

June 22, 1978

SECY-78-337

UNITED STATES  
~~CONFIDENTIAL~~  
NUCLEAR REGULATORY COMMISSION

## INFORMATION REPORT

For: The Commissioners

From: James R. Shea, Director, Office of International Programs

Thru: *W. J. Davis*  
Executive Director for Operations

Subject: PROPOSED EXCHANGE OF NOTES WITH YUGOSLAVIA

Purpose: To inform the Commission of recent developments concerning the supply of nuclear fuel for the Krsko nuclear power plant.

Discussion: The State Department has provided NRC with a copy of a proposed exchange of notes concerning US/Yugoslavian nuclear cooperation (Enclosure 1). Also attached (Enclosure 2) is a copy of a message reporting on the recent visit to Yugoslavia of a State Department negotiating team.

As noted in Enclosure 1, several changes were agreed to on an ad referendum basis during the recent U.S. team visit there. State expects the Yugoslavs to indicate their approval by early next week, and wishes to be in a position to give early U.S. agreement. In forwarding the proposed exchange of notes to the Commission, State is not seeking formal concurrence, but does wish to be advised of any problems the Commission sees with the proposed exchange.

*James R. Shea*

James R. Shea, Director  
Office of International Programs

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THE PROVISIONS OF EO 12958, DATED 4/17/95  
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(Declassification Authority/Number)  
Date of Declassification 2/17/2006

Enclosures:

1. Proposed Exchange of Notes
2. Cable from Yugoslavia

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INFORMATION  
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**NOFORN**



DEPARTMENT OF STATE

Washington, D.C. 20520

June 19, 1978

MEMORANDUM

TO: T/D - Dr. Joseph Nye  
S/AS - Mr. Robert Kelley  
EUR/EE - Mr. Samuel Fromowitz  
L/N - Mr. Robert Sloan  
ACDA - Mr. Charles Van Doren  
DOE - Mr. Harold Bengelsdorf  
DOE - Mr. Peter Brush  
NSC - Dr. Jessica Mathews  
PM/NPP - Mr. Allen Locke  
FROM: OES/NET/NEP - Michael A. Guhin *MB*  
SUBJECT: PROPOSED EXCHANGE OF NOTES WITH YUGOSLAVIA

Attached is a proposed exchange of notes concerning US/Yugoslav nuclear cooperation.

As noted in the cable reporting on the recent team visit, three key changes were accomplished during that visit along with some minor modifications. First, the sentence extending the coverage of the Exim Bank Agreement has been moved up and "irrespective of the duration of that agreement" has been added to avoid any possible ambiguity regarding the continued application of the commitments once the Exim Bank loan is paid. Second, the paragraph following the three disposition options has been deleted to make it unambiguously clear that disposition other than storage in Yugoslavia must be under arrangements to which the US subscribes. Third, "if practicable" has been added to the option for storage in the US to indicate that this choice would depend on US approval. You will also note that the reference to "difficulties and differences still appearing" has been deleted from the first paragraph of the previously suggested Yugoslav draft. With the first two changes noted above, I believe criteria four and five or their equivalent would be met for any proposed fuel exports to KRSKO.

The proposed exchange was approved ad referendum during the recent team visit. Yugoslavia expects to have final government approval by June 26. I would appreciate your concurrence in the proposed exchange by noon Wednesday, June 21.

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Attachments:

Proposed US/Yugoslavia Exchange  
of Notes and Proposed Yugoslav  
Letter to IAEA

cc: NRC/IP - Mr. James R. Shea  
NRC/OPE - Mr. James Devine  
NRC/OGC - Mr. Carlton Stoiber

YUGOSLAV PROPOSAL: LETTER OF THE FEDERAL  
SECRETARY FOR FOREIGN AFFAIRS OF THE SFR  
OF YUGOSLAVIA TO MR C. VANCE, SECRETARY  
OF STATE OF THE U.S.A.

I have the honour to refer to the matter of supply of the US nuclear fuel for the Krško Nuclear Power Plant which remained outstanding after we had, on 12 May, 1977, solved the problem of supply of equipment for our first nuclear power plant. The problems which arose at that time, were due to the request of the United States Government to revise the existing agreements on the construction of the Krško Nuclear Power Plant, i.e. the request of the US Government for additional bilateral safeguards.

I would like to take this opportunity to repeat that the Government of the Socialist Federal Republic of Yugoslavia has in its policy always and consistently pledged itself for nuclear disarmament and has, consequently, attached exceptional importance to the halting of the nuclear arms race and prohibition of production, stockpiling and use of nuclear weapons. By ratifying the Treaty on non-proliferation of nuclear weapons (NPT) and by accepting the Agency's multilateral safeguards system it has, for its part, undertaken not to produce nor procure nuclear weapons or nuclear explosives and also that it will not use for military purposes nuclear technology and techniques which it receives. The Government of the SFR of Yugoslavia has most faithfully adhered to the mentioned

commitments and this constitutes a lasting component of its policy.

I would like to note that the Government of the SFR of Yugoslavia, being consistent to its policy of non-proliferation of nuclear weapons, has in connection with the construction of the Krško Nuclear Power Plant undertaken as follows:

(a) Under the agreement between the Government of the Socialist Federal Republic of Yugoslavia and the International Atomic Energy Agency, Yugoslavia has undertaken that the reactor for the Krško Nuclear Power Plant and any nuclear material contained, used, produced or processed in, or by the use of the reactor, shall not be used in such a way as to further any military purpose;

(b) The same agreement specifies that the safeguards' rights and responsibilities of the Agency provided for in paragraph A of Article XII of its Statute are relevant to the Krško Nuclear Power Plant, and that their implementation is satisfied by the application of safeguards procedures pursuant to the Agreement between the Socialist Federal Republic of Yugoslavia and the International Atomic Energy Agency for the Application of Safeguards in connection with the Treaty on Non-Proliferation of Nuclear Weapons;

(c) The Government of the SFR of Yugoslavia will do everything within its competence towards the implementation of the provisions of the Agreement concluded between the Nuclear Power Plant Krško Consortium and the Export-Import Bank, of 25 July 1974, to the effect that no equipment or materials supplied, by the United States to the Krško Power Plant will be exported to or used in any other country, leased, sold or otherwise disposed. It is understood that those undertakings shall apply to all nuclear fuel the Krško Nuclear Power Plant may receive under this arrangement, irrespective of the duration of that Agreement.

We are convinced that the commitments cited above are fully consistent with the nuclear weapons non-proliferation objectives our two countries support and are, therefore, entirely in keeping with prevention of possible misuses and comply with the United States requirements concerning the non-proliferation of nuclear weapons.

As you already know the Government of the SFR of Yugoslavia has, in October 1977, responded to the invitation of the United States Government to participate in the INFCE studies and contribute to the solution of problems related to the use of nuclear energy. Yugoslavia has, together with other participants at the aforementioned Conference, including the United States, supported the attitude that nuclear energy for "peaceful purposes should be made widely available" and expressed its "conviction that effective measures can and should be taken at the national level and through international agreements which would contribute to minimize the danger of the proliferation of nuclear weapons without jeopardizing nuclear energy supply for peaceful purposes."

We are convinced as well as other participants of the Conference that while the INFCE studies are being carried out and new solutions, confirmed by the international community are not adopted, there must not be any changes in the existing arrangements for nuclear fuel supply and transfer of nuclear technology.

The SFR of Yugoslavia has noted that the Government of the United States affirms its interest in the timely issuance of necessary licenses for export of fuel for the first core and first reload as well as subsequent

fuel for the Krško Nuclear Power Plant as may be requested, in accordance with the existing agreements including the Agreement for Furnishing Uranium Enrichment Services under the Agreement for Cooperation of 14 August, 1974, ("The Contract").

Having in mind that the United States considers disposal of irradiated fuel a particular problem, the Government of the SFR of Yugoslavia would like to state the following:

The SFR of Yugoslavia is ready to store the irradiated US fuel, in adequate storage facilities on the territory of the SFR of Yugoslavia for a period of time sufficient for its possible subsequent use in support of the economic development of the SFRY and in accordance with non-proliferation objectives. The SFR of Yugoslavia furthermore expresses its readiness to expand its irradiated fuel temporary storage facilities and notes with pleasure the intention of the United States Government to provide appropriate support ~~to~~ <sup>for</sup> these efforts.

With respect to disposition of the US fuel irradiated in the Krško Nuclear Power Plant the SFR of Yugoslavia shall accomplish such disposition in accordance with the alternatives set forth below:

- A. Storage in the SFR of Yugoslavia;
- B. Storage, processing or other disposition in accordance with internationally accepted arrangements to which both the Government of the SFR of Yugoslavia and the Government of the United States ~~may~~ <sup>shall</sup> subscribe;
- C. Storage in the United States for a fixed fee under related commercial arrangements, if practical.

The Government of the SFR of Yugoslavia understands that the undertakings cited above refer to the first core and first reload and any other subsequent reload that may be requested and transferred. These undertakings may be terminated, it being understood that such termination shall not affect the rights and obligations of the Parties (including those set forth in this Letter) with respect to fuel transferred to the SFR of Yugoslavia prior to such termination. Nothing in these arrangements is meant to affect the terms or conditions of the Agreement for Furnishing Uranium Enrichment Services under <sup>the</sup> Agreement for Cooperation of 14 August, 1974, and the Agreement for the Supply of Uranium Enrichment Services for a Nuclear Power Facility in the SFR of Yugoslavia of 14 June, 1974.

In conclusion, I would like to note that should the SFR of Yugoslavia or the United States subscribe to any new international agreement which would refer to issues regulated by this Agreement, the Government of the SFR of Yugoslavia expresses its readiness to enter promptly into negotiations on necessary modifications for the implementation of those agreements, unless their immediate implementation has been provided for therein.



YUGOSLAV PROPOSAL: LETTER OF MR C. VANCE,  
SECRETARY OF STATE OF THE U.S.A. TO THE  
FEDERAL SECRETARY FOR FOREIGN AFFAIRS OF  
THE SFR OF YUGOSLAVIA

I have the honour to refer to the <sup>Agreement</sup> ~~arrangements~~ among the United States of America, the SFR of Yugoslavia and the International Atomic Energy Agency (IAEA) of 14 June 1974, concerning the use of the United States fuel for the Krško Nuclear Power Plant, including your communication to the Director General of the IAEA and your letter to me of \_\_\_\_\_, and state the following:

The Government of the United States affirms its interest in timely issuance of the necessary licenses for export of fuel for the first core and first reload as well as for subsequent fuel as may be requested for the Nuclear Power Plant Krško, in accordance with the existing agreements, including the Agreement for Cooperation of 14 August, 1974 ("The Contract"). I note that undertakings of the Krško Power Plant Consortium according to the Agreement with the Export Import Bank of 25 July 1974, shall apply to all nuclear fuel the Krško Nuclear Power Plant may receive under this arrangement, irrespective of the duration of that agreement.

I also note with pleasure the readiness of the SFR of Yugoslavia to store the irradiated fuel supplied by the United States under this Agreement in adequate storage facilities on the territory of the SFR of Yugoslavia for a period of time sufficient for its possible subsequent use in support of the economic development of

the SFR of Yugoslavia and in accordance with non-proliferation objectives. Furthermore, I note the readiness of the SFR of Yugoslavia to expand its irradiated fuel temporary storage facilities and I can confirm, on behalf of my Government, that the United States intends to provide appropriate support <sup>for</sup> ~~to~~ these efforts.

With respect to disposition of the US fuel irradiated in the Krško Nuclear Power Plant, the United States understands that the SFR of Yugoslavia shall accomplish such disposition in accordance with the alternatives set forth below:

A. Storage in the SFR of Yugoslavia;

B. Storage, processing and other disposition in accordance with internationally accepted agreements to which both the Government of the SFR of Yugoslavia and the Government of the United States ~~may~~ subscribe;

C. Storage in the United States for a fixed fee under related commercial arrangements, if practical.<sup>b<sub>2</sub></sup>

The Government of the United States understands that the undertakings cited above refer to the first core and first reload and any other subsequent reload that may be requested and transferred. These undertakings may be terminated, it being understood that such termination shall not affect the rights and obligations of the Parties (including those set forth in this Letter) with respect to fuel transferred to the SFR of Yugoslavia prior to such termination. Nothing in these arrangements is

meant to affect the terms or conditions of the Agreement for Furnishing Uranium Enrichment Services under <sup>the</sup> Agreement for Cooperation of 14 August, 1974, and the Agreement for the Supply of Uranium Enrichment Services for a Nuclear Power Facility in the SFR of Yugoslavia of 14 June 1974.

I would also like to note that should the United States and the SFR of Yugoslavia subscribe to any new international agreement which would refer to issues regulated by this Agreement, the Government of the United States expresses its readiness to enter promptly into negotiations on necessary modifications for the implementation of those agreements unless their immediate implementation has been provided for therein.

With respect to cooperation concerning supplying of Yugoslavia with fuel for the Krško Nuclear Power Plant the United States intends to assure that Yugoslavia receives <sup>the</sup> ~~the~~ treatment no less favorable than the one the United States may generally accord to any party with which it cooperates.

YUGOSLAV PROPOSAL: LETTER OF THE FEDERAL  
SECRETARY FOR FOREIGN AFFAIRS TO THE  
DIRECTOR GENERAL OF IAEA

I have the honour to refer to the <sup>Agreement</sup> ~~arrangements~~ among the SFR of Yugoslavia, the United States of America and the International Atomic Energy Agency /IAEA/ of 14 June 1974 concerning the supply of the United States nuclear fuel for the Nuclear Power Plant Krško. As you know the issue of supply of the US fuel for the Krško Power Plant remained outstanding after we had on 12 May 1977, solved with the United States the problem of supply of equipment for our first nuclear power plant /our Note No. 427338 of 18 May, 1977/. The problems which arose at that time were due to the request of the United States Government to revise the existing agreements on the construction of the Krško Nuclear Power Plant, i.e. the request of the US Government for additional bilateral safeguards.

In this connection I would like to inform you that the SFR of Yugoslavia has noted that the Government of the United States affirmed its interest in timely issuance of the necessary licenses for export of fuel for the first core and first reload as well as for subsequent fuel as may be requested for the Krško Nuclear Power Plant, in accordance with ~~the~~ existing agreements including the Agreement for Furnishing Uranium Enrichment Services under the Agreement for Cooperation of 14 August, 1974 ("The Contract"). It is understood that

certain undertakings of the Krško Power Plant Consortium according to the Agreement concluded with the Export-Import Bank of 25 July 1974, shall apply to all nuclear fuel the Krško Nuclear Power Plant may receive under this arrangement, irrespective of the duration of that agreement.

Having in mind that the United States considers disposal of irradiated fuel a particular problem, the Government of the SFR of Yugoslavia declares its readiness to store the irradiated fuel supplied under this Agreement in adequate storage facilities on the territory of the SFR of Yugoslavia for a period of time sufficient for its possible subsequent use in support of the economic development of the SFR of Yugoslavia and in accordance with ~~the~~ non-proliferation objectives. Furthermore, the SFR of Yugoslavia expresses its readiness to expand its irradiated fuel temporary storage facilities and notes with pleasure the intention of the United States Government to provide appropriate support <sup>for</sup> ~~to~~ these efforts.

With respect to disposition of the US fuel irradiated in the Krško Nuclear Power Plant, the SFR of Yugoslavia and the United States have agreed to accomplish such disposition in accordance with the alternatives set forth below:

A. Storage in the SFR of Yugoslavia;

B. Storage, processing or other disposition in accordance with internationally accepted arrangements to which both the Government of the SFR of Yugoslavia and the Government of the United States ~~may~~ subscribe;

C. Storage in the United States for a fixed fee under related commercial arrangements, if practical. <sup>6</sup>  
^ ^

The Governments of the SFR of Yugoslavia and the United States understand that the undertakings cited above refer to the first core and first reload and any other subsequent reload that may be requested and transferred. These undertakings may be terminated, it being understood that such termination shall not affect the rights and obligations of the Parties /including those set forth in this Letter/ with respect to fuel transferred to the SFR of Yugoslavia prior to such termination. Nothing in these arrangements is meant to affect the terms of <sup>A</sup> conditions of the Agreement for Furnishing Uranium Enrichment Services under the Agreement for Cooperation of 14 August, 1974 and the Agreement for the Supply of Uranium Enrichment Services for a Nuclear Power Facility in the SFR of Yugoslavia of 14 June, 1974.

The Governments of the SFR of Yugoslavia and the United States have also agreed that should either of them subscribe to any new international agreement which would refer to issues regulated by this Agreement, they would promptly enter into negotiations <sup>o</sup> on necessary

modifications for the implementation of these agreements unless their immediate implementation has been provided for therein.

The Government of the SFR of Yugoslavia expects that the International Atomic Energy Agency, being a Party to the Trilateral agreement on the construction of the Krško Nuclear Power Plant, will approach the United States Government requesting a prompt issuance of the export licence for the nuclear fuel for the Krško Nuclear Power Plant which is the obligation of the United States Government under provisions of the aforementioned Agreement.

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OES-07 SOE-02 DODE-00 DOE-15 SS-15 SP-02 CEQ-01  
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USIAEA

EO 11652: GDS  
TAGS: ENRG, TECH, PARM, YO  
SUBJ: KRSKO NUCLEAR FUEL ARRANGEMENT

1. WE MET WITH KLJUN AND YUGOSLAV DELEGATION TO REVIEW CHANGES IN DRAFT LETTERS. YUGOSLAV ACCEPTED ALL US PROPOSALS TO AMEND TEXT OF LETTERS AND WE HAVE AGREED AD REFERENDUM ON FINAL LANGUAGE.

2. SIGNIFICANT ALTERNATIONS IN YUGOSLAV DRAFTS ARE:

- A) SOFTENING OF LANGUAGE IN YUGOSLAV LETTER TO IAEA DIRGEN AND YUGOSLAV LETTER TO VANCE REFERRING TO PAST DIFFICULTIES WITH THE US OVER NEW US NONPROLIFERATION LAW AND POLICY.
- B) ADDITION OF "IRRESPECTIVE OF THE DURATION OF THAT AGREEMENT" AFTER STATEMENT THAT CERTAIN US RIGHTS UNDER THE EXIMBANK AGREEMENT APPLY TO ALL FUEL USED AT KRSKO SUPPLIED UNDER THIS ARRANGEMENT.
- C) DELETION OF ENTIRE PARA FOLLOWING THE THREE OPTIONS, CONCERNING NEGOTIATIONS ON FURTHER DISPOSITION OF FUEL USED AT KRSKO.
- D) ADDITION OF "IF PRACTICABLE" FOLLOWING REFERENCE TO STORAGE IN US IN OPTION C.
- E) DELETION OF "MAY" IN OPTION B.

3. WE WILL RETURN TO WASHINGTON WITH COMPLETE AD REFERENDUM TEXT OF LETTERS.

4. IN SUBSEQUENT MEETING WITH BERNARDIC, HE EXPRESSED GREAT PLEASURE WITH REACHING AGREEMENT AT WORKING GROUP LEVEL AND INTENTION TO HAVE GOY APPROVAL SOON. WE INDICATED OUR INTENTION TO SEEK USG APPROVAL OF TEXTS PROMPTLY. BERNARDIC ALSO CLEARLY SIGNALLLED INTEREST IN FURTHER COOPERATION WITH US IN PLANNED NUCLEAR POWER EXPANSION IN YUGOSLAVIA. IN THIS REGARD, WE NOTED IMPORTANCE OF CONTINUING DISCUSSIONS, PARTICULARLY ON PROPOSED AMENDMENT TO US-IAEA AGREEMENT, TO PROVIDE BASIS FOR FURTHER COOPERATION. KLJUN NOTED YUGOSLAV PROBLEM WITH AMENDMENT. BERNARDIC AGREED TO IMPORTANCE OF CONTINUING DISCUSSIONS IN ALL CONTEXTS (BILATERAL, INFCE, AND OTHER MULTILATERAL FORA).  
WORTZEL

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