson and Sir Stephen Wall.

ROBIN COOK

Foreign and Commonwealth Office
6 February 1998

FROM THE DEPUTY PRIME MINISTER

DETR
ENVIRONMENT
TRANSPORT
REGIONS

DEPARTMENT OF THE ENVIRONMENT,
TRANSPORT AND THE REGIONS

ELAND HOUSE
BRESSENDEN PLACE
LONDON SW1E 5DU

TEL 0171 890 3011
FAX 0171 890 4399

TOP-SEN

CC PB

John Battle Esq MP
Minister of State for Science, Energy and Industry
Department of Trade and Industry
1 Victoria Street
LONDON SW1H 0ET

3 FEB 1998

File R42

Thank you for sending me a copy of your letter of 9 January to Robin Cook, regarding the G7 Nuclear Safety Working Group (NSWG).

I can certainly support your proposed key objectives for the NSWG for next year. Chernobyl remains the overriding priority, and rightly so. It is clearly essential to ensure that the safety of the site is maintained and that work towards the closure of the plant progresses to timetable. The R4/K2 project is a crucial component of the closure plan and the UK will need to continue to encourage the EBRD to reach an early and favourable decision on funding and to press the Ukrainians on energy sector reform.

It will also be important to keep the Shelter Implementation Plan on track and to encourage further donations to the Chernobyl Shelter Fund in the wake of the pledging conference. I hope that we shall soon see some tangible progress with this project.

We should continue to encourage closer co-operation with Russia, but not, as you say, at the expense of diverting the focus of the NSWG from the safety of Russian-designed reactors. Neither should Russia be allowed to evade or postpone the commitments it made at the 1996 Summit on Nuclear Safety and Security.

Where our views may diverge slightly is on the issue of radioactive waste management and environmental remediation, which remains an enormous problem in several parts of Russia. In particular, the safety of redundant nuclear submarines, and the spent fuel and radioactive waste arising from their decommissioning, is causing international concern. The share of TACIS funding which has been directed at these problems has declined over recent years and I can see a case for increasing that share under our EU Presidency, if it can be achieved without compromising the programme's first priority of nuclear safety.

Finally, I agree that a short publication summarising the NSWG's achievements and future plans would provide a positive contribution to our G7 Presidency.

JOHN PRESCOTT

THE WHITE HOUSE

WASHINGTON

February 2, 1998

Dear Colleagues:

Following is a copy of the cover letter from Secretary Rubin to EBRD President Jacques de Larosiere conveying the letter from President Clinton to President Kuchma referred to in Dan Tarullo's note of November 26 concerning the MOU.

Sincerely,

James B. Steinberg
Deputy Assistant to the President
for National Security Affairs

Enclosures
As Stated

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

December 19, 1997

Mr. Jacques de Larosière
President
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2EH

Dear Jacques:

I am writing to send you a copy of a letter that President Clinton has recently sent to President Kuchma, which directly addresses the issue of EBRD financing for the R4/K2 nuclear plant completions and includes a status report on the Memorandum of Understanding on the Closure of Chornobyl by 2000 (MOU).

The President's letter reinforces to Ukraine our commitment to the MOU, detailing the actions that have been taken to date in support of the MOU. In this context, I want to thank you for your support of EBRD's involvement in managing the shelter implementation plan and your efforts to make sure this project is a success.

With respect to possible EBRD financing for the R4/K2 nuclear completions, the President's letter clearly delivers the message that we are prepared to support the projects, but only if they meet the Bank's due diligence requirements. We appreciate your statements that the EBRD is committed to completing a thorough and impartial review of the projects. We have been encouraged by the cooperation between the Bank and USAID to work with the Ukrainians to complete the necessary analytical work to determine the projects' feasibility.

Sincerely,

Robert E. Rubin

Enclosure

European Bank
for Reconstruction and Development

Jacques de Larosière
President

Mr. Daniel K. Tarullo
Assistant to the President for
International Economic Policy
The White House
Washington
USA

28 January 1998

Dear Mr. Tarullo,

Thank you for your letter of 1 December, 1997 which focused on the two critical issues for the Shelter Implementation Plan: the importance of a quick start of the implementation and the retention of the momentum in the fund raising campaign created by the 20 November, 1997 Pledging Conference.

Regarding the project implementation, I am pleased to confirm that progress so far exceeded expectations. The requests for proposals for all biddable projects were released to shortlisted companies in December 1997, not early in 1998, and the first contract award is scheduled for mid-March 1998. Of course, this has to be preceded by the ratification of the Framework Agreement by RADA and subsequent signing of Grant Agreements between the respective recipients and the Bank. After the Bank's meetings held in Kiev last week, we are encouraged to believe that RADA will finally approve the law on the ratification of the Framework Agreement in early February.

During the New York Pledging Conference I shared with Secretary Pena and Ms. Kessler ideas about the leadership profile required for the pledging process to attract the attention of potential individual and corporate donors. We agreed that the identification of such individuals, either well known CEOs or other charismatic representatives of the business community should be one of the first tasks of donor countries governments. The Bank, acting as an interim Chairperson of the first meeting of the Assembly of Contributors held in London on 12 December, invited all the members to come forward with their concepts of the pledging process and announced that the private pledging was one of the main items on the agenda of the upcoming annual meeting of the Assembly. We envisage the formulation of the pledging strategy and subsequent coordination of the implementation with respective governments to be the prime responsibility of the new Chairman of the Assembly, and in this respect Donors seem to be close to the nomination of Hans Blix. The Bank will obviously assist the Chairman and the Assembly and want to extend its best support to the process in all of the areas in which our expertise or identity add value. This is, in particular, the promotional activity such as proactive

One Exchange Square, London EC2A 2EH, United Kingdom
Tel: + 44 171 338 6000 *or* + 44 171 496 6000 Fax: + 44 171 338 6112 *or* + 44 171 496 6112 Telex: 8812161 EBRD L G

communication with the media, governments or industry leaders, speaking at the conferences, reporting on the project and on the status of the fund, as well as hosting of events. We have also been informed that the British G7 Chair of the Nuclear Safety Working Group is presently finalising a concept proposal on how to promote the private funding activity.

With regard to your request to identify the interlocutors at the Bank, this role naturally belongs to Vice President Joachim Jahnke, the Director of the Nuclear Safety Department Lars Larsson, and the Operations Leader for the SIP project Vince Novak who will be working very closely with the Chairman of the Assembly.

The establishment of the Chernobyl Shelter Fund at the Bank has been one of the major tasks in the final hours of my own Presidency. I am profoundly committed to this noble project and I wish it all success in the years to come. A long lasting Shelter combined with the definitive closure of Chernobyl will put one of the worst legacies of the communist period in Eastern Europe at rest.

May I take the occasion to thank you for the strong support that you have always provided to the Bank in its role of assisting the transition in Eastern Europe.

Yours faithfully,

J. de Larosière

Jacques de Larosière

cc: Mr John Holmes
Principal Private Secretary to the Prime Minister
10 Downing Street
London
SW1A 2AS

COPY
GET

THE WHITE HOUSE

WASHINGTON

December 1, 1997

Mr. Jacques de Larosière
President
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2EH

Dear Mr. de Larosière:

Thank you for your letter of October 17 informing me that the EBRD Board has approved the Bank's role as administrator of the Chornobyl Shelter Fund. This is welcome news and I would like to express the appreciation of the G-7 countries for your personal commitment toward making this project a success.

We all share the view that it is crucial to begin implementation of the Shelter Implementation Project (SIP) as quickly as possible. To this end, we have secured the funds needed to cover the work in 1998. Regarding the preliminary nature of the cost estimates completed to date, my G-7 colleagues and I agree that we will get a clearer picture of the project costs as further work is done. However, the Bank's launch of biddable projects early in 1998 will be key to building the momentum that is needed for success of the SIP.

Regarding efforts to seek contributions, we welcome the role the EBRD has played in our public sector effort, including your own willingness to participate in the Chornobyl Shelter Pledging Conference. I hope very much that the EBRD will now work with the new Assembly of Contributors in the private sector effort once this is initiated, though more thought and cooperation is required to find mechanisms for raising funds that work for the Bank while not losing the momentum created by the November 20 Pledging Conference. It would be very useful if you could identify someone on your staff as an interlocutor on this matter.

Thank you again for your work toward the success of this important initiative.

Sincerely,

Daniel K. Tarullo
Assistant to the President for
International Economic Policy

JEH O/R

John Battle MP
Minister of State for Science, Energy and Industry

FCO (98)

Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

Direct line: 0171-215 5147

Direct Fax: 0171-215 5645

Enquiries: 0171-215 5000

EMail Address:
TLO.Battle@TLO.dti.gov.uk

The Rt Hon Robin Cook MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
King Charles Street
LONDON
SW1A 2AH

9 January 1998

Dear Secretary of State,

When the G7 Presidency passed to the UK on 1 January, we assumed the Chairmanship of the G7's Nuclear Safety Working Group (NSWG). I am writing now in Margaret Beckett's absence overseas to seek your agreement to our key objectives for next year and our strategy for achieving them. As further described below, we should use our incumbency to keep up the momentum of NSWG activity and make a real improvement to the safety of civil nuclear reactors in Eastern Europe and the former Soviet Union, including Chernobyl. Although nuclear safety is not one of the main themes chosen for discussion at the Birmingham Summit, a good record of achievement in this area will nevertheless be essential to the success of our G7 Presidency.

Clearly, our main priority will therefore be to ensure that the Ukrainian Government's plans for closing Chernobyl by the year 2000 remain on track. This seems all the more essential in view of the recent discovery of cracks in the pipework of reactor 3. However, the EBRD's decision on the R4/K2 nuclear power investment project is likely to be made during our Presidency and will be highly relevant to the attitude of Ukraine. The recent suspension of the World Bank's power market loan has only served to confirm that, for the present, the climate is not favourable to IFI lending in Ukraine's energy sector. Since an increase in electricity prices is one of the keys to restoring Ukraine's credibility with the IFIs, it seems unlikely that there will be much movement on this until after the Parliamentary elections in March.

Nevertheless, our G7 partners will expect us to keep up the pressure on the EBRD to reach a decision before the Birmingham Summit and to ensure that President Larosière's successor fully appreciates the significance of this project for the Chernobyl closure programme. In close co-operation with the World Bank and the EBRD, we will need to encourage the Ukrainian Government to pursue energy market reform and to persuade them that responsibility for progress on R4/K2 is largely in their own hands.

In parallel, we will need to be ready to finesse any proposition by Ukraine that a negative decision on R4/K2, or a decision to proceed with only one of these two units, would require postponing the closure of Chernobyl. The new Chernobyl Shelter Fund will be a useful lever. The Pledging Conference made a promising start to the process of attracting contributions from non-G7 countries and it will fall to us to lead a follow-up diplomatic effort to ensure that this progress is maintained. Officials here will need to work closely with yours on this and I am sure we can count on your continuing support. A strategy for attracting private sector donations will also need to be developed for a possible launch in the spring. The closer that we can work with the Ukrainians on this, the better chance we have of persuading them that the G7 are serious partners in the process leading to Chernobyl closure. We will need to ensure that the new Chernobyl donors group with its wide international membership adopts a central role, supported by the EBRD.

Looking further afield, we will need to address the G7's relationship with Russia. The Russians remain keen to join the NSWG as permanent members. But, under no circumstances can we concede their aim of turning the emphasis away from the safety of the reactors they designed. They are also falling back on the commitments given at the 1996 Moscow Summit on Nuclear Safety and Security, particularly those concerning co-operation in implementing their Nuclear Safety Account project and ratification of the Vienna Convention. During our G7 Presidency we will need to put pressure on the Russians to fulfil their Moscow Summit obligations using the opportunities presented by the Summit process and the forthcoming G8 Energy Ministerial, which Margaret shall co-chair. The NSWG's report to the G8 Energy Ministerial will have to be prepared in co-operation with the Russians. We should aim to develop a greater sense of partnership with Russia during our Presidency although there will need to be a major shift in their attitude to the NSWG's objectives before we could contemplate their becoming full members.

dti
Department of Trade and Industry

Finally, there are a couple of more general points which I should mention. First, in line with the action plan launched at the 1992 Munich Summit, the assistance effort to date has been focused on the safety of civil nuclear plant in the countries concerned. Some bilateral programmes, including EU assistance under PHARE and TACIS, have stretched into other areas, including radioactive waste management and environmental remediation. There will always be scope to develop this further. But, with much still to be accomplished in the field of reactor safety and the heavy financial demands of the Chernobyl Shelter Fund, it seems inappropriate to use our Presidency to promote any major new international initiative.

Secondly, an effort which has already cost Western Governments 1.5bn ECU, even before the Shelter Fund is included, does warrant some degree of public recognition. I understand that, under the current US Presidency, consideration is being given to the publication of some form of pamphlet which would summarise the progress made and highlight the successes. As part of our Presidency role, I believe that this should be pursued. This is an area where we should be able to inspire some favourable publicity given that we have a very positive story to tell.

I would be interested to know whether colleagues share these views. It is important that we all continue to work together effectively on this issue to ensure a successful G7 Presidency. A copy of this letter goes to the Prime Minister, John Prescott, Gordon Brown, Clare Short and Sir Richard Wilson.

Yours sincerely

JOHN BATTLE

Typed by the Minister and signed in his absence.

JW1017

dti

Department of Trade and Industry

Department for International Development
94 Victoria Street, London SW1E 5JL

Telephone: 0171-917 0419

cc PB

From Private Secretary

15/12.

John Fiennes Esq
Department of Trade and Industry
1 Victoria Street
London SW1H 0ET

11 December 1997

Dear John,

CHERNOBYL SARCOPHAGUS

We spoke earlier about the President of the Board of Trade's letter of 10 December to my Secretary of State, who is on an overseas visit today.

My Secretary of State recognises the importance of this project in the rehabilitation of Ukraine, as well as the particularly important role which the UK has in ensuring satisfactory progress on the project. She has also noted the Foreign Secretary's continued unwillingness to make a contribution to the UK share.

In these circumstances, my Secretary of State is willing to find the outstanding third (amounting to £400,000 per year over an 8-year period) of the UK's commitment from DFID resources. We would propose to do this by means of a PES transfer to DTI for the next two financial years 1998/99 and 1999/2000, the only years for which we have planning figures. This increase would then form part of the DTI baseline for the remaining years for which contributions are necessary.

This exercise again underlines the clear requirement that policy commitments should not be made without first securing the resources required for implementation, or by those who do not themselves have the required resources to commit. As you will know from earlier correspondence, DFID will already bear the UK share of the substantial EU contribution to the Chernobyl project.

I am copying this letter to John Holmes (No. 10), Jeff Jacobs (DETR), Peter Schofield (HM Treasury) and Jan Polley (Cabinet Office).

Yours ever

Richard

Richard Calvert
Private Secretary

RESTRICTED - POLICY

Top Jem
cc: PB

FCS/97/142

CHIEF SECRETARY

File Item
MF dlw 16/12.

Chernobyl Sarcophagus: Funding UK's Bilateral Contribution

1. When we discussed the UK contribution to the Chernobyl Fund yesterday, I repeated my view that the FCO should not be expected to contribute to the costs of international obligations where it did not have a lead simply on the grounds that it had assisted with the negotiations. I have given the matter further thought, but my views remain unaltered. I also believe it would not be responsible to get into funding a technical engineering project in which my Department has no conceivable expertise.

2. I realise that the UK will need to relay its formal pledge to the EBRD very soon if it is to attend the first Assembly of Donors on 12 December as a full member. I believe there are precedents for you to authorise such a pledge in advance of full interdepartmental agreement on the allocation. In the circumstances, I would be prepared to go along with this. But as I said in my minute to you of 27 November, I believe that DFID, as well as DTI and DETR, should have relevant funds from which the UK contribution can be found. I have no relevant provision from which I could contribute.

3. I am copying this minute to the Prime Minister, John Prescott, Margaret Beckett, Clare Short and Robin Butler.

Foreign and Commonwealth Office
8 December 1997

ROBIN COOK

RESTRICTED - POLICY

JEH

SC PB

The Rt Hon Margaret Beckett MP
President of the Board of Trade

Secretary of Sta(
Department o
Trade and Ind stry

1 Victoria Stree
London SW1H ET

Direct line
0171-215 5430

DTI Enquiries
0171-215 5000

E Mail Address
TLO.Beckett@T LO.dti.gov.uk

The Rt Hon Robin Cook Esq MP
Secretary of State for the
Foreign & Commonwealth Office
King Charles Street
London
SW1A 2AH

4 December 1997

Dear Robin,

As you know, following the commitments on nuclear safety made by the Prime minister at the Denver summit, the UK agreed to contribute $16.82m as our share of the G7 funding for Chernobyl.

In my letter of May this year I suggested that we divide this obligation three ways between DTI, DETR and FCO/DFID. Alistair Darling agreed to this approach in July and in August, in a spirit of compromise, John Prescott agreed that the DETR would find its share. I understand that Alistair Darling spoke to you earlier today and that you indicated some willingness to consider sharing the remaining third with DFID.

I am writing to register the extreme urgency of this situation. The first meeting of the Chernobyl donors is scheduled for next Friday, 12 December. However the EBRD, who are organising it, will determine tomorrow whether they have sufficient pledges to go ahead with the meeting. They need eight confirmed contributors in order to go ahead and it is therefore possible, if we cannot pledge immediately, that we will be held responsible for holding up progress. Even if eight others do pledge we may find ourselves in the humiliating position of being the one G7 member who failed to deliver our commitment on time. This would represent a very unfortunate introduction to our G7 presidency next year in which we will be taking the lead in seeking world wide support for the Chernobyl project.

I am therefore asking if you or your office could clarify the situation with Clare Short tomorrow so that the UK's promised pledge can be released. If the outstanding third is indeed

Recycled paper

split between FCO and DFID it will represent approximately £200,000 p.a. for each of the two Departments over the next eight years.

I am copying this to the Prime Minister, John Prescott, Alistair Darling, Sir Robin Butler, and John Holmes (as G7 Sherpa).

Regards

Margaret

dti
Department of Trade and Industry

CC PJ
PM

The Rt Hon Margaret Beckett MP
President of the Board of Trade

The Rt Hon Robin Cook Esq MP
Secretary of State for the
Foreign & Commonwealth Office
King Charles Street
London
SW1A 2AH

Secretary of State
Department of Trade and Industry

1 Victoria Street
London SW1H 0ET

Direct line
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E Mail Address
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dti
Department of Trade and Industry

Recycled Paper

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Regards

Margaret

CM12057

dti
Department of Trade and Industry

RESTRICTED - POLICY

The Rt Hon Margaret Beckett MP
President of the Board of Trade

Secretary of State
Department of Trade and Industry

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The Rt Hon Robin Cook MP
Secretary of State for Foreign
and Commonwealth Affairs
Foreign and Commonwealth Office
King Charles Street
LONDON
SW1A 2AH

14 May 1997

Dear Robin,

One of the issues on the agenda for the June G7 Summit in Denver is a proposed international initiative for helping Ukraine to deal with the problems of the containment structure (sarcophagus) currently encasing the ruins of the destroyed reactor at Chernobyl. Following agreement between Western and Ukrainian technical experts on a project designed to achieve that objective, the US are proposing that the G7 should pledge $300m towards its implementation. I am writing to you now because the Prime Minister's Principal Private Secretary will need a clear line for the pre-Denver meeting of Sherpas to be held on 22-23 May. Ideally, that line will need to be supported by inter-Departmental agreement on how the UK's share of the project is to be funded.

The project itself is complex and will take 8-9 years to implement. Western experts have made it clear that a stabilisation programme alone could not remove the risk of collapse of the current structure. Thus, apart from short term stabilisation measures, the idea is to cover the existing building with a temporary confinement (to last 50 years or more) which would enable the most unstable parts (the roof and some of the supporting walls) to be removed. The total cost is still being worked out but is likely to be around $600-700m, over the 8-9 year period. The G7 consensus is that it would be reasonable to pledge against a project of that type and

at that price. Indeed, there is a fear that failure to do so at Denver could jeopardise the process under which Ukraine has agreed with the West that the remaining reactors at Chernobyl will be closed by the year 2000.

There is however no suggestion that the G7 should take on the whole burden. As Presidency of the G7, the US have suggested that the G7 should be willing to pledge at least $300m as the minimum which would be needed to give credibility to a call on others to contribute. The Ukrainians would be expected to provide a significant portion, mainly on the basis of in-kind contributions to the project activities. The EBRD have agreed to mount a major fund raising exercise with a view to attracting donations from non-G7 Governments, corporations and wealthy private individuals. On this basis, I understand all interested Departments have agreed that it would be reasonable for the UK to subscribe to this project, taking on a fair share of the G7 commitment which the US would like made at Denver. That share remains to be negotiated but if the funding from the European Union's resources could be agreed at around $100m, we would expect to keep our bilateral contribution down to around $15m. I would be grateful for your agreement - and that of colleagues - to the Prime Minister pledging a sum of that kind at Denver, though recognising that a higher figure may have to be agreed (up to around $30m) if our expectations of a substantial European Union contribution do not materialise.

This leads me to a second issue: which Department or Departments should be responsible for funding the UK contribution, which converts to about £2-3m per annum? I understand that there have been very positive discussions at official level and that a number of Departments have contributed to developing the UK's strategy on this issue. Although no agreement has been reached on the responsibility for funding, I believe resolution of the problems of the sarcophagus cuts across the interests of a number of Departments. Although my Department's main aim is to support nuclear safety improvements in operating reactors, there is arguably a tangential nuclear safety objective here in that the sarcophagus project is inextricably linked to Ukraine's commitment to close Chernobyl by the year 2000.

At the same time, the project itself has a clear environmental objective as its aim is to prevent further environmental damage in the vicinity of the site and

involves tackling a major radioactive waste management problem. Failure to support it would also have significant political implications for our relationship both with our G7 partners and with Ukraine where we have important strategic and developmental interests in promoting market reforms. Against this background, might I suggest that the UK's share is split equally between the Departments concerned: DTI, the Department for Environment, Transport and the Regions and a combined FCO/Department for International Development contribution? I realise that none of us has PES provision for this but the establishment of the fund at the EBRD will give flexibility as to precisely when payments can be made. Only the Department making the final payment will need to address the issue of statutory cover. I am willing to find a third of the UK contribution up to a maximum of £750,000 per annum from within DTI and hope that other Departments are prepared to offer a similar amount. I am sure that all of us will want the Prime Minister's first Summit to be a success and will want to take pride in helping bring that about.

I am copying this letter to the Prime Minister, John Prescott, Gordon Brown, Clare Short and Sir Robin Butler.

Regards

Margaret

File

THE WHITE HOUSE
WASHINGTON
December 1, 1997

FAXED to Catherine Nettleton Eloise Hayward 3/12/97

Dear Colleagues:

Please find under cover of this note a copy the response to the October 17 letter from President de Larosière of the EBRD regarding the Chornobyl Shelter Implementation Plan. I have incorporated the change John suggested regarding the Bank's role in private fund raising for the SIP.

Sincerely,

Dan

THE WHITE HOUSE

WASHINGTON

December 1, 1997

Mr. Jacques de Larosière
President
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2EH

Dear Mr. de Larosière:

Thank you for your letter of October 17 informing me that the EBRD Board has approved the Bank's role as administrator of the Chornobyl Shelter Fund. This is welcome news and I would like to express the appreciation of the G-7 countries for your personal commitment toward making this project a success.

We all share the view that it is crucial to begin implementation of the Shelter Implementation Project (SIP) as quickly as possible. To this end, we have secured the funds needed to cover the work in 1998. Regarding the preliminary nature of the cost estimates completed to date, my G-7 colleagues and I agree that we will get a clearer picture of the project costs as further work is done. However, the Bank's launch of biddable projects early in 1998 will be key to building the momentum that is needed for success of the SIP.

Regarding efforts to seek contributions, we welcome the role the EBRD has played in our public sector effort, including your own willingness to participate in the Chornobyl Shelter Pledging Conference. I hope very much that the EBRD will now work with the new Assembly of Contributors in the private sector effort once this is initiated, though more thought and cooperation is required to find mechanisms for raising funds that work for the Bank while not losing the momentum created by the November 20 Pledging Conference. It would be very useful if you could identify someone on your staff as an interlocutor on this matter.

Thank you again for your work toward the success of this important initiative.

Sincerely,

Daniel K. Tarullo
Assistant to the President for
International Economic Policy

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

December 1, 1997

Dear Dan,

Thank you for your letter dated November 14, 1997 concerning your draft letter to Mr. de Larosiere. I agree with the content of the draft letter. I appreciate your efforts for involoving EBRD in raising the private sector's donations for the Project.

I am copying this letter to G7 Sherpa colleagues.

Sincerely yours,

Koichi Haraguchi

FAXED – To All G7 Colleagues + Catherine Nettleton (ERD/FCO) & Eloise Heywood (HMT) 1/12/97

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 November 1997

Dear Dan,

Thank you for your letter of 14 November which invited comments on the draft letter to President Larosière.

First, I should take this opportunity of congratulating you and your team on the success of last week's Pledging Conference. This has made a good start in the effort to expand the financial basis for realisation of the Shelter Implementation Plan. Clearly, a further diplomatic effort will be needed to build on the results of the Conference and we will be ready to carry on that work under our Presidency.

On private sector fund-raising, I agree that we need to find out from the EBRD what role they might be prepared to take on for the Shelter Fund Contributors. But I would prefer to press the EBRD a little harder than envisaged in your draft letter to President Larosière. Perhaps the introduction to the second sentence of the penultimate paragraph could be replaced by the following:

> "I hope very much that the EBRD will now work with the new Assembly of Contributors in the private sector effort……".

I am copying this letter to G7 colleagues.

Yours ever,

JOHN HOLMES

Mr Dan Tarullo

JEH o/r

Foreign &
Commonwealth
Office

London SW1A 2AH

Telephone: 0171

Our reference: MFS 166/001

28 November 1997

GR
Ll/type to
wg sig. Fernight
28/11.

John Holmes
10 Downing Street

Dear John,

G8: CHERNOBYL PLEDGING CONFERENCE: REPLY TO LAROSIERE

1. I attach a draft reply to Dan Tarullo's letter to Sherpas of 14 November, circulating a draft letter to de Larosiere, President of the EBRD.

2. I attach a copy of the telegram reporting the Pledging Conference which has yet to circulate on the right distribution.

Yours ever,

Catherine

Catherine Nettleton
Economic, Finance and Development Department

270 4288

cc: Mr Budd
Mr de Fonblanque
Mr Westcott, EFDD
Mr Thomas, Eastern D
Mr Lyscom, ESED
Mr Peretz, HMT
Mr Hirst, DTI
Mr Kerby, DFID

D R A F T

.. November 1997

Dan Tarullo Esq
The White House

Thank you for your letter of 14 November which invited comments on the draft letter to President Larosiere.

First, I should take this opportunity of congratulating you and your team on the success of last week's Pledging Conference. This has made a good start in the effort to expand the financial basis for realisation of the Shelter Implementation Plan. Clearly, a further diplomatic effort will be needed to build on the results of the Conference and we will be ready to carry on that work under our Presidency.

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the second sentence of the penultimate paragraph could be replaced by the following:

"I hope very much that the EBRD will now work with the new Assembly of Contributors in the private sector effort....."

I am copying this letter to G7 colleagues.

John Holmes

1. [illegible]
2. MJ Nettleton
MK Holroyd
3. PA MFS 166/001

Sender.....: telex @ ESD
Recipient.....: HIRST Neil
Subject.....: FWD:CHERNOBYL PLEDGING CONFERENCE
Sent.....: 24/11/1997 11:41

Telegram:
>RESTRICTED
>FM UKMIS NEW YORK
>TO PRIORITY FCO
>TELNO 2113
>OF 2122102 NOVEMBER 97
>INFO PRIORITY WASHINGTON, PARIS, KIEV, MOSCOW, PEKING, BONN
>INFO PRIORITY THE HAGUE, OSLO, HELSINKI, VIENNA, JAKARTA
>INFO PRIORITY ATHENS, PRAGUE, KUWAIT, LUXEMBOURG, STOCKHOLM
>INFO PRIORITY MADRID, SEOUL, BERNE, WARSAW, BRASILIA
>INFO PRIORITY BRATISLAVA, COPENHAGEN, DUBLIN, TEL AVIV, DTI
>INFO PRIORITY UKDIS GENEVA, UKMIS VIENNA
>
>
>IN DTI FOR NID
>
>SUBJECT: CHERNOBYL PLEDGING CONFERENCE
>
>SUMMARY
>
>1. Chernobyl Pledging Conference prompts pledges of some USD 37m on
>top of USD 300m already pledged by G7 members towards Shelter
>Implementation Plan. But still some way short of USD 760m needed
>over next six years. Next year the UK, as G7 President, will have
>key role in taking this forward.
>
>DETAIL
>
>2. Vice President Gore and President Kuchma of Ukraine hosted the
>Chernobyl Pledging Conference in New York on 20 November. Some 45
>nations were represented (mainly at senior official level) and some
>USD 37m was pledged on top of the USD 300m already pledged by the
>G7.
>
>3. Specific non-G7 pledges were: Kuwait USD 4m; Denmark 2.5m ecu;
>Norway USD 5m; Finland 2.5m ecu; Sweden 2.5m ecu; Netherlands USD
>2.5m minimum; Ireland 1.5m ecu (plus a further 1m ecu by 2001);
>Austria 2.5m ecu; Luxembourg USD 200,000; Israel USD 200,000;
>Greece was "favourably considering" 2.5m ecu; Spain "subject to
>internal procedures would announce a sum of about USD 3m;
>Switzerland "subject to final approval by authorities" 4m ecu;
>Indonesia "a contribution to be contributed directly"; Czech
>Republic "would seek to contribute within the framework of the
>budget cycle"; Slovak Republic "would be discussing the possibility
>of contributing in the coming days"; South Korea "would make best
>efforts to make an appropriate contribution within its capacity";
>Poland was "examining its budgetary resources with a view to
>contributions""; Brazil could not undertake a specific commitment
>immediately, but hoped to contribute over the life of the project".
>
>4. The UK has of course pledged USD 16.82m directly and is
>participating in the EU contribution of USD 100m, bringing our
>total to about USD 30m (all part of the USD 300m pledged by the G7).
>
>5. Russia was the only participant to strike a discordant note.
>They argued that the agreed framework for solving the problem of
>the Chernobyl sarcophagus - the Shelter Implementation Plan (SIP) -
>should be reviewed in the light of alternative Russian ideas.
>
>COMMENT
>
>6. Generally, a successful conference, but much more needs to be
>done to raise the USD 760m total needed for the SIP over the next
>six years. The UK, as G7 President next year, will have a key role
>in taking this process forward.
>
>GOMERSALL
>
>YYYY
>MAIN 0
>SINGLE COPIES 0
>ESED 0
>DTI
>

Telefax
To: RICHARD CROWDER
Fax: 270 2266
From: RICHARD GRIFFIN
Date: 26/11/97 Pages: 1

TOTAL P.04

Top - JEH
& PB
JJH
PJ

FCS/97/131

CHIEF SECRETARY

Foreign &
Commonwealth
Office

London SW1A 2AH

From The Secretary of State

Chernobyl Sarcophagus: Funding UK's Bilateral Contribution

1. Thank you for your letter of 23 October about the UK's financial contribution towards the G7 initiative to make Chernobyl safe.

2. I accept that, as I said in my minute of 21 May to Margaret Beckett, my Department has an interest in seeing the conclusions of the Denver Summit reach a successful outcome. But I am not responsible for the implementation of all issues discussed at Denver, and I remain unable to accept that the FCO should be expected, within its existing allocations, to contribute to the Chernobyl project, an area where other Departments clearly have financial responsibility, and are resourced for it.

3. The FCO frequently assists other Departments secure international agreements by making available its diplomatic skills and contacts. But helping another Department achieve a Government objective does not mean that the FCO is then liable to fund, either wholly or in part, whatever expenditure may follow.

4. I note that both DTI and DETR have now agreed to contribute one third each towards the UK's contribution. As I have explained above, unlike those two Departments, who both have budgets far larger than my own from which to find the funds requested, and DFID (which was part of the FCO when the 3-way split was mooted), I have no relevant or related funds which could be diverted for this purpose. And, as you know, the pressures on my budget are now such that I could not in any case find those extra funds.

5. I am copying this minute to the recipients of yours.

Robin Cook

ROBIN COOK

Foreign and Commonwealth Office
27 November 1997

F'6
3/12.

THE WHITE HOUSE
WASHINGTON

November 26, 1997

FAXED
to Catherine Nettleton
Eloise Hayward
3/12 15:54 PM

Dear Colleagues:

Please find under cover of this note a copy of President Clinton's letter to President Kuchma of Ukraine along with the accompanying memorandum on the MOU. A copy of this package will be forwarded to Jacques de Larosière at the EBRD.

Sincerely,

THE WHITE HOUSE

WASHINGTON

November 20, 1997

Dear Leonid:

It was an honor to participate in the signing ceremony of the NATO-Ukraine Charter. The event marked an historic moment in Ukraine's integration with Europe, and the ties we established will serve the interests of Ukraine, Europe and North America for years to come. I enjoyed, as well, the chance to see you in New York in September. Vice President Gore reported to me on his excellent meeting with you on November 20.

I promised at our earlier meetings to return to your concerns on financing for the Rivne and Khmelnitsky nuclear plants. Allow me to take this opportunity to respond on behalf of the G-7 leaders. We asked our energy experts to prepare the attached paper on progress under the Memorandum of Understanding (MOU) on the closure of the Chornobyl nuclear power plant, with a special focus on projects that help Ukraine meet electricity demand now and beyond the closure of the plant by the year 2000.

International safety concerns at Chornobyl, as exemplified by the recent report of the World Association of Nuclear Operators, underscore our shared goal of rapid progress in implementing the MOU. Since Ukraine and the G-7 signed this landmark document, $1 billion for fuel supply, power and energy efficiency projects and about $550 million in grants for the Chornobyl sarcophagus and for decommissioning facilities for the Chornobyl reactors, have been mobilized. Many other projects are under preparation or consideration.

As you pointed out, our cooperation goes beyond the specific issue of Chornobyl closure by 2000 to support the development of a competitive power sector. As you know, Ukraine has reported its nominal power-generating capacity at over 50,000 megawatts, which far exceeds its peak demand. To be sure, not all of this capacity is available, but it suggests that the challenge before Ukraine is not simply to build more power plants, but to determine which new investments will contribute to meeting Ukraine's power needs in the most cost-effective and environmentally sound way. Taking up this challenge is of the

greatest importance to the success of Ukraine's energy sector reforms and to secure international financing for energy investments.

Regarding the Rivne and Khmelnitsky reactors, a key issue that must be addressed to secure international financing is whether these projects prove cost-effective and financially viable. In order to complement previous cost-effectiveness analyses, my government, with the full support of the G-7, is funding additional analysis that will help the EBRD, with your assistance, reach the best conclusion on these projects. The first phase of this analysis will be completed this fall. We understand from the EBRD that the bank will hold a major progress review in November that will include Ukraine and all the major analysts and companies engaged in the feasibility work. This is a constructive step. If the phase 1 conclusions of the cost-effectiveness study are not clear, a second phase involving fieldwork in Ukraine will be completed by next spring. I hope your experts will cooperate fully in this process.

It is also essential that Ukraine demonstrate to lenders that Ukrainian utilities, in particular in the nuclear field, have the revenue to repay loans for investments. Several measures could make a crucial difference, particularly improving cash collection for electricity bills and establishing a clear process for future tariff adjustments based on market principles. Such steps could help overcome the financial concerns raised by the continued low rates of revenue collection that jeopardize the financial viability of investments in the electricity sector and Ukraine's ability to maintain existing plants. The coming months will be critical in demonstrating that Ukraine's electricity sector has been placed on firm financial ground.

The G-7 understand fully your interest in reaching a final conclusion as quickly as possible. In our approach to this issue we have taken into account your concerns, the EBRD's requirements and steps that would affect a positive outcome on the Rivne and Khmelnitsky loans. Given current fiscal problems in the electricity sector, a special effort is needed by Ukraine in order to ensure the financial viability of these loans. The additional work on the cost-effectiveness analysis will be completed during this time and will not further delay a final outcome. We expect that this analysis, complementary work under way by the EBRD in other areas and especially the steps Ukraine takes to improve the financial standing of the electricity sector will determine whether completing one or both of the reactors is consistent with EBRD requirements; if so, the G-7 will lend full support to EBRD financing.

Turning to the issue of the Chornobyl sarcophagus, I want to congratulate you on the success of the pledging conference that you co-chaired with Al Gore on November 20 to raise the needed funds. As you know, the original MOU indicated that additional funds would be mobilized as new projects were identified and proved viable. In this spirit, the G-7 launched the process of mobilizing international contributions with a $300 million pledge at the Denver Summit. With Ukraine's contribution of $50 million to the Shelter Implementation Plan (SIP) and $100 million for projects in support of the SIP, and with the $37 million raised on November 20, we are past the half-way mark in our fund raising efforts. We will continue to work with Ukraine to raise additional funds.

We see action continuing to accelerate in the coming months. I am pleased to tell you that prior to the Chornobyl Sarcophagus Fund being established, Canada and the United Stated have agreed to finance the urgent task of fixing the crumbling ventilation stack this year. In addition, many projects under the SIP will start in 1998, beginning the process of bringing new jobs to the Slavutych area.

Leonid, let me assure you on behalf of the G-7 that we fully share Ukraine's determination to implement the Memorandum of Understanding on the closure of Chornobyl. The $1.55 billion we have already mobilized for the task is a sign of our commitment, and we will continue our efforts. As always, the speed of our progress will depend on our partnership. The faster reforms move ahead, the better the financial climate in Ukraine will be to mobilize new investments, both public and private. We are fully committed to do our part as Ukraine moves ahead with its reforms.

Sincerely,

Bill Clinton

His Excellency
Leonid Kuchma
President of Ukraine
Kiev

Status Report on Chornobyl MOU

The G-7 are fully committed to implementing the Memorandum of Understanding (MOU) with Ukraine to support the closure of Chornobyl. To date, over $1.55 billion in projects have been approved, both to ensure adequate generating capacity to meet Ukraine's electricity demand and to promote nuclear safety.[1] This paper reviews the status of programs under the MOU on the closure of Chornobyl designed to help Ukraine meet its power demand now and beyond the closure of the plant by the year 2000 and to transform the sarcophagus over unit 4 into a stable and safe structure.

Power Sector Reform and the Chornobyl MOU

Ukraine and the G-7 committed in their MOU on Chornobyl to work together to create a viable and competitive power sector that meets Ukraine's electricity demand in a safe and environmentally sound way. The MOU's focus is therefore broader than simply compensating for the power generated by Chornobyl (since the closure of Chornobyl unit 1 in 1996, about 1,000 megawatts out of a peak demand of 30,000 megawatts). The G-7 committed to help Ukraine reform its power sector and develop and finance the most cost-effective investments to meet electricity needs in the context of a competitive electricity market. In this way, the MOU will address both the impact of closing Chornobyl and the urgent need to support far-reaching reforms in a vastly inefficient energy sector inherited from the Soviet Union.

Energy reforms, and in particular reform of the electricity sector, are key for several reasons. First, Ukraine must reduce fuel consumption in order to improve the international competitiveness of its economy. Second, creating market forces to guide the use of energy resources is the strongest incentive for efficiency and will have the greatest impact on reducing Ukraine's dependence on fuel imports. Third, improved financial administration in the energy sector is essential to collect overdue bills and create financial flows that allow power-generating plants to purchase fuel and maintain equipment. Fourth, these conditions – international competitiveness, market prices, reliable revenue flows – are essential to attract private investment and create the repayment capacity needed to justify loans from the international financial institutions.

Ukraine's Current Power-Generating Capacity

The Chornobyl MOU was designed in the context of Ukraine's current power-generating capacity. According to official Ukrainian data, Ukraine has 52,000 megawatts of nominal generating capacity. Current peak demand in Ukraine is estimated at 30,000 megawatts. Under optimistic projections, peak demand is estimated at 31,000 megawatts by the year 2000 and at about 46,000 megawatts by

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[1] Total approved projects include $798 million for fuel supply projects, $227 million for power supply projects and $550 million for nuclear safety.

2010. At present, one reactor is operating at Chornobyl that produces approximately 700 megawatts. In 1996, nuclear plants generated about half of Ukraine's electricity, with thermal and hydro plants generating the other half. These "power balances" indicate that Ukraine theoretically would have adequate power-generating capacity to meet its electricity requirements in 2000.

That said, Ukraine has had serious problems in recent years meeting electricity demand during peak periods. Two issues are key:

1. *Fuel Availability.* Financial weaknesses in Ukraine's electricity system (low prices, poor collection) have compromised the ability of generating companies to purchase fuel for existing plants and reduced incentives for domestic fuel production. This suggests that programs to reform the power system, finance fuel imports, increase domestic fuel production and reduce fuel consumption would contribute directly to meeting Ukraine's electricity needs.

2. *Generating Efficiency.* Many of Ukraine's power plants are old, inefficient and need to be replaced, retired or rehabilitated. Whether and when they are replaced depends on future energy demand and the most cost-effective and environmentally sound way to meet it. Since the cost of new power investments must be reflected in tariffs charged to consumers, it is in Ukraine's interest to select investments that provide reliable power at the lowest possible cost.

The following analysis explains how these two issues are addressed in the MOU through G-7 and international financial institution support for Ukraine's energy sector.

Fuel Availability

Four steps are key to improving Ukraine's capacity to purchase fuel to ensure that it can generate sufficient power to meet demand.

1. *Electricity Market Reform.* Expert analyses show that market reforms that introduce price incentives for efficient fuel use will have the most profound short- and medium-term impact on curbing Ukraine's fuel import dependence. Financial reforms to collect electricity bills are also essential to generate revenue to purchase fuel and maintain and modernize plants and the transmission system. Over $370 million in projects shown in Table 1 have been approved to help Ukraine improve its electricity market. However, as of late July 1997, these loans were suspended when Ukraine did not introduce a scheduled increase in retail electricity prices.

2. *International Support for Economic Reform.* Balance-of-payments requirements calculated by the IMF take into account Ukraine's fossil fuel import needs and will continue to do so in the future. When Ukraine moves forward with comprehensive reforms, the international community will work to help finance imports needed to allow reforms to move forward. Although much of a $3.5 billion package supported by

donors in December 1996 has been deferred until Ukraine can act on key reforms, the full program can be quickly activated. Meanwhile, interim support for fiscal reform progress was made available through an IMF Stand-By Agreement.

3. *Ukrainian Fuel Production.* Table 1 indicates that almost $325 million in projects are underway to support Ukrainian coal, oil and gas production, and that another $300 million in coal and gas projects are under consideration or preparation. In addition, the World Bank, EBRD, EU, United Kingdom and United States are participating with Ukraine in a comprehensive effort to reform the gas sector.

Table 1
Fuel Supply Projects
($ millions)

	Approved	Preparation	Consideration
Ukrainian Fuel Production			
• Coal Sector Restructuring	300		
• Coal Pilot Project	15		
• Poltava Oil and Gas	8		
• Coal Mining Improvement		100	
• Gas Sector Adjustment			200
Subtotal	323	100	200
Electricity Market			
• Electricity Market – IBRD	317		
• Electricity Market – EBRD	55		
Subtotal	372		
Energy Efficiency			
• Gas Metering	80		
• Demand Side Management	23		
• Kiev District Heat		110	
• Sevastopol Heat Supply			40
• Efficiency in Public Buildings			50
Subtotal	103	110	90
Totals	798	210	290

4. *Energy Efficiency.* Table 1 also summarizes over $100 million in approved energy efficiency projects and another $200 million in projects under preparation or consideration. Projects to improve efficiency in heating are just as important as electricity efficiency since they will reduce the demand for fuel to produce heat and allow it to be available for electricity generation.

Generating Efficiency

As indicated in Table 2, $227 million in power supply projects have been approved

under the MOU, and another $1.4 billion are under preparation or consideration. Basic requirements for approving such projects are that they be good economic (i.e., least-cost) investments, financially viable and environmentally sound. Nuclear projects must also meet internationally acceptable safety standards.

Table 2
Ukraine Power Supply Projects
($ millions)

	Approved	Preparation	Consideration
Hydropower Rehabilitation	114		
Starobeshvo IV Thermal	113		
Krivoy Rog Thermal		160	
Dniester Pump Storage		260	
Lugansk Thermal			180
Rivne 4 Nuclear		420	
Khmelnitsky 2 Nuclear		420	
Totals	227	1,260	180

Ukraine must assess several tradeoffs as it considers power investments: is Ukraine better off investing in new power plants, rehabilitating existing plants, continuing to use existing plants, or some combination of these? These decisions partly depend on the environmental compliance of the existing plants and on the growth of power demand; the faster demand grows, the more likely that new plants will prove good investments. If demand remains low, Ukraine may be best off using the most efficient of its current plants and deferring new investments. Certain energy efficiency and thermal rehabilitation investments are likely to make sense under most demand scenarios. The key issue affecting demand is Ukraine's economic recovery. Although Ukraine's economy was expected to grow in 1997, GDP contracted over 5 percent in the first half of 1997.

Financing for the Rivne 4 (R4) and Khemelnitsky 2 (K2) projects, if approved, would likely be provided by Ukraine, EURATOM, the EBRD and possibly bilateral export credit agencies. EBRD has a major role in completing the economic, financial, environmental and safety analyses. The least-cost and financial analyses will be key to approval:

1. *Least-Cost.* Two initial analyses on the R4/K2 plants reached contradictory results. One report supported completing the reactors but did not take into account tradeoffs with energy-efficiency projects; the second report rejected the reactors but did not use a traditional least cost approach and especially did not provide evidence that the alternative measures proposed comprise the optimal least-cost plan for meeting Ukraine's future demand for power. Given these concerns, the G-7 sponsored a supplemental analysis that indicated that completing one reactor or a phasing of the two reactors over time appeared to be least-cost under the World Bank's medium demand growth forecast. However, Ukraine's economic circumstances bring into question the demand projections used in the analyses. The EBRD study needs to be substantiated further and the United States has agreed to fund additional analysis to

address these and other questions to allow EBRD to determine whether the reactors meet its least-cost requirements. Should one or both reactors meet the EBRD's requirements, the G-7 will support their completion.

2. *Financial Viability.* Ukraine's decision in late July to defer an increase in retail electricity prices led the World Bank to suspend its $317 million electricity market loan and could seriously jeopardize the financial viability of potential loans for the R4/K2 reactors. Ukraine's generating companies presently cannot cover operating and maintenance costs, much less recoup new investments. In order for EBRD to approve a loan for these reactors, it must be confident that the nuclear generating company will collect the revenues needed to repay the loan.

The Chornobyl Sarcophagus

As indicated in Table 3, total funding committed thus far for nuclear safety activities under the MOU is $550 million. Since the signing of the MOU, Ukraine and the G-7 agreed upon a new $750 million project – the Shelter Implementation Plan (SIP) -- to transform the Chornobyl sarcophagus into a safer and more environmentally stable structure. The largest portion of the commitments for nuclear safety is the $300 million that the G-7 have pledged toward the SIP.

Table 3
Nuclear Safety Projects
($ millions)

	Approved	Preparation	Consideration
Shelter Implementation Plan (SIP)	300[2]		
Decommissioning of Chornobyl	144	13	
Chornobyl S-term Safety Upgrades	34		
Operational Safety Upgrades	72		
Totals	550	13	

The EBRD has agreed to establish a special fund for international contributions and to manage implementation of the SIP. The G-7 and Ukraine will host an international conference, for which President Kuchma and Vice President Gore will serve as the honorary chairs, to begin a process of obtaining international funding commitments for the SIP aimed at ensuring overall funding for this project. Since the Denver Summit, the G-7 and the EBRD have begun to mobilize support for the sarcophagus pledging conference. The conference will be November 20 in New York, on the margins of the United Nations General Assembly (UNGA). The Ukrainian contribution of $50 million to the SIP, as well as an additional $100 million in support of the SIP, will be important to the success of that conference.

To promote the sarcophagus project, U.S. and other G-7 and Ukrainian ambassadors

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[2] This figure represents $300 million pledged out of a $750 million approved project.

have been briefed on the SIP and are approaching other governments to participate at the pledging conference. U.S., G-7 and Ukrainian delegates to UNGA and the International Atomic Energy Agency (IAEA) General Conference (GC) are approaching other governments about the pledging conference. We succeeded in getting the IAEA GC to support an important resolution calling on member states to join us at the pledging conference.

The EBRD has begun advertising and distributing the SIF in response to widespread international commercial interest in its projects. An expert team has drafted technical specifications for the early biddable projects under the SIP. These specifications are currently being reviewed by the Ukrainian Nuclear Regulatory Authority and Chornobyl plant staff. After they are finalized, these projects will be submitted for financial decision to the Shelter Fund Assembly in order to allow the EBRD to begin the tendering process for these projects as soon as possible. The EBRD Board of Directors has been briefed on the SIP, and is expected to approve the Shelter Fund Rules and the Bank's role in administering the project later this month. Even in advance of establishing the Fund, the U.S. and Canada have committed $2.5 million to repair the Chornobyl ventilation stack.

There are important steps that Ukraine can take to help ensure the success of the pledging process. Ukrainian ambassadors and high-level officials could approach other governments to encourage them to participate in the pledging conference. Similarly, Ukrainian delegates at pending international conferences can use other fora to emphasize the importance of this initiative. Minister Udovenko, as president of the 1997 UNGA, has an excellent opportunity to underscore the importance of the SIP and the need for a common international effort to support the project. Ukrainian delegates at the IAEA conference can also add their voices to those of G-7 delegates speaking on behalf of the sarcophagus project. Within Ukraine, the Rada's quick approval of the EBRD Framework Agreement for the SIP is critical to the EBRD's ability to begin work on the sarcophagus project this year.

Conclusions

- Electricity market reforms, including increased tariffs and improved revenue collection, are essential to improve the financial standing of the electricity sector – and to finance fuel purchases. These are the most important factors affecting short-term electricity supply as well as investments.

- As Ukraine moves forward with reform, donor-financed balance-of-payments support can help in the interim to meet fuel import requirements.

- In this context, the G-7/Ukraine MOU appropriately takes a broad approach that addresses fuel needs, energy efficiency, nuclear safety, market reforms and power investments.

- Increased retail electricity prices and revenue collections will be key to securing the financial viability of any new power investments, including the R4/K2 reactors.

- If one or both of the R4/K2 reactors is consistent with the EBRD's economic, financial, environmental and safety requirements, the G-7 will fully support EBRD financing for the completion of these plants.

- Ukraine and the G-7 will need to continue to work closely together to secure the success of the Shelter Implementation Plan for the Chornobyl sarcophagus.

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Le Conseiller Diplomatique

Paris, november 26, 1997.

Dear Dan,

Thank you for your letter dated Novembre 14. I think you made an excellent summary of our discussions in Washington last month. I have no doubt the last events of your presidency will fully meet our expectations.

As for your draft letter to M. de LAROSIERE is concerned, I can go along with it. The pledging conference in New-York has shown how urgent it is to start the process.

I copy this letter to our G7 colleagues.

Yours Sincerely,

Jean-David

Jean-David LEVITTE

Daniel K. TARULLO
The White House
WASHINGTON D.C.

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

Rome,

Dear Dan,

Referring to your letter of 14 November 1997, I agree with your draft of the letter to EBRD President de Larosiére.

Yours sincerely,

Roberto Nigido

Mr. Daniel TARULLO
Assistant to the President
for Economic Policy
The White House
WASHINGTON D.C.

Roma - Ist. Poligr. e Zecca dello Stato - P.V.

Dr. Jürgen Stark

Staatssekretär im
Bundesministerium der Finanzen
IX B 5 - W 3920 Ukr - 130/97

53117 Bonn, 24th November 1997

Graurheindorfer Straße 108
Telefon: (02 28) 6 82 - 42 93
Telefax: (02 28) 6 82 12 44

Mr Daniel Tarullo
Deputy Assistant to the
President for Economic Policy
The White House
Washington, D.C. 20520

U.S.A

Dear Dan:

Thank you for your letter of 14 November 1997. I agree with your draft of the letter to EBRD President de Larosière.

Yours sincerely,

Jürgen

cc: Messrs. Holmes, Haraguchi, Nigido, Cloos, Campbell, Levitte

FROM: ANDREW CAHN
DATE: 21 November 1997

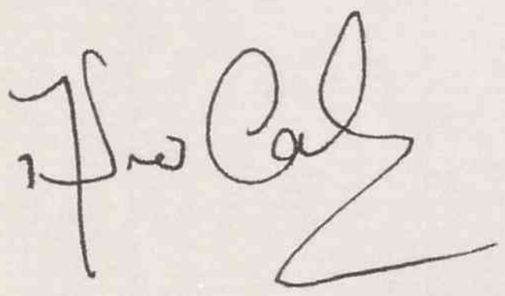
JOHN HOLMES
NO.10

cc: Jan Polley }
Brian Bender } with Neil Hurst's
Robin Young } letter
Michael Pakenham }

G7 NUCLEAR SAFETY: CHERNOBYL FUNDING

1. Neil Hirst wrote to you on 19 November (attached) on the funding of the UK contribution for the Chernobyl Shelter Implementation Plan. There is departmental resistence to finding the money to pay for this. A three-way split (FCO/DFID, DTI, DETR) seems the best solution, but FCO may not sign up to this.

2. The Chief Secretary has been briefed to try and have a word with the Foreign Secretary before a letter issues. This may do the trick. If it does not, I understand that our contribution does not need to be sorted out until a week or so before the Assembly of Contributors on 12 December. No doubt you, like Alex before you, will wish to avoid No 10 having to impose a solution as DTI request. We will try to sort things out if the Foreign Secretary will not play ball.



ANDREW CAHN
European Secretariat
Room 321, 70W
270 0177

Mr John Holmes
10 Downing Street
LONDON SW1A 2AA

Department of Trade and Industry

1 Victoria Street
London SW1H 0ET

Enquiries
0171-215 5000

Telex 8813148 DIHQ G
Fax 0171-222 2629

(0171) 215 0242
(0171) 215 2897
DBC 16/5

Direct line
Direct fax
Our ref
Your ref
Date

19 November 1997

Dear John,

CHERNOBYL SARCOPHAGUS : UK CONTRIBUTION FOR THE SHELTER IMPLEMENTATION PLAN (SIP)

As you know, the UK's national contribution to the new Chernobyl sarcophagus initiative has been agreed at $16.82m. I am writing to you now because the question as to how this is to be spread between the various Whitehall Departments needs to be resolved very urgently.

Following the inter-Departmental meeting of officials on 6 May, the President of the Board of Trade wrote to her Cabinet colleagues suggesting that one possible way forward would be for the DTI, the DOE and the FCO/ODA to provide a third. The Environment Secretary has now agreed to this approach; the Secretary of State for International Development has declined to offer any finance, citing *inter alia* her responsibility for funding the UK's portion of the EU/TACIS contribution; the Foreign Secretary has yet to write but indications are that he may still be resistant.

The matter is now urgent because the EBRD are planning to call the first meeting of the Assembly of Contributors on 12 December. Eight formal pledges need to be made before the first Assembly can be held. All of the G7 countries will be taking steps to conclude their Contribution Agreements with the Bank well before that date. The Commission's difficulties with the European Parliament seem certain to delay the formal EU contribution until next year. But if we cannot resolve our own internal problems, we may well be the only G7 country which has failed to deliver a Contribution Agreement in sufficient time to be able to participate in the first Assembly with full voting rights. Alternatively, if our six G7 partners were able to conclude Contribution Agreements in time and only one other country was able to do so, we might then be held responsible for the need to postpone the first Assembly into the new year. Either way, this would hardly be the best start to our G7 Presidency.

Can you help to break this logjam quickly, please ?

A copy of this letter goes to David Peretz as well as to Andrew Cahn (Cabinet Office), Steven Brown (DETR), John Kerby (DFID) and David Lyscom (ESED, FCO).

Yours ever,

NEIL HIRST Neil Hirst

Department of Foreign Affairs and International Trade

Deputy Minister

Ministère des Affaires étrangères et du Commerce international

Sous-ministre

NOV 20 1997

Mr. Daniel K. Tarullo
The White House
Washington, D.C.

Dear Dan:

Thank you for your letter of November 14, 1997 requesting comments on the draft letter to Jacques de Larosière.

We agree with your draft and especially like the suggestion that Mr. de Larosière identify an interlocutor on his staff.

I am copying this letter to Sherpa colleagues.

Yours sincerely,

Donald W. Campbell

125 promenade Sussex Drive
Ottawa, K1A 0G2

Mr John Holmes
10 Downing Street
LONDON SW1A 2AA

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DBC 16/5

Direct line
Direct fax
Our ref
Your ref
Date

19 November 1997

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Yours ever,

NEIL HIRST Neil Hirst

EUROPEAN COMMISSION
Cabinet of the President

Head of Cabinet

Brussels, 19 November 1997
D(97)164

Dear Dan,

Thank you for your letter, dated 14 November, and the attached draft letter to EBRD President Jacques de Larosière. I agree with your draft reply.

With respect to the imminent Chernobyl Pledging Conference to be held in New York, I agree with the importance you attach to mobilising contributions from non-G-7 countries. I am therefore pleased to inform you that, on 12 November, President Santer wrote to all non-G-7 Heads of State/Government of the European Union, drawing their attention to the importance of this Conference and inviting them to attribute priority to this matter. I hope that this will contribute to mobilising the funds required for the Shelter Implementation Project.

I am copying this letter to the G-7 Sherpa colleagues.

Yours sincerely,

Jim Cloos

Mr. Daniel Tarullo
White House
Washington DC 20520

Rue de la Loi 200, B-1049 Bruxelles - Belgique - Bureau: BREY 12/74.
Téléphone: ligne directe (+32-2)295.98.49, standard 299.11.11. Télécopieur: 296.50.09.
Télex: COMEU B 21877. Adresse télégraphique: COMEUR Bruxelles.

FCO
DTI

10 DOWNING STREET
LONDON SW1A 2AA

7 DCO

From the Private Secretary

14 November 1997

Dear Ambassador,

The Prime Minister has asked me to thank you for your letter of 4 November enclosing an invitation to the Chernobyl Shelter Pledging Conference to be held on 20 November in New York, and your subsequent letter to me of 6 November.

The Prime Minister has asked me to confirm that the United Kingdom welcomes the progress being made in establishing a new Chernobyl Shelter Fund and that, as one of the G7 countries, we will be making a contribution as part of the $300m pledged at the Denver Summit. Our delegation to the Pledging Conference will be led by Ambassador Stephen Gomersall, the United Kingdom's Deputy Permanent Representative at the United Nations. You may be assured that we will do whatever we can to help make the event a success.

Yours sincerely

JOHN HOLMES

His Excellency Professor Sergiy Komisarenko

Foreign &
Commonwealth
Office

London SW1A 2AH

14 November 1997

Dear John,

G7 Chernobyl Pledging Conference

Thank you for your letter of 5 November, enclosing one from the Ukrainian Ambassador to the Prime Minister regarding the 20 November Pledging Conference. We are inclined to see this as an opportunity to underline our support for the ... conference, and enclose a draft reply from yourself to the Ambassador.

I am copying this to John Alty (Department of Trade and Industry).

Yours ever,

Dominick

(Dominick Chilcott)
Private Secretary

John Holmes Esq
10 Downing Street

DRAFT LETTER FROM PS/NO 10 TO:

HE Prof Sergiy Komisarenko
Ambassador
Embassy of Ukraine
78, Kensington Park Rd
London W11 2PL

Thank you for your letter of 4 November to the Prime Minister, which enclosed an invitation to the Chernobyl Shelter Pledging Conference to be held on 20 November in New York,and your subsequent letter to me of 6 November.

The Prime Minister has asked me to confirm that the United Kingdom welcomes the progress being made in establishing a new Chernobyl Shelter Fund and that, as one of the G7 countries, we will be making a contribution as part of the $300m pledged at the Denver Summit. Our delegation to the Pledging Conference will be led by Ambassador Stephen Gomersall, the United Kingdom's Deputy Permanent Representative at the United Nations. You may be assured that we will do whatever we can to help make the event a success.

THE WHITE HOUSE

WASHINGTON

November 14, 1997

Dear Colleagues,

I wanted to add a few notes from our meeting at Seven to supplement my letter on G-8 issues.

First, I think there was a consensus that a Leaders meeting at Seven should be maintained during the Birmingham Summit. Several of us noted that recent financial market turbulence was a reminder of the potential importance of such a meeting.

Second, one of our most troublesome issues continues to involve Ukraine. Plans for the Chernobyl Pledging Conference are being finalized. We conducted a briefing for embassy representatives here in Washington last week, and Ambassador Richardson hosted a briefing at the United Nations yesterday on the Conference. Any additional efforts you can make to ensure high-level participation by your governments, and positive decisions on contributions by other governments prior to the New York conference, will be very helpful. Of particular note to those planning the conference are the non-G-7 Member States of the European Union.

A draft response to Jacques de Larosière's letter to me is attached for your review. Please let me know your comments as soon as is convenient. A separate letter to de Larosière regarding the two reactors and a copy of the final letter from President Clinton to President Kuchma will be forwarded separately. I have passed on to our experts Jim's note on a possible mechanism to resolve Ukrainian energy sector issues.

Finally on Ukraine, I understand that Jim Wolfensohn will be traveling next week and not able to meet with President Kuchma in New York. I also understand that G-7 executive directors at the World Bank are making an effort to get Wolfensohn personally involved in the Bank's energy sector program in Ukraine. This seems to be an exercise which we should encourage. However, there is little indication that Ukraine has any current intention of pursuing the power sector reforms necessary to move the Bank's Electricity Market Development loan forward.

Third, the centrality of banking stability to the recent financial problems of several countries confirms the wisdom of the program for enhancing sound supervisory practices in developing countries that has resulted from our attention to the issue in recent years. I believe it important that each of us continue to monitor implementation of this program as we approach Birmingham.

Fourth, we noted that the phenomenon of tax competition, as undertaken in the OECD and on the agenda for the next EU summit, is a potentially important issue for our countries. At present, we need more analysis. But it is the kind of new issue to which the G-7 might usefully draw attention and address recommendations. I suggest we review the issue at one of the sherpa meetings next year.

Best regards.

Sincerely,

Dan

Daniel K. Tarullo

DRAFT

Mr. Jacques de Larosière
President
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2EH

Dear Mr. de Larosière:

Thank you for your letter of October 17 informing me that the EBRD Board has approved the Bank's role as administrator of the Chornobyl Shelter Fund. This is welcome news and I would like to express the appreciation of the G-7 countries for your personal commitment toward making this project a success.

We all share the view that it is crucial to begin implementation of the Shelter Implementation Project (SIP) as quickly as possible. To this end, we have secured the funds needed to cover the work in 1998. Regarding the preliminary nature of the cost estimates completed to date, my G-7 colleagues and I agree that we will get a clearer picture of the project costs as further work is done. However, the Bank's launch of biddable projects early in 1998 will be key to building the momentum that is needed for success of the SIP.

Regarding efforts to seek contributions, we welcome the role the EBRD has played in our public sector effort, including your own willingness to participate in the Chornobyl Shelter Pledging Conference. It would be useful for the EBRD to maintain involvement in the private sector effort once this is initiated, though more thought and cooperation is required to find mechanisms for raising funds that work for the Bank while not losing the momentum created by the November 20 Pledging Conference. It would be very useful if you could identify someone on your staff as an interlocutor on this matter.

Thank you again for your work toward the success of this important initiative.

Sincerely,

Daniel K. Tarullo
Assistant to the President for
International Economic Policy

Embassy of Ukraine
in the United Kingdom of Great Britain and Northern Ireland

78 Kensington Park Road, London W11 2PL.
Tel: 0171-727 6312 Fax: 0171-792 1708

UKRAINIAN AMBASSADOR

SUBJECT
MASTER

Filed on:

① cc Dominick
Chilcott, FCO

② FYI

Mr John Holmes
Private Secretary to the Prime Minister
10 Downing Street
London

6 November 1997

Dear Mr Holmes,

The Embassy has just received an amended text of the invitation from the President of Ukraine Mr Leonid Kuchma and the Vice-President of the United States of America Mr Albert Gore which had been forwarded to the Prime Minister on 4 November.

The copies enclosed were received by electronic mail. The original invitation signed by Mr Leonid Kuchma and Mr Albert Gore will be sent to you when available.

I am sorry for any inconvenience caused.

Yours Sincerely

S.Komisarenko

FA/PS

Embassy of Ukraine
in the United Kingdom of Great Britain and Northern Ireland

78 Kensington Park Road, London W11 2PL.
Tel: 0171-727 6312 Fax: 0171-792 1708

UKRAINIAN AMBASSADOR - ПОСОЛ УКРАЇНИ

London, 4.11.97

Dear Prime Minister,

I have the honour to forward to you an invitation which is self-explanatory from the President of Ukraine Mr Leonid Kuchma and the Vice-President of the United States of America Mr Albert Gore to attend a conference which is due to be held on 20 November 1997 in New York.

The invitation letter and the background information which outlines the topic of the conference were received in our Embassy to-day by electronic mail and are enclosed.

Please accept, dear Prime Minister, the assurances of my highest consideration.

Yours sincerely

Prof. Sergiy Komisarenko

The Right Honourable Tony Blair, MP
Prime Minister
London

Dear Prime Minister

On April 26, 1986, an explosion ripped apart the fourth reactor unit at the Chornobyl Nuclear Power Plant. Human tragedy, uncommon heroism, economic hardship, and unprecedented technical challenge followed. We write today to invite you to participate in a conference on November 20, 1997, that will contend with the human, economic, environmental, and technical legacy for humankind of the Chornobyl tragedy.

Within one year of the 1986 explosion, a speedily-designed shelter was erected over the ruined reactor unit. This shelter has stood for over a decade already, exceeding its design lifetime and withstanding snow, wind, rain, and intense radiological stresses.

In the space of that decade, Ukraine became an independent state and has assumed the main burden of overcoming the consequences of the ruinous tragedy it inherited as a new nation committed to an open democratic society.

The shelter now requires repair and partial reconstruction, an enormous task whose cost exceeds the capacity of a new state. Therefore, on behalf of the people of Ukraine, the European Commission and the G-7 states, we invite you to join us in New York City, where the two of us will chair the Chornobyl Shelter Pledging Conference. Together, we seek commitments totalling $300 million from donor countries. This sum will complement pledges from G-7 nations and the European Commission totalling $300 million. Ukraine will contribute $50 million in kind directly to the Shelter Implementation Project (SIP). In addition, Ukraine will provide more than $100 million to carry out work in the Chornobyl exclusion zone in support of the SIP. In spite of the difficult period of transformation that Ukraine is now undergoing, it has historically expended up to 12% of its budget to eliminate the consequences of the accident at the Chornobyl Nuclear Power Plant.

The Right Honourable Tony Blair, MP
Prime Minister
10 Downing Street SW1

Further deterioration of the shelter would risk collapse of the entire structure and renewed release of radiation into the environment. Such an event would further weigh on the people of Ukraine, who have already borne a unique burden in coping with the aftermath of the Chornobyl accident. We urge you or your senior representative to participate in the pledging conference on November 20, and we hope that we can count on you to join us in this important undertaking.

Sincerely,

/signed/

Albert Gore

Leonid Kuchma

CHORNOBYL

The 1986 explosion of the unit-4 reactor at the Chornobyl Nuclear Power Plant in Ukraine sent a plume of highly radioactive material spewing into the atmosphere. The disaster killed dozens of workers and created an environmental, health, and public safety disaster in the Soviet Union and neighbouring countries. The Chornobyl accident also focused world-wide attention on the importance of safety as an absolute priority in the use of nuclear energy, and demonstrated that nuclear accidents may have trans-boundary consequences.

After the Chornobyl accident, Soviet authorities constructed confinement building, now known as the sarcophagus, to protect the environment from the radioactive remains of the destroyed reactor. Built in haste under emergency conditions, the sarcophagus was not intended to be a long-term solution to the problems posed by the destroyed unit and the remains of its nuclear fuel. The sarcophagus has now exceeded its ten-year design lifetime. It is increasingly unstable and could collapse if nothing is done. A collapse would release a radioactive dust cloud and expose the highly radioactive contents of the structure to the environment.

In 1995, the Government of Ukraine, the European Community and the Group of Seven (G-7) industrialised countries signed a Memorandum of Understanding to support the decision of Ukraine to close the Chornobyl Nuclear Power Plant by the year 2000 as formulated in President Kuchma's 1995 statements to the international community. Under the Memorandum, the G-7 and Ukraine have initiated an international project to repair the deteriorating sarcophagus. The Shelter Implementation Project is an ambitious plan whose vision is to stabilise the current structure, create a new confinement structure for the wastes it entombs, and develop a strategy for final disposition of the highly radioactive materials within it. Ukraine cannot complete this important project without external help.

At the Denver Summit last June, the G-7 and the European Community pledged $300 million to fix the Chernobyl sarcophagus and called for concerned donors to assemble at a pledging conference this fall to help fund this effort. This public sector pledging conference will take place on November 20, 1997, in New York, on the margins of the United Nations General Assembly. The two of us are acting as honorary co-chairs of the pledging conference and we will attend the governmental session. We are enclosing a package of more detailed information on the sarcophagus and the pledging conference.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

5 November 1997

Dear Dominick,

CHERNOBYL PLEDGING CONFERENCE

I attach a self-explanatory letter from the Ukrainian Ambassador, enclosing one from Kuchma and Gore about the 20 November Pledging Conference. I will assume there is no need for the Prime Minister to reply, unless you offer different advice.

I am copying this to John Alty (Department of Trade and Industry).

Yours ever

JOHN HOLMES

Dominick Chilcott Esq
Foreign and Commonwealth Office

Department for International Development
94 Victoria Street, London SW1E 5JL

Telephone:0171-917 0134

From the Secretary of State

RESTRICTED - POLICY

File

The Rt Hon Alistair Darling MP
Chief Secretary
Treasury Chambers
Parliament Street
London
SW1P 3AG

4 November 1997

Dear Alistair,

CHERNOBYL SARCOPHAGUS: FUNDING UK'S BILATERAL CONTRIBUTION

Thank you for copying to me your letter of 23 October to Robin Cook about the UK's share of the G7 pledge towards the cost of reconstructing the sarcophagus over Unit 4 at Chernobyl.

I fully agree that we have a shared interest in ensuring that the Shelter Implementation Plan project is a success. My officials have accordingly been playing an active part in taking forward the process, including encouraging the EU to make a substantial contribution towards the costs. It has now been agreed that TACIS will pay US$100m as part of the G7 pledge. The UK share of this, about £3m per annum for three years, will be attributed to the aid programme. In addition, and as I explained in my letter of 21 May to Margaret Beckett, DFID is funding a number of projects through the Know How Fund connected with wider energy reforms in Ukraine, which feed through to the key objective of securing closure of Chernobyl.

It is still my view that my Department is already shouldering a significant share of the financial responsibility, and that we cannot reasonably be expected to do more.

I am copying this letter to the Prime Minister, John Prescott, Robin Cook, Margaret Beckett, and Sir Robin Butler.

Yours

CLARE SHORT

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

UCD/ 1550
Rome, 29 ottobre 1997

Dear Dan,

with reference to your fax of October 16 concerning the apportionment of the 300 M USD of Denver pledge for the Chernobyl Sarcophagus Fund and in view of the oncoming New York pledging Conference I confirm to you that the bilateral Italian contribution will be of 16,82 M USD (sixteen comma eighty two).

I am copying this letter to all Sherpas.

Yours sincerely

Roberto Nigido

Mr. Daniel TARULLO
Assistant to the President
for Economic Policy
The White House
WASHINGTON D.C.

ISTITUTO POLIGRAFICO E ZECCA DELLO STATO - S

FAXED - Faxed to G7 Sherpa Colleagues 29/10/97

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

28 October 1997

Dear Dan,

Thank you for your letter of 17 October enclosing the revised draft of the letter for President Clinton to send to President Kuchma.

I agree that we should avoid giving President Kuchma the impression that the further work on the R4/K2 project is absolutely pre-determined, particularly now that the work on the least cost issue has been over-shadowed by the suspension of the World Bank's electricity market loan. The message we need to convey is that we are prepared to do what we can to help move this project forward but that, on the financial due diligence question, the Ukrainians need to take significant actions if their energy sector is to become attractive to international financial institutions. Arguably, the most important of these is improvement of the cash collection/barter ratio.

I am generally happy with the new approach which your draft takes. I agree with your proposal for fieldwork on the least-cost question if the computer modelling does not lead to clear cut conclusions. As you say, this additional work ought not to delay the decision on R4/K2 since it would almost certainly take until next Spring for Ukraine to implement the measures needed to get her energy market back on track.

I have only a couple of comments on the draft letter. First, I wonder whether we should go out of our way to praise Ukraine's response to the WANO report. Since the third paragraph of the letter was drafted, Ukraine has embarked on a public campaign aimed at discrediting the WANO team and calling into question their conclusions. They have even suggested that the main safety concern is the poor morale at the plant and that we are to blame by insisting on its closure! In the circumstances, you may wish to consider dropping the paragraph and starting the following one "Continuing international safety concerns at Chernobyl, as exemplified by the recent WANO report, underscore ....".

Secondly, on the eighth paragraph, I share Jean-David's desire to avoid saying that the decision on the financial due diligence would best be "deferred". The Ukrainians might misconstrue this as a G7 intention to put the project on hold. Taking Jean-David's suggested wording, I propose that we insert "by Ukraine" after the word "needed". This would underline the point that progress is largely in their hands.

I hope you find these comments helpful and that President Clinton will be able to sign off the letter fairly soon.

I am copying this letter to G7 colleagues.

JOHN HOLMES

Mr Dan Tarullo

Dr. Jürgen Stark

Staatssekretär im
Bundesministerium der Finanzen
IX B 5 - W 3920 Ukr - 121/97

53117 Bonn, 28 October 1997

Graurheindorfer Straße 108
Telefon: (02 28) 6 82 - 42 93
Telefax: (02 28) 6 82 12 44

Mr Daniel Tarullo
Deputy Assistant to the
President for Economic Policy
The White House
Washington, D.C. 20520

U.S.A

Dear Dan,

Thank you for your letter of 17 October 1997 with the new draft letter from President Clinton to President Kuchma; it is a distinct improvement over the previous drafts. However, as you mention yourself in your letter, there remains a difference of opinion on the question of the political message we should send Ukraine regarding the EBRD's upcoming decision on financing R 4/K 2.

I feel that is important that President Kuchma receive, well before the Pledging Conference on 20 November 1997, an answer from the G 7 to the letter he sent before the Denver Summit. It is for this reason that I can agree in principle to the revised draft. However, the newly inserted sentence beginning with the word "Given" in the third paragraph on page 2 of the draft should be deleted. The seriousness of the situation regarding the financial viability of the projects R 4/K 2 is explained in the previous paragraph in such detail that the Ukrainian side cannot fail to understand it. Otherwise we would, quite unnecessarily, run the risk that the Ukraine for its part might take this as an excuse to „best defer" the implementation of the MOU, in particular the closure of Chernobyl by the year 2000.

In addition I think it is necessary that - in accordance with our common line - we clearly express to the EBRD our expectation that the Bank complete its evaluations on this project soon and take a decision in accordance with the MOU as I already suggested in my letter of 1 October 1997, last paragraph on page 2. This should by no means be viewed as anticipating the Bank's decision rather it was merely meant to elucidate our common political expectation regarding the EBRD's decision. I feel it is absolutely necessary that this expectation be clearly expressed in President Clinton's letter to EBRD President de Larosière. In that letter the EBRD should also be asked to co-operate closely - as should the World Bank - with Ukraine to improve the financial situation of the enterprises in the Ukrainian electricity sector in order to provide concrete assistance in solving the existing problems.

Furthermore, I agree with the funding figures for the Chernobyl Sarcophagus quoted in your letter of 16 October. Regarding Jim's remarks in his letter of 22 October I can also agree to adding at the end a new line mentioning the European Union's contribution.

Yours sincerely,

cc: Messrs. Campbell, Cloos, Haraguchi, Holmes, Levitte, Nigido

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

October 28, 1997

Dear Dan,

Thank you for your letter of 16 October concerning the funding for Chornobyl Sarcophagus.

I appreciate your efforts as chairman in settling the long-pending funding issue. I agree with the level of our funding in your letter, on the understanding that Japan's previous comments (in the letter from Kazuo Ogura dated on July 30) are accepted among G7 and EU

I am looking forward to seeing you soon.

I am copying this letter to G7 Sherpa colleagues.

Sincerely yours,

Koichi Haraguchi

Department of Foreign Affairs and International Trade
Ministère des Affaires étrangères et du Commerce international

Deputy Minister
Sous-ministre

FAXED

OCT 27 1997

-To Catherine Nettleton (ERD/FCO) & David Peretz (HMT) 28/10/97 (1925)

Mr. Daniel K. Tarullo
The White House
Washington, D.C.

Dear Dan:

Thank you for your letter of October 17, 1997 requesting comments on the latest draft of the letter to President Kuchma.

We support your argument that the G-7 should not make an unequivocal statement that the analysis under way "will determine that completing one or both reactors is consistent with EBRD requirements." We agree that it would not be appropriate for us to state the results of any analysis before that analysis is completed. However, we would suggest that the issue is not that the analysis will determine "whether" the reactors are viable, but rather "when" they are viable. All analyses to date have determined that K2R4 completion would be viable at some point. Even the Surrey Report concluded that completing the reactors represents a least-cost investment in 2010. Presumably the new analysis will also make a determination of "when".

We endorse your view that a loan determination by the EBRD today would most likely be negative based on financial viability. It therefore strikes us as prudent not to press for an early EBRD loan determination.

We support the strong message in the letter to President Kuchma that Ukraine must make progress on energy sector reform. Otherwise it will be extremely difficult to mobilize any new investments in the energy sector.

We endorse the draft letter and the attached "Status Report on Chornobyl MOU". Please find enclosed our suggested editorial changes.

I am copying this letter to Sherpa colleagues.

Yours sincerely,

Donald W. Campbell

125 promenade Sussex Drive
Ottawa, K1A 0G2

Draft G-7 Clinton to Kuchma letter: Canadian Comments

Para 3, last sentence: ~~The commitment~~ *We are heartened that* Ukraine has ~~demonstrated~~ *agreed* to undertake a thorough review of Unit 3 and to discuss its findings with the International Atomic Energy Agency. ~~is an important first step toward ensuring that adequate measures are taken~~ *We look forward to Ukraine undertaking the corrective measures* to make the plant safe before it is brought on line following the current maintenance period.

Para 4, first sentence: ~~International safety concerns at Chornobyl underscore the need for~~ Rapid progress in the implementing the MOU *remains our shared goal.*

Para 4, second sentence: ...for the Chornobyl sarcophagus and ~~to~~ *for* decommission*ing facilities for* the Chornobyl reactors have been mobilized.

Para 5, first three sentences: As you pointed out, our cooperation goes beyond the specific issues of Chornobyl *closure by 2000,* to support the development of a competitive power sector. As you know, Ukraine has reported its ~~installed~~ *nominal* power-generating capacity at over 50,000 megawatts, which far exceeds its peak demand. To be sure, not all of this capacity ~~may be~~ *is* available...

Para 6, first sentence: ...a key issue that must be addressed to secure international financing is whether these projects meet *least-cost and financial analyses tests* ~~test of being cost-effective and environmentally sound investments.~~

This language is then consistent with the attached paper.

Para 8, fifth sentence: ...and *especially* the steps Ukraine takes to improve the financial standing of the electricity sector...

Para 10, second sentence: ...~~the G-7~~ *Canada and the US* have agreed to finance the urgent task of fixing the crumbling ventilation stack this year.

This language is then consistent with the attached paper.

Status Report on Chornobyl MOU

Page 1, last paragraph: ...Ukraine has 52,000 megawatts of *nominal* ~~installed~~ generating capacity.

Page 6, second paragraph: ...*$2.5 million* ~~$3.5 million~~ to repair the Chornobyl ventilation stack.

EUROPEAN COMMISSION
Cabinet of the President

Head of Cabinet

Brussels, 27 October 1997
D(97)156

Dear Dan,

Thank you for your letter, dated 17 October, and the revised draft of a letter from President Clinton to President Kuchma. I would like to support the two drafting suggestions Jean-David made in his letter to you, dated 23 October.

Jean-David rightly puts his finger on the fact that the present concerns about energy market reform in the Ukraine and the financial viability of the R4/K2 project would to a very large extent equally affect alternative (non-nuclear) investments in the energy sector. The letter should therefore reflect this fact.

Regarding Jean-David's second point, I would like to emphasize that any risk of delay in the implementation of the MoU, and the related risk that Chernobyl might not be definitively closed down by the year 2000, increases the need to be extremely vigilant with respect to the safety situation of Unit 3. Again, this could usefully be reflected in the letter.

I hope that it will be possible for President Clinton to send a revised letter to President Kutchma in the near future. In this context, I await also with interest your draft letter to President de Larosière.

I look forward to seeing you in Washington later this week, where I hope we will find the time to discuss the Chernobyl issue.

I am copying this letter to G7 Sherpa colleagues.

Yours sincerely,

Jim Cloos

Mr. Daniel Tarullo
White House
Washington DC 20520

Rue de la Loi 200, B-1049 Bruxelles - Belgique - Bureau: BREY 12/74.
Téléphone: ligne directe (+32-2)295.98.49, standard 299.11 11. Télécopieur: 296.50.09.
Télex: COMEU B 21877 Adresse télégraphique: COMEUR Bruxelles.

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

UCD/ 1525
Rome, October 27th, 1997

Dear Dan,

with reference to your letter of October 17 circulating a revised draft letter to President Kuchma on R4/K2 and Chernobyl closure, I have the following remark.

In the second paragraph you construe a dichotomy between the "unequivocal statement" of three of our Colleagues and an "alternative formulation" (yours) regarding above all least cost analysis and financial viability.

Your conceptual construction seems to me however to be inconsistent with the drafting of the critical sentence (paragraph 3, page 2 of the draft letter to Kuchma, nine line), which is opened by the words "we expect that", meaning "we believe".

What kind of expectation are we supposed to have and to show to Kuchma? To my sense one that the EBRD analysis will indeed determine "that" (not "whether") completing one or both reactors will meet EBRD requirements.

Mr. Dan TARULLO
Assistant to the President
for Economic Policy
The Withe House
WASHINGTON

ISTITUTO POLIGRAFICO E ZECCA DELLO STATO - S.

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

This has little to do with suggesting "that the G7 have reached a decision before the EBRD has completed its analysis", as you say in your letter. Actually G7 expectations (or believes) in the end could be proved to be wrong, without blame for its previous attitude favourable to Ukraine.

On the other hand I agree with you that times are not yet ripe for the loan and we'd better biding time, because financial viability at present is not there and Kuchma has to be confronted with this fact in an appropriate fashion.

So, I suggest a final rephrasing in which (page 2, paragraph 3, line 12) "whether" is a substituted with "that". End of the paragraph should be modified accordingly ("if so" should give way to "in case of consistency,...").

I am copying this letter to all the Sherpas.

Best regards,

Roberto Nigido

ISTITUTO POLIGRAFICO E ZECCA DELLO STATO - S.

Foreign &
Commonwealth
Office

London SW1A 2AH

Telephone: 0171

Our reference: MFS 166/1

24 October 1997

Pl. show to Dr my sig. as amended. Pl. show to JH 27/X. JH 28/X.

John Holmes Esq
10 Downing Street

Dear John,

G7 CHERNOBYL: CLINTON LETTER TO KUCHMA

1. I attach a draft reply to Dan Tarullo on his revised draft of the letter from President Clinton to Kuchma. The draft takes account of Levitte's comments.

Yours,

Catherine

Catherine Nettleton
Economic Financial and Development Department

270-2571

cc: Mr Budd
Mr de Fonblanque
Mr Westcott, EFDD
Mr Lyscom, ESED
Mr Hirst, DTI
Mr Peretz, HMT
Mr Kerby, DFID

Dan Tarullo
The White House
Washinton

Thank you for your letter of 17 October enclosing the revised draft of the letter for President Clinton to send to President Kuchma.

I ~~fully~~ agree that we ~~must~~ avoid giving President Kuchma the impression that the further work on the R4/K2 project ~~has a~~ is pre-determined, ~~outcome~~, particularly now that the work on the least cost issue has been over-shadowed by the suspension of the World Bank's electricity market loan. The message we need to convey is that we are prepared to do what we can to help move this project forward but that, on the financial due diligence question, the Ukrainians need to take significant actions if their energy sector is to become attractive to international financial institutions. Arguably, the most important of these is improvement of the cash collection/ barter ratio.

I am happy with the new approach which your draft takes. I agree with your proposal for fieldwork on the least-cost question if the computer modelling does not lead to clear cut conclusions. As you say, this additional work ought not to delay the decision on R4/K2 since it would almost certainly take until next spring for Ukraine to implement the measures needed to get her energy market back on track.

I have only a couple of comments on the draft letter. First, I wonder whether we should go out of our way to praise Ukraine's response to the WANO report. Since the third paragraph of the letter was drafted, Ukraine has embarked on a public campaign aimed at discrediting the WANO team and calling into question their conclusions. They have even suggested that the main safety concern is the poor morale at the plant and that we are to blame by insisting on its closure! In the circumstances, you may wish to consider dropping the paragraph and starting the following one

"Continuing international safety concerns at Chernobyl, as exemplified by the recent WANO report, underscore..."

Secondly, on the eighth paragraph, I share Jean-David's desire to avoid saying that the decision on the financial due diligence would best be "deferred". The Ukrainians might misconstrue this as a G7 intention to put the project on hold. Taking Jean-David's suggested wording, I suggest that we insert "by Ukraine" after the word "needed". This would underline the point that progress is largely in their hands.

I hope you find these comments helpful and that President Clinton will be able to sign off the letter fairly soon.

I am copying this letter to G7 colleagues.

John Holmes

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

October 23, 1997

Dear Dan,

Thank you for your revised draft of President Clinton's letter to President Kuchma. I have no objection to your draft. I appreciate your efforts to improve the draft and your considerations for our comments.

I am copying this letter to G7 Sherpa colleagues

Sincerely yours,

Koichi Haraguchi

(J)

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Le Conseiller Diplomatique

Paris, October 23, 1997

Dear Dan,

Thank you for your letter dated October 17 circulating the revised draft of the letter to President Kuchma on MOU implementation.

1 - Taking into account the increasingly difficult situation of the power sector in Ukraine and the recent degradation of Ukraine's relations with the International Financial Institutions, as it was underlined during the last G7 NSWG meeting in Kiev, I would like to make the two following proposals :

I think it would be more efficient to reverse the order of paragraphs 6 and 7 while modifying the first sentence of current paragraph 7 as follows :

« It is also essential that Ukraine demonstrate to ~~the EBRD and other~~ lenders that ~~your nuclear utility has~~ Ukrainian utilities, in particular in the nuclear field, have the revenue to repay loans for ~~the reactors~~ investments ».

and to modify the third sentence of current paragraph 8 as follows :

« Given current fiscal problems in the electricity sector, ~~a decision on~~ a special effort is needed in order to ensure the financial viability of these loans ~~is best deferred~~ ».

2 - In addition, I think it is important to indicate to President Kuchma that even if we are satisfied with the first action undertaken by Ukraine about Chernobyl's Unit 3, we remain vigilant on this issue. So I suggest modifying the last sentence of paragraph 3 of the draft letter as follows :

Daniel K. TARULLO
Deputy Assistant to the President
for Economic Policy

«The commitment Ukraine has demonstrated... is an important first step. We hope that the meeting between Ukrainian and G7 experts which may take place soon in Ukraine will help ~~toward ensuring~~ to ensure that adequate measures... the current maintenance period ».

3 - Regarding our next Sherpa meeting, I suggest we include in our breakfast discussion about Ukraine the relations between Ukraine and the International Financial Institutions over power sector reforms, and enclose herewith a copy of the French Deputy's letter to his colleagues on this issue.

4 - Finally I share your view on the necessity for the early dispatch of the letter to President Kuchma and I thank you for circulating a draft letter to EBRD President de Larosière on these issues.

I am copying this letter to G7 Sherpa Colleagues.

Yours sincerely.

Jean-David

Jean-David LEVITTE

FA/PS

RESTRICTED - POLICY

Treasury Chambers, Parliament Street, SW1P 3AG

File
Draft.

The Rt Hon Robin Cook MP
Secretary of State
Foreign and Commonwealth Office
King Charles Street
LONDON
SW1A 2AH

23 October 1997

Dear Foreign Secretary

CHERNOBYL SARCOPHAGUS: FUNDING UK'S BILATERAL CONTRIBUTION

I understand that agreement has now been reached on the size of the UK's bilateral contribution to the $300 million G7 pledge towards a fund to build a stable sarcophagus over the wrecked reactor at Chernobyl.

2. No single Department has a clear policy lead over all of the aspects of this work. But you, Clare Short, John Prescott and Margaret Beckett each have some interest in a successful outcome to the project. I said in my letter of 31 July that, I was not prepared to provide additional money from the Reserve.

CHIEF SECRETARY TO THE TREASURY

RESTRICTED - POLICY

3. As you know, Margaret Beckett and John Prescott have agreed to meet a third of the cost each from within their existing provisions. I am writing to urge you or Clare Short to do the same. Spread over the 8 year lifetime of the project, a third share the UK's bilateral contribution of $16.82 million would equate to about £400,000 a year. Given the importance placed on this work (you might recall it featured fairly prominently in the Denver Summit Statement), I very much hope you can make such a relatively small sum available.

4. Copies of this letter go to the Prime Minister, John Prescott, Margaret Beckett, Clare Short and Sir Robin Butler.

Yours sincerely

Paul Williams

PP **ALISTAIR DARLING**

(Approved by the Chief Secretary and signed in his absence)

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

22 October 1997

Dear Jean-David,

Thank you for your letter of 17 October, proposing revised shares between the EU members of the G7. I confirm that we are content that the EU will make a total contribution of US$ 179.5 million and that the United Kingdom's national contribution will be US$ 16.82 million.

I am copying this letter to Jurgen, Roberto and Jim.

Yours ever

JOHN HOLMES

M. Jean-David Levitte

1) ~~GRSC~~ No need.
2) JCH

Foreign &
Commonwealth
Office

London SW1A 2AH
Telephone: 0171

Our reference: MFS 166/1

M. Tyler Kind

22/X.

(cd attached) I see Levitte's letter for.

22/X -

22 October 1997

John Holmes Esq
10 Downing Street

Dear John,

G7: CHERNOBYL FUNDING

1. I submit a draft response to Levitte's letter to European G7 Sherpas on Chernobyl funding.

2. Whitehall Departments agree that we should accept our US$ 16.82 million share. This has been calculated by dividing the extra US$ 2 million among the Europeans equally rather than according to the Naples formula, but at the last NSWG meeting we were unable to negotiate the slightly better deal which was our opening bid (Kiev telno 322 attached).

Yours,

Catherine

Catherine Nettleton
Economic Financial and Development Department

270-2571

cc: Mr Budd
Mr de Fonblanque
Mr Westcott, EFDD
Mr Lyscom, ESED
Mr Hirst, DTI
Mr Peretz, HMT
Mr Faint, DFID

Jean-David Levitte
Presidence de la Republique

Thank you for your letter of 17 October, proposing revised shares between the EU members of the G7. I confirm that we are content that the EU will make a total contribution of US$ 179.5 million and that the UK's national contribution will be US$ 16.82 million.

I am copying this letter to Jurgen, Roberto and Jim.

John Holmes

This telegram was not registered when distributed

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PRE-SUBJECT: FCO FOR ESED: DTI FOR NID

SUBJECT: G7 NUCLEAR SAFETY WORKING GROUP MEETING: KIEV 6-7 OCTOBER

SUMMARY

1. The meeting foreshadowed the Chernobyl funding conference to be held in New York on 20 November with Vice President Gore and President Kuchma as co-chairs. G7 pledge to work together diplomatically to make this a success. The meeting with Ukraine on the Chernobyl MOU was generally successful but difficulties over EBRD funding of the completion of two Ukrainian reactors (R4/K2) and the withdrawal of World Bank support for the Ukrainian power sector pose serious problems for the future.

DETAIL

Sarcophagus Pledging Conference

2. The US (Ms Kessler) reported that the date for the Conference was 20 November. The plan was that Vice President Gore and President Kuchma would be the co-chairs, each giving a 5-10 minute key note address, followed by the President of the EBRD, who would explain the Bank's role in the fund-raising process. A short video of about ten minutes duration would then be shown. This would include footage of the plant and the town of Slavutych. The co-chairs would then leave and be replaced by US and Ukrainian deputies (yet to be nominated). The rest of the day until about 3pm would comprise speeches from governmental representatives, hopefully making pledges. At 3pm Gore and Kuchma would hold a press conference to report on the day's proceedings and to make clear that the Conference was only the beginning of the fund-raising effort. The opportunity would also be taken to outline plans for fund-raising from the private sector.

3. The US (Ms Kessler) also clarified that Gore and Kuchma would sign the invitation letters over the next two weeks (no draft would be circulated as Gore's office were arranging this) and that briefing material for our overseas posts as well as the SIP brochure would be circulated (in draft) this week. It was reported that the IAEA General Conference had passed the Resolution on the SIP and that such action must be repeated at all forthcoming multilateral events. The Ukrainians supported such action and agreed to participate in joint approaches to non-G7 governments. They also wished to participate in making the video and clearing the draft SIP brochure. However, they requested financial assistance with the publication of an English version of their own booklet - The Shelter, Ten Years On - the G7 agreed to consider this request.

efore the Ukrainians joined the meeting, the G7 agreed that erman Sherpa would write round giving details of the bilateral 7 contributions. The UK contribution is US dollars 16.82 lion. The UK (Hirst) sought the agreement of EU colleagues to apportion the last US dollars 2 million of EU contribution on the aples formula, which would slightly benefit the UK and Italy. But it is clear that this has no support, even from Italy. The G7 agreed to work together diplomatically to seek the widest possible participation at the conference, each taking the lead with countries where they were best placed.

5. The G7 and Ukraine agreed that the minimum contribution to the fund should remain as 2.5 MECU. Ukraine appealed to have a seat on the Assembly, giving assurances that it would not abuse its right to veto when considering the allocation of grant funds from other donors or the use of the EBRD procurement rules. It seems likely that, with some modification to the rules of the Assembly, this will be accepted. Ukraine's contribution would be US dollars 50 million in kind direct to the SIP work and a further US dollars 100-110 million towards work to facilitate the work under the SIP. The Assembly would have the right to review the allocation of Ukrainian resources to individual projects. This would need to be reflected in the Framework Agreement. A meeting between the EBRD and Ukrainian hopefully to finalise the Framework Agreement was scheduled for the morning of 8 October.

Safety of Chernobyl Unit 3

5. Ukraine (Kostenko) downplayed the WANO report, stating that existing programmes of work addressed all the identified problems, with the exception of the Safety Culture deficiencies. The latter were a result of poor morale due to the uncertain future of the plant, exacerbated by the closure of Unit 1 and the dismissal of about 2000 staff - ie it was the fault of the G7. The Ukrainians claimed that in several areas the WANO team were wrong and that by contacting several governments with their concerns, WANO breached confidentiality. Despite this, WANO will be invited back in eight months or so to review progress.

Power Sector Reforms

6. The World Bank reported that Ukraine was simply not doing enough to enable them to reinstate their Power Sector Loan (US dollars 317 million). A World Bank mission was due in Ukraine on 20 October and the opportunity would be taken then to review all the Bank's requirements and to discuss ways for Ukraine to meet them. Privately, the Bank agreed to provide the G7 with a list of these requirements. Again privately, the European Commission proposed some ideas for helping the Ukrainians meet the World Bank's loan criteria. The Commission agreed to circulate these to the G7 as well.

K2/R4

7. The EBRD (Jahnke) began by listing the other energy sector projects involving the Bank. These included the Starabeshovo loan, a Gas Metering loan, a possible loan for a Gas Power Plant in Crimea, District Heating loan (with World Bank) and an Energy Efficiency Programme. A heated discussion resulted in agreement that: an improvement in the collection of electricity payments was

[redacted] least cost [redacted]
[redacted]al: of EBRD/Ukrainian experts would be held when [redacted]
[redacted]ed one of the Stone and Webster least cost analysis work were
[redacted]phase. This was expected to be in November and would be followed
know[redacted] workshop for Bank Directors covering all the due diligence
by [redacted] work related to this project: the proposed move of CNPP into the
Energoatom Organisation was temporary and would end if the Bank
approved this loan. (This was because CNPP was such a liability,
Energoatom could never be considered as financially strong enough
to repay the K2/R4 loan): and that this project was important to
ensure the highest possible safety standards at these plants.

Social Impact Action Plan (SIAP)

8. The Ukrainians were seeking quote Special Economic Zone unquote status for Slavutych to attract foreign investment and the Rada were expected to agree to this fairly soon. There had not been much progress in other areas of the SIAP, partly due to the inability of CNPP to provide the frequently requested skills profile information on its workforce. Discussions continued with the US and EU and the EBRD were also considering involvement in this work.

Chernobyl Centre

9. Ukraine (Glygalo) reported on the successful conference held in July and the fruitful discussions he had held with the US, Germany, France, Italy and the UK. It was confirmed that the UK soon hoped to sign an MOU facilitating industry involvement in collaborative ventures with the Centre.

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THE WHITE HOUSE

WASHINGTON

October 22, 1997

File

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Dear Colleagues:

Please find under cover a recent letter from President de Larosière of the European Bank for Reconstruction and Development regarding the Chornobyl Shelter Implementation Plan and the Pledging Conference. I intend to respond on behalf of the G-7 to the issues raised in this letter, as well as other MOU issues relevant to the EBRD, in the transmittal note accompanying a copy of President Clinton's letter to Ukrainian President Kuchma, as referenced in my letter of October 17. A draft note to President de Larosière will soon be circulated for your concurrence.

I look forward to seeing you all next week.

Sincerely,

Dan

Daniel K. Tarullo

cc Sherman
Boone

European Bank
for Reconstruction and Development

Jacques de Larosière
President

Mr Daniel K. Tarullo
Assistant to the President for
International Policy
The White House
Washington, DC
USA

17 October 1997

Dear Mr Tarullo,

Referring to our correspondence of February, I am happy to inform you, that on 30 September, the Board of Directors of the European Bank approved the Bank's role as Administrator of the Chernobyl Shelter Fund.

I should like to commend the initiative of the G-7 in launching this important work. The European Bank looks forward to playing a full and active role. Through its significant pledge of financing at the Denver Summit, the G-7 will ensure that the SIP can make a strong start. The Pledging Conference in New York, at which I am happy to participate, should provide for additional resources from other Governments. Regarding the efforts to seek private contributions, the Bank is willing to be associated with the initiative but, in view of its lack of competence in the matter, will not be able to be involved in its management or administration.

The project team at the Bank is already actively engaged in assisting with commencement of the first set of component projects to the Shelter Implementation Plan (SIP). Through its role as Administrator the Bank will, of course, seek to ensure that costs are contained as far as possible. I commend the work done so far as embodied in the SIP document. I must emphasise, however, that the cost estimates developped so far must be seen as preliminary because the project has only advanced to the stage of conceptional engineering so far. We will only be able to get a better picture of the costs of the project later as the estimates of the scope and timescale of what needs to be done are refined. In view of the urgency of the project, the G-7 experts have prepared "early biddable projects" before even the central Project Management Unit with a strong Western industrial partner is fully in place. Therefore, I must also underline the importance of adhering to the Bank's procurement rules for all other decisions on the project and to reserve the necessary minimum time for this to happen.

One Exchange Square, London EC2A 2EH, United Kingdom
Tel: + 44 171 338 6000 or + 44 171 496 6000 Fax: + 44 171 338 6112 or + 44 171 496 6100 Telex: 8812161 EBRD L G

In conclusion, let me emphasise the importance I personally attach to the international effort required to address the legacy of the Chernobyl catastrophe.

Yours sincerely

J de Larosière

Jacques de Larosière

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Le Conseiller Diplomatique

Paris, October 23, 1997

Dear Dan

I refer to your letter dated October 16 concerning the discussions of the Finance Deputies and the NSWG about the G7 contributions to the Chernobyl Shelter Fund. I can agree on the levels of funding you present.

Following the announcement made at the Denver summit and in advance to the Pledging Conference in New York in November, I confirm that France will contribute 40,05 M $ (including 22,25 M $ as bilateral pledge to the Shelter fund and 17,8 M $ as French part of the European Union contribution).

I copy this message to G7 sherpa colleagues.

Yours sincerely,

Jean-David

Jean-David LEVITTE

Mr Dan K. TARULLO
Deputy Assistant to the President
for Economic Policy

THE WHITE HOUSE

WASHINGTON

October 17, 1997

Dear Colleagues:

At Don's suggestion, I am recirculating the revised draft of the letter to President Kuchma on R4/K2 and closing Chornobyl by the year 2000.

I have incorporated most of your suggestions. There is one key difference on how we frame the G-7's views on EBRD financing for one or both of the R4/K2 reactors. Jean-David, Jurgen and Jim suggest an unequivocal statement that the analyses under way "*will determine* that completing one or both of the reactors is consistent with EBRD requirements, *thus allowing* the G-7 to lend full support to EBRD financing." The alternative formulation is to state that the analyses "will determine *whether*" the reactors are viable and "*if so*, the G-7 will lend full support."

We have not included the more definitive formulation for two reasons. First, it suggests that the G-7 have reached a decision before the EBRD has completed its analysis. This is not the U.S. position and perhaps not that of some other G-7 members as well. Second, the EBRD's decision on R4/K2 will also be based on the financial viability of these loans. We have discussed this directly with EBRD First Vice President Charles Frank: if a decision were to be made today, the EBRD would reject the projects. With the share of cash as a percentage of electricity revenue hovering around ten percent, the EBRD cannot consider new loans to Ukraine for electricity plants. The World Bank suspended its electricity market loan, taking exactly the same position. It would be misleading to President Kuchma to suggest otherwise.

To address these differences and clarify our message, we have tried a different presentation. As you will see in the attached draft, we suggest ending the paragraph on cost-effectiveness/least-cost after noting that additional work will be completed. The paragraph stating our concerns over the financial status of the electricity sector would follow. We then conclude this discussion with a new paragraph indicating that the G-7 would support EBRD financing if these issues are satisfactorily resolved.

Several of you questioned whether the least-cost analysis requires a second phase of fieldwork. I understand this issue was addressed by the NSWG and it agreed that all efforts should be made to complete the analysis in one phase, but if the results of the first phase are ambiguous, then a second phase would need to be completed by next spring. Since the field work would be done during the time Ukraine is taking steps to address the financial viability of the electricity sector, this would not result in a net loss in time. EBRD Vice President Frank affirmed to us that he supports this position. He also indicated that he will hold in November a high-level review with Ukraine and all the key analysts and companies engaged in feasibility work. We think that this is a constructive step to engage Ukraine and have noted this in the letter to President Kuchma.

I hope we can agree on this letter in the coming week. I will soon circulate a draft letter to EBRD President de Larosiere that can include the letter to President Kuchma as an attachment.

Sincerely,

Dan

Daniel K. Tarullo

Dear Leonid:

It was an honor and a pleasure to participate in the signing ceremony of the NATO-Ukraine Charter. The event marked an historic moment in Ukraine's integration with Europe, and the ties we established will serve the interests of Ukraine, Europe and North America for years to come. I enjoyed, as well, the chance to see you in September.

I promised at our earlier meetings to return to your concerns on financing for the Rivne and Khmelnitsky nuclear plants. Allow me to take this opportunity to respond on behalf of the G-7 leaders to the letter you sent us before the Denver Summit. We asked our energy experts to prepare the attached paper on progress under the Memorandum of Understanding (MOU) on the closure of Chornobyl nuclear power plant, with a special focus on projects that help Ukraine meet electricity demand now and beyond the closure of the plant by the year 2000.

Before addressing the MOU, let me extend the G-7's appreciation for the resolute way in which Ukraine has reacted to the recommendations in the recent report by the World Association of Nuclear Operators. We all read with concern the conclusions reached on inadequate safety practices at Chornobyl's unit 3. The commitment Ukraine has demonstrated to undertake a thorough review of unit 3 and to discuss its findings with the International Atomic Energy Agency is an important first step toward ensuring that adequate measures are taken to make the plant safe before it is brought on line following the current maintenance period.

International safety concerns at Chornobyl underscore the need for rapid progress in implementing the MOU. Since Ukraine and the G-7 signed this landmark document, $1 billion dollars for fuel supply, power and energy efficiency projects and about $550 million in grants for the Chornobyl sarcophagus and to decommission the Chornobyl reactors have been mobilized. Many other projects are under preparation or consideration.

As you pointed out, our cooperation goes beyond the specific issues of Chornobyl to support the development of a competitive power sector. As you know, Ukraine has reported its installed power-generating capacity at over 50,000 megawatts, which far exceeds its peak demand. To be sure, not all of this capacity may be available, but it suggests that the challenge before Ukraine is not simply to build more power plants, but to determine which new investments will contribute to meeting Ukraine's power needs in the most cost-effective and environmentally sound way. Taking up this challenge is of the greatest importance to the success of Ukraine's energy sector reforms and to secure international financing for energy investments.

Regarding the Rivne and Khmelnitsky reactors, a key issue that must be addressed to secure international financing is whether these projects meet the test of being cost-effective and environmentally sound investments. In order to complement previous cost-effectiveness analyses, my government, with the full support of the G-7, is funding additional analysis that will help the EBRD, with your assistance, reach the best conclusion on these projects. The first phase of this analysis will be completed this fall. We understand from the EBRD that the bank will hold a major progress review in November that will include Ukraine and all the major analysts and companies engaged in the feasibility work. This is a constructive step. If the phase 1 conclusions of the cost-effectiveness study are not clear, a second phase involving fieldwork in Ukraine will be completed by next spring. I hope your experts will cooperate fully in this process.

It is also essential that Ukraine demonstrate to the EBRD and other lenders that your nuclear utility has the revenue to repay loans for the reactors. Several measures could make a crucial difference: particularly improving cash collection for electricity bills and establishing a clear process for future tariff adjustments based on market principles. Such steps could help overcome the financial concerns raised by the continued low rates of revenue collection that jeopardize the financial viability of investments in the electricity sector and Ukraine's ability to maintain existing plants. The coming months will be critical in demonstrating that Ukraine's electricity sector has been placed on firm financial ground.

The G-7 understand fully your interest in reaching a final conclusion as quickly as possible. In our approach to this issue we have taken into account your concerns, the EBRD's requirements and steps that would affect a positive outcome on the Rivne and Khmelnitsky loans. Given current fiscal problems in the electricity sector, a decision on the financial viability of these loans is best deferred. The additional work on the cost-effectiveness analysis will be completed during this time and will not further delay a final outcome. We expect that this analysis, complementary work under way by the EBRD in other areas and the steps Ukraine takes to improve the financial standing of the electricity sector will determine whether completing one or both of the reactors is consistent with EBRD requirements; if so, the G-7 will lend full support to EBRD financing.

Turning to the issue of the Chornobyl sarcophagus, we see action accelerating in the coming months. As you know, the original MOU indicated that additional funds would be mobilized as new projects were identified and proved viable. In this spirit, the G-7 launched the process of mobilizing international contributions with a $300 million pledge at the Denver Summit, and we called on the international community to participate in a pledging conference this fall to raise needed funds.

In view of the upcoming conference, Ukraine's announcement of its contribution of $50 million to the Shelter Implementation Plan (SIP) and $100 million in support of the SIP will be important to the success of the conference. I am pleased to tell you that prior to the Chornobyl Sarcophagus Fund being established, the G-7 has agreed to finance the urgent task of fixing the crumbling ventilation stack this year. Our governments need to work closely together over these next few weeks to ensure the greatest possible success of the fall conference.

Leonid, let me assure you on behalf of the G-7 that we fully share Ukraine's determination to implement the Memorandum of Understanding on the closure of Chornobyl. The $1.55 billion we have already mobilized for the task is a sign of our commitment, and we will continue our efforts. As always, the speed of our progress will depend on our partnership. The faster reforms move ahead, the better the financial climate in Ukraine will be to mobilize new investments, both public and private. We are fully committed to do our part as Ukraine moves ahead with its reforms.

Sincerely,

Status Report on Chornobyl MOU

The G-7 are fully committed to implementing the Memorandum of Understanding (MOU) with Ukraine to support the closure of Chornobyl. To date, over $1.55 billion in projects have been approved, both to ensure adequate generating capacity to meet Ukraine's electricity demand and to promote nuclear safety.[1] This paper reviews the status of programs under the MOU on the closure of Chornobyl designed to help Ukraine meet its power demand now and beyond the closure of the plant by the year 2000 and to transform the sarcophagus over unit 4 into a stable a safe structure.

Power Sector Reform and the Chornobyl MOU

Ukraine and the G-7 committed in their MOU on Chornobyl to work together to create a viable and competitive power sector that meets Ukraine's electricity demand in a safe and environmentally sound way. The MOU's focus is therefore broader than simply compensating for the power generated by Chornobyl (since the closure of Chornobyl unit 1 in 1996, about 1,000 megawatts out of a peak demand of 30,000 megawatts). The G-7 committed to help Ukraine reform its power sector and develop and finance the most cost-effective investments to meet electricity needs in the context of a competitive electricity market. In this way, the MOU will address both the impact of closing Chornobyl and the urgent need to support far-reaching reforms in a vastly inefficient energy sector inherited from the Soviet Union.

Energy reforms, and in particular reform of the electricity sector, are key for several reasons. First, Ukraine must reduce fuel consumption in order to improve the international competitiveness of its economy. Second, creating market forces to guide the use of energy resources is the strongest incentive for efficiency and will have the greatest impact on reducing Ukraine's dependence on fuel imports. Third, improved financial administration in the energy sector is essential to collect overdue bills and create financial flows that allow power-generating plants to purchase fuel and maintain equipment. Fourth, these conditions – international competitiveness, market prices, reliable revenue flows – are essential to attract private investment and create the repayment capacity needed to justify loans from the international financial institutions.

Ukraine's Current Power-Generating Capacity

The Chornobyl MOU was designed in the context of Ukraine's current power-generating capacity. According to official Ukrainian data, Ukraine has 52,000 megawatts of installed generating capacity. Current peak demand in Ukraine is estimated at 30,000 megawatts. Under optimistic projections, peak demand is estimated at 31,000 megawatts by the year 2000 and at about 46,000 megawatts by 2010. At present, one

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[1] Total approved projects include $798 million for fuel supply projects, $227 million for power supply projects and $550 million for nuclear safety.

reactor is operating at Chornobyl that produces approximately 700 megawatts. In 1996, nuclear plants generated about half of Ukraine's electricity, with thermal and hydro plants generating the other half. These "power balances" indicate that Ukraine theoretically would have adequate power-generating capacity to meet its electricity requirements in 2000.

That said, Ukraine has had serious problems in recent years meeting electricity demand during peak periods. Two issues are key:

1. *Fuel Availability.* Financial weaknesses in Ukraine's electricity system (low prices, poor collection) have compromised the ability of generating companies to purchase fuel for existing plants and reduced incentives for domestic fuel production. This suggests that programs to reform the power system, finance fuel imports, increase domestic fuel production and reduce fuel consumption would contribute directly to meeting Ukraine's electricity needs.

2. *Generating Efficiency.* Many of Ukraine's power plants are old, inefficient and need to be replaced, retired or rehabilitated. Whether and when they are replaced depends on future energy demand and the most cost-effective and environmentally sound way to meet it. Since the cost of new power investments must be reflected in tariffs charged to consumers, it is in Ukraine's interest to select investments that provide reliable power at the lowest possible cost.

The following analysis explains how these two issues are addressed in the MOU through G-7 and international financial institution support for Ukraine's energy sector.

Fuel Availability

Four steps are key to improving Ukraine's capacity to purchase fuel to ensure that it can generate sufficient power to meet demand.

1. *Electricity Market Reform.* Expert analyses show that market reforms that introduce price incentives for efficient fuel use will have the most profound short- and medium-term impact on curbing Ukraine's fuel import dependence. Financial reforms to collect electricity bills are also essential to generate revenue to purchase fuel and maintain and modernize plants and the transmission system. Over $370 million in projects shown in Table 1 have been approved to help Ukraine improve its electricity market. However, as of late July 1997, these loans were suspended when Ukraine did not introduce a scheduled increase in retail electricity prices.

2. *International Support for Economic Reform.* Balance-of-payments requirements calculated by the IMF take into account Ukraine's fossil fuel import needs and will continue to do so in the future. When Ukraine moves forward with comprehensive reforms, the international community will work to help finance imports needed to allow reforms to move forward. Although much of a $3.5 billion package supported by donors

in December 1996 has been deferred until Ukraine can act on key reforms, the full program can be quickly activated. Meanwhile, interim support for fiscal reform progress will be made available through an IMF Stand-By Agreement.

3. *Ukrainian Fuel Production.* Table 1 indicates that almost $325 million in projects are underway to support Ukrainian coal, oil and gas production, and that another $300 million in coal and gas projects are under consideration or preparation. In addition, the World Bank, EBRD, EU, United Kingdom and United States are participating with Ukraine in a comprehensive effort to reform the gas sector.

Table 1
Fuel Supply Projects
($ millions)

	Approved	Preparation	Consideration
Ukrainian Fuel Production			
• Coal Sector Restructuring	300		
• Coal Pilot Project	15		
• Poltava Oil and Gas	8		
• Coal Mining Improvement		100	
• Gas Sector Adjustment			200
Subtotal	323	100	200
Electricity Market			
• Electricity Market – IBRD	317		
• Electricity Market – EBRD	55		
Subtotal	372		
Energy Efficiency			
• Gas Metering	80		
• Demand Side Management	23		
• Kiev District Heat		110	
• Sevastopol Heat Supply			40
• Efficiency in Public Buildings			50
Subtotal	103	110	90
Totals	798	210	290

4. *Energy Efficiency.* Table 1 also summarizes over $100 million in approved energy efficiency projects and another $200 million in projects under preparation or consideration. Projects to improve efficiency in heating are just as important as electricity efficiency since they will reduce the demand for fuel to produce heat and allow it to be available for electricity generation.

Generating Efficiency

As indicated in Table 2, $227 million in power supply projects have been approved

under the MOU, and another $1.4 billion are under preparation or consideration. Basic requirements for approving such projects are that they be good economic (i.e., least-cost) investments, financially viable and environmentally sound. Nuclear projects must also meet internationally acceptable safety standards.

Table 2
Ukraine Power Supply Projects
($ millions)

	Approved	Preparation	Consideration
Hydropower Rehabilitation	114		
Starobeshvo IV Thermal	113		
Krivoy Rog Thermal		160	
Dniester Pump Storage		260	
Lugansk Thermal			180
Rivne 4 Nuclear		420	
Khmelnitsky 2 Nuclear		420	
Totals	227	1,260	180

Ukraine must assess several tradeoffs as it considers power investments: is Ukraine better off investing in new power plants, rehabilitating existing plants, continuing to use existing plants, or some combination of these? These decisions partly depend on the environmental compliance of the existing plants and on the growth of power demand; the faster demand grows, the more likely that new plants will prove good investments. If demand remains low, Ukraine may be best off using the most efficient of its current plants and deferring new investments. Certain energy efficiency and thermal rehabilitation investments are likely to make sense under most demand scenarios. The key issue affecting demand is Ukraine's economic recovery. Although Ukraine's economy was expected to grow in 1997, GDP contracted over 5 percent in the first half of 1997.

Financing for the Rivne 4 (R4) and Khemelnitsky 2 (K2) projects, if approved, would likely be provided by Ukraine, EURATOM, the EBRD and possibly bilateral export credit agencies. EBRD has a major role in completing the economic, financial, environmental and safety analyses. The least-cost and financial analyses will be key to approval:

1. *Least-Cost.* Two initial analyses on the R4/K2 plants reached contradictory results. One report supported completing the reactors but did not take into account tradeoffs with energy-efficiency projects; the second report rejected the reactors but did not use a traditional least cost approach and especially did not provide evidence that the alternative measures proposed comprise the optimal least-cost plan for meeting Ukraine's future demand for power. Given these concerns, the G-7 sponsored a supplemental analysis that indicated that completing one reactor or a phasing of the two reactors over time appeared to be least-cost under the World Bank's medium demand growth forecast. However, Ukraine's economic circumstances bring into question the demand projections used in the analyses. The EBRD study needs to be substantiated further and the United States has agreed to fund additional analysis to

address these and other questions to allow EBRD to determine whether the reactors meet its least-cost requirements. Should one or both reactors meet the EBRD's requirements, the G-7 will support their completion.

2. *Financial Viability.* Ukraine's decision in late July to defer an increase in retail electricity prices led the World Bank to suspend its $317 million electricity market loan and could seriously jeopardize the financial viability of potential loans for the R4/K2 reactors. Without this increase, Ukraine's generating companies cannot cover operating and maintenance costs, much less recoup new investments. In order for EBRD to approve a loan for these reactors, it must be confident that the nuclear generating company will collect the revenues needed to repay the loan.

The Chornobyl Sarcophagus

As indicated in Table 3, total funding committed thus far for nuclear safety activities under the MOU is $550 million. Since the signing of the MOU, Ukraine and the G-7 agreed upon a new $750 million project -- the Shelter Implementation Plan (SIP) -- to transform the Chornobyl sarcophagus into a safer and more environmentally stable structure. The largest portion of the commitments for nuclear safety is the $300 million that the G-7 have pledged toward the SIP.

Table 3
Nuclear Safety Projects
($ millions)

	Approved	Preparation	Consideration
Shelter Implementation Plan (SIP)	300[2]		
Decommissioning of Chornobyl	144	13	
Chornobyl S-term Safety Upgrades	34		
Operational Safety Upgrades	72		
Totals	550	13	

The EBRD has agreed to establish a special fund for international contributions and to manage implementation of the SIP. The G-7 and Ukraine will host an international conference, for which President Kuchma and Vice President Gore will serve as the honorary chairs, to begin a process of obtaining international funding commitments for the SIP aimed at ensuring overall funding for this project. Since the Denver Summit, the G-7 and the EBRD have begun to mobilize support for the sarcophagus pledging conference. The conference will be November 20 in New York, on the margins of the United Nations General Assembly (UNGA). The Ukrainian contribution of $50 million to the SIP, as well as an additional $100 million in support of the SIP, will be important to the success of that conference.

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[2] This figure represents $300 million pledged out of a $750 million approved project.

To promote the sarcophagus project U.S. and other G-7 and Ukrainian ambassadors have been briefed on the SIP and are approaching other governments to participate at the pledging conference. U.S., G-7 and Ukrainian delegates to UNGA and the International Atomic Energy Agency (IAEA) General Conference (GC) are approaching other governments about the pledging conference. We succeeded in getting the IAEA GC to support an important resolution calling on member states to join us at the pledging conference.

The EBRD has begun advertising and distributing the SIP in response to widespread international commercial interest in its projects. An expert team has drafted technical specifications for the early biddable projects under the SIP. These specifications are currently being reviewed by the Ukrainian Nuclear Regulatory Authority and Chornobyl plant staff. After they are finalized, these projects will be submitted for financial decision to the Shelter Fund Assembly in order to allow the EBRD to begin the tendering process for these projects as soon as possible. The EBRD Board of Directors has been briefed on the SIP, and is expected to approve the Shelter Fund Rules and the Bank's role in administering the project later this month. Even in advance of establishing the Fund, the U.S. and Canada have committed $3.5 million to repair the Chornobyl ventilation stack.

There are important steps that Ukraine can take to help ensure the success of the pledging process. Ukrainian ambassadors and high-level officials could approach other governments to encourage them to participate in the pledging conference. Similarly, Ukrainian delegates at pending international conferences can use other fora to emphasize the importance of this initiative. Minister Udovenko, as president of the 1997 UNGA, has an excellent opportunity to underscore the importance of the SIP and the need for a common international effort to support the project. Ukrainian delegates at the IAEA conference can also add their voices to those of G-7 delegates speaking on behalf of the sarcophagus project. Within Ukraine, the Rada's quick approval of the EBRD Framework Agreement for the SIP is critical to the EBRD's ability to begin work on the sarcophagus project this year.

Conclusions

- Electricity market reforms, including increased tariffs and improved revenue collection, are essential to improve the financial standing of the electricity sector -- and to finance fuel purchases. These are the most important factors affecting short-term electricity supply as well as investments.

- As Ukraine moves forward with reform, donor-financed balance-of-payments support can help in the interim to meet fuel import requirements.

- In this context, the G-7/Ukraine MOU appropriately takes a broad approach that addresses fuel needs, energy efficiency, nuclear safety, market reforms and power investments.

- Increased retail electricity prices and revenue collections will be key to securing the

financial viability of any new power investment investments, including the R4/K2 reactors.

- If one or both of the R4/K2 reactors is consistent with the EBRD's economic, financial, environmental and safety requirements, the G-7 will fully support EBRD financing for the completion of these plants.

- Ukraine and the G-7 will need to continue to work closely together to secure the success of the Shelter Implementation Plan for the Chornobyl sarcophagus.

FAXED HMT + FCO 22/10

EUROPEAN COMMISSION
Cabinet of the President

Head of Cabinet

Brussels, 22 October, 1997
D(97) 86228

File

Dear Dan,

Thank you for your letter of 16 October regarding the funding levels for the Chernobyl Sarcophagus. I am glad that an agreement apparently has been found at the level of the Finance deputies.

As regards presentation of the contributions, I would like to insist that the European Union's contribution of US$ 100 million be brought out explicitly. To this end, I would suggest to add a line to the table, either after "Non G-7 EU" or at the bottom, reading as follows:

PM: Total EU 100.

Furthermore, I suggest to complete the footnote as follows: "*Numbers in parentheses are bilateral contributions,* ***i.e. excluding the apportioned part of the EU contribution***"..

I am copying this letter to G7 Sherpas.

Jim CLOOS

Mr. Daniel Tarullo
Deputy Assistant to the President
for Economic Policy
White House
Washington DC 20520

Rue de la Loi 200, B-1049 Brussels, Belgium - Office: BREY 12/74
Telephone: direct line (+32-2)295.98.49 exchange 299.11.11 - Fax: 296.02.11
Telex: COMEU B 21877 - Telegraphic address: COMEUR Brussels

(180)

G7 SHERPA CORRESPONDENCE

1. Fax of Mr Hurst, DTI — grateful draft response by noon on Friday.
2. cc Mr Budd
Mr de Fonblanque
Mr Westcott, EFDD
Mr Lyscom, EBED
Mr Faunt, DFID
3. R on MFS 166/1 + BU on Friday. Monday. - well

MFS 166/001/97

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THE WHITE HOUSE
WASHINGTON
October 17, 1997

Dear Colleagues:

At Don's suggestion, I am recirculating the revised draft of the letter to President Kuchma on R4/K2 and closing Chornobyl by the year 2000.

I have incorporated most of your suggestions. There is one key difference on how we frame the G-7's views on EBRD financing for one or both of the R4/K2 reactors. Jean-David, Jurgen and Jim suggest an unequivocal statement that the analyses under way "*will determine* that completing one or both of the reactors is consistent with EBRD requirements, *thus allowing* the G-7 to lend full support to EBRD financing." The alternative formulation is to state that the analyses "will determine *whether*" the reactors are viable and "*if so*, the G-7 will lend full support."

UK supports this.

We have not included the more definitive formulation for two reasons. First, it suggests that the G-7 have reached a decision before the EBRD has completed its analysis. This is not the U.S. position and perhaps not that of some other G-7 members as well. Second, the EBRD's decision on R4/K2 will also be based on the financial viability of these loans. We have discussed this directly with EBRD First Vice President Charles Frank: if a decision were to be made today, the EBRD would reject the projects. With the share of cash as a percentage of electricity revenue hovering around ten percent, the EBRD cannot consider new loans to Ukraine for electricity plants. The World Bank suspended its electricity market loan, taking exactly the same position. It would be misleading to President Kuchma to suggest otherwise.

To address these differences and clarify our message, we have tried a different presentation. As you will see in the attached draft, we suggest ending the paragraph on cost-effectiveness/least-cost after noting that additional work will be completed. The paragraph stating our concerns over the financial status of the electricity sector would follow. We then conclude this discussion with a new paragraph indicating that the G-7 would support EBRD financing if these issues are satisfactorily resolved.

Several of you questioned whether the least-cost analysis requires a second phase of fieldwork. I understand this issue was addressed by the NSWG and it agreed that all efforts should be made to complete the analysis in one phase, but if the results of the first phase are ambiguous, then a second phase would need to be completed by next spring. Since the field work would be done during the time Ukraine is taking steps to address the financial viability of the electricity sector, this would not result in a net loss in time. EBRD Vice President Frank affirmed to us that he supports this position. He also indicated that he will hold in November a high-level review with Ukraine and all the key analysts and companies engaged in feasibility work. We think that this is a constructive step to engage Ukraine and have noted this in the letter to President Kuchma.

I hope we can agree on this letter in the coming week. I will soon circulate a draft letter to EBRD President de Larosiere that can include the letter to President Kuchma as an attachment.

Sincerely,

Daniel K. Tarullo

Dear Leonid:

It was an honor and a pleasure to participate in the signing ceremony of the NATO-Ukraine Charter. The event marked an historic moment in Ukraine's integration with Europe, and the ties we established will serve the interests of Ukraine, Europe and North America for years to come. I enjoyed, as well, the chance to see you in September.

I promised at our earlier meetings to return to your concerns on financing for the Rivne and Khmelnitsky nuclear plants. Allow me to take this opportunity to respond on behalf of the G-7 leaders to the letter you sent us before the Denver Summit. We asked our energy experts to prepare the attached paper on progress under the Memorandum of Understanding (MOU) on the closure of Chornobyl nuclear power plant, with a special focus on projects that help Ukraine meet electricity demand now and beyond the closure of the plant by the year 2000.

Before addressing the MOU, let me extend the G-7's appreciation for the resolute way in which Ukraine has reacted to the recommendations in the recent report by the World Association of Nuclear Operators. We all read with concern the conclusions reached on inadequate safety practices at Chornobyl's unit 3. The commitment Ukraine has demonstrated to undertake a thorough review of unit 3 and to discuss its findings with the International Atomic Energy Agency is an important first step toward ensuring that adequate measures are taken to make the plant safe before it is brought on line following the current maintenance period.

International safety concerns at Chornobyl underscore the need for rapid progress in implementing the MOU. Since Ukraine and the G-7 signed this landmark document, $1 billion dollars for fuel supply, power and energy efficiency projects and about $550 million in grants for the Chornobyl sarcophagus and to decommission the Chornobyl reactors have been mobilized. Many other projects are under preparation or consideration.

As you pointed out, our cooperation goes beyond the specific issues of Chornobyl to support the development of a competitive power sector. As you know, Ukraine has reported its installed power-generating capacity at over 50,000 megawatts, which far exceeds its peak demand. To be sure, not all of this capacity may be available, but it suggests that the challenge before Ukraine is not simply to build more power plants, but to determine which new investments will contribute to meeting Ukraine's power needs in the most cost-effective and environmentally sound way. Taking up this challenge is of the greatest importance to the success of Ukraine's energy sector reforms and to secure international financing for energy investments.

Regarding the Rivne and Khmelnitsky reactors, a key issue that must be addressed to secure international financing is whether these projects meet the test of being cost-effective and environmentally sound investments. In order to complement previous cost-effectiveness analyses, my government, with the full support of the G-7, is funding additional analysis that will help the EBRD, with your assistance, reach the best conclusion on these projects. The first phase of this analysis will be completed this fall. We understand from the EBRD that the bank will hold a major progress review in November that will include Ukraine and all the major analysts and companies engaged in the feasibility work. This is a constructive step. If the phase 1 conclusions of the cost-effectiveness study are not clear, a second phase involving fieldwork in Ukraine will be completed by next spring. I hope your experts will cooperate fully in this process. 6

It is also essential that Ukraine demonstrate to the EBRD and other lenders that your nuclear utility has the revenue to repay loans for the reactors. Several measures could make a crucial difference: particularly improving cash collection for electricity bills and establishing a clear process for future tariff adjustments based on market principles. Such steps could help overcome the financial concerns raised by the continued low rates of revenue collection that jeopardize the financial viability of investments in the electricity sector and Ukraine's ability to maintain existing plants. The coming months will be critical in demonstrating that Ukraine's electricity sector has been placed on firm financial ground. 7

The G-7 understand fully your interest in reaching a final conclusion as quickly as possible. In our approach to this issue we have taken into account your concerns, the EBRD's requirements and steps that would affect a positive outcome on the Rivne and Khmelnitsky loans. Given current fiscal problems in the electricity sector, a decision on the financial viability of these loans is best deferred. The additional work on the cost-effectiveness analysis will be completed during this time and will not further delay a final outcome. We expect that this analysis, complementary work under way by the EBRD in other areas and the steps Ukraine takes to improve the financial standing of the electricity sector will determine whether completing one or both of the reactors is consistent with EBRD requirements; if so, the G-7 will lend full support to EBRD financing. 8

Turning to the issue of the Chornobyl sarcophagus, we see action accelerating in the coming months. As you know, the original MOU indicated that additional funds would be mobilized as new projects were identified and proved viable. In this spirit, the G-7 launched the process of mobilizing international contributions with a $300 million pledge at the Denver Summit, and we called on the international community to participate in a pledging conference this fall to raise needed funds. 9

In view of the upcoming conference, Ukraine's announcement of its contribution of $50 million to the Shelter Implementation Plan (SIP) and $100 million in support of the SIP will be important to the success of the conference. I am pleased to tell you that prior to the Chornobyl Sarcophagus Fund being established, the G-7 has agreed to finance the urgent task of fixing the crumbling ventilation stack this year. Our governments need to work closely together over these next few weeks to ensure the greatest possible success of the fall conference.

Leonid, let me assure you on behalf of the G-7 that we fully share Ukraine's determination to implement the Memorandum of Understanding on the closure of Chornobyl. The $1.55 billion we have already mobilized for the task is a sign of our commitment, and we will continue our efforts. As always, the speed of our progress will depend on our partnership. The faster reforms move ahead, the better the financial climate in Ukraine will be to mobilize new investments, both public and private. We are fully committed to do our part as Ukraine moves ahead with its reforms.

Sincerely,

Status Report on Chernobyl MOU

The G-7 are fully committed to implementing the Memorandum of Understanding (MOU) with Ukraine to support the closure of Chornobyl. To date, over $1.55 billion in projects have been approved, both to ensure adequate generating capacity to meet Ukraine's electricity demand and to promote nuclear safety.[1] This paper reviews the status of programs under the MOU on the closure of Chornobyl designed to help Ukraine meet its power demand now and beyond the closure of the plant by the year 2000 and to transform the sarcophagus over unit 4 into a stable a safe structure.

Power Sector Reform and the Chornobyl MOU

Ukraine and the G-7 committed in their MOU on Chornobyl to work together to create a viable and competitive power sector that meets Ukraine's electricity demand in a safe and environmentally sound way. The MOU's focus is therefore broader than simply compensating for the power generated by Chornobyl (since the closure of Chornobyl unit 1 in 1986, about 1,000 megawatts out of a peak demand of 30,000 megawatts). The G-7 committed to help Ukraine reform its power sector and develop and finance the most cost-effective investments to meet electricity needs in the context of a competitive electricity market. In this way, the MOU will address both the impact of closing Chornobyl and the urgent need to support far-reaching reforms in a vastly inefficient energy sector inherited from the Soviet Union.

Energy reforms, and in particular reform of the electricity sector, are key for several reasons. First, Ukraine must reduce fuel consumption in order to improve the international competitiveness of its economy. Second, creating market forces to guide the use of energy resources is the strongest incentive for efficiency and will have the greatest impact on reducing Ukraine's dependence on fuel imports. Third, improved financial administration in the energy sector is essential to collect overdue bills and create financial flows that allow power-generating plants to purchase fuel and maintain equipment. Fourth, these conditions -- international competitiveness, market prices, reliable revenue flows -- are essential to attract private investment and create the repayment capacity needed to justify loans from the International financial institutions.

Ukraine's Current Power-Generating Capacity

The Chornobyl MOU was designed in the context of Ukraine's current power-generating capacity. According to official Ukrainian data, Ukraine has 52,000 megawatts of installed generating capacity. Current peak demand in Ukraine is estimated at 30,000 megawatts. Under optimistic projections, peak demand is estimated at 31,000 megawatts by the year 2000 and at about 46,000 megawatts by 2010. At present, one

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[1] Total approved projects include $798 million for fuel supply projects, $227 million for power supply projects and $550 million for nuclear safety.

reactor is operating at Chornobyl that produces approximately 700 megawatts. In 1996, nuclear plants generated about half of Ukraine's electricity, with thermal and hydro plants generating the other half. These "power balances" indicate that Ukraine theoretically would have adequate power-generating capacity to meet its electricity requirements in 2000.

That said, Ukraine has had serious problems in recent years: meeting electricity demand during peak periods. Two issues are key:

1. *Fuel Availability.* Financial weaknesses in Ukraine's electricity system (low prices, poor collection) have compromised the ability of generating companies to purchase fuel for existing plants and reduced incentives for domestic fuel production. This suggests that programs to reform the power system, finance fuel imports, increase domestic fuel production and reduce fuel consumption would contribute directly to meeting Ukraine's electricity needs.

2. *Generating Efficiency.* Many of Ukraine's power plants are old, inefficient and need to be replaced, retired or rehabilitated. Whether and when they are replaced depends on future energy demand and the most cost-effective and environmentally sound way to meet it. Since the cost of new power investments must be reflected in tariffs charged to consumers, it is in Ukraine's interest to select investments that provide reliable power at the lowest possible cost.

The following analysis explains how these two issues are addressed in the MOU through G-7 and international financial institution support for Ukraine's energy sector.

Fuel Availability

Four steps are key to improving Ukraine's capacity to purchase fuel to ensure that it can generate sufficient power to meet demand.

1. *Electricity Market Reform.* Expert analyses show that market reforms that introduce price incentives for efficient fuel use will have the most profound short- and medium-term impact on curbing Ukraine's fuel import dependence. Financial reforms to collect electricity bills are also essential to generate revenue to purchase fuel and maintain and modernize plants and the transmission system. Over $370 million in projects shown in Table 1 have been approved to help Ukraine improve its electricity market. However, as of late July 1997, these loans were suspended when Ukraine did not introduce a scheduled increase in retail electricity prices.

2. *International Support for Economic Reform.* Balance-of-payments requirements calculated by the IMF take into account Ukraine's fossil fuel import needs and will continue to do so in the future. When Ukraine moves forward with comprehensive reforms, the international community will work to help finance imports needed to allow reforms to move forward. Although much of a $3.5 billion package supported by donors

in December 1996 has been deferred until Ukraine can act on key reforms, the full program can be quickly activated. Meanwhile, interim support for fiscal reform progress will be made available through an IMF Stand-By Agreement

3. *Ukrainian Fuel Production.* Table 1 indicates that almost $325 million in projects are underway to support Ukrainian coal, oil and gas production, and that another $300 million in coal and gas projects are under consideration or preparation. In addition, the World Bank, EBRD, EU, United Kingdom and United States are participating with Ukraine in a comprehensive effort to reform the gas sector.

Table 1
Fuel Supply Projects
($ millions)

	Approved	Preparation	Consideration
Ukrainian Fuel Production			
• Coal Sector Restructuring	300		
• Coal Pilot Project	15		
• Poltava Oil and Gas	8		
• Coal Mining Improvement		100	
• Gas Sector Adjustment			200
Subtotal	323	100	200
Electricity Market			
• Electricity Market – IBRD	317		
• Electricity Market – EBRD	55		
Subtotal	372		
Energy Efficiency			
• Gas Metering	80		
• Demand Side Management	23		
• Kiev District Heat		110	
• Sevastopol Heat Supply			40
• Efficiency in Public Buildings			50
Subtotal	103	110	90
Totals	798	210	290

4. *Energy Efficiency.* Table 1 also summarizes over $100 million in approved energy efficiency projects and another $200 million in projects under preparation or consideration. Projects to improve efficiency in heating are just as important as electricity efficiency since they will reduce the demand for fuel to produce heat and allow it to be available for electricity generation.

Generating Efficiency

As indicated in Table 2, $227 million in power supply projects have been approved

under the MOU, and another $1.4 billion are under preparation or consideration. Basic requirements for approving such projects are that they be good economic (i.e., least-cost) investments, financially viable and environmentally sound. Nuclear projects must also meet internationally acceptable safety standards.

Table 2
Ukraine Power Supply Projects
($ millions)

	Approved	Preparation	Consideration
Hydropower Rehabilitation	114		
Starobeshve IV Thermal	113		
Krivoy Rog Thermal		160	
Dniester Pump Storage		260	
Luganak Thermal			180
Rivne 4 Nuclear		420	
Khmelnitsky 2 Nuclear		420	
Totals	227	1,260	180

Ukraine must assess several tradeoffs as it considers power investments: is Ukraine better off investing in new power plants, rehabilitating existing plants, continuing to use existing plants, or some combination of these? These decisions partly depend on the environmental compliance of the existing plants and on the growth of power demand: the faster demand grows, the more likely that new plants will prove good investments. If demand remains low, Ukraine may be best off using the most efficient of its current plants and deferring new investments. Certain energy efficiency and thermal rehabilitation investments are likely to make sense under most demand scenarios. The key issue affecting demand is Ukraine's economic recovery. Although Ukraine's economy was expected to grow in 1997, GDP contracted over 5 percent in the first half of 1997.

Financing for the Rivne 4 (R4) and Khemelnitsky 2 (K2) projects, if approved, would likely be provided by Ukraine, EURATOM, the EBRD and possibly bilateral export credit agencies. EBRD has a major role in completing the economic, financial, environmental and safety analyses. The least-cost and financial analyses will be key to approval:

1. *Least-Cost.* Two initial analyses on the R4/K2 plants reached contradictory results. One report supported completing the reactors but did not take into account tradeoffs with energy-efficiency projects; the second report rejected the reactors but did not use a traditional least cost approach and especially did not provide evidence that the alternative measures proposed comprise the optimal least-cost plan for meeting Ukraine's future demand for power. Given these concerns, the G-7 sponsored a supplemental analysis that indicated that completing one reactor or a phasing of the two reactors over time appeared to be least-cost under the World Bank's medium demand growth forecast. However, Ukraine's economic circumstances bring into question the demand projections used in the analyses. The EBRD study needs to be substantiated further and the United States has agreed to fund additional analysis to

address these and other questions to allow EBRD to determine whether the reactors meet its least-cost requirements. Should one or both reactors meet the EBRD's requirements, the G-7 will support their completion.

2. *Financial Viability.* Ukraine's decision in late July to defer an increase in retail electricity prices led the World Bank to suspend its $317 million electricity market loan and could seriously jeopardize the financial viability of potential loans for the R4/K2 reactors. Without this increase, Ukraine's generating companies cannot cover operating and maintenance costs, much less recoup new investments. In order for EBRD to approve a loan for these reactors, it must be confident that the nuclear generating company will collect the revenues needed to repay the loan.

The Chornobyl Sarcophagus

As indicated in Table 3, total funding committed thus far for nuclear safety activities under the MOU is $550 million. Since the signing of the MOU, Ukraine and the G-7 agreed upon a new $750 million project -- the Shelter Implementation Plan (SIP) -- to transform the Chornobyl sarcophagus into a safer and more environmentally stable structure. The largest portion of the commitments for nuclear safety is the $300 million that the G-7 have pledged toward the SIP.

Table 3
Nuclear Safety Projects
($ millions)

	Approved	Preparation	Consideration
Shelter Implementation Plan (SIP)	300[3]		
Decommissioning of Chornobyl	144	13	
Chornobyl S-term Safety Upgrades	34		
Operational Safety Upgrades	72		
Totals	550	13	

The EBRD has agreed to establish a special fund for international contributions and to manage implementation of the SIP. The G-7 and Ukraine will host an international conference, for which President Kuchma and Vice President Gore will serve as the honorary chairs, to begin a process of obtaining international funding commitments for the SIP aimed at ensuring overall funding for this project. Since the Denver Summit, the G-7 and the EBRD have begun to mobilize support for the sarcophagus pledging conference. The conference will be November 20 in New York, on the margins of the United Nations General Assembly (UNGA). The Ukrainian contribution of $50 million to the SIP, as well as an additional $100 million in support of the SIP, will be important to the success of that conference.

[3] This figure represents $300 million pledged out of a $750 million approved project.

To promote the sarcophagus project U.S. and other G-7 and Ukrainian ambassadors have been briefed on the SIP and are approaching other governments to participate at the pledging conference. U.S., G-7 and Ukrainian delegates to UNGA and the International Atomic Energy Agency (IAEA) General Conference (GC) are approaching other governments about the pledging conference. We succeeded in getting the IAEA GC to support an important resolution calling on member states to join us at the pledging conference.

The EBRD has begun advertising and distributing the SIP in response to widespread international commercial interest in its projects. An expert team has drafted technical specifications for the early biddable projects under the SIP. These specifications are currently being reviewed by the Ukrainian Nuclear Regulatory Authority and Chornobyl plant staff. After they are finalized, these projects will be submitted for financial decision to the Shelter Fund Assembly in order to allow the EBRD to begin the tendering process for these projects as soon as possible. The EBRD Board of Directors has been briefed on the SIP, and is expected to approve the Shelter Fund Rules and the Bank's role in administering the project later this month. Even in advance of establishing the Fund, the U.S. and Canada have committed $3.5 million to repair the Chornobyl ventilation stack.

There are important steps that Ukraine can take to help ensure the success of the pledging process. Ukrainian ambassadors and high-level officials could approach other governments to encourage them to participate in the pledging conference. Similarly, Ukrainian delegates at pending international conferences can use other fora to emphasize the importance of this initiative. Minister Udovenko, as president of the 1997 UNGA, has an excellent opportunity to underscore the importance of the SIP and the need for a common international effort to support the project. Ukrainian delegates at the IAEA conference can also add their voices to those of G-7 delegates speaking on behalf of the sarcophagus project. Within Ukraine, the Rada's quick approval of the EBRD Framework Agreement for the SIP is critical to the EBRD's ability to begin work on the sarcophagus project this year.

Conclusions

- Electricity market reforms, including increased tariffs and improved revenue collection, are essential to improve the financial standing of the electricity sector -- and to finance fuel purchases. These are the most important factors affecting short-term electricity supply as well as investments.

- As Ukraine moves forward with reform, donor-financed balance-of-payments support can help in the interim to meet fuel import requirements.

- In this context, the G-7/Ukraine MOU appropriately takes a broad approach that addresses fuel needs, energy efficiency, nuclear safety, market reforms and power investments.

- Increased retail electricity prices and revenue collections will be key to securing the

financial viability of any new power investment investments, including the R4/K2 reactors.

- If one or both of the R4/K2 reactors is consistent with the EBRD's economic, financial, environmental and safety requirements, the G-7 will fully support EBRD financing for the completion of these plants.

- Ukraine and the G-7 will need to continue to work closely together to secure the success of the Shelter Implementation Plan for the Chornobyl sarcophagus.

1. John JH 20/7.
I agree not for the speech. But I think we could probably get the PM to refer to it at some point in the Executive Sessions and ensure it features in the communiqué.
I'll warn FCO. PS
2. back to Philip
Not sure it is right for the speech but the cause is good. What do you think? JH 17/x.

John Holmes
10 Downing Street
London
SW1
(BY FAX)

Department of Trade and Industry
1 Victoria Street
London SW1H OET

Enquiries
0171-215 5000

Fax 0171-215 2845

Direct line 0171-215 2897
Our ref
Your ref
Date 17 October 1997

Dear John,

CHERNOBYL SARCOPHAGUS: COMMONWEALTH HEADS OF GOVERNEMENT MEETING

During our G7 presidency next year we will want to show good progress on nuclear safety issues and notably the Chernobyl sarcophagus initiative. The current state of play is that the Americans have decided on 20 November in New York for the staging of a "pledging conference". Vice President Gore will co-chair. The G7 have agreed on a concerted diplomatic effort to win the maximum of contributions from the rest of the World (we need £300m). This is desparately short notice but we need to do everything possible to make this a success - otherwise we will inherit a very difficult situation next year.

Could I ask for your help in securing an appropriate reference to this at the forthcoming Commonwealth Heads of Government Meeting (CHOGM)? This is not the occasion to "put the finger" on donors and, obviously, the poorer countries are not likely candidates. But there are quite a few Commonwealth members who are possible donors. These include Australia, South Africa, Singapore and New Zealand, who are all to be invited to the pledging conference. If we do not give some indication of our support for this initiative we will be seen not to have played our part and we will have lost the opportunity to build momentum for 20 November. The Canadians (who, like us, are of course already donors) are keen and may well raise this on their own initiative. This would be embarrasing for us given that we are the CHOGM hosts and the G7 presidency in waiting. This is, of course, "high ground" environmentally.

We could supply a very short reference for inclusion in the Prime Minister's speech and a briefing note to circulate at the Conference.

I am copying this to Mr Peretz and Mr Pickering (HMT), Mr Lever, Mr Lyscom, Ms Nettleton and Mr Hatfull (FCO), Dr Fisk (DETR) and Mr Kerby (DFID).

Yours ever,
Neil Hirst

NEIL HIRST

THE WHITE HOUSE

WASHINGTON
October 16, 1997

Dear Colleagues:

It is my understanding that the following levels of fundir.g for the Chornobyl sarcophagus have been agreed upon by all G-7 members:

	Contribution	(in $ millions)
France	$40.05	(22.25)*
Germany	52.31	(23.61)
Italy	29.22	(16.82)
United Kingdom	28.22	(16.82)
Non G-7 EU	29.70	
Canada	20.00	
Japan	22.50	
United States	78.00	
Total	**$300.00**	

**Numbers in parentheses are bilateral contributions.*

As you will recall, there was a $5 million shortfall in our earlier calculations. We thank Japan for its offer of an additional contribution of $2.5 million to the Chornobyl Shelter Fund. This is indeed "an exceptional and voluntary contribution to the basic allocation of $20 million" which should not be taken as a precedent-setting event or be used for calculating Japan's share of any future funding for Chornobyl-related projects. The remaining shortfall of $2.5 million was shared by other G-7 members, as reflected in the table above. Special thanks are also extended to Canada for increasing its pledge, on an exceptional basis, to $20 million, and to the European Union for its generous contribution of up to ECU 100 million.

I appreciate everyone's efforts on this project.

Sincerely,

Daniel K. Tarullo
Assistant to the President for
International Economic Policy

EUROPEAN COMMISSION
Cabinet of the President

Head of Cabinet

Brussels, 7 October 1997
MM/kva D(97)

By telecopy : 001.202.456 92 80

Telecopy to the attention of Daniel K. TARULLO
Sherpa

Dear Dan,

Thank you very much for your letter, dated 25 September, and the revised draft of a letter from President Clinton to President Kuchma. In view of the fact that we agreed on the desirability of such a letter already before the summer, I will refrain from drafting further suggestions at this point in time. I would like to stress, however, that Jean-David's, Jürgen's and John's comments and drafting suggestions also, to a large extent, reflect my own views on the letter.

I am particularly concerned that a call for yet further studies could be perceived by the Ukraine as delaying tactics on behalf of the G7, thus offering an excuse for not closing Chernobyl by the year 2000. Also for this reason, I share Jürgen's doubts about the usefulness for a phase II of the ongoing study financed by the US. As we all know, the least-cost character of the R4/K2 project also depends to a significant degree on future developments like economic growth in the Ukraine or world market prices for fossil fuels, to name but two. No in depth study of existing Ukrainian power plants will allow the inherent uncertainty to be removed. At some stage, the EBRD will simply have to take a decision, taking account of these uncertainties. In my view, it is precisely in this context that a phased approach has its appeal.

I am copying this letter to G7 Sherpa colleagues.

Yours sincerely,

Jim CLOOS

Rue de la Loi 200, B-1049 Bruxelles/Wetstraat 200, B-1049 Brussel - Belgium - Office: BREY 12/78.
Telephone: direct line (+32-2)2959849, exchange 299.11.11. Fax: 2960211.
Telex: COMEU B 21877. Telegraphic address: COMEUR Brussels.

Internet: jim.cloos@cab.cec.be

MINISTRY OF FOREIGN AFFAIRS
TOKYO, JAPAN

File

October 7, 1997

Dear Dan,

Thank you for your letter dated September 25 concerning the revised draft of President Clinton's letter to President Kuchma. The revised draft contains many improvements and clarifications. I appreciate your efforts.

As you proposed, the *"Status Report on Chernobyl MOU"* should be attached to the letter, and, I would like to make some comments on both the revised letter and the attachment. I also support your idea of sending EBRD President Mr. de Larosiere, a copy of the attached letter after it is delivered to President Kuchma.

Comments on the Letter

Paragraph 2

The objective of the MOU, closure of Chernobyl by the year 2000, should be mentioned clearly in the paragraph. Accordingly, as Jean-David has already proposed, the last sentence should be modified as follows;

> ...Chernobyl nuclear power plant, with a special focus on projects that help Ukraine meet electricity demand now and beyond the closure of the plant by the year 2000.

Paragraph 5

I also agree with Jean-David's comment to delete "immediately" in the third sentence.

Paragraph 6

As for the third sentence, "A technical team will be coming to Ukraine this fall .," we should wait for the G7NSWG's decision on the necessity of phase 2 of the study.

Regarding the last sentence, I support Dan's perception on the MOU and the original language. Therefore, I suggest that the last sentence remain as follows;

> ...under way by the EBRD in other areas will determine whether completing one or both of the reactors is consistent with EBRD requirements; if so, the G-7 will lend full support to EBRD financing.

Comments on Attachment

Introduction

As I suggested in the draft letter, I agree with Jean-David's modification as follows:

...to help Ukraine meet its ~~current and future~~ power demand now and beyond the closure of the plant by the year 2000 and to stabilize...

The Chernobyl Sarcophagus

Paragraph 2

Now that the date of the International Pledging Conference for the chernobyl Shelter is now set on November 20, "November" in the last sentence should be changed to "November 20"

Paragraph 4

I support Jean-David's proposal that we should clarify the respective roles of the Assembly of contributors and of the EBRD in the decision process of the Shelter Fund. Therefore, the forth sentence should be changed as Jean-David modified;

After they are finalized, these projects will be submitted for financial decision to the Shelter Fund Assembly in order to allow the EBRD ~~will~~ to begin the tendering process for these projects ~~this fall~~ as soon as possible.

I appreciate your attention.

I am copying this letter to our Sherpa colleagues.

Sincerely yours,

Koichi Haraguchi

Department of Foreign Affairs and International Trade

Deputy Minister

Ministère des Affaires étrangères et du Commerce international

Sous-ministre

OCT - 6 1997

Mr. Daniel K. Tarullo
The White House
Washington, D.C.

Dear Dan:

Thank you for the second draft of the proposed letter on behalf of the G-7 from President Clinton to President Kuchma. Although the draft incorporates many earlier comments, the current situation in Ukraine requires that a few, clear and urgent messages be presented.

It is first and foremost in Ukraine's interest to undertake the urgently needed energy sector reforms. This will then provide the basis on which to build international confidence for energy sector investments and to make possible the planned cooperative measures in support of Ukraine's decision to close the Chornobyl nuclear station by 2000. As agreed in the 1995 Memorandum of Understanding, G-7 countries are continuing to cooperate with Ukraine, to the extent possible in this regard. We therefore want to ensure that President Kuchma is made fully aware of the serious impact that further procrastination with energy sector reforms will have on IFI reactions, and particularly on the EBRD's consideration of a loan for completion of the Khmelnitsky and Rivne (K2R4) nuclear units.

We agree that no G-7 commitment was made to guarantee funding for K2R4 under the G-7 Ukraine MOU, nor was a *quid pro quo* extended to complete the reactors in exchange for Chornobyl's closure. However, Ukraine and the G-7 did agree to work with the IFIs to prepare loan-financed projects for completion of these nuclear units. Ukraine continues to expect this from us. One of the outstanding issues in the least-cost analyses is the extent to which rehabilitated thermal plants could provide reliable power and be cost-effective and environmentally sound. We understand that the second phase of the Stone and Webster study will focus on this point but is not expected to be completed until Spring 1998.

.../2

125 promenade Sussex Drive
Ottawa, K1A 0G2

In all the least-cost analyses to date, including the Surrey Report, it has been indicated that at some point in the future completing K2R4 does represent least cost. The analyses differ on whether that point is reached sooner or later. Perhaps a helpful approach with Ukraine would be for us to acknowledge that at some point after the year 2000, the K2R4 units do merit completion. In any case, a completion date of 2000 seems a most improbable expectation from a practical perspective even if the project were given a green light today.

You are also correct to point out that an EBRD determination at this time would probably not find in favour of completing the reactors based on financial analysis. The EBRD comprehensive due diligence work, which needs to include environmental and safety assessments coupled with completion of phase 2 of the Stone and Webster analysis, requires more time before making a decision. Ukraine should be encouraged to take advantage of this new timeframe to remove or at least improve some of the current negative conditions.

We therefore suggest that the element of when to complete K2R4 be introduced in the proposed letter and that the expected completion date of Spring 1998 for phase 2 of the least-cost analyses be cited specifically.

Given the mixed reaction expressed by Ukrainian officials in response to the recommendations of the World Association of Nuclear Operators, we suggest that the G-7 temper its message somewhat to take into account the actions actually being taken by Ukraine to correct safety conditions at the last Chornobyl nuclear still in service.

In view of the extensive comments you are receiving from G-7 colleagues, I hope that a revised draft can be circulated for comment before finalization. We would then agree that a copy of President Clinton's letter should be copied to Jacques de Larosière at EBRD after it is delivered to President Kuchma.

I am copying this letter to G-7 colleagues.

Yours sincerely,

Donald W. Campbell

FAXED
to G7
Colleagues.
4/10.

10 DOWNING STREET
LONDON SW1A 2AA

From the Principal Private Secretary

3 October 1997

Dear Dan.

Thank you for your letter of 25 September enclosing a revised draft of a letter from President Clinton to President Kuchma.

I have sympathy with many of the points which Jurgen and Jean-David raise in their letters of 1 and 2 October, in particular the need to refer to closure of Chernobyl by 2000. The letter to President Kuchma needs to strike the right balance between emphasising our continued commitment to the MOU and not building up false expectations. In the interest of sending out the letter without further delay, I shall restrict myself to two points:

(i) I suggest deletion of the final sentence of the third paragraph on the WANO report. Despite the care with which this sentence has been drafted, I fear that it might be taken to imply that the MOU confers some form of obligation on the G7 to help Ukraine prepare Unit 3 for a safe re-start following the current maintenance outage;

(ii) I propose that the annex follow the line of the covering letter by including a reference to the expected Ukrainian contribution towards the Shelter Implementation Plan. You may wish to add a sentence at the end of the second paragraph in the section on "The Chernobyl Sarcophagus" to read "The announcement of a Ukrainian contribution to the SIP will be important to the success of that conference". The final conclusion at the end of the annex might then read "A strong contribution from Ukraine and united international efforts involving the G7 will be needed".

With the preparation of the R4/K2 project almost certain to be delayed into the first quarter of next year, I hope that President Clinton's letter can be despatched as soon as possible and, ideally, before next week's Nuclear Safety Working Group meeting in Kiev.

I am copying this letter to G7 colleagues.

JOHN HOLMES

Mr Dan Tarullo
The White House

Foreign &
Commonwealth
Office

London SW1A 2AH

Telephone: 0171

Our reference: MFS 166/1

03 October 1997

John Holmes Esq
10 Downing Street

Dear John,

G7 NUCLEAR SAFETY: CLINTON/KUCHMA LETTER

1. I enclose a draft reply to Dan Tarullo on the Clinton/ Kuchma letter. You may wish to send this out today, to encourage the US to dispatch their letter before the 6 October NSWG meeting in Kiev.

2. We expect the NSWG to settle the G7 shares for the Chernobyl pledging conference (now planned for November). Whitehall Departments have agreed to join a European consensus that the EU share should rise from US$ 177.5 million to US$ 179.5 million. We shall press EU partners to honour a previous agreement to divide the EU share according to the Naples formula. This would increase the UK contribution from US$ 16.32 million to US$ 16.74 million. However, EU partners may argue that the extra US$ 2 million be shared <u>equally</u> between Germany, France, UK and Italy, so increasing the UK share to US$ 16.82. We shall only accept this as a final fall-back in order to get a deal. If the EU agree US$ 179.5 million, we understand the non-EU G7 members are ready to make up the remainder.

Yours,

Catherine

Catherine Nettleton
Economic Financial and Development Department

270-2571

cc: Mr Budd
Mr de Fonblanque
Mr Westcott, EFDD
Mr Lyscom, ESED
Mr Hirst, DTI
Mr Peretz, HMT
Mr Faint, DFID

Dan Tarullo
The White House
Washinton

Thank you for your letter of 25 September enclosing a revised draft of a letter from President Clinton to President Kuchma.

I have sympathy with many of the points which Jurgen and Jean-David raise in their letters of 1 and 2 October, in particular the need to refer to closure of Chernobyl by 2000. The letter to President Kuchma needs to strike the right balance between emphasising our continued commitment to the MOU and not building up false expectations. In the interest of sending out the letter without further delay, I shall restrict myself to two points:

(a) I suggest deletion of the final sentence of the third paragraph on the WANO report. Despite the care with which this sentence has been drafted, I fear that it might be taken to imply that the MoU confers some form of obligation on the G7 to help Ukraine prepare Unit 3 for a safe re-start following the current maintenance outage;

(b) I propose that the annex follow the line of the covering letter by including a reference to the expected Ukrainian contribution towards the Shelter Implementation Plan. You may wish to add a sentence at the end of the second paragraph in the section on "The Chernobyl Sarcophagus" to read "The announcement of a Ukrainian contribution to the SIP will be important to the success of that conference". The final conclusion at the end of the annex might then read "A strong contribution from Ukraine and united international efforts involving the G-7 will be needed".

With the preparation of the R4/K2 project almost certain to be delayed into the first quarter of next year, I hope that President Clinton's letter can be dispatched as soon as possible and, ideally, before next week's Nuclear Safety

Working Group meeting in Kiev. By the same token, this further delay in project preparation probably makes it less important for you to write formally to President de Larosiere at this stage. I am, therefore, content with your proposal that, instead, we could underline our continued commitment to the R4/K2 project by simply sending him a copy of President Clinton's letter.

I am copying this letter to G7 colleagues.

John Holmes

PRÉSIDENCE
DE LA
REPUBLIQUE

Le Conseiller Diplomatique

Paris, October 2nd 1997

FAXED
to (1) David Aaron } PA
(2) Catherine Nettleton } 2/10

Dear Dan,

Thank you for your letter of September 25 circulating a revised version of President Clinton's letter to President Kuchma. I would like to make the following comments on your letter.

Letter - Paragraph 1

Taking into account President Kuchma's statements during his last discussions on the MOU with President Santer, I think it would be useful to clearly refer to the year 2000 for the closure of Chornobyl nuclear power plant. In order to respect the terms and the spirit of the MOU, I suggest modifying the last sentence as follows :

« ... Chornobyl nuclear power plant, with a special focus on projects that help Ukraine meet electricity demand now and beyond the closure of the plant by the year 2000.

Paragraph 5

There is serious doubt as to whether all the power generating capacity could become available. So, I suggest modifying the third sentence as follows :

« To be sure, not all of this capacity may be ~~immediately~~ available, but it suggests... »

Paragraph 6

Regarding the Rivne 4 and Khmelnitski 2 project, I think it is very important to deliver a clear political message to President Kuchma avoiding any misinterpretation. In this respect, I suggest modifying the last sentence as follows :

« We expect this analysis and complementary work under way by the EBRD in other areas will determine ~~whether~~ that completing one or both of the

reactors is consistent with EBRD requirements, ~~if so~~, thus allowing the G7 ~~will to~~ lend full support to EBRD financing ».

Attachment - Introduction

For the same reason as previously indicated, a reference to the closure of Chornobyl nuclear power plant by the year 2000 should be added in this paragraph. So, I suggest modifying the last sentence as follows :

« ... to help Ukraine meet its ~~current and future~~ power demand now and beyond the closure of the plant by the year 2000 and to stabilize... »

Ukraine's Current Power - generating Capacity

Taking into account the uncertainties concerning the power generating capacity and the importance of this issue, I think the text should be strictly factual. In this respect, I suggest modifying the last sentence of paragraph 1 as follows :

« ~~Even under the unlikely scenario that one third of Ukraine's installed generating capacity would become dysfunctional over the next five years,~~ These « power balances » indicate that Ukraine would theoretically have adequate power generating capacity to meet its electricity requirements in 2000.

The Chornobyl Sarcophagus

It is important to clarify in paragraph 4 the respective roles of the Assembly of contributors and of the EBRD in the decision process of the Shelter Fund. Furthermore, the greatest care must be taken in indicating the start of the tendering process. In this respect, I suggest modifying the fourth sentence as follows :

« After they are finalized, these projects will be submitted for financial decision to the Shelter Fund Assembly in order to allow the EBRD ~~will~~ to begin the tendering process for these projects ~~this fall~~ as soon as possible ».

Conclusions

I think the attachment has to be factual, the political messages being delivered in the letter. So I keep thinking it would be better to delete this chapter. If it is retained, I would like bullet 5 to be modified along the line suggested for paragraph 6 of the letter.

Finally, I think the EBRD's restrictive attitude concerning its participation in funding the Rivne 4 and Khmelnitski 2 project and the very special place held by this project in cooperation with Ukraine, make it of the utmost importance to write specifically on this issue, and very soon, to President de Larosière. In my view, sending a copy of this general letter to him would not meet our concerns. I would appreciate if you could circulate as soon as possible a draft of such a letter to President de Larosière.

I am copying this letter to G7 Sherpa colleagues.

Yours Sincerely,

Jean-David

Jean-David LEVITTE

Dr. Jürgen Stark

Staatssekretär im
Bundesministerium der Finanzen
IX B 5 - W 3920 Ukr - 112!/97

53117 Bonn, 1st October 1997

Graurheindorfer Straße 108
Telefon (02 28) 6 82 - 42 93
Telefax (02 28) 6 82 12 44

Mr Daniel Tarullo
Deputy Assistant to the
President for Economic Policy
The White House
Washington, D.C. 20520

U.S.A

Dear Dan:

Thank you for your letter dated 25 September 1997 with the revised draft of President Clinton's letter to President Kuchma.

Before commenting on the details I should like to react to your „clarification" of some possible differences of view among the G 7. In the context of the MOU on the closure of Chernobyl by the year 2000, the G 7 have committed themselves to work with Ukraine and the international financial institutions to prepare loan-financed projects (K2/R4 were explicitly mentioned in the MOU) based upon least-cost planning principles. I consider this to be a contingent G 7 commitment. I am still confident that future work on the preparation of financing decisions will demonstrate that the completion of at least one nuclear power station - if not both - is least-cost. This would also be in line with the discussions of our Leaders at the Denver Summit to which I last referred in my letter of 4 September 1997.

The revised draft of the letter by President Clinton to President Kuchma contains improvements and clarifications; nonetheless I should like to put forward a few suggestions

OKT-97 DO 18:07 ST DR. STARK FAX NR. 4922868212 44 S. 02/06

- In his letter of 19 April 1997 on behalf of the G 7 Leaders President Clinton spelled out the main objective of the MOU, i.e. closure of Chernobyl by the year 2000. This message should be included in this letter as well. Therefore in the penultimate line of paragraph two we should insert "by the year 2000" after "Chernobyl nuclear power plant" since this is indisputably our common political objective.

- The first sentence of para 4should be rephrased: "International safety concerns at Chernobyl underscore the need for rapid progress in impiementing the MOU". In my view the safety concerns described in the WANO report prove right our strategy to close the Chernobyl nuclear power plant by the year 2000.

- In para 6 I do not consider it appropriate to refer vis-à-vis Ukraine to previous studies on the least-cost issue as incomplete. Therefore the first part of the second sentence should read as follows: "In order to complement previous cost-effectiveness analyses ..."

  As regards necessary additional analysis, let me clarify the following: At the last meeting of the G 7 working group in London the G 7 Chair stated that future work on the least cost issue will be carried out in a two-phased approach - including a technical team coming to Ukraine in phase 2 - and that the work will probably only be completed in April 1998. The results of phase 1 are expected for the end of October. The EBRD has stated, however, that phase 2 of this study is not essential because it expects a clear signal on the least-cost issue from a workshop to be held in November 1997. Against this background I am very concerned that the K2/R4 project might be delayed further, if we undertake phase 2 of the analysis. I already referred to possible consequences for the closure of Chernobyl by the year 2000 in my letter of 17 September.

  In view of our commitments given in the MOU and the common G 7 position on the K2/R4 project, I suggest to replace "whether" in the third line from the bottom of this paragraph by "that" as Jean-David already suggested in his letter of 26 August 1997. The last half-sentence starting with "if so ..." should also be deleted and the sentence "we expect that the Bank will soon complete its evaluations of the project and take a financing decision in accordance with the MOU without further delay" be inserted so as not to send a negative signal to Ukraine.

- Para 7 should underline the fact that the Ukraine government has already devised means to resolve the financial problems of the utilities which now need to be implemented. Therefore the phrase in line 7 "Such steps could help" should be substituted by "Your government has already addressed this issue and considered concrete measures to ...".

Since the technical "Status Report on Chernobyl MOU" is to be attached to the letter we should like to make a few specific suggestions which are enclosed.

Yours sincerely,



cc: Messrs. Campbell, Cloos, Haraguchi, Holmes, Levitte, Nigido

Attachment

2 October 1997

German suggestions on the "Status Report on Chernobyl MOU"

Since the report is intended to be a status report on the implementation of the MOU and on the sarcophagus it should not contain any political evaluations. These should be included in the letter to President Kuchma. Therefore the conclusions at the end of the report should be deleted, as Jean-David suggested in his letter of 26 August 1997 because they are included in the letter to the President.

Moreover, the text should be amended as follows:

- **Page 1, para 1**, line 5: Insert "by the year 2000" after "Chernobyl" as I suggested for the letter to President Kuchma. For clarification purposes change the second part of the last sentence to read as follows: „to transform the sarcophagus over unit 4 into a stable and safe structure."

- **Page 1, para 2**: To strengthen the message insert at the end of the first sentence: „in a safe and environmentally sound way."

- **Page 2, para 1**: Delete the last sentence beginning "Even ..." This statement is a rather improbable and unsubstantiated hypothesis which already raised controversies in the Surrey Report.

- The **last paragraph on page 2** should end after ".... forward", i.e. delete the following two sentences. A general reference to IMF support for economic reforms should suffice in this paragraph; in my view reference to the EFF program (with an excessive amount), which was not concluded, and to the Stand-By Agreement is not helpful in connection with the financing of energy imports.

- **Page 4, para 2**: Insert "and completing the far-advanced nuclear power plants K2/R4" after "new power plants" because these plants do not fall under new power plants. In line 7, delete "and deferring new investments" to keep the message more general. For the same reason, delete the next sentence starting "Certain ...".

- **Page 4, last para**: The half-sentence starting in line 3 should be rephrased as follows: "the second report rejected the reactors but did not use a traditional least-cost approach and especially did not provide evidence that the alternative measures proposed comprise the optimal least-cost plan for meeting Ukraine's future demand for power". In this passage, which refers to the Surrey Report, we should take up wording previously agreed among ourselves and underline that the study contains methodological shortcomings.

- **Page 5, para. 1**: Delete the sentence starting "However ..." because the continuing GDP decline in Ukraine should not be cited to Ukraine as the reason for additional analysis. The sentence should therefore be substituted by a more neutral wording. "According to the EBRD the study needs to be substantiated further." The last sentence starting "Should..." should be deleted because the draft reply to President Kuchma already contains a political statement to that effect.

- **Page 5, last para**, line 5: Insert "aimed at ensuring overall funding for this project" after "SIP".

- **Page 6, para. 2**, line 6: delete "this fall" since it is currently open when the tendering process for the SIP project will begin.

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

UCD/
Rome,

Dear Dan,

referring to your letter of September 25th concerning the draft of the letter to President Kuchma, I agree on the test you have proposed.

Yours sincerely

Roberto Nigido

Mr. Daniel TARULLO
Assistant to the President
for Economic Policy
The White House
WASHINGTON D.C.

THE WHITE HOUSE

WASHINGTON

September 25, 1997

Dear Colleagues:

I want to thank you for the constructive suggestions provided on the letter to President Kuchma reporting on the status of programs under the MOU on Chornobyl closure. We also very much appreciated the quick assessment by the NSWG of the recent report on Chornobyl safety done by the World Association of Nuclear Operators. We have reflected these comments in the revised letter and attachment. Let me comment briefly on some of issues raised in your various letters.

Jean David's suggestion to underscore that the MOU is intended to lead to Chornobyl's closure is an important one that we have adopted. We have also taken Jean David's suggestion to revise the attachment to cover the full range of issues under the MOU, particularly to add a section on the sarcophagus. While the format may be a bit different than Jean David suggested, I think you will find that the substance of his comments has been addressed. Although there were some dissenting voices among you on whether we should include the attachment, our experience with Ukraine suggests that it would be important to keep. There is not a good history of sound analytical products flowing upward through the Ukrainian bureaucracy; the attachment is one way to ensure that President Kuchma gets the benefit of our views.

I appreciate the sensitivity some of you indicated about citing Ukrainian Energy Ministry data that suggest that installed power generating capacity exceeds peak demand by 30 percent. For the record, let me clarify that the United States is not advocating the Surrey Report's methodology. We recognize that not all of Ukraine's installed capacity of 52,000 megawatts is functional. But even if one assumes that half of the theoretical excess capacity (after meeting the current peak demand of 30,000 megawatts) is dysfunctional, Ukraine has adequate generating capacity to meet power demand. Rather, the issue is whether new or rehabilitated plants would be more cost-effective and environmentally sound than the existing plants. The Surrey Report did not adequately address this issue, but it is a question that the EBRD must answer in its least-cost analysis. Based on our bilateral contacts, it appears that President Kuchma has not received information adequate to help him understand this issue. I have tried to reflect your concerns in the revised version of the letter while still highlighting the nature of the issue that the EBRD must address.

Some of you asked whether the G-7 should write to the EBRD to urge faster action on the R4/K2 analysis. We have had several high-level phone calls with the new EBRD Vice President, Charles Frank. It is clear from our discussions with Frank that he is purposefully driving his team to reach a conclusive determination on the viability of R4/K2. There is also the practical reality that, if the EBRD were to complete its financial analysis today, when cash collections in the electricity system are only 10 percent of targeted levels, the result is unlikely to be positive.

Rather than writing directly to EBRD President deLarosiere, we would be interested in your views on sending him a copy of the attached letter after it is delivered to President Kuchma. That would provide an opportunity to underscore the seriousness that the G-7 continue to extend to this issue.

Finally, I wanted to comment briefly on the nature of the commitments that the G-7 have made under the MOU. Although this issue does not directly affect the letter to President Kuchma, it may help clarify possible differences of view among the G-7. Our view is that no commitment was made to fund R4/K2 under the MOU. Rather, the language in the MOU was very carefully crafted to state that we would work with Ukraine "to prepare loan-financed projects based upon least-cost planning principles." Specific funding commitments in section 5 of the MOU were made contingent upon "completion of project specific feasibility studies." We do not share the view that the Leaders agreed at Denver to finance at least one reactor. The position that President Clinton has consistently taken with President Kuchma is that funding for R4/K2 must be based on whether these investments are cost-effective, financially viable and environmentally sound. The Leaders did agree that the EBRD must complete a fair and thorough assessment of these projects. If the projects meet EBRD's requirements, the G-7 is committed to support EBRD financing.

Although this issue has taken a great deal of our time, it is both complex and important. I hope we can continue moving together with common purpose towards its resolution.

Sincerely,

Daniel K. Tarullo
Assistant to the President
for International Economic Policy

Dear Leonid:

It was an honor and a pleasure to participate in the signing ceremony of the NATO-Ukraine Charter. The event marked an historic moment in Ukraine's integration with Europe, and the ties we established will serve the interests of Ukraine, Europe and North America for years to come.

I promised at our earlier meetings to return to your concerns on financing for the Rivne and Khmelnitsky nuclear plants. Allow me to seize this opportunity to respond on behalf of the G-7 leaders to the letter you sent us before the Denver Summit. We asked our energy experts to prepare the attached paper on progress under the Memorandum of Understanding (MOU) on the closure of Chornobyl nuclear power plant, with a special focus on projects that help Ukraine meet electricity demand.

Before addressing the MOU, let me extend the G-7's appreciation for the resolute way in which Ukraine has reacted to the recommendations in the recent report by the World Association of Nuclear Operators. We all read with concern the conclusions reached on inadequate safety practices at Chornobyl's unit 3. The commitment Ukraine has demonstrated to undertake a thorough review of unit 3 and to discuss its findings with the International Atomic Energy Agency is an important first step toward ensuring that adequate measures are taken to make the plant safe before it is brought on line following the current maintenance period. The G-7 stand ready to work with Ukraine and international experts on this matter.

Concrete measures to address international safety concerns at Chornobyl will, of course, reinforce progress under the MOU. Since Ukraine and the G-7 signed this landmark document, $1 billion dollars for fuel supply, power and energy efficiency projects and about $550 million in grants for the Chornobyl sarcophagus and to decommission the Chornobyl reactors have been mobilized. Many other projects are under preparation or consideration.

As you pointed out, our cooperation goes beyond the specific issues of Chornobyl to support the development of a competitive power sector. As you know, Ukraine has reported its installed power-generating capacity at over 50,000 megawatts, which far exceeds its peak demand. To be sure, not all of this capacity may be immediately available, but it suggests that the challenge before Ukraine is not simply to build more power plants, but to determine which new investments will contribute to meeting Ukraine's power needs in the most cost-effective and environmentally sound way. Taking up this challenge is of the greatest importance to the success of Ukraine's energy sector reforms and to secure international financing for energy investments.

Regarding the Rivne and Khmelnitsky reactors, a key issue that must be addressed to secure international financing is whether these projects meet the test of being cost-effective and environmentally sound investments. Because previous cost-effectiveness analyses were incomplete, my government, with the full support of the G-7, is funding additional analysis that will help the EBRD, with your assistance, reach the best conclusion on these projects. A technical team will be coming to Ukraine this fall; full cooperation between our experts is essential to complete this work as soon as possible. We expect this analysis and complementary work under way by the EBRD in other areas will determine whether completing one or both of the reactors is consistent with EBRD requirements; if so, the G-7 will lend full support to EBRD financing.

It is essential that Ukraine demonstrate to the EBRD and other lenders that your nuclear utility has the revenue to repay loans for the reactors. Several measures could make a crucial difference: implementing market-based electricity tariffs, improving collection of electricity bills and establishing a clear process for future tariff adjustments based on market principles. Such steps could help overcome the financial concerns raised by the continued low rates of revenue collection and Ukraine's recent decision to delay an increase in retail electricity prices. These next few months will be critical in demonstrating that Ukraine's electricity sector has been placed on firm financial ground.

Turning to the issue of the Chornobyl sarcophagus, we see action accelerating in the coming months. As you know, the original MOU indicated that additional funds would be mobilized as new projects were identified and proved viable. In this spirit, the G-7 launched the process of mobilizing international contributions with a $300 million pledge at the Denver Summit, and we called on the international community to participate in a pledging conference this fall to raise needed funds.

In view of the upcoming conference, it will be important for Ukraine to announce its contribution to the implementation of the project. I am pleased to tell you that prior to the Chornobyl Sarcophagus Fund being established, the G-7 has agreed to finance the urgent task of fixing the crumbling ventilation stack this year. Our governments need to work closely together over these next few weeks to ensure the greatest possible success of the fall conference.

Leonid, let me assure you on behalf of the G-7 that we fully share Ukraine's determination to implement the Memorandum of Understanding on the closure of Chornobyl. The $1.55 billion we have already mobilized for the task is a sign of our commitment, and we will continue our efforts. As always, the speed of our progress will depend on our partnership. The faster reforms move ahead, the better the financial climate in Ukraine will be to

mobilize new investments, both public and private. We are fully committed to do our part as Ukraine moves ahead with its reforms.

Sincerely,

Bill

Status Report on Chornobyl MOU

The G-7 are fully committed to implementing the Memorandum of Understanding (MOU) with Ukraine to support the closure of Chornobyl. To date, over $1.55 billion in projects have been approved, both to ensure adequate generating capacity to meet Ukraine's electricity demand and to promote nuclear safety.[1] This paper reviews the status of programs under the MOU on the closure of Chornobyl designed to help Ukraine meet its current and future power demand and to stabilize the sarcophagus over unit 4.

Power Sector Reform and the Chornobyl MOU

Ukraine and the G-7 committed in their MOU on Chornobyl to work together to create a viable and competitive power sector that meets Ukraine's electricity demand. The MOU's focus is therefore broader than simply compensating for the power generated by Chornobyl (since the closure of Chornobyl unit 1 in 1996, about 1,000 megawatts out of a peak demand of 30,000 megawatts). The G-7 committed to help Ukraine reform its power sector and develop and finance the most cost-effective investments to meet electricity needs in the context of a competitive electricity market. In this way, the MOU will address both the impact of closing Chornobyl and the urgent need to support far-reaching reforms in a vastly inefficient energy sector inherited from the Soviet Union.

Energy reforms, and in particular reform of the electricity sector, are key for several reasons. First, Ukraine must reduce fuel consumption in order to improve the international competitiveness of its economy. Second, creating market forces to guide the use of energy resources is the strongest incentive for efficiency and will have the greatest impact on reducing Ukraine's dependence on fuel imports. Third, improved financial administration in the energy sector is essential to collect overdue bills and create financial flows that allow power-generating plants to purchase fuel and maintain equipment. Fourth, these conditions – international competitiveness, market prices, reliable revenue flows – are essential to attract private investment and create the repayment capacity needed to justify loans from the international financial institutions.

Ukraine's Current Power-Generating Capacity

The Chornobyl MOU was designed in the context of Ukraine's current power-generating capacity. According to official Ukrainian data, Ukraine has 52,000 megawatts of installed generating capacity. Current peak demand in Ukraine is estimated at 30,000 megawatts. Under optimistic projections, peak demand is estimated at 31,000 megawatts by the year 2000 and at about 46,000 megawatts by 2010. At present, one reactor is operating at Chornobyl that produces approximately 700 megawatts. In

---

[1] Total approved projects include $798 million for fuel supply projects, $227 million for power supply projects and $550 million for nuclear safety.

1996, nuclear plants generated about half of Ukraine's electricity, with thermal and hydro plants generating the other half. Even under the unlikely scenario that one third of Ukraine's installed generating capacity would become dysfunctional over the next five years, these "power balances" indicate that Ukraine would have adequate power-generating capacity to meet its electricity requirements in 2000.

That said, Ukraine has had serious problems in recent years meeting electricity demand during peak periods. Two issues are key:

1. *Fuel Availability.* Financial weaknesses in Ukraine's electricity system (low prices, poor collection) have compromised the ability of generating companies to purchase fuel for existing plants and reduced incentives for domestic fuel production. This suggests that programs to reform the power system, finance fuel imports, increase domestic fuel production and reduce fuel consumption would contribute directly to meeting Ukraine's electricity needs.

2. *Generating Efficiency.* Many of Ukraine's power plants are old, inefficient and need to be replaced, retired or rehabilitated. Whether and when they are replaced depends on future energy demand and the most cost-effective and environmentally sound way to meet it. Since the cost of new power investments must be reflected in tariffs charged to consumers, it is in Ukraine's interest to select investments that provide reliable power at the lowest possible cost.

The following analysis explains how these two issues are addressed in the MOU through G-7 and international financial institution support for Ukraine's energy sector.

Fuel Availability

Four steps are key to improving Ukraine's capacity to purchase fuel to ensure that it can generate sufficient power to meet demand.

1. *Electricity Market Reform.* Expert analyses show that market reforms that introduce price incentives for efficient fuel use will have the most profound short- and medium-term impact on curbing Ukraine's fuel import dependence. Financial reforms to collect electricity bills are also essential to generate revenue to purchase fuel and maintain and modernize plants and the transmission system. Over $370 million in projects shown in Table 1 have been approved to help Ukraine improve its electricity market. However, as of late July 1997, these loans were suspended when Ukraine did not introduce a scheduled increase in retail electricity prices.

2. *International Support for Economic Reform.* Balance-of-payments requirements calculated by the IMF take into account Ukraine's fossil fuel import needs and will continue to do so in the future. When Ukraine moves forward with comprehensive reforms, the international community will work to help finance imports needed to allow reforms to move forward. Although much of a $3.5 billion package supported by donors

in December 1996 has been deferred until Ukraine can act on key reforms, the full program can be quickly activated. Meanwhile, interim support for fiscal reform progress will be made available through an IMF Stand-By Agreement.

3. *Ukrainian Fuel Production.* Table 1 indicates that almost $325 million in projects are underway to support Ukrainian coal, oil and gas production, and that another $300 million in coal and gas projects are under consideration or preparation. In addition, the World Bank, EBRD, EU, United Kingdom and United States are participating with Ukraine in a comprehensive effort to reform the gas sector.

Table 1
Fuel Supply Projects
($ millions)

	Approved	Preparation	Consideration
Ukrainian Fuel Production			
• Coal Sector Restructuring	300		
• Coal Pilot Project	15		
• Poltava Oil and Gas	8		
• Coal Mining Improvement		100	
• Gas Sector Adjustment			200
Subtotal	323	100	200
Electricity Market			
• Electricity Market - IBRD	317		
• Electricity Market – EBRD	55		
Subtotal	372		
Energy Efficiency			
• Gas Metering	80		
• Demand Side Management	23		
• Kiev District Heat		110	
• Sevastopol Heat Supply			40
• Efficiency in Public Buildings			50
Subtotal	103	110	90
Totals	798	210	290

4. *Energy Efficiency.* Table 1 also summarizes over $100 million in approved energy efficiency projects and another $200 million in projects under preparation or consideration. Projects to improve efficiency in heating are just as important as electricity efficiency since they will reduce the demand for fuel to produce heat and allow it to be available for electricity generation.

Generating Efficiency

As indicated in Table 2, $227 million in power supply projects have been approved under the MOU, and another $1 4 billion are under preparation or consideration. Basic requirements for approving such projects are that they be good economic (i.e., least-cost) investments, financially viable and environmentally sound. Nuclear projects must also meet internationally acceptable safety standards.

Table 2
Ukraine Power Supply Projects
($ millions)

	Approved	Preparation	Consideration
Hydropower Rehabilitation	114		
Starobeshvo IV Thermal	113		
Krivoy Rog Thermal		160	
Dniester Pump Storage		260	
Lugansk Thermal			180
Rivne 4 Nuclear		420	
Khmelnitsky 2 Nuclear		420	
Totals	227	1,260	180

Ukraine must assess several tradeoffs as it considers power investments: is Ukraine better off investing in new power plants, rehabilitating existing plants, continuing to use existing plants, or some combination of these? These decisions partly depend on the environmental compliance of the existing plants and on the growth of power demand; the faster demand grows, the more likely that new plants will prove good investments. If demand remains low, Ukraine may be best off using the most efficient of its current plants and deferring new investments. Certain energy efficiency and thermal rehabilitation investments are likely to make sense under most demand scenarios. The key issue affecting demand is Ukraine's economic recovery. Although Ukraine's economy was expected to grow in 1997, GDP contracted over 5 percent in the first half of 1997.

Financing for the Rivne 4 (R4) and Khemelnitsky 2 (K2) projects, if approved, would likely be provided by Ukraine, EURATOM, the EBRD and possibly bilateral export credit agencies. EBRD has a major role in completing the economic, financial, environmental and safety analyses. The least-cost and financial analyses will be key to approval:

1. *Least-Cost.* Two initial analyses on the R4/K2 plants reached contradictory results. One report supported completing the reactors but did not take into account tradeoffs with energy-efficiency projects; the second report rejected the reactors but did not consider certain operating costs for existing power plants. Given these concerns, the G-7 sponsored a supplemental analysis that indicated that completing one reactor or a phasing of the two reactors over time appeared to be least-cost under the World Bank's

medium demand growth forecast. However, Ukraine's continued economic decline has raised questions about the demand projections used in the analyses. The United States has agreed to fund additional analysis to address these and other questions. This is a necessary step to allow EBRD to determine whether the reactors meet its least-cost requirements. Should one or both reactors meet the EBRD's requirements, the G-7 will support their completion.

2. *Financial Viability.* Ukraine's decision in late July to defer an increase in retail electricity prices led the World Bank to suspend its $317 million electricity market loan and could seriously jeopardize the financial viability of potential loans for the R4/K2 reactors. Without this increase, Ukraine's generating companies cannot cover operating and maintenance costs, much less recoup new investments. In order for EBRD to approve a loan for these reactors, it must be confident that the nuclear generating company will collect the revenues needed to repay the loan.

The Chornobyl Sarcophagus

As indicated in Table 3, total funding committed thus far for nuclear safety activities under the MOU is $550 million. Since the signing of the MOU, Ukraine and the G-7 agreed upon a new $750 million project -- the Shelter Implementation Plan (SIP) -- to transform the Chornobyl sarcophagus into a safer and more environmentally stable structure. The largest portion of the commitments for nuclear safety is the $300 million that the G-7 have pledged toward the SIP.

Table 3
Nuclear Safety Projects
($ millions)

	Approved	Preparation	Consideration
Shelter Implementation Plan (SIP)	300[2]		
Decommissioning of Chornobyl	144	13	
Chornobyl S-term Safety Upgrades	34		
Operational Safety Upgrades	72		
Totals	550	13	

The EBRD has agreed to establish a special fund for international contributions and to manage implementation of the SIP. The G-7 and Ukraine will host an international conference, for which President Kuchma and Vice President Gore will serve as the honorary chairs, to begin a process of obtaining international funding commitments for the SIP. Since the Denver Summit, the G-7 and the EBRD have begun to mobilize support for the sarcophagus pledging conference. The conference is proposed for November in New York, on the margins of the United Nations General Assembly (UNGA).

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[2] This figure represents $300 million pledged out of a $750 million approved project.

To promote the sarcophagus project U.S. ambassadors have been briefed on the SIP and will approach other governments to participate at the pledging conference. U.S. delegates to UNGA and the International Atomic Energy Agency (IAEA) General Conference (GC) will approach other governments about the pledging conference. A high-level U.S. official, with G-7 support, will make a presentation in support of the SIP at the IAEA Committee of the Whole this month, and we will be asking the General Conference to approve a resolution in support of the pledging conference.

The EBRD has begun advertising and distributing the SIP in response to widespread international commercial interest in its projects. An expert team has drafted technical specifications for the early biddable projects under the SIP. These specifications are currently being reviewed by the Ukrainian Nuclear Regulatory Authority and Chornobyl plant staff. After they are finalized, the EBRD will begin the tendering process for these projects this fall. The EBRD Board of Directors has been briefed on the SIP, and is expected to approve the Shelter Fund Rules and the Bank's role in administering the project later this month Even in advance of establishing the Fund, the U.S. and Canada have committed $3.5 million to repair the Chornobyl ventilation stack.

There are important steps that Ukraine can take to help ensure the success of the pledging process. Ukrainian ambassadors and high-level officials could approach other governments to encourage them to participate in the pledging conference. Similarly, Ukrainian delegates at pending international conferences can use other fora to emphasize the importance of this initiative. Minister Udovenko, as president of the 1997 UNGA, has an excellent opportunity to underscore the importance of the SIP and the need for a common international effort to support the project. Ukrainian delegates at the IAEA conference can also add their voices to those of G-7 delegates speaking on behalf of the sarcophagus project. Within Ukraine, the Rada's quick approval of the EBRD Framework Agreement for the SIP is critical to the EBRD's ability to begin work on the sarcophagus project this year.

Conclusions

- Electricity market reforms, including increased tariffs and improved revenue collection, are essential to improve the financial standing of the electricity sector -- and to finance fuel purchases. These are the most important factors affecting short-term electricity supply as well as investments.

- As Ukraine moves forward with reform, donor-financed balance-of-payments support can help in the interim to meet fuel import requirements.

- In this context, the G-7/Ukraine MOU appropriately takes a broad approach that addresses fuel needs, energy efficiency, nuclear safety, market reforms and power investments.

- Increased retail electricity prices and revenue collections will be key to securing the financial viability of any new power investment investments, including the R4/K2 reactors.

- If one or both of the R4/K2 reactors satisfy the EBRD's economic, financial, environmental and safety tests, the G-7 will support EBRD financing for the completion of these plants.

- Strong and united international efforts by Ukraine and the G-7 will be needed to secure the success of the Shelter Implementation Plan for the Chornobyl sarcophagus.

Faxed
Mitchell
Lerch
24/9.

Department of Foreign Affairs
and International Trade

Deputy Minister

Ministère des Affaires étrangères
et du Commerce international

Sous-ministre

SEP 23 1997

File
24/9.

Mr. Daniel K. Tarullo
The White House
Washington, D.C.

Dear Dan:

As you know, Canada had earlier offered to undertake a US$15 million multi-year pledge towards the Chornobyl sarcophagus as part of the G-7 collective pledge of US$300 million. At five per cent of the total, our pledge had been a generous offer in terms of the relative size of our economy. However, given the overriding importance of a consolidated and generous G-7 contribution and the need to encourage non-G-7 countries to follow our example, I am pleased to confirm that Canada, on an exceptional basis, agrees to the revised G-7 proposal to undertake a US$20 million multi-year pledge. This pledge, on a per capita basis, is among the most generous pledges and represents the maximum that we can contribute at the November International Sarcophagus Pledging Conference.

I look forward to working with you and Sherpa colleagues in order to effect a successful pledging conference in November.

I am copying this correspondence to Sherpa colleagues.

Yours sincerely,

Donald W. Campbell

125 promenade Sussex Drive
Ottawa, K1A 0G2

UNCLASSIFIED

FROM : PAUL HARRIS
DATE : 18 September 1997
EXTN : 4663
ROOM: 27/G

SIR NIGEL WICKS

cc : David Peretz
Craig Pickering
Suma Chakrabarti
Dilwyn Griffiths
Elouise Hayward
Jeremy Taylor
Steven Flanagan
Neil Hirst (DTI)

CHERNOBYL: G7 BILATERAL SHARES OF THE SHELTER FUND

Issue: Update to my note of 15 September on G7 members' bilateral shares of the $300 million contribution to Chernobyl Shelter Fund.

Recommendation: You suggest to other EU/G7 Deputies that EU/G7 find $179.5 million - as proposed by German Deputy on 8 September in Paris - even if their view is that the EU cannot be relied upon deliver an additional $8 million for the EU collective contribution. Maintain line that EU/G7 bilateral shares are based on Naples formula. — how?
This would give:

Country	$m	
Germany	23.71	
France	22.32	
Italy	16.74	
UK	16.74	is $500,000 higher than before
EU	100	

If they agree, you confirm to US, Canada and Japan that UK can accept an EU/G7 contribution of $179.5 million, and we will decide individual shares between ourselves.

Timing: VERY URGENT. EU/G7 Deputies might raise this with you while in Bangkok.

Background

1. Letter from Tim Barrow (UKRep, Brussels) of 2 September (attached to my earlier note) said that the EU contribution would be 100 mecu - $108 million, at current exchange rate. I have just received the European Commission's Explanatory Memorandum and Draft Council Decision (attached). The Explanatory Memorandum refers to a maximum contribution of 100 mecu, to cover the commitment for a

Community contribution of $100 million - with the precise amount in mecu depending on the applicable exchange rates.

2. The additional $8 million contribution from the EU does not, therefore, look bankable.

3. Until this potential "windfall" came along, the other EU/G7 Finance Minister Deputies looked ready to accept the German proposal that each pay another $0.5 million within an EU/G7 contribution totalling $179.5 million. This now looks to be the outcome that would minimise the UK's bilateral contribution - at $16.7 million. You should therefore accept the German proposal.

4. This change in the size of EU/G7 bilateral contributions does not call for any changes in the draft letter (attached to my earlier note) to all G7 Deputies, agreeing to the German proposal. ?

5. Also attached is a revised briefing note for the Chancellor, in case this topic features in Ministerial discussion. This note should **only be used if you get the agreement** of the other G7 countries to these funding arrangements. The only difference from the version attached to my note of 15 September is the size of the UK's bilateral contribution.

PAUL HARRIS

CHERNOBYL AND R2/K4

2. The Denver G7 statement spells out remit clearly: A We have decided to add to the commitments we undertook in the MOU with Ukraine. We endorse the setting up of a multilateral funding mechanism and have agreed that the G7 will contribute $300 million over the lifetime of the project. We call upon concerned governments and other donors to join us at a special pledging conference this fall to ensure full implementation of this project.@

3. Chernobyl generates a huge amount of correspondence. A special ANuclear Safety Working Group@ and sherpas are in the lead. After much discussion in a number of fora, Finance Minister Deputies' agreed earlier this week to the European members of G7 (including the European Union) contributing $179.5 million, the US $78 million, the Japanese $22.5 million and the Canadians $20 million. Of this the UK's bilateral share is just under $17 million, over the 8 year life of the project.

As before.....

4. The G7 Memorandum of Understanding with Ukraine was agreed in 1995 and reconfirmed at Denver in June. It commits Ukraine to shutting Chernobyl and reforming its energy sector, and the G7 to lending money for two new nuclear reactors, R4 and K2. EBRD's requirements mean that lending is likely to be phased, allowing one new reactor to go ahead before 2000, but the second to be conditional on Ukraine's progress with energy reform. At the EU/Ukraine summit on 5 September, President Kuchma's reaction to this was disappointing. He said failure to complete both reactors would make it difficult to shut down Chernobyl on time. He had nothing encouraging to say about energy reform. President Clinton will be writing to Kuchma shortly to reinforce the G7 line.

HM Treasury

FACSIMILE TRANSMISSION COVER SHEET

If you have received this fax in error, please call back on the Telephone number given below, and then destroy the material. Please treat our information with the same confidentiality that you would expect us to do with yours.

Attention: **Catherine Nettleton**
Subject: **CHERNOBYL: G7 SHARES**

To:	Catherine Nettleton
From:	Paul Harris
Team:	FRI.IND
Telephone:	0171 270 4663

Files Attached:
WICKS129.WPD

Catherine,

Attached is my note of 15 September to Nigel Wicks.

paul
<WP Attachment Enclosed>

UNCLASSIFIED

FROM : PAUL HARRIS
DATE : 15 September 1997
EXTN : 4663
ROOM: 27/G

SIR NIGEL WICKS

cc : David Peretz
Craig Pickering
Suma Chakrabarti
Dilwyn Griffiths
Elouise Hayward
Jeremy Taylor
Steven Flanagan
Neil Hirst (DTI)

CHERNOBYL: G7 BILATERAL SHARES OF THE SHELTER FUND

Issue: G7 members' bilateral shares of the $300 million contribution to Chernobyl Shelter Fund.

Recommendation: You suggest to other EU/G7 Deputies that EU/G7 find $179.5 million - as proposed by German Deputy on 8 September in Paris - while reducing the EU/G7 individual contributions, because the European Commission have found an additional $8 million for the EU collective contribution. Propose EU/G7 bilateral shares are based on Naples formula. This gives: — Not in fact the case

Country	$m
Germany	21.32
France	20.07
Italy	15.05
UK	15.05
EU	108 — No, 100

If they agree, you confirm to US, Canada and Japan that UK can accept an EU/G7 contribution of $179.5 million, and we will decide individual shares between ourselves.

Timing: VERY URGENT. Need to reach a deal before Ministerial discussions. So suggest you contact other EU/G7 Deputies while in Bangkok.

Background

UNCLASSIFIED

1. On 8 September Finance Minister Deputies discussed G7 members' bilateral shares of the $300 million contribution to the Chernobyl Shelter Fund. The Germans argued forcefully for the remaining $2.5 million to be split equally between the US, UK, Italy, Germany and France - giving EU/G7 contribution of $179.5 million. You objected, but the other Europeans look ready to accept the proposal. You undertook to seek your authority's views and write urgently.

2. Discussions on the size of bilateral shares have been against the backdrop of the EU paying $100 million. However, the attached letter from Tim Barrow (UKRep, Brussels) of 2 September says that the EU contribution will be 100mecu - $108 million, at current exchange rate.

3. This higher than expected EU contribution would allow the EU/G7 to accept the $179.5 million proposed by Germany, **and** reduce their bilateral contributions.

4. If this approach is adopted, the shares for each country would be:

Country	**$m**
US	78
Japan	22.5
Canada	20
Germany	21.32
France	20.07
Italy	15.05
UK	15.05
EU	108

5. By chance, these EU/G7 figures (excluding the EU) are the same as those the EU/G7 members of the Nuclear safety Working Group (NSWG) agreed as a common position for the 22-24 May Sherpa meeting. This approach would also meet the Treasury objective of minimising the UK's bilateral share.

6. This approach has been agreed within the Treasury, and by Neil Hirst in DTI. — but not with FCO, DETR + DFID.

7. I attach two draft letters. One for EU/G7 Deputies (in case you prefer to hand them notes). The other for the US, Japanese and Canadian Deputies (to be handed over if the EU/G7 Deputies are content).

8. Also attached is an updated briefing note for the Chancellor, in case this topic

features in Ministerial discussion. This note should **only be used if you get the agreement** of the other G7 countries to these funding arrangements.

9. Copies of this note go to Dilwyn Griffiths, Suma Chakrabarti and Steven Flanagan because FCO/DfID, DOE and DTI are likely to fund the UK's bilateral contribution. DOE and DTI have agreed to meet a third each, we await a response from FCO/DfID.

PAUL HARRIS

UNCLASSIFIED

DRAFT

Jurgen Stark

ISSUED (but amended at 'x'?

CHERNOBYL SHELTER FUND

1. During the Deputies meeting in Paris on 8 September, I agreed to take advice on your proposal that the European members of G7 contributed a total of $179.5 million to the Chernobyl Shelter Fund.

2. I have subsequently heard that the European Commission will find 100 mecu from the TACIS budget. This equates to $108 million - slightly more than we expected.

3. I suggest the European members of G7 agree to your proposal, but we tell US, Canada and Japan that we will decide how to share it amongst us. Using the Naples proportions would give:

Country	$m		
Germany	21.32		
France		20.07	
Italy	15.05		
UK	15.05		x
EU	108		

4. This approach would enable us to reach a deal on the allocation of shares, while at the same time reducing our bilateral contributions.

5. Copies of this note go to: Jean Lemierre and Mario Draghi.

UNCLASSIFIED

UNCLASSIFIED

DRAFT

NOT YET ISSUED

Larry Summers,

CHERNOBYL SHELTER FUND

1. During the Deputies meeting in Paris on 8 September, I agreed to take advice on Jurgen Stark's proposal that the European members of G7 contributed a total of $179.5 million to the Chernobyl Shelter Fund.

2. I have done that and also consulted my European Deputy colleagues.

3. Provided Canada find $20 million, Japan $22.5 million and the US contribute the $78 million Jurgen proposed, we can agree to a European G7 contribution of $179.5 million. We will decide amongst ourselves on our individual contributions.

4. Copies of this note go to: Jurgen Stark, Jean Lemierre, Mario Draghi, Eisuke Sakakibara and Jim Judd.

UNCLASSIFIED

CHERNOBYL AND R2/K4

2. The Denver G7 statement spells out remit clearly: A We have decided to add to the commitments we undertook in the MOU with Ukraine. We endorse the setting up of a multilateral funding mechanism and have agreed that the G7 will contribute $300 million over the lifetime of the project. We call upon concerned governments and other donors to join us at a special pledging conference this fall to ensure full implementation of this project.@

3. Chernobyl generates a huge amount of correspondence. A special ANuclear Safety Working Group@ and sherpas are in the lead. After much discussion in a number of fora, Finance Minister Deputies' agreed earlier this week to the European members of G7 (including the European Union) contributing $179.5 million, the US $78 million, the Japanese $22.5 million and the Canadians $20 million. Of this the UK's bilateral share is $15 million, over the 8 year life of the project.

As before.....

4. The G7 Memorandum of Understanding with Ukraine was agreed in 1995 and reconfirmed at Denver in June. It commits Ukraine to shutting Chernobyl and reforming its energy sector, and the G7 to lending money for two new nuclear reactors, R4 and K2. EBRD's requirements mean that lending is likely to be phased, allowing one new reactor to go ahead before 2000, but the second to be conditional on Ukraine's progress with energy reform. At the EU/Ukraine summit on 5 September, President Kuchma's reaction to this was disappointing. He said failure to complete both reactors would make it difficult to shut down Chernobyl on time. He had nothing encouraging to say about energy reform. President Clinton will be writing to Kuchma shortly to reinforce the G7 line.

PRÉSIDENCE
DE LA
RÉPUBLIQUE

Paris, october 17, 1996.

Le Conseiller Diplomatique

Dear Colleagues,

I refer to the discussions of the Finances Deputies and the NSWG concerning the G7 contributions to the Chernobyl Shelter Fund.

Since a pledging Conference will be organised in New York in November, and knowing that the Shelter Fund has been created officially by EBRD's executive board approval, I think it is urgent to confirm at the Sherpa level the sharing of the 300 M$ announced at the Denver Summit.

Japan and Canada have already confirmed their respective pledges of 22,5 M$ and 20M$ to Dan, making with the US (78 M$) a total contribution of 120,5 M$ for Non-EU countries. As far as European contributions are concerned, it is my undestanding that Jurgen's proposal to the Finance Deputies at their september 8 meeting would apply :

European Commission	100,00 M$
Germany	23,61 M$
France	22,25 M$
U.K.	16,82 M$
Italy	16,82 M$
	179,5 M$

I would like to check with you that we can all agree on this sharing.

In such case, if I do not receive comments by october 23, I will confirm to Dan the French pledge of 22,25 M$. I encourage you to confirm your pledge at the same time, so that we can finalise the G7 contributions in due time before the pledging Conference and allow each of our countries to deposit its instrument of contribution at the EBRD.

I am copying this letter to European Sherpas colleagues only.

Yours Sincerely,

Jean-David

Jean-David LEVITTE

Dr. Jürgen Stark

Staatssekretär im
Bundesministerium der Finanzen

53117 Bonn, 17 September 1997

Graurheindorfer Straße 108
Telefon (02 28) 6 82 - 42 93
Telefax: (02 28) 6 82 12 44
e-mail hade2058@bmfgrs1.bmf bund400 de

FAXED
to (1) David Peretz
(2) Catherine Nettleton
17/9
PA

File
17/9.

Mr Daniel Tarullo
Special Assistant to the President
for National Security and Economic Affairs
The White House
Washington, D.C. 20520

U.S.A.

Dear Dan:

Regarding the Denver follow-up and our preparations for Birmingham, I should like to bring a few thoughts to your attention:

I visited Kiev on 15 September 1997 on behalf of Chancellor Kohl, for political talks with President Kuchma and other members of the Ukrainian government. President Kuchma recalled the obligation undertaken by the G 7 in the Memorandum of Understanding to close down Chernobyl by the year 2000, with particular regard to the completion of the two nuclear power plants R 4 and K 2.

I took the opportunity to point out that in Denver the G 7 heads of state and government renewed their commitments regarding the closure of Chernobyl by the year 2000. I feel it is vital that we should stick to this and not depart from our common approach. Otherwise there is in my view an acute risk of us furnishing Ukraine with a pretext to dispense in turn with its commitment to the closure of Chernobyl by the year 2000. Hence I regard it as important that the letter from President Clinton to President Kuchma should now be sent without delay, less than three months after the Denver summit.

I also feel that it is essential for us to maintain pressure on the EBRD, so that the Bank takes the necessary steps to ensure finance for the completion of the two nuclear power plants R 4 and K 2. The Bank must avoid giving the wrong signals now to Ukraine,

but should at most point out in its contacts that its current considerations include the possibility of a phased approach.

With regard to the pledging conference scheduled for the autumn to ensure finance for the sarcophagus, I feel that intense preparation is needed to ensure its success. I hope that we will be able to reach a prompt agreement on the apportionment of the pledged $ 300 million on the basis of the new US proposal. At the last G 7 Finance Deputies meeting in Paris I therefore suggested that besides the US the four European G 7 members should each assume an additional amount of $ 500,000.

On a broader perspective, it seems as if Denver has loaded us with a fair amount of work which a lot of those involved are eager to get their teeth into. Apart from the quite diverse expert group meetings, I am aware of the following:

Africa: Al Larson and Larry Summers have made different proposals for two working groups. In addition, the head of US AID has called „G 7 meetings" of officials responsible for development assistance to work on the Denver remit. These initiatives, it seems to me, display considerable overlap.

Birmingham format: David Lipton has proposed to discuss that issue among G 7-Finance-Deputies' Deputies and I expect that we, as Sherpas, would also have something to say on that.

Given this stage setting, our next move should perhaps comprise the following: First, the Chair might consider to draw up some kind of Denver follow-up plan, including a comprehensive overview of follow-up activities that take their mandate from the Denver Summit. To that effect I found Jean-David's letter of 10 September 1997 very helpful indeed. Second, Denver follow-up activities as well as preparations for Birmingham might benefit from another Sherpa meeting before year-end.

Yours sincerely,

Jürgen

cc: Messrs. Campbell, Cloos, Holmes, Levitte, Nigido, Haraguchi

EUROPEAN COMMISSION
Cabinet of the President

Chef de Cabinet

Brussels, 12 September 1997
JC/doh S(97)106

Dear Dan,

A Summit between the European Union and the Ukraine took place in Kiev on 5 September 1997, with the participation of President Kuchma, President Santer and Prime Minister Juncker for the EU Presidency.

The implementation of the Memorandum of Understanding on the closure of Chernobyl was, of course, part of the agenda.

The position adopted by President Santer during the discussion is described in an aide-mémoire which was handed to the Ukrainian side and which I enclose for your information. As you can see, it draws largely on the discussions we had in the G7.

Although the Ukrainian delegation, and in particular President Kuchma, may not have had the time to fully appreciate all the elements included in the Commission's position, it has to be noted that President Kuchma stated clearly that the Ukraine would not close Chernobyl until the two new reactors are in operation. He referred to the Ukraine's experience with nuclear weapons and strategic missiles where "the Ukraine has been left alone". It should be mentioned, however, that President Kuchma showed a somewhat greater commitment to the closure of Chernobyl in a tête-à-tête meeting with President Santer and Prime-Minister Juncker. In our view, this serves to demonstrate the difficulties President Kuchma is facing vis-à-vis the Ukrainian Parliament.

During the summit meeting, Minister Kostenko expressed the view that the Denver G7 commitment for the sarcophagus was not sufficient and that the solution of the shelter problem requires much more than $750 million.

He also referred to the recent WANO report on the safety of Chernobyl unit 3 and made a link between the problems of this reactor and the imminent 2000 closure date which does not allow proper plant management.

In my view, the discussions in Kiev demonstrate the need for a strengthened dialogue between the G7, the EBRD and the Ukraine. We should use the coming months to make a renewed effort in implementing the MoU. The commitment of the G7 Presidency will be critical in making progress on this important issue.

I am copying this letter to the other G7 Sherpas.

Best regards,

Jim Cloos

Mr. Daniel Tarullo
White House
Washington DC 20520

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Téléphone: ligne directe (+32-2)295.98.49, standard 299.11.11. Télécopieur: 296.50.09.
Télex: COMEU B 21877. Adresse télégraphique: COMEUR Bruxelles.

Brussels, 5 September 1997

AIDE MEMOIRE FROM THE EUROPEAN COMMISSION ON THE UKRAINE - G7 MEMORANDUM OF UNDERSTANDING (MOU) ON THE CLOSURE OF CHERNOBYL

Background

In 1994, the European Community has initiated the Action Plan for the restructuring of the energy sector in Ukraine including the early closure of Chernobyl and, since then, the European Commission has taken an eminent role in the negotiation with Ukraine. This has contributed to the signature of the MoU, the implementation of which is now well under way.

This is also demonstrated by the recent Commission proposal for a significant Community contribution of 100 mio USD to the new Chernobyl Shelter Fund for the transformation of the existing sarcophagus into a safe and stable system.

The Memorandum of Understanding

The Memorandum of Understanding (MoU) signed on 20 December 1995 between the Government of Ukraine and the G-7 regarding the "Closure of the Chernobyl Nuclear Power Plant" states need for the development of a long-term comprehensive energy sector strategy. This would include the following components:

(1) Development of a financially sound electricity sector with market-based pricing;

(2) Preparation and debt financing of viable projects, based upon least-cost planning principles; and

(3) Provision of grant financing for short-term safety upgrades at Chernobyl 3 and subsequent de-commissioning of the Chernobyl nuclear power plant, including the financing of the development of a social impact plan.

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Telex: COMEU B 21877. Telegraphic address: COMEUR Brussels.

Completion of two reactors in Khmelnitsky 2 and Rovno 4 up to an international safety level ("K2R4 project")

The K2R4 project has been listed in the MoU as a priority project besides the rehabilitation of thermal power plants and energy efficiency and demand side measures.

State of the project

Tacis

Since 1995, Tacis is implementing an extensive programme (31 MECU) to assist Ukraine in project preparation. This includes support to the Ukrainian Safety Authorities, to the Ukrainian operating organisations and to Ukrainian engineering organisations. As a result, a modernisation programme has been developed which would bring the completed plants to a safety level consistent with Western practices. This support programme has been scheduled on the basis of availability of loan financing by the end of 1997.

Economic due diligence

During the past, extensive discussions have taken place on the economic due diligence of the project. This has been done in the framework of the preparation of the relevant loan procedures.

As of now, the following conclusions are widely accepted:

1. The probability that the project is least cost is extremely sensitive to the parameters put into the model, such as demand forecast, gas price, completion cost.

2. This probability raises substantially if the project is implemented in a phased approach.

The matter was also discussed at the June G7 summit at Denver.

Financial aspects

The financial aspect of the project is also suffering from the uncertainties regarding the progress of the power market reforms as well as the uncertainties related to the project itself (cost, duration). In this context, special attention has to be given to the development of the relations between the Ukraine and the World Bank who is deeply involved in the reform of the sector.

The EBRD has indicated that it would require changes to the proposed financing plan in order to meet its own requirements. This could be achieved by significantly reducing the exposure of the Bank so as to reduce the Bank's credit risk to a level comparable with its other operations in the energy sector.

Commission position

Against the above mentioned background, the position of the European Commission is as follows:

- In the framework of the Memorandum of Understanding on the closure of Chernobyl by the year 2000, the Commission remains committed to provide a financing through a Euratom loan for the completion, up to international safety standards, of the Rovno 4 / Khmelnitsky 2 reactors
- The Commission is willing to consider an additional effort by increasing its share from the 35% envisaged earlier up to 50% of the project cost, which represent the maximum possible under the Euratom regulation
- The Commission may adopt a decision in principle on this project before the end of the year, as soon as possible after the European Investment Bank has given its opinion on economic and financial aspects of the project
- The Commission is ready to follow a phased approach. Under such a phased approach, with appropriate covenants that would allow a proper verification of the profitability of the project, disbursements would be spread over time. For the first reactor, disbursements could start in the first half of 1998
- The availability of the Euratom loan would be conditioned on the availability of the complementary financial resources (EBRD and others).
- A loan agreement has to be negotiated which will include the technical, financial and other conditions.
- In order to ensure the financial viability of the project, the continuation of the reform of the power sector is of prime importance
- With regard to the Tacis grant financing of preparatory works for the two reactors, there will be no budget extension to the present Tacis projects.

(handed over to Minister Kostenko on 5 September, at the end of the Ukraine-EU summit)

Dr. Jürgen Stark

Staatssekretär im
Bundesministerium der Finanzen
IX B 5 - W 3920 Ukr - 95/97

53117 Bonn, 4 September 1997

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e-mail Sabine.Hader@bonn.bmf.bund400.de

Mr Daniel Tarullo
Special Assistant to the President
for National Security and Economic Affairs
White House
Washington, D.C. 20520

USA

Fax: 00 12 02/64 75 713

Dear Dan,

Thank you very much for your letters of July 15 and of August 15 with the letter from President Clinton to President Kuchma. I agree with you that further steps are necessary to convey our common G 7 position to Ukraine and the EBRD.

However, I have doubts whether the draft reflects the results of the discussion of our Heads on the K2/R4 project at Denver. As I pointed out in my letter of July 4, I understood there to be a consensus that at least the completion of one of these nuclear power plants should now be taken in hand.

With respect to the Bank, I reiterate my and colleagues' appeal to make our agreed G 7 position clear to the Bank as soon as possible. In Denver, our Heads expressed great concern on the manner in which the Bank has pursued the K2/R4 project. After the Denver Summit, our common G 7 position on the K2/R4 project for the June EBRD workshop was agreed. Therefore, I propose again that the G 7 chair also draft a letter to request

President de Larosière that the Bank take all steps including considering a phased approach without delay to finalize the tasks necessary for the final decision on this project in accordance with the MOU.

As for the draft letter of President Clinton to President Kuchma, I think that we should put more emphasis on the political message that the G 7 stand firmly behind the MOU, and we should inform President Kuchma about the results of the discussion of our Heads on K2/R4 at the Denver Summit.

With respect to the second paragraph of your draft, like Jean-David and John, I propose to make reference to President Kuchma's June letter to the G 7 Heads and also to express the political importance of the implementation of the MOU also by the Ukrainian side, as this is key to our ultimate political goal that Chernobyl be closed by the year 2000.

I have doubts whether it really makes sense to attach the proposed, rather technical annex on „Power Supply in Ukraine" to President Clinton's letter. To my understanding, our common position laid down in previous papers, especially in the paper for the EBRD workshop on K2/R4 and in the annex to President Clinton's letter of April 19 to President Kuchma, is still valid and needs to be applied. In any event, the new annex that you proposed would need further discussion among the G 7 as some of the statements are questionable. The assumption of a surplus capacity in Ukraine, for example, seems to be too simplistic as it does not take into account that the available capacity of many outdated conventional power plants is limited.

For similar reasons, I support Jean-David's proposal to amend the third paragraph.

Based on our common paper on the G 7 position on K2/R4, I propose to replace the first sentence of the fourth paragraph by:

„Regarding the K2/R4 project, the G 7 expect that the Bank will soon complete its evaluations of the project and take a financing decision in accordance with the MOU and the G-7 position without further delay."

The last sentence of this paragraph should indicate our expectation that the work underway will demonstrate that the immediate completion of at least one of the reactors will meet EBRD's requirements.

With respect to the fifth paragraph, I welcome to urge the Ukraine to continue with the initiated reform process in the energy sector. In addition, we should explicitely encourage the Ukraine to cooperate closely with the World Bank and to overcome current obstacles.

In the sixth paragraph, it should be expressed even more clearly that the G 7 in Denver made additional financial pledges considerably beyond those already agreed upon in the MOU as Jean David suggests, too. This additional commitment is also closely related to the closure of Chernobyl NPP by the year 2000. The next important step needed is that Ukraine specifies concretely what its contribution will be to the SIP in view of the pledging conference this autumn. This issue was already addressed in President Clinton's April letter to President Kuchma. We should now make clear to President Kuchma that this is an indispensable prerequisite for the success of the pledging conference, where further resources have to be mobilized from other contributors and donors in order to assure the overall financing of the SIP. Only in this way can it be ensured that the sarcophagus will be transformed into a safe and environmentally stable site.

I agree on Jean-David's proposal referring to the last paragraph of the draft.

Yours sincerely,

Jürgen

cc: Messrs. Campbell, Cloos, Holmes, Levitte, Nigido, Haraguchi

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

UCD/ £205
Rome, September 3rd, 1997

Dear Dan,

I am grateful for the draft letter of President Clinton to President Kuchma you circulated on August 15th. It looks to me comprehensive and well fit to pursue G7 shared goals in dealing with Ukraine.

Let me only convey to you a few observations which are basically supportive of Jean-David's remarks.

With reference to the second paragraph of your President's letter I agree that the issue of the closure of Chernobyl has to be always considered part and parcel of the MOU on Chernobyl. Consequently the word "closure" has to be openly mentioned.

I share entirely the slightly revised formulation proposed by Jean-David for paragraph 3, 6 and 7 of the letter with the suggestion to stress strongly to President Kuchma: i) that the MOU on Chernobyl is a "package" and the G7 cannot accept a selective application of its contents; ii) that G7's and Ukraine's "partnership" is an ongoing process feeding on unrestricted cooperation from both sides meaning that now the focus is squarely on what Ukraine actually does for the restructuring of its power market.

Mr. Dan TARULLO
Assistant to the President
for Economic Policy
The Withe House
WASHINGTON

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

Concerning the attached paper to the draft letter I also support Jean-David's proposals, except for the Conclusions chapter. I would like to see it preserved as is, taking away only the fourth bullet in order not to look confrontational with President Kuchma. I don't think this chapter could divert reader's attention from the letter.....as you well know, Latins used to say "repetita iuvant".

Best regards,

Yours sincerely
Roberto Nigido

Roberto Nigido

THE WHITE HOUSE

WASHINGTON
September 2, 1997

Dear Colleagues:

I have received several sets of comments on the draft letter on behalf of the G-7 from President Clinton to President Kuchma of Ukraine circulated on August 15, and will attempt to incorporate these in a revised draft to be circulated in the coming days. However, there has been a recent development that also will need to be addressed in this letter.

As you may already be aware, the World Association of Nuclear Operators (WANO) has recently completed a peer review of operational safety issues at Unit 3 of the Chornobyl nuclear power plant (NPP). WANO is an international, non-governmental organization comprised of nuclear power operators from around the world. It is an authoritative technical voice of the nuclear industry. Over the past five years, WANO has conducted international peer reviews of 51 nuclear power plants, including the South Ukraine NPP, to assist local operators in delivering power safely and efficiently.

The findings from WANO's recent review raised grave concerns about safety at Chornobyl. WANO's technical team concluded that in its current condition, the Chornobyl plant cannot be operated within an acceptable margin of safety. The team found, and has documented to the Ukrainian Government, very serious deficiencies relating to fire safety, the safety culture among the plant's staff and management, and a list of the safety modifications required by the designer of the RBMK reactor following the 1986 accident which were never fully installed at Chornobyl Unit 3. WANO indicates that Chornobyl is the least safe of all the plants it has studied to date; the findings of the peer review were severe enough that WANO's governing board took the unprecedented step of deciding to brief the International Atomic Energy Agency and relevant governments.

I suggest that you obtain a briefing from the relevant experts within your government on the contents of the WANO report. Reference to the findings will be incorporated in the next version of the letter to President Kuchma to be circulated. It is likely that the findings will soon reach the public. The findings will, in any event, influence our discourse on the future of Chornobyl.

Sincerely,

Dan

faxed to me.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

1 September 1997

Dear Jim,

Thank you for your letter of 20 August enclosing the draft communication to the Commission on the R4/K2 reactors.

I agree that, at the Denver Summit, G7 Heads indicated a preference for developing the R4/K2 project on the basis of a phased approach. But we should not imply that this would involve setting aside the full financial and economic requirements for the first of the two completions. I therefore suggest replacing the passage from the third sentence of the last paragraph under the "State of the project" section (page 2) to the end of the section on the "Phased approach" (page 3) by:

"On R4/K2, during the Summit discussion among Heads, it was recognised that completion of only one of these two reactors was likely to meet the EBRD's least-cost requirements and, as a result, a decision on the second might have to be deferred pending economic recovery in Ukraine. Under this phased approach, financing of one reactor would be agreed as soon as a suitable project could be developed meeting the requirements of the various lending institutions; the second would be considered separately, on its own merits, at a later date taking into account the development of Ukraine's economy. President Clinton will write to President Kuchma, on behalf of the G7, about the way forward, touching on the possibility of a phased approach."

On the "Euratom Loan" section (page 3-4), I am content that Euratom should finance a greater percentage share of the first phase than had previously been anticipated. However, as with EBRD financing, we expect the project to meet the criteria, including, for Euratom, a favourable opinion from the European Investment Bank. But I am not sure that the revised financing plan should be conceded quite so readily for the second tranche. The second completion is to be considered on its merits and the EBRD may, at that time, feel

more comfortable with the project. I propose that the second paragraph of this section read:

"It is also proposed that the European Commission consider taking on this larger share for the Euratom loan for the completion of the second reactor if parties to the MOU maintain their commitments and if taking on a higher share continues to cause difficulties for the EBRD".

On the final section giving the line for the "EU-Ukraine Summit of 5 September" (page 4-5), I agree with Jurgen's proposed changes, except I would go further to redraft the sixth indent as:

".. the best way to proceed could be the phased approach. Under this phased approach, financing of one reactor would be provided later this year or early next year if a project could be developed which meets the lending criteria. The second would be considered later, on its own merits, in the light of the further development of Ukraine's economy".

I am copying this letter to Jean-David, Jurgen and Roberto.

JOHN HOLMES

Mr Jim Cloos

Foreign &
Commonwealth
Office

London SW1A 2AH

Telephone: 0171

270 2571
Fax: 270 2266

Our reference: MFS 166/1

01 September 1997

Pl. tyke
Thanks JH
1/9.

John Holmes Esq
10 Downing Street

Dear John,

G7 R4/K2: LETTER TO CLOOS

1. I attach a draft reply to Jim Cloos on the line which the Commission will take at the EU/Ukraine Summit on 5 September. As the Commission will discuss Cloos' paper on 3 September, I recommend that we send off our comments today.

Yours,

Catherine

Catherine Nettleton
Economic Financial and Development Department

cc: Mr Lyscom, ESED
Mr Hirst, DTI
Mr Faint, DFID
Mr Peretz, HMT

Jim Cloos
European Commission

Thank you for your letter of 20 August enclosing the draft communication to the Commission on the R4/K2 reactors.

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I am copying this letter to Jean-David, Jurgen and Roberto.

John Holmes

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

UCD/ 1195
Rome, September 1st, 1997

Dear Jim,

with reference to your letter of August 20th concerning a preliminary draft that will be discussed by the Commission for the upcoming EU/Ukraine Summit of September 5th in Kiev I can share with you the following remarks.

A discussion with President Kuchma on the closure by the year 2000 of CHNPP and on the completion of the R4/K2 reactors looks to me timely and appropriate. I also support the conceptual framework outlined in the "Proposed Commission Line" of the preliminary draft.

Let me only underline the opportunity to address to the counterpart a call for realism inviting President Kuchma to be flexible as much as he can be on the "phased approach" (page 4 of the draft, 6th indent) to finance R4 and K2. This could be instrumental in putting to rest a certain "uneasiness" still lingering in some IFI's.

Mr. Jim CLOOS
Head of Cabinet
Cabinet of President Santer
European Commission
BRUSSELS

Il Consigliere Diplomatico
del Presidente del Consiglio dei Ministri

A second point to stress is the strong need for Ukraine to put back on trail the stalled power market loan with the World Bank. President Santer should be determined in hammering down with President Kuchma that restarting soon the relevant procedure would substantially increase the chances for getting BERS's loan and put in motion several positive effects.

With best regards,

Yours sincerely

Roberto Nigido

ISTITUTO POLIGRAFICO E ZECCA DELLO STATO S.

EUROPEAN COMMISSION

Cabinet of the President

Brussels, 1 September 1997
D(97)

Dear Dan,

Thank you for your letter of August 15 which gives a follow-up to the discussions in Denver on the closure of Chernobyl.

I generally agree with the content of the draft letter to President Kuchma, but I consider that we should avoid being seen as weakening our joint commitment to the implementation of the MOU. For this reason, I support the remarks of Jean-David and John. Furthermore, as regards the paper attached to the draft letter I note that the second paragraph on page 4 talks about approval of the financing of K2/R4 without making clear that the EBRD and Euratom have, formally speaking, separate responsibilities. I would therefore propose the following redrafting :

"EBRD has a major role ~~the lead responsibility~~ for completing the economic, financial, environmental and safety analyses".

On 5 September, there will be the EU-Ukrainian Summit at which President Santer will follow the line discussed at Denver, which is also the aim of President Clinton's draft letter.

I am copying this letter to G7 Sherpa colleagues.

Jim CLOOS

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