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**AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523**

**AMENDMENT NO. 1  
to the  
PROJECT MEMORANDUM**

**NEW INDEPENDENT STATES: ENERGY EFFICIENCY AND MARKET REFORM  
(110-0002)**

**Approved: May 21, 1992**

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- TAB D - Initial Environmental Examination
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No. 10 dated 03/30/92

MAY 21 1992

**ACTION MEMORANDUM FOR THE DIRECTOR, NIS TASK FORCE**

**FROM:** NIS/TF, Barbara Turner

**SUBJECT:** Project Authorization Amendment No.1 for the Energy Efficiency and Market Reform Project.  
Project Number 110-002.

**PROBLEM:** Your approval is required to amend the Energy Efficiency and Market Reform Project authorization to increase the LOP from \$1.8 million to \$45.0 million and extend the PACD from February 25, 1994 to February 25, 1996. An additional \$13.8 million are available for obligation at this time.

**BACKGROUND.** To rapidly deal with serious energy shortages in the NIS, this Project was authorized by the Bureau for Europe on January 21, 1992 at a level of \$1.8 million. The project is designed to provide highly visible, high impact activities addressing energy sector problems throughout the NIS which also support U.S. private sector opportunities where the U.S. has a comparative advantage. The original authorization anticipated the need for additional funds which are now being provided by this amendment.

Greater efficiency in energy production and consumption in the NIS will not only assist in addressing the serious energy shortages but it is also critical to successful economic reform and environmental improvement. The sector is characterized by: inappropriate energy policies; inefficient energy production, distribution and end use; declining oil, gas, coal and electrical production; and, aging, poorly maintained and unsafe nuclear power plants. Recent studies indicate that massive improvements and assistance to promote nuclear safety are urgent, critical needs. The original project focused only on improving efficiency in energy production and consumption and on implementing market reforms in the energy sector. It financed technical advisors, and where appropriate low cost equipment.

**DISCUSSION.** To meet additional critical needs in the energy sectors throughout the NIS republics that have been identified since the original Project Authorization, the revised Project now provides assistance in energy efficiency and productivity improvement (district heating, industry, power systems and oil and gas systems); pricing, policy and institutional reform; coal mine management and safety and nuclear power plant safety and regulation.

These activities are expected to: expand the availability of oil, gas and coal production and exports; increase hard currency earnings in the NIS republics; contribute to the reversal of environmental degradation trends; and reduce the risks of major accidents in aging and new nuclear power plants.

Although each of the 12 republics are eligible for all components, not all share the same energy problems. Therefore, only a range of 3 to 6 activities will be extended to each republic on the basis of priority needs. This also recognizes management limitations of U.S. Embassies and USAID field offices. These activities are detailed in TAB A.

The Revised Project Budget is provided in Table I of the Project Memorandum Amendment (Tab A).

**BENEFICIARIES.** The project will directly benefit industrial, mining and energy managers through specific training programs and will indirectly benefit the ultimate consumers and citizens of the NIS republics who depend on these energy sources. It will also directly address social and economic unrest throughout the republics caused by disruptions in the production, and distribution of coal, oil gas and electricity.

**OTHER DONORS.** This project complements the broad energy strategy that has been developed by the international community for the NIS. The strategy for addressing critical energy problems in the NIS was developed by the Energy Working Group (ECG) of the Coordinating Conference on Assistance to the NIS recently held under the auspices of the U.S. Department of State. Fifteen (15) specific actions were outlined by the ECG as critical areas in need of donor assistance. The majority of these are addressed in part by this revised project. The project also complements a National Security Council Study undertaken to analyze the priority needs for nuclear safety. The project implementation will be closely coordinated with energy activities sponsored by the World Bank, European Community, International Energy Agency and other bilateral donors.

**WAIVERS. Competition:** In accord with HB 13, Chapter 2, Sec.3 the NIS energy office will prepare justifications for non-competitive awards of cooperative agreements with the following organizations: 1) A \$2 million grant to the Partners in Economic Reform Inc. (PIER), a PVO, to improve operations and safety of coal mines and to provide assistance in coal production and distribution. 2) A \$1 million grant to the United States Energy Association (USEA) to support an energy enterprise partnership/exchange program (similar to programs of the Europe and R&D Bureaus). These justifications will be submitted to the NIS contract officer for review and approval. In addition the energy office will request a waiver of full and open competition in accordance with FAR 6.302-2 to increase the contract amount for follow-on work to RCG/Hagler Bailly, Resources Management Associates and International Resources

Group to provide selected energy efficiency improvement instrumentation and equipment to be installed in district heating systems and to train personnel in installation, operation and maintenance of the equipment. Nuclear Technology Technical assistance, training, technical cooperation in nuclear safety matters and technologies is being extended to the NIS republics. Section 510, FY1991 Appropriations Act, carried forward under the Continuing Resolution for FY1992, prohibits the use of appropriate funds to "...finance the export of nuclear equipment, fuel or technology." However, Section 121 of the Joint Resolution for continuing appropriations for fiscal year 1992 authorizes assistance to the NIS "...notwithstanding any other provision of law". In approving this authorization, you will be invoking this authority, notwithstanding any other legislative prohibition on such assistance.

**DESIGN AND REVIEW PROCESS.** The design, approval and authorization of this project amendment follows procedures established for Eastern Europe projects and otherwise meets A.I.D. regulations and policies. Staff of the NIS Task Force and the Office of the State Department's Coordinator's Office have participated in the development of this amendment, providing policy guidance and clearing the Project Memorandum Amendment (Tab A).

A Technical Review of the April 3 draft of the Project Memorandum Amendment (PMA) by representatives of AID and State was held on April 7, 1992. The primary concern of participants focused on the number of new activities to be financed and the impact their implementation might have on Embassy and USAID field office workload. Given that all the new activities to be financed have been previously identified and agreed to in international fora, the majority opinion was that there should be no change in new project activities as presented. Comments that were received from other USG agencies on a second draft of the (PMA) that was circulated on April 9 are reflected herein. Based on the above it is felt that all relevant USG agencies support this amendment to the Project.

**CONGRESSIONAL NOTIFICATION (CN).** The Congressional Notification was submitted on March 6, 1992 and expired on March 21, 1992. A copy is attached at TAB B.

**SOURCE, ORIGIN AND NATIONALITY:** Goods and services procured under the Project will have their source and origin in the United States (Code 000) for foreign exchange costs or in the cooperating country for local currency costs. A formal determination under Section 604 (a) of the Foreign Assistance Act of 1961, as amended, was approved March 30, 1992 by the Deputy Secretary of State to remove the NIS from the category of non-Free World countries. (TAB C). Local procurement within states of the NIS will be conducted in accordance with Chapter 18 of A.I.D. Handbook 1B.

**ENVIRONMENTAL CONSIDERATIONS:** The Project will finance technical assistance, training, limited commodity procurement, and pre-investment studies and related activities. The emphasis on improving energy efficiency and introducing energy pricing and policy reforms is expected to contribute to economic savings and reduction in demand for energy inputs, with a corresponding decrease in the production of emissions and waste products. The technical assistance provided will encompass assessments and feasibility work on pollution and environmental control issues, including the feasibility of developing alternative fuel resources (coal, gas and oil) to compete economically and environmentally with and replace or reduce dependence on unsafe nuclear power plants. The substitution of cleaner fuels for coal, the use of modern clean-coal technologies, and the improvement of safety at nuclear power plants are expected positive environmental benefits from the project. All of the above leads to an overall conclusion that the project will have a positive environmental impact.

Under usual energy programs, technical assistance and training activities are categorically excluded from examination under A.I.D. Environmental Procedures 22 CFR Sections 216.2 (c)(1)(i) and 216.2 (c)(2)(i). In the present project, however, a positive determination (setting a requirement for further environmental review in the process of developing specific subproject activities) is recommended. The environmental procedures of DOE will apply to project funds transferred to it. The IEE is contained at TAB D for your signature.

**AVAILABILITY OF FUNDS:** Funds in the amount of \$13.8 million have been apportioned by OMB to A.I.D. for FY 1992 obligation.

**IMPLEMENTATION: Obligation:** Energy efficiency activities under the project are currently being implemented in six of the NIS republics under three contracts with U.S. firms. This amendment will follow those implementation methods - either amending those contracts or seeking additional contractors or grantees. Some funds will be transferred to the R&D bureau for buy-ins to existing energy related projects with American contractors with programs in Eastern Europe and selected programs in some of the NIS republics. It is anticipated that an Inter-Agency Agreement will be negotiated to undertake at least some of the nuclear safety and regulatory improvement activities of the project. A definitive decision concerning this matter is still pending the finalization of discussions with the DOE and NRC. Cooperative Agreements will be negotiated with the Partners in Economic Reform and the United States Energy Association to help finance U.S. private sector support of project activities. Cooperative Agreements will be used as appropriate to carry-out other project activities.

**Monitoring:** Pending the assignment of appropriate field staff, overall project supervision and monitoring will be the responsibility of a project officer assigned to the A.I.D./W, NIS

Task Force (NIS/TF) with field supervision by Regional AID missions or offices. Support to the activity will be provided by other bureaus to the extent workloads and resources permit. AID/W will conduct field visits and will review reports provided by grantees, contractors, participating agencies (DOE) and Embassy staff travelling throughout the region. A.I.D. and contractor/participating agency travel to the field will be cleared in advance with appropriate Regional AID staff.

Quarterly reports will be required of all project implementors (grantees, contractors and participating agencies). Project Implementation Reviews will be conducted on a regular basis. Periodic field assessments will be undertaken with the necessary frequency to ensure good project management.

As determined by the AID/W Project Officer, a Project Steering Committee will be convened periodically to review overall project policy, strategy and management. The Committee will be chaired by the AID/W Project Officer and will be composed of appropriate members of U.S. agencies participating in the project and other relevant U.S. Departments.

Evaluation: Each contractor and implementing agency will prepare an evaluation plan to be approved by A.I.D. Project funds will be made available to finance external evaluations as necessary. An in-house evaluation at the end of the first year may be undertaken to review the program efforts, determine overall project progress and to recommend modifications, if necessary and feasible.

Audit: Contracts executed under the project will provide that the audit and inspection requirements set forth in the Inspector General Act of 1978, as amended, shall apply. A.I.D.'s Inspector General shall ensure full compliance with all applicable provisions of the Act.

Host Country Duties and Taxes and other critical Requirements:  
A circular 175 Authorization was obtained from the Deputy Secretary of State on February 4, 1992 permitting negotiation of U.S.-NIS republics agreements covering these matters (Tab E). A bilateral agreement has been signed with Russia and negotiation with the other republics have commenced. These agreements will include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, as well as audit rights. Each agreement will ensure, inter alia, that A.I.D. funds are not used to pay host country duties or taxes, that site inspections by the IG may be made, and that A.I.D. financed commodities will be used only for project purposes.

**STATUTORY CHECKLIST(S):** State Department completed checklists for all republics of the NIS, except Georgia, on January 17 and February 27, 1992. Copies of those classified documents are on file. Assistance may be extended to Georgia in the near future;

however, this will be done only after a checklist is completed for that state, and after "taking into account" matters are reviewed and approved by the Administrator specifically for that State.

Because certain states of the former Soviet Union are indebted to U.S. citizens, the Secretary of State issued a 620(c) determination on January 20, 1992 that program activities may proceed based on national security considerations. (TAB F).

All "taking into account" matters were reviewed and approved by the Administrator on January 18, 1992 (TAB G). One matter needed consideration: pursuant to FAA Section 620(1), OPIC has initiated negotiations for an investment guarantee agreement but it has not yet executed agreements with any of the Newly Independent States to whom we render assistance; it was determined that assistance should be permitted under existing circumstances.

**AUTHORITY:** On September 10, 1991, the Secretary of State signed a Section 620(f) determination (TAB H) to permit assistance for the former Soviet Union. You have authority to authorize this project pursuant to Interim Reorganization Delegation of Authority No. 10 dated March 30, 1992 (TAB I), from the Associate Administrator for Operations.

**RECOMMENDATION:** That by signing below and where indicated you:

(1) authorize this Amendment to the Energy Efficiency and Market Reform Project, AID Project No. 110-0002, a four year activity which involves planned life-of-project funding of \$45.0 million, subject to the availability of funds (Project Memorandum Amendment, TAB A);

(2) approve a new Initial Environmental Examination (TAB D) covering the additional activities; and,

(3) approve the Nuclear Safety and Regulatory component of the project pursuant to "notwithstanding" authority; and,

This authorization is approved with the understanding that the scope of the project will be reviewed and reduced where possible prior to the obligation of funds beyond the additional \$13.8 million available at this time. This will be part of a larger effort to insure focus and concentration in the NIS portfolio.

Approved: M. J. [Signature]

Disapproved: \_\_\_\_\_

Date: MAY 21 1992

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- TAB G - A/AID's "Taking into Account", 3/25/92
- TAB H - 620(f) Determination dated 9/10/91
- TAB I - Interim Reorganization Delegation of Authority  
No.10, dated 03/30/92

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drafted by: AdeGraffenreid EUR/PD, EMarkeset NIS/TF

Clearances :

NIS/TF: HJohnson [Signature] Date 5/12/92

NIS/TF: INesterczuk [Signature] Date 5/11/92

GC/NIS: TGeiger [Signature] Date 5/11/92

NIS/TF: CMoseley [Signature] Date 5/11/92

ST/D/CISA: CRufennacht Draft Date 5/11/92

PROJECT MEMORANDUM AMENDMENT  
(5/6/92)

Country: New Independent States Regional

Project Title: Energy Efficiency and Market Reform

Project Number: 110-0002

Life of Project Funding: \$45.0 million (4 years)

Current Authorized Funding: \$1.8 million (ESF Grant)

Proposed Amendment: \$13.8 million (ESF Grant)

I. PROJECT PURPOSE: To improve the efficiency of energy production, distribution, and consumption in the New Independent States (NIS) of the former Soviet Union and to help implement energy sector market reforms.

II. PROJECT ORIGIN AND STATUS: In his December 12, 1991 speech at Princeton University, Secretary of State Baker identified food distribution, energy and housing as sectors likely to be critical to the success of democracy and free markets in the former Soviet Union and related United States assistance to support of American business. During the speech Secretary Baker referred to President Bush's designation of Deputy Secretary of State Lawrence Eagleburger as United States Government Coordinator of our assistance efforts to the NIS.

On January 21, 1992, the Energy Efficiency and Market Reform Project No. 110-0002 was authorized with an initial funding level of \$1.8 million dollars "to improve energy efficiency and promote energy price and market reforms". The project authorization noted, "It is likely that over the course of the Project, a decision will be made to augment the resources allocated, as well as to extend the Project Assistance Completion Date. The current PACD is February 25, 1994. When appropriate, the Project Authorization will be amended to reflect any such changes." Subsequently, nuclear power plant safety has resurfaced as a major United States and international concern.

All but \$40 thousand of the \$1.8 million authorized on January 21, 1992, have been obligated through three technical assistance contracts with three firms with experience in Eastern Europe. The obligated funds are being used to identify opportunities to improve the efficiency of selected district heating systems in Russia, Ukraine, Byelarus, Armenia, Kazakhstan and Kyrgyzstan and to procure small amounts of instruments and equipment (about \$50,000 worth for each of the six initial countries).

In March three USDH headed teams visited the original six

beneficiary countries to establish contacts with host country counterparts, explain the energy efficiency activity, select demonstration district heating systems, negotiate implementation plans and identify local subcontractors for the U.S. project consultants. Other important objectives of the teams were to establish host country contacts, demonstrate a United States presence and interest, and to learn more about the energy sectors and relevant socio-economic condition of each republic including other technical and economic assistance needs.

All objectives of the initial visits were achieved in early April 1992 and contractor teams returned to the six republics; Russia, Ukraine, Byelarus, Armenia, Kazakhstan and Kyrgyzstan and initiated energy audit activities that will be finished in May.

During the period of May through August 1992, the contractors will procure selected energy efficiency improvement instruments and equipment, ship them to the respective countries, supervise their installation and instruct district heating system personnel in their proper use and maintenance. In late September and October, the contractors and host country counterparts will conduct seminars in each country to review and disseminate information concerning the results of the audits.

At the suggestion of the State Department's Office of Global Energy, the \$40 thousand identified above as not having been obligated will be used to cover a portion of the cost of an international energy sector seminar in Brussels in May and finance the participation therein of NIS officials.

Work remaining under the original \$1.8 million authorization includes the review and approval of six draft assessment reports and recommendations, the processing of country clearances and possible participation in one or more of the seminars.

III. REVISED PROJECT RATIONALE: The United States has now recognized all 12 of the NIS states (Russia, Ukraine, Kazakhstan, Byelarus, Armenia, Kyrgyzstan, Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan, Moldova and Georgia). The energy sector is of critical importance in each of these newly independent states. Inappropriate energy policies, inefficient energy production, distribution and end-use, and declining oil, gas, coal and electricity production pose serious threats to the transitions of all the states to democratic societies and market economies. Internationally recognized safety risks of aging and poorly controlled and maintained nuclear power plants contribute significantly to the gravity of the situation for several of the countries, place strains on newly developing bilateral relationships and pose a significant safety risk for the region and beyond.

Together, the United States government and the private sector have

extensive experience in all the problem areas of the NIS energy sectors and in various limited ways have already begun to apply that experience there. This project will support and build on earlier and on-going private sector and government efforts through the support of carefully selected demonstration activities to identify energy savings opportunities; quantify the results of energy efficiency investments; promote energy policy reform in such areas as pricing, legal and regulatory framework, investments, privatization, nuclear safety and environmental protection; encourage private sector energy development; commercialize energy efficient technologies; and improve operation and management of power plants, district heating systems, critical industries, refineries, natural gas and oil transmission-distribution systems, and coal mines. In response to requests of NIS governments during energy team visits, special attention will be given to the familiarization of a broad spectrum of NIS leaders and specialists with energy aspects of U.S. market economy and U.S. technology and energy products.

IV. REVISED PROJECT DESCRIPTION: This project amendment increases authorized and life of project funding from \$1.8 million to \$15.6 and \$45 million respectively and extends the PACD from February 25, 1994 to February 25, 1996. In line with international and Inter-Agency discussions and agreements (see Attachments I, II-A and II-B), it expands activities to include activities in nuclear power plant safety and regulation; coal, gas, oil and electricity production and delivery systems; and energy pricing and institutional reform while continuing the support of energy efficiency and environmental improvement. All activities will be carefully coordinated with activities financed by other bilateral and international agencies.

A. NUCLEAR POWER PLANT SAFETY AND REGULATION: The most important and urgent of the new activities of the project are civilian nuclear power plant safety and regulation. Intense Inter-Agency efforts are presently underway to develop a comprehensive USG position and response to the very high risks posed by aging nuclear power plant reactors in the NIS. In considering how to reduce or eliminate the safety risks of operating the NPPs, two basic options are available:

- (1) improve the design, operations and maintenance of on-line NPPs and
- (2) reduce or eliminate the need to continue operating some or all of the NPPs.

To date, attention has been focused primarily on the first option. The cost, time required and limited possibility of achieving an acceptable level of risk reduction in the RBMK and VVER 440/230 type nuclear power plants make it imperative that both options be given early and simultaneous attention. (The RBMK (Chernobyl type)

and the VVER 440/230 are two types of nuclear power plants which have serious deficiencies in operational safety and design. There are a total of 15 RBMKs and 6 VVERs in the NIS.) This component will support option (1) activities. Option (2) activities will be supported under the Coal, Gas, Oil and Electricity Component that is described below.

The nuclear power safety and regulation activities under this component will focus on immediate safety improvements through such actions as:

- the identification, development of cost estimates, prioritization and implementation of the most urgent operational safety improvements. These would likely include :

- o improved standard and emergency operating procedures;
  - o improved management and operational controls;
  - o improved fire detection and control capability;
  - o improvements in separations and redundancies of critical electrical and control systems;
  - o training of plant operators, fire protection personnel, safety inspectors, and other regulatory and relevant community leaders and personnel;
  - o practice emergency operations involving pertinent levels of government, and plant personnel to assess and improve emergency procedures and plans;
  - o procurement of low-cost instruments and equipment such as computers, operations controls, smoke and radiation detectors, fire protection systems and selected spare parts.
- regulatory reform measures such as:
- o translation and supply of relevant documents and publications;
  - o development of legislative, legal and liability frameworks;
  - o exchange of regulatory personnel in nuclear material safety, safeguards accounting techniques, regulatory law and use of equipment for detecting and monitoring radioactive sources.
  - o exchange of regulatory personnel.
- identification of major critical and urgently required plant safety up-grade measures.

Attachment IV provides information concerning already concluded and on-going United States and international nuclear safety activities in the NIS.

Documents to obligate the \$3 million dollars identified in Table I for Nuclear Power Plant Safety and Regulation activities will be finalized as soon as Inter-Agency agreement is reached. It is anticipated that the agreement will be reached by May 21, 1992.

B. COAL, GAS, OIL AND ELECTRICITY PRODUCTION AND DELIVERY SYSTEMS: The activities that will be funded under this component will promote reforms in the energy sector that balance supply and demand through improved production from existing facilities, the development of additional capacity and through conservation and efficiency driven reductions in demand. In addition to their own importance these activities will also support the second option identified above for reducing dependence on unsafe nuclear power plant.

Illustrative activities include:

- study of the short, medium and long-term interventions to balance electricity supply and demand of selected NIS power systems through such measures as the rehabilitation and improved operations and maintenance of conventional power plants, reductions in power system losses, inter-connection expansions, improved load management, and improved end-use efficiency;
- identification of any cost effective short, mid, and/or long-term actions that might be taken to increase the ability of coal, oil and/or gas to compete economically and environmentally with unsafe power plants;
- study the technical, environmental and economical feasibility of converting unsafe nuclear power plants to use alternative fuels such as coal, oil and gas;
- analysis of the extent to which the general turn-down in the NIS economies and the associated reduction in demand for electricity might allow the short-term shut-down of unsafe nuclear power plants before safer power plants can be built and placed in service; and
- improvements in the productivity, efficiency and management of non-nuclear power plants, oil and gas fields and delivery systems, and coal mines.

The primary criteria for selecting activities to be funded under this component will include the potential to reduce the need to operate unsafe nuclear power plants, the likelihood that transferred know-how and technology will be disseminated and used

beyond the demonstration activity, the potential of the sub-project or activity to require and generate a demand for American products and services.

The only pre-selected activity under this component is Coal Management and Safety. Coal production and distributions systems have suffered significantly from the political, social and economic changes sweeping the NIS. Of particular importance is serious deterioration of coal mine safety and health conditions. In recognition of the economic, social and political importance of this vital energy resource, the United States Coal Industry, several American railroads and the AFL-CIO have already begun to supply limited advice and assistance to four key coal mining regions (Kuzbass and Vorkuta of Russia, Donbass of the Ukraine, and Karaganda Basin of Kazakhstan). A high priority activity under the project will be to support and build on those activities through a Cooperative Grant to Partners in Economic Reform, Inc. (PIER), a Private Volunteer Organization that the above mentioned entities have recently established to manage their assistance efforts.

The PIER program will include training in basic management concepts and skills required in a market economy; provision of information to democratic trade union leaders to improve operations and safety at the mines; assistance in establishing effective industrial relations systems in a market environment; and, facilitating business relationships between the public and private leadership of the region and U.S. private companies with needed technology and resources. Additional details concerning the program are provided in Attachment V.

A total of \$4.0 million are identified in Table I for the broad range of activities of this component including \$2 million for the Coal Management and Safety Cooperative Agreement with PIER and \$2 million to buy-in to the R&D/EI contracts identified in Table II. Implementing documents for all activities will provide for funds to be used only to finance discrete NIS activities that are selected according to the criteria identified above through individual task orders that are formally approved in advance by the NIS/TF Project Manager. In addition, each of the buy-in PIO/Ts will require separate accounting of NIS/TF funds, separate reports concerning each task order and define NIS/TF's program-ownership responsibility and roles including work acceptance and voucher clearance and approval rights and procedures.

C. ENERGY PRICING AND POLICY AND INSTITUTIONAL REFORM: The focus of these activities will be on the familiarization of NIS energy sector policy makers, managers and specialist with energy sector aspects of America's market economy. These activities will also support the reduction of the safety risk of nuclear power plants (NPPs) by contributing to a better understanding of the potential to reduce or eliminate the need to continue operating some or all of the NPPs. The criteria for selecting pricing and policy and

institutional reform sub-projects and activities will be the same as those used to select category B sub-projects and activities.

Activities financed will include technical assistance, training and applications equipment including computer hardware and software needed to help move the energy sector toward a market economy, formulate new laws and regulatory systems that encourage competition and private sector participation in oil, gas, and electricity production, distribution, and end-use. Technical assistance and training will also address privatization concepts and methodologies for assessing private sector energy opportunities. U.S. experts will work with NIS officials and private entities and individuals to identify potential cogeneration, power, oil, gas, and other energy sector opportunities for private participation and privatization and to facilitate the consideration of U.S. industry interests and proposals.

An activity that is in the advanced discussion stage is the provision of U.S. commodity trade experts of such organizations as the New York Mercantile Exchange, to provide advice and assistance in the establishment of energy commodity markets, on trade and contractual arrangements between companies, and on trade within and between NIS. A key objective of the advice and assistance would be to enhance the effectiveness of energy commodities markets by developing and implementing an energy trading information network linked to international markets.

Table I identifies a total of \$2.3 million for this Category of activities. The funds will be obligated through contracts and grants/ cooperative agreements that are at various stages of preparation. A priority activity is for the commodity markets activity through a \$0.8 million buy-in to R&D/EI's Energy Training Project. Of the remaining funds, approximately \$1.0 million will be used to support an energy enterprise partnership/exchange program of the United States Energy Association (similar to programs of the Europe and R&D Bureaus) and a \$0.5 million buy-in to R&D/EI's Private Sector Development Project. The conditions described above under Category B concerning buy-ins to R&D/EI contracts apply equally to the PIO/T's mentioned in this paragraph.

D. ENERGY EFFICIENCY AND ENVIRONMENTAL IMPROVEMENT IN ELECTRIC POWER, REFINERIES, INDUSTRIES AND BUILDINGS: Most of these activities are already under way. Their status is as reported above under the heading, Project Origin and Status. The two exceptions are refineries which were identified in the State Department's Press release of January 23, 1992 (Attachment II-A). Demonstrational improvements in electric power generation, industries and buildings are the essential elements of the District Heating Efficiency Improvement Activities in six republics (Russia, Ukraine, Byelarus, Armenia, Kazakhstan and Kyrgyzstan) that are in an advanced stage of implementation. As identified in Table I,

approximately \$2.0 million of the present authorization will be used to increase funds for district heating efficiency improvement. The funds which will be committed through amendments to project funded contracts will be used to procure additional instruments and equipment in already selected heating systems, finance fuel and heat pricing and institutional analysis activities that could not be covered fully out of the first \$1.8 million authorized and disseminate the results of district heating efficiency audits and investments through out the NIS.

The balance of Category D funds (approximately \$ 1.5 million) will be used to undertake demonstrational energy efficiency activities and performance improvement audits and investments in key refineries in one or two republics. Funds for these activities will be obligated through a buy-in to R&D/EI's Energy Technology Innovation Project. The basic criteria for selecting the refineries will be the relative economic importance of the refineries in the national or regional economies that they serve, the likelihood that transferred know-how and technology will be disseminated and used beyond the benefiting refinery, the potential of the sub-project to require and generate a demand for American products and services and the work-load the activity might place on USAID and Embassy staff.

V. RELATIONSHIP TO SECTOR STRATEGY: The Energy Working Group of the January Coordinating Conference on Assistance to the NIS developed a set of eight actions for implementation. Attachment I is the Energy Assistance Fact Sheet of the Energy Working Group. Three of the activities on the Fact Sheet (District Heating Systems Efficiency, Refinery Efficiency and Coal Mine Management and Safety) were included in the Department of State's January 23, 1992 announcement of United States Initiatives in favor of the NIS (Attachment II-A). The other items are reflected in State 032935 (Attachment II-B).

These three documents identify immediate energy technical assistance needs to be: increasing coal production and mining safety; assurance of adequate electricity supplies; district heating efficiency improvement; natural gas pipeline upgrading and management-operations improvement; private sector energy development; existing oil refineries energy efficiency improvement; and, energy end-use efficiency improvement.

The Safety and Regulation of Nuclear Power Plants have been added to the list in response to growing concern in the United States and the international community in general about the safety and control of such plants in Eastern Europe and the NIS (Russia, Ukraine, Armenia and perhaps Kazakhstan) and recent discussions within the USG.

VI. ILLUSTRATIVE BUDGET:

See TABLE I.

VII. ENVIRONMENTAL CONSIDERATIONS: The Project will finance technical assistance, training, limited commodity procurement, and pre-investment studies and related activities. The project is likely to have a significant, but positive environmental impact. The technical assistance provided will encompass assessments and feasibility work on pollution and environmental control issues. Activities aimed at rehabilitation and/or new energy production facilities will include an environmental review process. The project will give special emphasis on improving energy efficiency. The savings from these activities should reduce the demand for energy inputs and production of emissions and waste products. The substitution of cleaner fuels for coal, the use of modern, clean-coal technologies and the improvement of safety at nuclear power plants are also important benefits from the project. Under usual energy programs, technical assistance and training activities are excluded from examination under 22 CFR 216.2(c)(1)(i) and 216.2(c)(2)(i). In the present project, however, a positive determination (setting a requirement for further environmental review in the process of developing specific subproject activities) is recommended. The environmental procedures of DOE will apply to project funds transferred to it.

VIII. IMPLEMENTATION: Obligation: Some activities under the project are currently being implemented in six NIS republics under contracts with three U.S. firms. This amendment will follow those implementation methods - either amending those contracts or seeking additional contractors or grantees. Some funds will be transferred to the R&D bureau for buy-ins to existing energy related projects with American contractors. The last paragraph of Section IV provides details concerning such buy-ins and how NIS/TS and R&D/EI will share implementation responsibilities. It is anticipated that an IAA will be negotiated with DOE/NRC to undertake the nuclear safety and regulation activities. Cooperative Agreements will also be used when appropriate.

Monitoring: Overall project supervision and monitoring will be the responsibility of a project officer assigned to the A.I.D./W, NIS Task Force (NIS/TF) with field supervision by Regional AID Missions or offices. Support to the activity will be provided by other bureaus to the extent workloads and resources permit. AID/W will conduct field visits and will review reports provided by grantees, contractors, participating agencies (DOE) and Embassy staff travelling throughout the region. A.I.D. and contractor/participating agency travel to the field will be cleared in advance with appropriate Regional AID staff.

Quarterly reports will be required of all project implementors (grantees and participating agencies). Project Implementation

(grantees and participating agencies). Project Implementation Reviews will be conducted in Washington on a regular basis. Periodic field assessments will be undertaken with the necessary frequency to ensure good project management.

As determined by the AID/W Project Officer, a Project Steering Committee will be convened periodically to review overall project policy, strategy and management. The Committee will be chaired by the AID/W Project Officer and will be composed of appropriate members of U.S. agencies participating in the project and other relevant U.S. Departments.

Clearance: The Coordinator's Office has fully participated in the development of this amendment, providing policy guidance and clearing the Project Memorandum.

Other appropriate clearances have also been obtained. The Technical Review of the Project Memorandum Amendment (PMA) by inter-bureau offices within AID was completed on April 7, 1992 and revisions to the draft PMA have been incorporated in this version. The primary concern was whether to reduce the number of activities so as to improve impact and management oversight. Since the activities have been previously identified and negotiated in international fora by State and A.I.D. and since the technical aspects ensured inter-linkages, it was determined that there should be no change in the scope of the project as presented.

Evaluation: Each contractor and implementing agency will prepare an evaluation plan to be approved by A.I.D. Project funds will be made available to finance external evaluations as necessary. An in-house evaluation at the end of the first year may be undertaken to review the program efforts, determine overall project progress and to recommend modifications, if necessary and feasible.

Audit: Contracts executed under the project will provide that the audit and inspection requirements set forth in the Inspector General Act of 1978, as amended, shall apply. A.I.D.'s Inspector General shall ensure full compliance with all applicable provisions of the Act.

Host Country Duties and Taxes and other critical Requirements:

A circular 175 Authorization was obtained from the Deputy Secretary of State on February 4, 1992 permitting negotiation of U.S.-NIS republics agreements covering these matters. A bilateral agreement has been signed with Russia and negotiation with other republics are in progress. These agreements will include appropriate language concerning aid recipients' responsibilities and contributions, duties and taxes, as well as audit rights. Each agreement will ensure, inter alia, that A.I.D. funds are not used to pay host country duties or taxes, that site inspections by the IG may be made, and that A.I.D. financed commodities will be used only for project purposes.

Attachments:

I: Conference Energy Assistance Fact Sheet  
 II-A: State Department Press Release  
 II-B: State 032935  
 III: Nuclear Safety and Regulation  
 IV: Coal Management and Safety Subproject

Proposed Timeline:

- May 12, 1992: Project Authorization Amendment Signed.
- May 20, 1992: Cooperative Agreements with PIER and USEA Submitted to Contracts.
- June 3, 1992: Cooperative Agreements Signed.
- May-June, 1992: PIO/Ts for Buy-in to R&D Contracts; ETIP, PSED and ETP Completed and Contracts Signed.
- May 29, 1992: Contract Amendments Signed with; RCG/Hagler Bailly, RMA and IRG (District Heating Systems).
- June 1, 1992: Complete Energy Audit Activity (District Heating).
- May-September, 1992: Contractor Select, Ship and Install Energy eff. Equipment for District Heating Systems.
- September-October, 1992: Contractor to Host Country Counterparts & Conduct In-Country Seminars.
- June 8, 1992: IAA with DOE/NRC Signed.
- June , 1992: Round Table Conference with US Private Firms and US Government Agencies.
- June-July, 1992: AID led Energy Team (USG Agencies & US Private Sector) to NIS Countries to Finalize Energy Program with Host Country Participation.
- June, 1993: In-House Evaluation.
- July/92-Dec/93: Implementation of Activities Listed in Table I of PMA.
- February 25, 1996: PACD.

NIS/TF:CMoseley/EMarkeset  
 Revised 5/5/92  
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TABLE I  
ILLUSTRATIVE BUDGET  
(in \$ million)  
BY Category

	<u>Authorization</u>			<u>Life of Project(1)</u>
	<u>1st</u>	<u>This</u>	<u>Sub-Total</u>	
<b>A. <u>NUCLEAR POWER PLANT SAFETY AND REGULATION:</u></b>				
Safety and Regulation	0.0	3.0	3.0	TBD (1)
<b>B. <u>PRODUCTION AND DELIVERY SYSTEMS:</u></b>				
Coal	0.0	2.0	2.0	TBD (1)
Oil & Gas	0.0	1.0	1.0	TBD (1)
Power Sector	0.0	1.0	1.0	TBD (1)
<b>C. <u>PRICING, POLICY AND INSTITUTIONAL REFORM:</u></b>				
Reform	0.0	0.5	0.5	TBD (1)
Training	0.0	1.8	1.8	TBD (1)
<b>D. <u>EFFICIENCY AND PERFORMANCE IMPROVEMENT:</u></b>				
District Heating	1.8	2.0	3.8	TBD (1)
Refineries	0.0	1.5	1.5	TBD (1)
<b>E. <u>UNALLOCATED:</u></b>				
To Be Determined	<u>0.0</u>	<u>1.0</u>	<u>1.0</u>	<u>30.4 (1)</u>
<b>TOTAL:</b>	1.8	13.8	15.6	45.0 (1)

(1) It is too early to budget Life-of-Project amounts for each of the activities to be undertaken during this still initial phase of this project. The number of countries (12) that are candidates for assistance under the project, the diversity of their energy sectors and problems and United States interest combine to require that the project be designed to accommodate a broad range of needs and requests. It is anticipated that with the exception of the larger countries, only 2 or 3 of the 8 activities listed would be included in the energy activity portfolio of a given country. See project description for details. The Congressional Presentation provided the following breakdown of uses of the \$45 million Life-of-Project funding shown therein:

Technical Assistance:	\$25 million
Training:	10 million
Commodities:	<u>10 million</u>
Total	\$45 million

TABLE II

ENERGY EFFICIENCY AND MARKET REFORM PROJECT  
 PROJECT NO 118-0002  
 LIFE OF PROJECT FUNDING \$45.0 MILLION  
 LCP 5 YEARS

Category	Illustrative Budget (\$ million)	Life of Project Budget (\$ million)	Funds Committed	Status of Contract	Type and Length of Contract	Host Republics	Area of Emphasis	Name of Contractor	Name of Prime Contractor	Management Responsibility
Status as of 4/1/88										
<b>A. OFF-SAFETY AND REGULATION Safety/Regulation</b>	3.0	TBD	0.0	In Negotiation	Inter-Agency Agm					DOE & NRC
<b>B. PRODUCTION &amp; DELIVERY SYSTEMS</b>										
Coal	2.0	TBD	0.0		Cooperative Agm		Coal Mine Mngmt & Safety		Partners for Econ Reform	
Oil & Gas	1.0	TBD	0.0	PIQ/T in progress	Buy - into R&D/EI proj 5741		Gas Pipeline	ETP	Bechtel	
Power Sector	1.0	TBD	0.0	PIQ/T in progress	Buy - into R&D/EI proj 5741		Power Plant Efficiency	ETP	Bechtel	
<b>C. PROGRAM, POLICY &amp; INSTITUTIONAL REFORMS</b>										
Reviews	0.5	TBD	0.0	PO/T in progress	Buy - into R&D/EI proj 5738		Privatization	PS&D	K & M	
Training	0.8	TBD	0.0	PIQ/T in progress	Buy - into R&D/EI proj 5734		Commod/Energy Training	ETP	Institute for Int. Educat	USEA
Testing	1.0	TBD	0.0		Coop Agreement					
<b>D. EFFICIENCY/PERFORM IMPROVEMENTS</b>										
District Heating	3.8	TBD	1.8	Cont. Amend. in progress	EUROCON Contract	KAZ, KYR, UKR, BYE, RUS, ARM				ENR, RMA, BCRQ/Hugh - Bechtel
Railroads	1.5	TBD	0.0	PIQ/T in progress	Buy - into R&D/EI proj 5741			ETP		
<b>E. UNALLOCATED To be determined</b>	1.2	20.4	9.2							
<b>TOTAL :</b>	<b>15.8</b>	<b>46.0</b>	<b>1.8</b>							

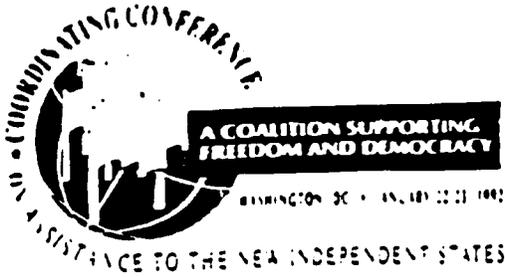
The Congressional Presentation provided the following breakdown of uses of the \$45 million LCP funding:

Technical Assistance	\$25 million
Training	\$18 million
Commodities	\$12 million
Total	\$45 million

ETIP, Energy Technology Innovation Project  
 ETP, Energy Training Program  
 PS&D, Private Sector Energy Development Project  
 USEA, United States Energy Association

KAZ, Kazakhstan  
 KYR, Kyrgyzstan  
 RUS, Russia  
 UKR, Ukraine  
 ARM, Armenia  
 BYE, Belarus

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ATTACHMENT I

January 23, 1992

**ENERGY ASSISTANCE**  
**FACT SHEET**

**THE PROBLEM**

- Oil, coal and electricity production have significantly decreased in the new independent states due to lack of internal investment, dislocations in the equipment supply system and general economic decline, including strikes in energy-producing sectors. The lack of a satisfactory legal regime has hindered foreign investment.
- Decreased production and disruptions in the distribution system have caused severe energy shortages in several regions of the new independent states.
- Adequate supplies of energy are crucial to sustaining the democratic and market economic reform movements in the new independent states.

**ACTIVITIES**

The framework for the successful implementation of these actions must include: (1) full cooperation with authorities of the new independent states, both in identifying and meeting urgent needs; (2) involvement of the commercial sector to the fullest extent possible; and (3) compatibility with the fundamental restructuring of the energy sector in a market-oriented direction in line with the commitments under the European Energy Charter as agreed in December 1991 by 45 signatories.

The Energy Working Group is planning the following actions which will have short and medium term results:

1. Starting immediate consultations with the new independent states to agree on priorities. Experts from industry will participate. Full use will be made of experiences in the former socialist countries of Central and Eastern Europe.
2. Assuring adequate and prompt fuel supplies for the transport of food and medical assistance from ports of entry to points of consumption. NATO could contribute to this effort.

3. Supporting the efforts of coal miners in the Donetsk, Ukraine and Kuznetsk, Russia basins to improve productivity, ensure supplies for power generation, increase health and safety conditions, and raise the quality of life.
4. Seeking to increase the energy efficiency of heating districts in large cities of the new independent states, with a particular emphasis on assuring improvements in home heating and critical industries, such as food processing.
5. Working with the new independent states to anticipate and respond to fuel and electricity needs for agriculture and food processing for 1992 spring planting and fall harvest. In addition, developing a regional approach to meet fuel problems in the fishing and fish processing industries in the Far East.
6. Beginning a dialogue with the energy-producing new independent states to encourage adequate supply to areas with significant shortfalls in fuels, such as Armenia and Kyrgyzstan.
7. Promoting private industry efforts, with the assistance of international financial institutions, to overhaul pipelines and gas compressor stations in Russia, Ukraine and Belarus with the objective of cutting transmission losses. Immediately offering technical expertise in the management, maintenance and operation of pipelines under market conditions.
8. Working with private industry to provide spare parts and essential equipment, management skills and resources to rapidly restart production in existing petroleum fields. Encouraging the new independent states to open fields for the private sector. Also providing assistance to improve energy efficiency of existing refineries.

#### NEXT STEPS

- Working Group co-chairs will collect, assess and distribute information on existing bilateral programs.
- Immediately following the consultative mission, the Working Group will meet to evaluate results and finalize plan of action, including implementation mechanisms.
- A briefing of the new independent states on the conference results will be undertaken by the co-chairs in cooperation with the contact group in Minsk next week.

U.S. DEPARTMENT OF STATE

ATTACHMENT II-A

Office of the Assistant Secretary/Spokesman

For Immediate Release

January 23, 1992

UNITED STATES GOVERNMENT INITIATIVES

MEDICINE

- DOD Medical Supplies. The USG will ship excess medical supplies (non-war reserve stocks) to regions in critical need and provide distribution through the assistance of private voluntary agencies.
  - DOD is prepared to make available excess Desert Storm stocks including the equivalent of five C-5 aircraft-loads of medical supplies (gauze, syringes, catheters, etc.), from stocks located in Oakland, California.
  - DOD will also supply \$8.7 million of Desert Storm stocks of multi-purpose oral antibiotics (Ciprofloxacin) -- which represents more than 1 million doses and a sixth C-5 load of medical supplies -- stored in Pirmasens, Germany.
  - DOD has also identified 58 sea containers of excess medical consumables stored in California that can be shipped to the new independent states.
  - DOD is continuing to assess its inventory of excess medical stocks that can be used for emergency assistance.
- Emergency Medical Program. This program will help to alleviate critical shortages of essential medicines and medical supplies including antibiotics for the treatment of respiratory and other infectious diseases, vaccines to immunize children and the elderly against life threatening diseases, drugs to treat cardiovascular diseases and cancers, and disposable gloves and syringes to prevent the spread of infections.
  - Through leveraging private contributions, we expect this program to lead to over \$50 million in medicines and medical supplies for the new independent states.
  - Over 50,000 children will be treated or vaccinated through this program. The program is expected to begin Summer 1992.

Medical Airlift. The USG will provide logistics support (that is, air crews and planes) for one C-5 or equivalent-sized shipment of medicines and medical supplies donated by any or all of the Conference participants to the new independent states.

- Farmer-to-Farmer Program. Over the next three years, the U.S. will provide up to 2,000 farm volunteers, for periods of 30 to 90 days, to work directly with private farmers in the independent states to help them increase farm production and income. This program will initially target Armenia, Russia, Ukraine, and Kazakhstan starting this Spring.
- Low-Cost Food Storage. The USG will help alleviate one of the most serious problems in the food production chain in the former Soviet Union by helping to fund the installation of low-cost storage systems to reduce the amount of food wastage.
- U.S. Agriculture Extension Services. The U.S. will expand its current extension service program in Armenia to Kazakhstan and Uzbekistan to teach basic skills to private farmers and improve food distribution and market information.
- Delivering Desert Storm Stocks. DOD is making available approximately 38.4 million pounds of Desert Storm food stocks. This represents \$44.6 million worth of food and can provide 16 million meals.
  - These stocks can help alleviate some of the food shortages in the Donbass, Volga, Urals, and Kuzbass industrial regions as well as St. Petersburg, Moscow, Arkhangelsk, Murmansk, and Petrazavodsk.
- \$165 million in Food Aid. The United States has already announced our intention to deliver up to \$165 million in grant food aid. In part, this money is already being used to fund:
  - Food Deliveries to St. Petersburg: The US will work with local authorities to deliver 400 tons of dry milk to St. Petersburg over the next four months
  - Food Deliveries to Armenia: Via the Armenian-American church, the USG will provide 10,600 tons of butter, butter oil, and wheat bulgur to Armenia.

### ENERGY

Energy Efficiency Project (Home Heating). U.S. experts will help repair and increase the efficiency of central heating plants for residential districts and also demonstrate how to save energy in industrial plants.

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- This program will focus on refineries, large-heating plants, and residential energy efficiency in the new independent states.
- Coal Mine Safety Project. This initiative consists of support for an expanded "Partners in Economic Reform" program, an initiative of the U.S. Coal Industry, several U.S. railroads, and the AFL-CIO. The "Partners" program helps to relieve logistical bottlenecks, and provide training in mine safety.

#### SHELTER

- International Resident Advisor Program. These advisory teams would work actively with local and national officials in the newly independent states as well as entrepreneurs to help resolve short and long-term housing problems.
  - The U.S., for its part, would provide International Resident Advisor teams in five provincial cities and one capital, plus five person-years of visiting specialists. We expect this program to be developed in coordination with our Conference partners.

#### TECHNICAL ASSISTANCE

- Democracy-in-Practice Training Program. The U.S. will initiate a program offering technical assistance in public policy and training at all levels of government.
  - The program will provide training in the U.S. for newly elected state, regional, and local government officials.
  - It will also include a technical assistance program linking cities and states in America with counterparts in the independent states.
  - This initiative will involve at least 500 participants.

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OUTGOING TELEGRAM

ATTACHMENT II B

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OUR GOVERNMENT, PVOS, AND THE PRIVATE SECTOR HAVE A
COMPARATIVE ADVANTAGE

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PREM-02 PVS-02 ES-01 STHE-04 STRO-02 STAG-02 STFM-02
PRFM-02 SDR-02 PVE-02 TSP-02 /034 AD TO 2150Z

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BRUSSELS FOR USIC, PAR 5 FOR OJCO

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TAGS: PREL, EAD, C O, REC US
SUBJECT: U.S. TECHNICAL ASSISTANCE PROGRAM FOR THE NEW
INDEPENDENT STATES

REF: BRUSSELS 1010

1. PER REF AND SECDEF ON 01 DEC RE TO SHARE INFORMATION
ON THE BREAKDOWN OF THE U.S. TECHNICAL ASSISTANCE
PROGRAM WITH EC INTERLOCUTORS. MISSION IS REQUESTED TO
SHARE THE FOLLOWING TEXT OF OUR PAPER ON THE DRAFT
FRAMEWORK FOR U.S. TECHNICAL ASSISTANCE TO THE FORMER
SOVIET REPUBLICS. THIS PAPER IS NOT YET FINAL. SEND
PENDING FULL CONSULTATIONS WITH THE CONGRESS.

2. BEGIN TEXT

3. TECHNICAL ASSISTANCE PROGRAM FOR THE NEW INDEPENDENT
STATES

STATES

THE OBJECTIVE OF THE FOLLOWING PAPER IS TO PROVIDE THE

RATIONALE AND FRAMEWORK FOR THE U.S. TECHNICAL
ASSISTANCE EFFORT IN THE MEDIUM AND LONGER TERM, AS WELL
AS WHERE APPROPRIATE, LIMITED TO EMERGENCY HUMANITARIAN
ASSISTANCE TO BEST UTILIZE SCARCED ASSISTANCE
RESOURCES. U.S. TECHNICAL ASSISTANCE SHOULD FOCUS ON

THOSE ASPECTS OF ECONOMIC AND SOCIAL REFORMS IN WHICH

THIS PAPER WILL BE COMPLEMENTED WITH A DESCRIPTION OF
THE PROGRAMS TO BE FUNDED IN FY-92 AND FY-93 TO ACHIEVE
THE STATED GOALS. THESE PROGRAMS WILL BE BALANCED
BETWEEN ONES FOCUSED ON LONGER-TERM DEVELOPMENT, E.G.
INSTITUTION-BUILDING, AND SHORT-TERM VISIBLE SUCCESS,
E.G. DEMONSTRATION PROJECTS. METHODS FOR ENGAGING THE
U.S. PRIVATE SECTOR ALSO WILL BE EMPHASIZED.

I. BACKGROUND

U.S. TECHNICAL ASSISTANCE IS INTENDED TO PROVIDE THE
NECESSARY BRIDGE BETWEEN SHORT-TERM HUMANITARIAN AID TO
COME WITH IMMEDIATE SHORTAGES AND MEDIUM-TERM
DEVELOPMENT TO PROMOTE THE SUCCESSFUL TRANSITION TO A
DEMOCRATIC SOCIETY AND A MARKET ECONOMY.

U.S. ASSISTANCE WILL FOCUS ON THE FOLLOWING PRIORITY
AREAS:

-- SUPPORT FOR THE CREATION AND DEVELOPMENT OF A
DEMOCRATIC POLITICAL SYSTEM WITH A SPECIAL EMPHASIS ON
PUBLIC ADMINISTRATION

-- SUPPORT FOR THE CREATION AND DEVELOPMENT OF PRIVATE
ENTERPRISE AND A FREE MARKET ECONOMY, INCLUDING
MANAGEMENT TRAINING AND MARKET ECONOMICS EDUCATION AND

MARSHALING UNDERSTANDING OF HOW A MARKET ECONOMY
FUNCTIONS

-- SUPPORT FOR THE COLLECTION OF DEFENSE-RELATED
TECHNOLOGY AND EQUIPMENT FOR CIVILIAN PURPOSES AND USES,
INCLUDING THE ABSORPTION OF DEFENSE-RELATED INDUSTRIAL
PERSONNEL INTO THE CIVILIAN SECTOR.

-- IMPROVEMENTS IN THE FOOD DISTRIBUTION,
TRANSPORTATION, AND OTHER KEY HUMANITARIAN SYSTEMS TO
ENHANCE THE ABILITY OF FORMER SOVIET REPUBLICS TO USE
INDUSTRIAL PRODUCTION TO MEET BASIC NEEDS.

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-- PROMOTION OF INVESTMENT IN AND INCREASED EFFICIENCY
OF THE ENERGY SECTOR, INCLUDING NUCLEAR SAFETY

-- CREATION OF THE CONDITIONS FOR EXPANDED TRADE AND
INVESTMENT, CRUCIAL TO THE DEVELOPMENT OF A MARKET
ECONOMY AND A VIGILANT PRIVATE SECTOR.

U.S. ASSISTANCE SHOULD BE DELIVERED AT THE MOST
APPROPRIATE AND EFFECTIVE LEVEL -- NATIONAL OR LOCAL.
THE U.S. SHOULD WORK WITH BOTH GOVERNMENTAL AND
NON-GOVERNMENTAL ENTITIES AND SHOULD FOCUS ON PROGRAMS
THAT WILL HAVE AN IMMEDIATE VISIBLE IMPACT. IN THIS
REGARD, WE WILL USE, TO THE MAXIMUM EXTENT POSSIBLE,
MODIFICATIONS OF EXISTING PROGRAMS AND MECHANISMS PROVEN
SUCCESSFUL AS WELL AS ENCOURAGE THE ACTIVE INVOLVEMENT
OF THE U.S. PRIVATE SECTOR. BY DOING SO, WE WILL BE

ABLE TO RESPOND MORE QUICKLY TO PRESSING NEEDS
THROUGHOUT THE REGION.

IN ADDITION TO THE MECHANISMS DESCRIBED IN EACH OF THE
FOLLOWING SECTIONS, THE U.S. WILL ESTABLISH THE EUROPEAN
FOUNDATION FOR DEMOCRACY, FREE ENTERPRISE, AND LAW AND
ORDER LEADERSHIP AND MANAGEMENT THAT WILL BE PROVIDED

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CONSTITUTED TO PROMOTE AND STRENGTHEN MARKET ECONOMICS AND INSTITUTIONS CONCERNED WITH REPRESENTATIVE GOVERNMENT, EFFECTIVE LEGAL SYSTEMS, HUMAN RIGHTS, AND RESPONSIBLE MEDIA. SPECIFIC EMPHASIS WILL BE GIVEN TO THE DEVELOPMENT OF A VITAL PRIVATE SECTOR BY "RETAINING" TECHNICAL ASSISTANCE IN U.S. PRIORITY AREAS, PARTICULARLY PRIVATIZATION AND MANAGEMENT TRAINING. THE FOUNDATION WOULD HAVE AN ADVISORY PANEL OF U.S.G. OFFICIALS TO ASCERTAIN THAT THE FOUNDATION IS SENSITIVE TO U.S. POLICY CONCERNS. THIS FOUNDATION WOULD PROVIDE BOTH TECHNICAL EXPERTS IN PARTNERSHIP WITH AMERICAN PRIVATE VOLUNTARY AND NON-GOVERNMENTAL ORGANIZATIONS, AND IN ADDITION, PROVIDE FUNDING FOR ON-THE-GROUND TECHNICAL ASSISTANCE, IN A FRAMEWORK SIMILAR TO THE BRITISH KNOW-HOW FUND.

ASSISTANCE IN ESTABLISHING LAWS, TRAINING, AND PROCEDURES BASED ON MAJORITY RULE AND THE PROTECTION OF THE PERSONAL, POLITICAL AND COMMERCIAL RIGHTS OF INDIVIDUALS AND MINORITY GROUPS.

- 1. TRAINING FOR INDEPENDENT JUDICIARY AND ASSISTANCE IN REVISION OF CRIMINAL AND CIVIL STATUTES AND ADMINISTRATIVE PROCEDURES.
2. LEGAL EDUCATION.
3. ASSISTANCE IN CRAFTING LEGISLATION.
C. POLITICAL AND SOCIAL PROCESS

II. DEVELOPMENT OF A DEMOCRATIC SOCIETY

TECHNICAL ASSISTANCE AND TRAINING TO HELP DEVELOP INSTITUTIONS

THE U.S. PROGRAM WILL ENCOMPASS THE ESTABLISHMENT OF A DEMOCRATIC AND FREE SOCIETY BY FOSTERING POLITICAL PLURALISM, THE DEVELOPMENT OF OPEN AND INDEPENDENT MEDIA, THE ESTABLISHMENT OF AN OPEN ACCESSIBLE AND CONSISTENT RULE OF LAW THAT VALUES INDIVIDUAL LIBERTY

AND ORGANIZATIONS SUCH AS INDEPENDENT AND DEMOCRATIC LABOR UNIONS, PUBLIC INTEREST GROUPS, AND VOLUNTARY AND PROFESSIONAL ASSOCIATIONS. THESE PROGRAMS WILL PROVIDE:

FUNCTIONING OF A FULLY DEMOCRATIC SYSTEM. IT WILL BE PARTICULARLY IMPORTANT TO DEVELOP A FUNCTIONING PUBLIC ADMINISTRATION SYSTEM AT ALL LEVELS TO PROVIDE THE INSTITUTIONAL UNDERPINNINGS OF DEMOCRACY AND MARKET REFORM.

- 1. TRAINING AND EQUIPMENT FOR DEMOCRATIC POLITICAL PARTIES, LABOR UNIONS, AND PUBLIC INTEREST GROUPS

WE SHOULD CONSIDER SUPPORTING FOR USF THE FOLLOWING PROJECTS ALREADY IN PLACE IN OUR CENTRE, AND EACH EUROPEAN PROGRAM:

- 2. SUPPORT FOR ELECTORAL REFORM, THE MONITORING AND ADMINISTRATION OF ELECTIONS, AND THE ESTABLISHMENT OF ELECTORAL MECHANISMS (E.G., ELECTORAL COMMISSIONS, ELECTIONS LAWS, VOTE COUNTING PROCEDURES)

- POLITICAL PROCESS AND GOVERNANCE
-- LOCAL GOVERNMENT AND PUBLIC ADMINISTRATION
-- NATIONAL LEGISLATURES
-- RULE OF LAW
-- SOCIAL PROCESS CULTURAL PLURALISM AND INDEPENDENT MEDIA

- 3. ASSISTANCE ON MINORITY AND HUMAN RIGHTS ISSUES, EMPHASIS ON PUBLIC EDUCATION AND POSSIBLE DISPUTE RESOLUTION

THE FOLLOWING PROGRAMS IN PHASE II ORDER WILL FORM THE BASIS OF THE U.S. ASSISTANCE DESIGNED TO DEVELOP A DEMOCRATIC SOCIETY

- 4. ASSISTANCE DESIGNED TO ESTABLISH AND NURTURE VOLUNTEERISM AND DEVELOPMENT OF ORGANIZATIONAL AND FUNDRAISING SKILLS OF THE VOLUNTARY ASSOCIATIONS.

A. GOVERNANCE AND PUBLIC ADMINISTRATION

D. EDUCATIONAL REFORM

TECHNICAL ASSISTANCE AND TRAINING TO IMPROVE THE ADMINISTRATION OF LOCAL, REGIONAL, AND NATIONAL GOVERNMENTS AND ELECTIVE BODIES. THESE PROGRAMS WILL PROVIDE:

TECHNICAL ASSISTANCE AND TRAINING TO IMPROVE THE EDUCATIONAL SYSTEM, INCLUDING:

- 1. EQUIPMENT, ADVICE AND TRAINING FOR ELECTED LEGISLATORS AND REGIONAL AND LOCAL ADMINISTRATORS, PERHAPS WITH MODEL CITIES, COUNTIES, AND MUNICIPALITIES ON THE ESTABLISHMENT OF A PROFESSIONAL CIVIL SERVICE AND PARLIAMENTARY SYSTEM. EMPHASIS

- 1. CIVIC EDUCATION ON THE NATURE OF DEMOCRACY, INDIVIDUAL RIGHTS, AND RESPONSIBILITIES OF CITIZENS

WILL BE PLACED ON LONG-TERM ADVISORS AND IN-COUNTRY TRAINING PROGRAMS. THIS WILL BE TARGETED ON THE NATIONAL AND SUB-NATIONAL LEVEL.

- 2. EDUCATIONAL REFORM OF CIVICS, HISTORY, AND SOCIAL SCIENCE CURRICULA AND TEACHING MATERIALS IN SECONDARY SCHOOLS AND UNIVERSITIES, INCLUDING ESTABLISHMENT OF MODEL AMERICAN UNIVERSITIES.

- 2. ADVICE AND TRAINING FOR ELECTED LEGISLATORS AND EXECUTIVES AND THEIR STAFFS IN CIVILIAN CONTROL OVER THE MILITARY.

- 3. BODIES FOR DEMOCRACY

- 3. TRAINING OF NATIONAL OFFICIALS (INCLUDING DIPLOMATS) IN SENSITIVE AREAS SUCH AS CONDUCT OF INTERNATIONAL RELATIONS AND NEGOTIATIONS.

E. INDEPENDENT MEDIA

B. RULE OF LAW

TECHNICAL ASSISTANCE AND TRAINING TO SUPPORT THE WIDESPREAD DEVELOPMENT OF INDEPENDENT PRINT AND BROADCAST MEDIA. THIS WOULD BE ACCOMPLISHED BY:

- 1. PROVIDING EQUIPMENT AND TRAINING FOR INDEPENDENT NEWSPAPERS, MAGAZINES, RADIO STATIONS AND TELEVISION STATIONS

- 2. TRAINING FOR INDEPENDENT JOURNALISTS

III. DEVELOPMENT OF A MARKET ECONOMY

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U.S. ASSISTANCE IN THIS AREA WILL ENCOURAGE THE DEVELOPMENT OF FREE-MARKET ECONOMIC SYSTEMS AND INTEGRATION INTO THE WORLD ECONOMY...

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-- C PROVIDE TECHNICAL ASSISTANCE DIRECTED AT THE PRIVATIZATION OF THE HEALTH CARE SECTOR, PARTICULARLY THE PHARMACEUTICAL AND VACCINE INDUSTRY

PROJECTS THAT WE MIGHT CONSIDER ARE

EAST EUROPEAN PROGRAM INCLUDE

- PRIVATIZATION AND ENTERPRISE RESTRUCTURING
-- MANAGEMENT TRAINING AND MARKET ECONOMICS EDUCATION
-- ENTERPRISE FUNDS
-- COMPETITION POLICY, LAWS AND REGULATIONS

THE FOLLOWING PROGRAMS, IN PRINCIPLE, WILL FORM THE BASIS OF THE U.S. ASSISTANCE DESIGNED TO PROMOTE MARKET ECONOMIES

A SUPPORT FOR MACROECONOMIC REFORMS

U.S. EFFORTS IN THIS AREA WOULD BE DESIGNED TO COMPLEMENT THE MACROECONOMIC REFORMS THAT ARE BEING SUPPORTED BY IMF AND WORLD BANK PROGRAMS...

1. PROVIDING TECHNICAL ASSISTANCE AND TRAINING TO IMPROVE OR CREATE A BANKING SYSTEM...

2. PROVIDING ADVICE IN FORMULATION OF FISCAL POLICY INCLUDING BUDGET, TAXES AND FINANCIAL MANAGEMENT

B SUPPORT FOR MICROECONOMIC REFORMS

AT THE SAME TIME THESE COUNTRIES ARE PURSUING MACROECONOMIC REFORMS...

THEY WILL NEED TO FOCUS ON MICROECONOMIC REFORMS. THE U.S. IS PARTICULARLY WELL-SITUATED TO PROVIDE ASSISTANCE AT THE MICRO LEVEL...

1. PRIVATIZATION AND ENTERPRISE RESTRUCTURING: LARGE-SCALE PRIVATIZATION OF STATE-OWNED ENTERPRISES IS ESSENTIAL TO THE SUCCESS OF ECONOMIC REFORM...

-- A PROVIDE ASSISTANCE TO THESE GOVERNMENTS IN ESTABLISHING A POLICY AND LEGAL FRAMEWORK GOVERNING THE PROCESS OF PRIVATIZATION AND ASSISTANCE TO STATE-OWNED ENTERPRISES PREPARING TO RESTRUCTURE AND PRIVATIZE...

-- B PROVIDE TECHNICAL ASSISTANCE AND TRAINING TO PRIVATE AND PRIVATE-LIKE BUSINESSES

-- A PROVIDE TECHNICAL ASSISTANCE TO FOCUS ON THREE ASPECTS OF THE LEGAL, INSTITUTIONAL, AND REGULATORY ENVIRONMENT: 1) SUPPORT FOR CREATING A LEGAL FOUNDATION FOR A MARKET ECONOMY...

SOCIAL REGULATION OF THE ECONOMY

3. MANAGEMENT TRAINING AND MARKET-ECONOMICS EDUCATION: TECHNICAL ASSISTANCE IN BUSINESS AND MANAGEMENT TRAINING AND MARKET ECONOMICS EDUCATION...

-- A DEVELOP A BASIC BUSINESS CURRICULUM, SUCH AS ACCOUNTING, PLANNING, MARKETING, FINANCE, AND PRODUCTION MANAGEMENT

-- B BUSINESS TRAINING AT U.S. COMPANIES AND PLACEMENT OF U.S. EXECUTIVES IN REPUBLIC ENTERPRISES

-- C DEVELOPING A BETTER UNDERSTANDING OF MARKET ECONOMICS AMONG TEACHERS, GOVERNMENT OFFICIALS, AND PROFESSIONAL AUDIENCES

-- D DEVELOPMENT OF MODEL ACADEMIC PROGRAMS FOR SECONDARY SCHOOLS AND UNIVERSITIES

4. SMALL BUSINESS DEVELOPMENT: ENTREPRENEURSHIP IS KEY FOR THE STRUCTURE, TRANSFORMATION OF THE ECONOMIES OF THE NEW INDEPENDENT STATES...

-- A FOCUS ON EDUCATING ENTREPRENEURS, DEVELOPING NEW PRIVATE BUSINESSES, AND SPINNING-OFF AND PRIVATIZING DISTRIBUTION AND RETAIL NETWORKS OF SMALL BUSINESSES

-- B PROMOTE THE ESTABLISHMENT OF CHAMBERS OF COMMERCE AND SMALL BUSINESS ASSOCIATIONS IN ORDER TO FACILITATE THE OVERALL DEVELOPMENT OF SMALL BUSINESSES

C. STRUCTURAL REFORM OF THE HOUSING SECTOR: A VIABLE HOUSING MARKET IS ESSENTIAL TO LABOR MOBILITY AND A FUNCTIONING MARKET ECONOMY...

1. TECHNICAL ASSISTANCE AND TRAINING TO DESIGN WORKABLE HOUSING POLICIES, REDUCE AND TARGET SUBSIDIES TO DEVELOP SYSTEMS OF PRIVATE LAND DEVELOPMENT AND TO ESTABLISH THE LEGAL FRAMEWORK TO CREATE A MARKET-ORIENTED HOUSING SECTOR

2. TECHNICAL ASSISTANCE AND TRAINING FOCUSED ON DIVERSIFYING

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OF THE PUBLICLY HELD HOUSING STOCK. PRIVATIZATION OF MANAGEMENT OF RENTAL HOUSING, AND DEVELOPMENT OF SYSTEMS TO FOSTER NEW HOUSING CONSTRUCTION.

MANAGERIAL EXPERTISE TO MAKE MORE EFFECTIVE USE OF EXISTING CAPITAL INFRASTRUCTURE IN THESE SECTORS. IN THIS REGARD, THE U.S. COULD:

3. INTERNATIONAL RESIDENT ADVISOR TEAMS TO WORK ACTIVELY WITH LOCAL AND NATIONAL OFFICIALS AS WELL AS ENTREPRENEURS TO RESOLVE SHORT AND LONG-TERM HOUSING PROBLEMS

-- PLACE LEARNED PRIVATE SECTOR EXECUTIVES IN ENTERPRISES AND LOCAL JURISDICTIONS FOR THREE MONTHS TO A YEAR;

IV. IMPROVEMENTS IN FOOD DISTRIBUTION, TRANSPORTATION,

-- CONDUCT SEMINARS ON MANAGEMENT OF STORAGE, FOOD MANUFACTURING, TRANSPORTATION, AND OTHER SECTORS;

PRODUCTION, AND HUMANITARIAN SERVICE SYSTEMS

-- TRANSLATE AND PUBLISH HANDBOOKS, PERIODICALS, AND OTHER DOCUMENTATION;

-- PROVIDE INTENSIVE TRAINING OF POLICY MAKERS, AND

-- TRAIN CIVIL MANAGERS IN THE UNITED STATES UNDER THE COCHRAN FELLOWSHIP PROGRAM.

TECHNICAL ASSISTANCE IN THIS AREA IS INTENDED TO PROVIDE THE NECESSARY BRIDGE BETWEEN SHORT-TERM HUMANITARIAN AID AND DEVELOPMENT OF AN INDIGENOUS CAPACITY TO PROVIDE BASIC SERVICE AND CREATE A MORE EFFICIENT SOCIAL SAFETY NET FOR THE MOST SERIOUSLY AFFECTED DURING THE REFORM PROCESS. THE AVAILABILITY OF AN ADEQUATE SUPPLY OF FOOD IMPORTED AND DOMESTICALLY PRODUCED IS ONE OF THE MOST POLITICAL AND SOCIALLY IMPORTANT ELEMENTS IN ENSURING A SUCCESSFUL AND SUSTAINED TRANSITION TO DEMOCRATIC GOVERNMENT AND MARKET ECONOMICS IN THE FORMER SOVIET REPUBLICS. THE FOOD DISTRIBUTION SYSTEM HAS BEEN IDENTIFIED AS THE PRIMARY FOOD PROBLEM IN THE FORMER SOVIET UNION AND THE NATURE OF THE PROBLEM IS SUCH THAT TECHNICAL ASSISTANCE IN THIS AREA WILL OFFER GOOD PAY-OFF, AT RELATIVELY LOW COSTS. ANOTHER IMPORTANT ASPECT OF THIS WILL BE THE IMPROVEMENT IN HEALTH CARE FACILITIES. SIMILARLY, WE WILL FOCUS ON THE DEVELOPMENT OF INDIGENOUS PRIVATE VOLUNTARY ORGANIZATIONS WHICH WILL BE CRITICAL IN HELPING TO MEET HUMANITARIAN NEEDS OVER THE LONG

5. ECONOMIC INCENTIVES IMPROVEMENTS. THIS EFFORT WILL FACILITATE THE MOVEMENT TO A MARKET-ORIENTED FOOD DISTRIBUTION SYSTEM BY IDENTIFYING IN A CONCRETE, PRACTICAL WAY THE IMPACTS OF EXISTING AND PROPOSED REFORM POLICIES ON THE INCENTIVES PRODUCERS AND DISTRIBUTORS HAVE TO PARTICIPATE IN THE FOOD DISTRIBUTION SYSTEM. THE RANGE OF POLICIES TO BE CONSIDERED SHOULD INCLUDE MACROECONOMIC (ESPECIALLY THE IMPACT OF INTRODUCING NEW CURRENCIES AND/OR VOUCHER SYSTEMS), COMMODITY

AND INPUT POLICIES (ESPECIALLY WHEN THEY VARY SIGNIFICANTLY ACROSS REPUBLICS) AS WELL AS THE IMPACT OF ECONOMIC/TRADE CONTROLS AT THE REPUBLIC LEVEL.

B. PRODUCTION AGRICULTURE

WHILE ON A RELATIVE BASIS PRODUCTION AGRICULTURE IS MORE EFFICIENT IN THE NEW INDEPENDENT STATES THAN IS THE DISTRIBUTION SYSTEM, PRODUCTION AGRICULTURE CAN BE IMPROVED THROUGH BETTER MANAGEMENT, ADOPTION OF BETTER PRODUCTION METHODS AND VARIETIES AND THROUGH LAND REFORM AND PRIVATIZATION.

1. DEMONSTRATION, USING LOCAL RESOURCES, OF WESTERN FARM MANAGEMENT TECHNIQUES WITHIN POST-COUNTRY CONSTRAINTS.

2. PROVIDE EXPERT CONSULTATIONS ON ISSUES OF LAND TENURE ASSIST IN DRAFTING OF LAND LAWS ASSIST IN DEVELOPMENT OF REAL ESTATE MARKET, ASSIST IN TRANSFORMATION OF PUBLIC-SECTOR FARMING TO PRIVATE FARMING.

3. CREATE INFORMATION DELIVERY/EXTENSION SERVICE SYSTEMS IN THREE OR MORE FORMER REPUBLICS TO ASSIST IN THE PRIVATIZATION EFFORTS OF INPUT MANUFACTURERS, AGRICULTURAL PRODUCERS AND FOOD DISTRIBUTORS.

4. PROVIDE FARM VOLUNTEERS, FOR PERIODS OF 30 TO 90 DAYS, TO WORK DIRECTLY WITH PRIVATE FARMERS IN THE INDEPENDENT STATES TO HELP THEM INCREASE FARM PRODUCTION AND INCOME.

C. PARTNERSHIPS IN HEALTH CARE

EMERGENCY HUMANITARIAN AID IN THE FIELD OF MEDICINE NEEDS TO BE FOLLOWED WITH TECHNICAL ASSISTANCE TO IMPROVE PRODUCTION AND DELIVERY OF INDIGENOUS HEALTH SERVICES. A SOCIAL SAFETY NET THAT ASSURES BASIC SOCIAL NEEDS BUT ALSO ENCOURAGES LABOR MARKET ADJUSTMENTS IS AN IMPORTANT COMPONENT IN THE OVERALL STRUCTURAL TRANSFORMATION OF THE ECONOMY.

THE U.S. PRIVATE HEALTH INDUSTRY HAS MUCH TO OFFER THE HEALTH SECTOR IN THE NEW INDEPENDENT STATES. WHILE THE U.S. CONTRIBUTES

TERM IN BOTH THE FOOD AND MEDICINE AREAS

WE SHOULD CONSIDER ADAPTING THE FOLLOWING PROJECTS FROM THE CENTRAL AND EAST EUROPEAN PROGRAM:

- EMERGENCY MEDICAL SUPPLY
-- RESTRUCTURING AGRICULTURE AND BUSINESS
-- PRIVATE SECTOR HUMANITARIAN INITIATIVES
-- PARTNERSHIPS IN HEALTH CARE

THE FOLLOWING PROGRAMS WILL CONSTITUTE U.S. ASSISTANCE DEVELOPED TO STRENGTHEN HUMANITARIAN SERVICE SYSTEMS

A. FOOD DISTRIBUTION

1. ESTABLISHING WHOLESALE MARKETS FOR AGRICULTURAL IMPORTS AND PRODUCTION. THIS EFFORT WILL FACILITATE THE PRIVATIZATION PROCESS, RESULT IN A MORE ECONOMIC AND EFFICIENT FLOW OF COMMODITIES FROM PRODUCER TO CONSUMER AND WILL REDUCE FOOD COSTS AS A RESULT OF INDIVIDUAL OWNERSHIP AND RESPONSIBILITY.

-- SEND MIXED PUBLIC- AND PRIVATE-SECTOR EXPERTS TO SPECIFIC LOCATIONS TO ASSIST IN DEVELOPING WHOLESALE MARKETS

-- DEVELOP MARKET INFORMATION SYSTEMS AND COMMODITY EXCHANGES TO ASSIST PRODUCERS, TRADERS, AND BUYERS

2. STORAGE AND HANDLING IMPROVEMENTS. ASSISTANCE IN THIS AREA WILL CONCENTRATE ON THE INSTALLATION OF LOW-COST STORAGE SYSTEMS TO REDUCE THE AMOUNT OF FOOD WASTAGE.

3. FOOD MANUFACTURING IMPROVEMENTS

4. TRANSPORTATION IMPROVEMENTS. THIS ASSISTANCE WILL REDUCE POST-HARVEST LOSSES THROUGH THE APPLICATION OF TECHNICAL AND

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3 TECHNICAL ASSISTANCE IN RELIEVING LOGISTICAL BOTTLENECKS IN COAL MINES AND TRAINING IN MINE SAFETY.

COMPREHENSIVELY ADDRESS ALL OF THE HEALTH CARE PROBLEMS WE CAN DEVELOP SELECTED INTERVENTIONS WHERE THE U.S. CAN BRING PARTICULAR EXPERTISE THROUGH HOSPITAL-TO-HOSPITAL PARTNERSHIPS. THIS EFFORT WILL BE PART OF THE LARGER "NATIONS IN PARTNERSHIP" INITIATIVE. THIS PROGRAM WILL FOCUS ON PARTNERSHIPS WHICH ADDRESS PARTICULAR MEDICAL PROBLEMS, SUCH AS CARDIOVASCULAR AND RESPIRATORY DISEASES OR CANCER AND OTHER PROBLEMS WHICH AFFECT AT-RISK POPULATIONS (E.G. VACCINATIONS FOR CHILDREN) OR ACTIVITIES WHICH ENHANCE THE EFFECTIVENESS OF MEDICAL TREATMENT (E.G. HOSPITAL MANAGEMENT). IN ADDITION, THE

0 MEDIUM- TO LONG-TERM TECHNICAL ASSISTANCE EFFORTS WILL CONCENTRATE ON THE FOLLOWING AS WELL AS ENGAGING THE U.S. PRIVATE SECTOR:

U.S. WILL INITIATE A DIALOGUE ON REFORM OF THE MILITARY HEALTH CARE SYSTEM WITH THE GOAL OF INCREASING EFFICIENCY AND REDUCING BARRIERS BETWEEN MILITARY AND CIVILIAN HEALTH CARE SYSTEMS.

1 PRICING AND INSTITUTIONAL REFORM: TECHNICAL ASSISTANCE AND TRAINING ON THE DEVELOPMENT OF NATIONAL ENERGY SECTOR LAWS, INSTITUTIONS, AND REGULATORY SYSTEMS, PRIVATIZATION OF CERTAIN COMPANIES OR SUB-SECTORS, E.G. PETROLEUM MARKETING.

2 THE FIRST SUCH PARTNERSHIP WOULD BE ESTABLISHED BETWEEN THE NORFOLK MEDICAL CENTER AND THE CHILDREN'S HOSPITAL IN MOSCOW TO IMPROVE THE QUALITY OF CARE IN CHILDHOOD INFECTIOUS DISEASES AND HEMATOLOGY.

2. OIL AND GAS PRODUCTION AND EXPORT: TECHNICAL ASSISTANCE TO HELP PREPARE ADEQUATE LEGAL, FISCAL, AND CONTRACTUAL FRAMEWORK

0 DEVELOPMENT OF PRIVATE VOLUNTARY ORGANIZATIONS

FOR PETROLEUM OPERATIONS, TO FACILITATE DEVELOPMENT OF ACCEPTABLE COMMERCIAL ARRANGEMENTS FOR OIL AND GAS TRADE AND TRANSPORT BETWEEN, AMONG, AND THROUGH REPUBLICS.

IN CONJUNCTION WITH OTHER HUMANITARIAN AND INITIATIVES AND MECHANISMS, THE U.S. WILL ALSO PROVIDE GRANTS TO U.S. PRIVATE VOLUNTARY ORGANIZATIONS TO

3 ENERGY EFFICIENCY: TECHNICAL ASSISTANCE TO DEVELOP NEW ELECTRICITY AND ENERGY TRADING RELATIONSHIPS AMONG REPUBLICS, ADDRESS INTEGRATE RESOURCE MANAGEMENT AND ENERGY-RELATED ENVIRONMENTAL CONTROL ISSUES

1 HELP ESTABLISH OR IMPROVE THE CAPABILITIES OF INDIGENOUS PEOPLE TO ADDRESS BASIC NEEDS

4 NUCLEAR POWER PLANT SAFETY: TECHNICAL ASSISTANCE TRAINING, AND LOW-COST EQUIPMENT WILL BE PROVIDED TO PLANTS AND SAFETY OVERSIGHT BODIES IN RUSSIA, UZBEKISTAN, AND ARMENIA TO ADDRESS SAFETY PROBLEMS, APPLY UPDATED CODES, TRAIN MANAGERS, INSPECTORS, AND OPERATORS IN PLANT MAINTENANCE AND SAFETY PROCEDURES, AND DEVELOP IMPROVED INSPECTION, LICENSING AND REGULATORY SYSTEMS

2 IMPROVE THE COORDINATION OF PLANS

5 DEMILITARIZATION OF THE ECONOMY AND DEFENSE CONVERSION

3 PROMOTION OF INVESTMENT AND INCREASED EFFICIENCY OF THE

ENERGY SECTOR

DUE TO THE IMMENSE AMOUNT OF RESOURCES DEVOTED TO THE DEFENSE INDUSTRY UNDER THE PREVIOUS ECONOMIC AND POLITICAL REGIME, DEFENSE CONVERSION IS ACCORDING SPECIAL IMPORTANCE IN THE OVERALL STRATEGY OF TRANSFORMATION TO MARKET ECONOMIES IN THE NEW STATES. IT WILL BE IMPORTANT TO ENCOURAGE REDUCTIONS IN DEFENSE SPENDING, THE DEFENSE INDUSTRIAL BASE, AND THE

ENERGY IS A KEY SECTOR IN THE ECONOMIES OF ALL THE NEW "INDEPENDENT" STATES, WHETHER THEY BE A NET IMPORTER OR AS NET EXPORTER. U.S. EFFORTS IN THIS AREA SHOULD CONCENTRATE ON SHORT-TERM QUANTITATIVE ENERGY IMPACTS, CRITICAL POLICY, AND PROMOTION OF TRADE AND INVESTMENT IN THIS SECTOR. IMPROVING ENERGY EFFICIENCY WILL BE AN IMPORTANT ELEMENT IN ACHIEVING Viable Economies AND REDUCING ENVIRONMENTAL POLLUTION. WE SHOULD CONSIDER ADAPTING THE IMMEDIATE ENERGY IMPACT AND REGIONAL ENERGY EFFICIENCY PROGRAMS FROM THE CENTRAL AND EAST EUROPEAN PROGRAM.

CONVERSION OF MILITARY AND DEFENSE INDUSTRIES INTO COMMERCIAL CIVILIAN INDUSTRIES. TRANSFORMATION OF THE DEFENSE INDUSTRIAL SECTOR WILL LEVERAGE POLICIES THAT SUPPORT ENTREPRENEURSHIP AND PRIVATIZATION MORE BROADLY. THE POLICIES TO TRANSFORM THIS SECTOR SHOULD CONFORM TO THE OVERALL OBJECTIVE OF INCREASING THE MARKET-ORIENTATION OF THESE NEW ECONOMIES. THEREFORE, IN ORDER FOR DEFENSE CONVERSION TO BE SUCCESSFUL, IT MUST BE CONSIDERED IN THE LARGER CONTEXT OF DEMOCRATIC AND ECONOMIC RESTRUCTURING EFFORTS. AS SUCH, WE WILL CONSIDER ADAPTING THE FOLLOWING PROGRAMS FROM THE CENTRAL AND EAST EUROPEAN PROGRAM

A THE U.S. STRATEGY CALLS FOR SHORT-TERM, IMMEDIATE-IMPACT MEASURES TO

SECTOR SHOULD CONFORM TO THE OVERALL OBJECTIVE OF INCREASING THE MARKET-ORIENTATION OF THESE NEW ECONOMIES. THEREFORE, IN ORDER FOR DEFENSE CONVERSION TO BE SUCCESSFUL, IT MUST BE CONSIDERED IN THE LARGER CONTEXT OF DEMOCRATIC AND ECONOMIC RESTRUCTURING EFFORTS. AS SUCH, WE WILL CONSIDER ADAPTING THE FOLLOWING PROGRAMS FROM THE CENTRAL AND EAST EUROPEAN PROGRAM

1 TECHNICAL ASSISTANCE AND LOW-COST U.S. EQUIPMENT TO HELP REFINED OIL, LARGE HEATING PLANTS, COAL INDUSTRIES, AND URBAN COMPLEXES IMPROVE EFFICIENCY AND PRODUCTIVITY

- AMERICAN BUSINESS INITIATIVE
-- TECHNICAL COOPERATION FOUNDATION
-- HOLDING SECTOR LOSS STRAHE
-- POLITICAL AND SOCIAL PROCESS

2 A U.S. PUBLIC UTILITY SHOULD ESTABLISH MANAGEMENT TRAINING AND PARTNERSHIP RELATIONSHIPS WITH REPUBLICAN UTILITIES

U.S. EFFORTS IN THIS AREA WILL

3 THE U.S. IN PARTNERSHIP WITH THE PRIVATE SECTOR WILL PROVIDE EXPERTISE AND EQUIPMENT TO THE ARMENIAN GOVERNMENT TO UPGRADE THE SAFETY OF ITS NUCLEAR REACTOR BEFORE BRINGING IT ONLINE

A CONSULT ON A PRIORITY BASIS, WITH LOCAL CIVILIAN AND MILITARY AUTHORITIES ON DEFENSE CONVERSION DEMONSTRATION PROJECTS

4 TECHNICAL ASSISTANCE AND LOW-COST EQUIPMENT PROVIDED BY U.S. PETROLEUM AND NATURAL GAS EXPERTS TO HELP STABILIZE AND INCREASE PRODUCTION FROM EXISTING OIL WELLS AND GAS PIPELINES

B TARGET U.S. FINANCIAL SUPPORT FOR FEASIBILITY STUDIES AND TRAINING TO COMPANIES EMPLOYING FORMER DEFENSE WORKERS

C SUPPORT PARTICIPATION IN THE CONSTRUCTION OF U.S. TELECOMMUNICATIONS COMPANIES WITH PROFESSIONAL TRAINING IN

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DEVELOPMENT PROGRAM WILL PROVIDE GRANTS TO ENCOURAGE U.S.  
PRIVATE SECTOR INVOLVEMENT IN PLANNING AND EXECUTION OF

D. PROVIDE TECHNICAL ASSISTANCE TO PRIVATIZE THE DEFENSE  
INDUSTRY THROUGH A SMALL BUSINESS DEVELOPMENT AND LOAN  
GUARANTEE PROGRAM THAT WOULD ADDRESS RE-EMPLOYMENT, CHANGING  
DEFENSE PRODUCTION TO COMMERCIAL ONES, AND SPEEDING THE  
PRIVATIZATION OF DEFENSE INDUSTRIES

INFRASTRUCTURE PROJECTS WITH U.S. EXPORT POTENTIAL; GRANTS ARE

FOR FEASIBILITY STUDIES, ORIENTATION VISITS, SYMPOSIA AND  
TRAINING.

E. FOCUS ON THE ABILITY TO REPAIR DEFENSE INDUSTRY MANAGER AND  
WORKERS AND INTEGRATE THEM INTO THE NEWLY DEVELOPING MARKET  
ECONOMY.

B HEALTH MARKETS PROJECT

F. FIND EMPLOYMENT FOR SENIOR DEFENSE SCIENTISTS AND ENGINEER  
WORKING ON NUCLEAR/MISSILE TECHNOLOGIES.

IN ADDITION TO ADDRESSING THE SHORT-TERM HUMANITARIAN NEEDS, U.S.  
SHOULD ENCOURAGE PRIVATE SECTOR INVOLVEMENT IN THE DEVELOPMENT  
OF HEALTH MARKETS IN THE NEW INDEPENDENT STATES TO SUPPORT  
HEALTH CARE AND DELIVERY. THIS COULD HAVE SIGNIFICANT  
MULTIPLIER EFFECTS THAT WOULD CREATE DEMANDS FOR SERVICES AND  
PRODUCTS RANGING FROM PHARMACEUTICALS TO LINENS AND FOOD  
SERVICES. THIS PROGRAM WOULD:

G. PROMOTION OF BILATERAL TRADE AND INVESTMENT

WHILE APPROPRIATE MACROECONOMIC POLICIES AND MICROECONOMIC  
STRUCTURAL REFORMS UNDERPIN THE OVERALL ADJUSTMENT EFFORT,  
EXPLICIT ATTENTION TO TRADE AND INVESTMENT OPPORTUNITIES WILL

1. FIELD U.S. INDUSTRY AUDIT TEAMS TO IDENTIFY QUICK FIXES TO  
PROBLEMS LIMITING PRODUCTION

AND ADJUSTMENT BY INCREASING FOREIGN EXCHANGE RESOURCES,  
IDENTIFYING EMPLOYMENT OPPORTUNITIES, AND SERVING AS EXAMPLES OF  
ACCESS

2. UNDERTAKE ACTIVITIES TO ENCOURAGE PRIVATE AMERICAN  
BUSINESS, INCLUDING CONVENING BUSINESS POUNCTABLES, TRADE AND  
INVESTMENT MISSIONS, PRE-INVESTMENT SERVICES, AND SUPPORT FOR  
PRIVATE SECTOR PARTICIPATION IN HEALTH SERVICES

PARTICIPATION BY THE U.S. PRIVATE SECTOR IN THE ECONOMIES OF  
THE NEW INDEPENDENT STATES WILL BE ESSENTIAL TO THE SUCCESSFUL  
TRANSFORMATION TO A MARKET ECONOMY. AS SUCH, AN IMPORTANT PART  
OF THE U.S. PROGRAM WILL BE DESIGNED TO ENCOURAGE THE  
PARTICIPATION OF THE U.S. PRIVATE SECTOR IN THE DEVELOPMENT OF  
THE PRIVATE SECTOR IN THE FORMER SOVIET REPUBLICS THROUGH  
PROGRAMS THAT PROMOTE INCREASED BILATERAL TRADE AND INVESTMENT

3. FIELD ADDITIONAL PROJECTS TO CONSIDER FOR FY 1991, IF

ADDITIONAL FUNDING IS MADE AVAILABLE

WHICH CAN BE SUCCESSFUL IN THAT VE

IN ADDITION TO CONSIDERING AN EXPANSION OF THE SIZE AND SCOPE

THIS PROGRAM WOULD FOCUS IN PARTICULAR ON DEFENSE CONVERTERS AND  
AREAS WHERE THE U.S. HAS A COMPETITIVE ADVANTAGE SUCH AS

OF THE PROGRAMS DESCRIBED ABOVE, THE U.S. SHOULD KEEP IN MIND  
THE NEED TO DEVELOP ENTERPRISE FUNDS FOR THE INDEPENDENT  
STATES. U.S. ASSISTANCE SHOULD CONTINUE TO BE RESPONSIVE BOTH  
TO THE PRIORITIES INITIALLY IDENTIFIED BY RECIPIENT REPLICAS,  
TO THE EXTENT THEY REMAIN CONSISTENT WITH U.S. OBJECTIVES AS  
WELL AS PROVIDE A SPECIFIC FUNCTIONAL AND LOCAL FOCUS FOR EACH  
INDEPENDENT STATE

MEDICAL EQUIPMENT AND PHARMACEUTICALS AND SERVICES, AS WELL  
AS AREAS THAT ARE ESSENTIAL FOR THE DEVELOPMENT OF A MARKET  
ECONOMY, SUCH AS TELECOMMUNICATIONS. IT WOULD FACILITATE THE  
TRANSFERS OF U.S. COMMERCIAL EXPERIENCE AND THE FLOW OF U.S.  
CAPITAL TO THE NEW INDEPENDENT STATES AND STIMULATE THE  
INVOLVEMENT OF SMALL AND MEDIUM-SIZED FIRMS IN THAT MARKET.  
THE PROGRAM WOULD BE IMPLEMENTED, WHERE POSSIBLE, BY EXPANDING  
THE EXISTING CEE PROGRAM. IT WOULD INCLUDE THE FOLLOWING  
ELEMENTS:

END EXT. BAKER MINIMIZE CONSIDERED INDOCTE BAKER

CAPITAL DEVELOPMENT INITIATIVE: THIS PART OF THE PROJECT  
WOULD ASSIST AMERICAN INVESTORS WITH REGARD TO PROJECT  
IDENTIFICATION, FEASIBILITY STUDIES, AND SUPPORT FOR  
INITIAL INVESTMENT DEVELOPMENT COSTS, AND PACKAGING FOR  
FINANCIAL INSTITUTIONS

INFORMATION AND LOGISTICAL SUPPORT: THIS PART OF THE  
PROGRAM WOULD FOCUS ON EXPANDING BUSINESS AND INFORMATION  
CENTERS, ASSISTING THE FORMATION OR CONSOLIDATION OF TRADE  
ASSOCIATIONS, AND WORK WITH THE PRIVATE SECTOR TO ENCOURAGE THE  
ESTABLISHMENT OF PRIVATELY OWNED AND OPERATED AMERICAN BUSINESS  
CENTERS IN KEY CITIES

INVESTMENT SERVICES: THE OVERSEAS PRIVATE INVESTMENT  
CORPORATION WILL PROVIDE BOTH EQUITY INVESTMENT AND  
PRE-INVESTMENT SERVICES AND ASSISTANCE TO SMALL AND  
MEDIUM-SIZED FIRMS

4. FEASIBILITY STUDIES AND TRAINING: THE TRADE AND

UNCLASSIFIED

Best Available Document

Nuclear Safety Subproject

**Background:**

Russia, Ukraine and Armenia have nuclear power plants that are of concern due to their design and the changing economic and managerial environment in the utilities and plants. The EC has proposed that this issue be dealt with as an extension of the G-24 nuclear safety group. The US has proposed that coordination be pursued within the technical assistance framework established at the January Coordinating Conference. The EC has approved a large 53 million ECU program in nuclear safety and it is important that the US provide some resources to address this critical problem and serve as a catalyst for US industry involvement.

**Scope of the Subproject:**

Since there are over 30 plants in operation and hundreds of thousands of workers at these facilities, US technical assistance must be highly selective in its focus. The suggestion is to focus on one major complex each in Russia and Ukraine to demonstrate a comprehensive management systems approach and identify potential opportunities for short-term improvement in operation and instrumentation as well as consider regulatory issues and potential capital investment issues.

The program would be similar to the district heating program in sponsoring an overall technical and management systems audit and identifying low-cost equipment and training needs. Government and industry experts, identified through US industry associations (e.g. CEA), would be on these teams.

Training would be provided in US industry and DOE and NRC laboratory facilities. DOE would purchase low-cost instrumentation and software from US industry and work with US suppliers to install and train counterparts in its use. The program would be coordinated with the Utility Partnership program involving US utilities with nuclear capabilities and EPRI nuclear experts.

**Obligation/Implementation:**

AID would prepare an Interagency Agreement with DOE for the \$3 million project. State/AID/DOE/NRC would develop a detailed scope of work and consult with US industry on candidate power plants for the demonstrations.

**Estimated Budget (thousands) :**

	<b>Russia</b>	<b>Ukraine</b>
Technical Teams:	350	350
Training:	400	400
Equipment&Inst:	500	500
Administration:	250	250
Total:	1,500	1,500

CIS10B9

NUCLEAR SAFETY ASSISTANCE TO THE FORMER SOVIET UNION

To my knowledge there are currently five different domestic fora addressing nuclear safety assistance to the former Soviet Union (FSU) and several international fora.

Domestic

1. NSC: NSC is addressing the issue in the context of bilateral assistance in conjunction with initiatives concerning nuclear weapons disarmament and decommissioning.

The NSC has specifically tasked the Nuclear Regulatory Commission and the Department of Energy to provide it with proposed assistance options. NRC and DOE have jointly authored a paper describing the general safety issues and possible long and short term assistance activities. (see attached.) DOE is currently developing a series of very specific proposals for assistance in Russia which address both the VVER and the RBMK reactors. Several questions about their task remain unanswered. Of most importance is "Where will the money come from?". As I understand it, DOE has not been told. The only assistance money that I have heard about which can be used for nuclear safety is the \$3 million that Ambassador Armitage will have, give to AID, and which will then probably be transferred to DOE and NRC. Perhaps NSC will use some of the \$400 million. it is not clear.

2. State/D: under direction of Ambassador Armitage is responsible for coordinating USG humanitarian and technical assistance to the FSU. Nuclear safety assistance is being considered as part of the technical assistance program. Additionally, Ambassador Armitage is responsible for U.S. support of the Coordinating Conference for Assistance to the former Soviet Union. Nuclear safety assistance is to be addressed in the Technical Assistance Working Group set up under Conference auspices. The next Coordinating Conference is scheduled for Lisbon in June.

AID: In support of Armitage, AID will implement much of the assistance program. AID is currently going through a management upheaval and it is not clear who will be come responsible for nuclear safety for the FSU. It appears that Bob Ichord's shop may well lose the account. That may severely hamper our efforts as we (S/NP and OES) will have to reestablish relations with a new entity at AID. Ichord also is experienced, having carried out the Eastern Europe program, and is very effective. His loss of the account will be a setback. We will know by April 1.

3. State/S/P: in looking specifically towards Lisbon, is putting together ideas for nuclear safety assistance initiatives for U.S. to announce at conference.

4. New International Science and Technology Center (ISTC): NRC and DOE are now working with Galluci to provide him with nuclear safety work which Russian scientists could carry out through the Center. NRC has several proposals which are attached. DOE has presented a proposal for hiring weapons scientists to work on operational safety in the power reactors. Apparently Secretary Baker would like nuclear safety to be a high point of his announcement next week on the International Science and Technology Center.

5. NRC Bilateral Program On Civilian Nuclear Reactor Safety: This program is continuing and working group meetings are planned on Plant Aging and Life Extension in Washington, March 23-April 4 and Regulatory Approaches May 10-15 in Russia to assist in developing nuclear legislation for Russia.

#### Implementation

State/D, with Ichord's assistance has provided Congress with a proposed energy assistance program for the New Independent States (NIS). See attached draft. If this program is managed as our program for Eastern Europe, AID will take on implementation of the assistance and turn to DOE, NRC and U.S. industry to carry out activities. The work will clearly need to be coordinated with that coming out of the NSC. Additionally, if State S/P intends to provide U.S. initiatives for nuclear safety assistance to the Lisbon conference, these will undoubtedly be carried out by DOE, NRC and/or U.S. industry as well and will compete with whatever other tasks these groups are given by NSC or under Ambassador Armitage's program. We will also want to factor in activities undertaken through the ISTC and NRC's bilateral activities to ensure that little duplication takes place.

#### International

The Germans are apparently using the G-7 summit (Sherpa) preparations to persuade the G-7 to take on an immediate and massive nuclear safety assistance program for both Eastern Europe and the former Soviet Union. The Germans have apparently estimated that as much as \$7.5 billion may be needed to bring the level of safety up to a point which we can live with. This level of funding would probably need to come from the multinational banks rather than from government-to-government assistance programs. The EBRD has determined that it will entertain loan requests for safety improvements to existing reactors in Eastern Europe and the FSU. The World Bank has not yet determined its position on nuclear safety assistance.

The Swedes have approached the U.S. to work with them on nuclear safety assistance, both through the new International Science and Technology Center for Soviet scientists and through possible bilateral safety assistance activities. The focus of Swedish interest is Lithuania, Russia and Ukraine. The Swedes have also apparently negotiated a deal with Estonia to decommission two Russian submarine training reactors.

France, UK, Italy, Finland, Belgium, and possibly other countries are involved in planning or negotiating nuclear safety assistance efforts with the FSU. Germany, France, UK, Russia, perhaps Lithuania, with the IAEA as an observer, have set up a consortium to review the safety of the RBMK reactor to determine what can be done to improve its operating safety.

The IAEA has an extrabudgetary project on the safety of older reactors which first addressed VVER 440/230s and will now turn to VVER 440/213s and RBMKs. The IAEA is holding a meeting from April 6-10 on the Safety of RBMK reactors. Additionally, the IAEA is beginning to receive requests from the new states of the FSU for technical assistance.

The Nuclear Energy Agency of the OECD has also taken under consideration several nuclear safety related activities for Russia, Ukraine, Belarus and Kazakstan.

The EC has approximately 60 million ECUs for nuclear safety assistance to the FSU. NRC met March 13 with the EC to discuss NRC's experience with the FSU on reactor safety and to provide advice on where EC might best apply its assistance.

Some mechanism will be developed for international coordination of assistance. The U.S. position, agreed to this week by Zoellick and Armitage, is that nuclear safety assistance to the NIS will be handled separately from that of Eastern Europe, and through the Technical Assistance Working Group of the Coordinating Conference. The G-24 experts, experience and, as appropriate, resources developed through nuclear safety assistance working group to the G-24, can be used in this effort, but the coordination decisions will be made in the Technical Assistance Working Group.

MEMO to Scott Spangler and  
 Richard Bissell  
 April 1, 1992  
 Page 3

including specific nuclear plant inspections. This program is continuing to develop safety solutions. The U.S. supports this project through the IAEA.

- The OECD Nuclear Agency (NEA) has begun a limited program with the NIS.
- The World Association of Nuclear Operators has conducted exchanges of personnel between U.S. and NIS nuclear plants and has initiated a generic safety program for VVER-440/230 reactors. This effort is expected to be expanded.
- The World Bank (WB) has never funded a nuclear project, taking the position that such an investment does not result in "least-cost" electricity. However, WB is considering funding upgrades for Eastern Europe nuclear power plants.
- The Germans have an aggressive program to improve the safety of the entire VVER family of reactors, including those with core cooling and containment. At unification, all nuclear reactors in former East Germany were shut-down and are to be decommissioned.

#### TALKING POINTS

Considering the above, the first issue is improving NPP safety. The focus given to the safety issue by Western Europe and the U.S. is improvement of operations, safety procedures, and on rehabilitation of existing NPP's. However, it is unlikely, in the near term, that sufficient technical and financial resources can be made available for this considerable task even with substantial international cooperation. For this reason and because of their own merits, it is necessary to examine more feasible alternatives to address the safety issue, including the option suggested by Mr. Fitzpatrick.

Specific major issues that should be addressed in deciding how to deal with the safety concerns of NPP's in the NIS/Eastern Europe include:

What is the short-term potential for other NIS energy resources (coal, natural gas, and oil) to economically compete and replace or reduce dependence on presently unsafe NPP's?



**Energy Efficiency and Market Reform Project (110-0002)  
Newly Independent States (NIS) of the Former Soviet Union  
Coal Industry Independent Management and Labor Subproject**

**STATEMENT OF WORK**

**PARTNERS IN ECONOMIC REFORM COOPERATIVE AGREEMENT**

**A. PURPOSE**

The purpose of this Cooperative Agreement is to facilitate the transformation of the centrally planned and controlled coal mining industry in the Kuzbass and Vorkuta regions of the Russian Republic, the Donbass region of the Ukraine and the Karaganda Basin region of Kazakhstan to coal mining enterprises which can survive and compete in a free market economy through the provision of long-term and short-term technical advisors; in country training in the NIS and participant training in the U.S.; and equipment to support low cost short-term improvement measures at individual coal mining enterprises.

**B. BACKGROUND**

**1. Coal in the Economy of the Former Soviet Union**

In the early 1960s coal accounted for more than 50% of the USSR's energy consumption. By 1989 this percentage had dropped to 21.4% as a result of a shift towards oil and gas. However, the consumption of coal is planned to increase to 34% by the year 2000. The reasons for the expected resurgence of coal are:

a. Declines in the growth of nuclear and hydro power due to environmental problems.

b. Plans to locate thermal power stations at the site of Siberian coal mines and transmit the power generated to urban industrial centers in European Russia using ultra-high voltage (UHV) transmission lines.

c. Plans for the development water-coal slurry pipelines and coal gasification and liquefaction.

The Newly Independent States (NIS) of the Former Soviet Union control 50% of the world's estimated coal reserves. Coal production in the Soviet Union amounted to 760 million metric tons (mmt) in 1987, 36 mmt of which was exported. Hard coal production amounted to 591 mmt. Electric power accounts for 40% of coal consumption, metallurgy 25%, domestic and utilities 20% and construction and agriculture 15%.

## 2. NIS Coal Producing Areas

### a. Donbass Region, Ukraine

The Donbass Region is located in the southeastern corner of the Ukraine and the adjacent area of the Russian Republic. Coal reserves in Donbass amount to 55 billion metric tons, of which 34 billion are accessible. In 1987 Donbass accounted for about 26% of the coal produced in the Soviet Union. Coal production in the Donbass declined from 198 mmt in 1987 to 179 mmt in 1990. The area produces anthracite and coking and thermal bituminous coal from deep underground mines averaging 600 meters in depth with thin seams averaging 0.9 meters in thickness.

Coal extraction in Donbass requires mining deeper, thinner seams thus increasing the temperature in working areas and concentrations of both methane gas and water. These conditions require greater investment in mine ventilation systems, gas detection systems and gas protection equipment for miners. Given that coal extraction in the Donbass is becoming increasingly expensive and complicated, it is not clear how much investment in further development of mines in this area would be economically justified.

### b. Kuzbass Region, Russian Republic

The Kuzbass Region lies in Western Siberia to the east of the Ural Mountains and to the north of Kazakhstan. Total reserves in Kuzbass are estimated to amount to 700 billion tons. In 1987 the Kuzbass mined about 157 mmt or about 20% of the coal produced in the Soviet Union. By 1990 production had decreased to 145 mmt. The region produces bituminous coal from both underground (60%) and open pit (40%) mines. Average mine depth is about 260 meters with an average seam thickness of 2.5 meters. The Kuzbass Region is the site of a prototype long-distance coal-slurry pipeline.

### c. Karaganda Basin Region, Kazakhstan

The Karaganda Basin Region is located north of Lake Baikhash in eastern Kazakhstan. In 1987 the region produced 52 mmt of coal or about 7% of the Soviet Union's coal production. In the Karaganda Basin bituminous coal is produced from underground mines which average 420 meters in depth with an average seam width of 2.5 meters.

### d. Vorkuta (Pechora) Region, Russian Republic

Northeast of Moscow in European Russia above the Arctic Circle on the Barents Sea lies the Vorkuta (Pechora) coal producing region. The 30 mmt produced in the Vorkuta Region amounted to 4% of the total coal production of the Soviet Union in 1987. In the Vorkuta Region bituminous coal is produced from underground mines

which average 490 meters in depth from seams with a width of about 2.4 meters.

### 3. Problems of the NIS Coal Industry

The coal industry in the NIS is grossly inefficient and production is declining. An environment marked by government management and control; central planning with its emphasis on gross output rather than the cost of production; administratively determined prices; central allocation of inputs including spare parts; and government subsidies under the old Soviet system led to continued operation of uneconomic plants, inefficient use of inputs and lack of production incentives. The legacies of this system include antiquated and obsolete equipment, lack of maintenance, unavailability of spare parts, lack of support from associated industries, heavy handed managerial techniques, loss of management control, underutilization of the work force, poor work habits, high rates of absenteeism and low productivity.

Safety and health conditions in the mines are deplorable. Housekeeping is often poor with old equipment, replaced parts and coal refuse lying in various places. Mine conveyor belt and other fires are common. However, fire prevention measures such as ventilation to control spontaneous combustion, water availability and fire fighting equipment are all often inadequate. Coal dust and methane gas concentrations are often excessive resulting in frequent blow outs, particularly in deeper mines, while mine ventilation systems, gas detection systems and gas protection equipment for miners are generally inadequate. Transportation systems are frequent causes of miner accidents and deaths and unsafe roof supports are common. Mine emergency and rescue teams need better equipment and more training.

The living conditions of miners are difficult. Wages are low and housing is limited in quantity and inadequate. Consumer goods are scarce, particularly in more remote mining areas in Siberia and above the Arctic Circle. Medical facilities are crowded and have inadequate equipment, supplies and stocks of essential medicines.

Knowledge of the working of a free market system and the roles of coal industry management and labor in this system are rudimentary. Modern techniques of dispute settlement and mechanisms for coordination of management and labor are virtually unknown.

The need for financing to upgrade equipment and make mine operations more efficient is immense. However, knowledge of financing techniques and joint venturing with foreign companies is lacking.

Coal mining regions in the Former Soviet Union are environmental disaster areas. Slag piles abound in these areas,

some of which smolder continually fouling the air. Underground mines often result in ground settling at the surface forming stagnant pools of water and swampy areas. Little or no effort is made to restore abandoned open pit areas. Coal mine operations also result in large quantities of pollutants being released into the air and local water sources.

#### 4. Development of the Project

The beginnings of this Project occurred in 1989 when USG representatives visited some of the coal regions of the then Soviet Union. At the time, Soviet coal miners were just beginning to organize into what would eventually become independent miners' unions. These independent unions, through strikes and other political activity, played an important role in the events that led to the eventual dissolution of the Soviet Union.

Groups of independent miners visited the U.S. in December 1989/January 1990 and again in January 1991 and met with leaders of U.S. coal industry labor and management. As a result of these meetings, a group of representatives of the U.S. coal industry agreed to help the representatives of independent coal mining unions help the coal industry in the Soviet Union make the transition from operation in a command economy to operation in a free market through the provision of technical assistance, training and the supply of information. The U.S. coal industry group agreed to send a delegation to the then Soviet Union later on in the year.

The U.S. coal industry group spent the period from 7 to 22 June 1991 in the then Soviet Union. W. J. Usery, former Secretary of Labor, led the group which included top labor and management representatives from the U.S. coal industry, the Assistant Secretary of Labor responsible for mine health and safety and representatives of the State Department. The objectives of the group were to:

- a. Familiarize the U.S. coal industry group with conditions in the then Soviet coal industry.
- b. Give seminars in various aspects of the development, operation and interaction of coal industry unions and management in a free market.
- c. Lay the organizational groundwork for a long-term program of technical assistance, training and information supply and jointly plan the next steps in the program.

The group visited a dozen coal mines and several supporting facilities in the Donbass region of the Ukraine and the Kuzbass region in the Western Siberian portion of the Russian Republic. The group met with thousands of coal miners; union leaders; mine

managers; and local, republic and all-union level officials.

The group concluded that, despite widespread support for change and economic reform, the enormity of the problems facing the coal industry in the NIS of the former Soviet Union precluded a quick solution to the industry's problems. Massive infusions of technology, managerial techniques and capital will be required to convert the NIS coal industry into a modern, efficient industry operating in a free market environment. A range of the problems the group found are discussed above in the "Problems of the NIS Coal Industry" section.

In both the Donbass and the Kuzbass, the coal industry group signed a detailed memorandum of agreement with local labor, management and political leaders. The Kuzbass agreement focuses on the establishment of a regional training center. The Donbass agreement talks about (1) technical assessment of regional coal enterprises, (2) participant training in the U.S., (3) supply of information and (4) in country training including training for displaced workers.

This Project is a direct result of the visit of the U.S. coal industry group to the NIS of the former Soviet Union in June 1991. The initiative was included in the State Department Press Release on assistance to the NIS 23 January 1992.

#### 5. Project Purpose

The purpose of the Coal Industry Independent Management and Labor Subproject is to facilitate the transformation of the centrally planned and controlled coal mining industry in the Kuzbass and Vorkuta regions of the Russian Republic, the Donbass region of the Ukraine and the Karaganda Basin region of Kazakhstan to coal mining enterprises which can survive and compete in a free market economy through the cooperative efforts of entrepreneurs, management and labor in the areas of technical and economic efficiency, enterprise management, health, safety and labor union development.

#### C. PROGRAM DESCRIPTION

The following program description has been adapted from a preliminary proposal submitted to A.I.D. by Partners in Economic Reform. The Project will be divided into two phases, the preliminary phase and the implementation phase. The preliminary phase will involve "quick start" reconnaissance visits by teams from the U.S. coal mining industry to each of the four NIS coal mining regions to be included in the Project. Each team will be divided equally between management and labor union officials. The teams will determine priority equipment, technical assistance and training needs and develop plans for the implementation phase.

The implementation phase will commence at the close of the preliminary phase. For the implementation phase of the Project, the four selected coal mining regions have been divided into two groups; focus regions and other regions. The Kuzbass region in the Russian Republic and the Donbass region of the Ukraine have been designated as focus regions. The Vorkuta region of the Russian Republic and the Karaganda Basin region of Kazakhstan have been designated as other regions. The implementation phase involves the establishment and operation of (1) regional liaison and technical assistance offices in each region, (2) regional training centers in each region, (3) a project coordination office in Moscow and (4) a project coordination office in Washington, DC.

The regional liaison and technical assistance offices and the training centers in focus regions will be headed by long-term American technical advisors. A local hire director will head the liaison and technical assistance offices and the training centers in the other regions under the supervision of a focus office or center. Both liaison and technical assistance offices and training centers will have access to short-term personnel from the U.S. coal industry to meet priority technical and training assistance needs and conduct priority studies during the first two years of the implementation phase. The training centers will plan and conduct training for coal enterprise entrepreneurs, managers, trainers and workers and interested government officials both at the center and coal enterprise sites.

The Project will train participants in the U.S. during the first two years of the implementation phase. This participant training will be provided by the U.S. coal industry.

The Project includes a coal industry project evaluation during the first half of the second year of the implementation phase. This activity is similar to the design of the quick start reconnaissance visits. However, an evaluation of liaison and technical assistance offices, training centers, technical assistance provided, studies completed, training provided and the status of coal mining enterprises visited previously will also be included. Four contract consultants and two direct-hire A.I.D. employees will join the coal industry representatives in the evaluation of the Project.

The head of the Moscow Coordination Office will be a long-term American technical advisor. Besides carrying out project coordination and liaison functions, this Office will provide advice and assistance to central coal mining union and other coal industry organizations. The Washington Headquarters Office will be the main point of contact with the U.S. Coal Industry and, as such, will carry out important coordination and liaison functions.

#### D. SUBSTANTIAL INVOLVEMENT UNDERSTANDINGS

1. During the preliminary phase and the first year of the implementation phase, the Cooperator and A.I.D. will hold monthly consultations on project activities based on the monthly reports submitted by the Cooperator.

2. The Cooperator's activities during the second and any subsequent year of the implementation phase will be based on an annual work plan approved by A.I.D.

3. A.I.D. will approve all long-term technical advisors provided by the Cooperator.

#### E. REPORTS

1. A monthly report shall be submitted within ten (10) working days of the end of each month after the commencement of work under this Cooperative Agreement. This report shall include:

a. A table covering all international travel undertaken under the Cooperative Agreement during the reporting month showing name of individual or group, status (long-term technical advisor, short-term technical advisor, reconnaissance team, evaluation team, participant to be trained in U.S., etc.), itinerary, date of arrival, date of departure and purpose of travel.

b. A description of all short-term technical assistance visits completed during the reporting month including host organization, purpose and work completed.

c. A description of all in country training courses completed during the reporting month including subject matter, location, duration, source of participants, number of participants and evaluation.

d. A description of all participant training in the U.S. completed during the reporting month including names of participants, subject matter, location, duration and evaluation.

e. A description of other activities carried out during the reporting month.

f. A discussion of project implementation accomplishments, issues and problems.

g. Proposed remedial action to solve problems.

h. A summary of activities planned for the month following the reporting month.

2. A work plan covering each year of the implementation phase after the first year to be submitted at least ninety (90) days prior to the beginning of the year in question.

3. An annual report covering each year of the implementation phase summarizing the material included in the monthly reports submitted during the year shall be submitted within thirty (30) days of the end of the year.

4. A final report highlighting activities carried out under this Cooperative Agreement to be submitted in final form prior to the end of the Cooperative Agreement.

#### E. RELATIONSHIPS

The Cooperator's host country counterparts will be numerous and varied. The Cooperator should report the identity and some background information on each host country counterpart organization it is working with. The Energy Division of the A.I.D. NIS Task Force is the responsible technical office for this Cooperative Agreement.

#### F. STARTING DATE, PERIOD AND FUNDING

Contracts Division A of the Office of Procurement (FA/OP/A) is requested to negotiate this Cooperative Agreement as soon as possible. The Cooperator has tentatively scheduled the first "quick start" reconnaissance visits to begin on 15 June 1992.

This PIO/T definitively covers the first 27 months of the Cooperative Agreement. The Program Description assumes that the implementation phase continues into a third year and the project budget includes illustrative figures for a third year. A determination whether the Project will be continued at existing levels, expanded, phased down or phased out in the third year will be made as a result of the coal industry project evaluation discussed above.

The PIO/T provides funding for the first 15 months of the Cooperative Agreement. It is planned to extend this Cooperative Agreement for an additional 12 months (the second year of the implementation phase) subject to the availability of funds and mutual agreement to proceed.

#### G. LOCATION OF THE ACTIVITY

The locations of the activity include Washington, D.C., Moscow, the Kuzbass and Vorkuta coal mining regions of the Russian Republic, the Donbass coal mining region of the Ukraine and the Karaganda Basin coal mining region of Kazakhstan.

#### H. LOGISTIC SUPPORT

The Cooperator will arrange for all of its own logistic support both in Washington, D.C. and the NIS.

I. OTHER

Fluency in Russian for long-term technical advisors located in Moscow, the Kuzbass and Vorkuta coal mining regions of the Russian Republic and the Karaganda Basin coal mining region of Khazakstan and in Ukrainian for long-term advisors located in the Donbass Coal Mining Region of the Ukraine is highly desirable. No access to classified material is required to carry out this Cooperative Agreement.

# Coal Industry Independent Labor and Management Project Cost Estimate

COST SUMMARY BY PROJECT ELEMENT		Prelim 3 mos	Year 1	Year 2	Year 3	Total
I.	Washington Headquarters Office	0	325000	327500	305000	957500
II.	Moscow Coordination Office	0	287500	213750	197500	698750
III.	Focus Regional Liaison and Technical Assistance Offices	0	330000	385000	155000	870000
IV.	Other Regional Liaison and Technical Assistance Offices	0	55000	125000	60000	240000
V.	Quick Start Reconnaissance Visit	540000	0	0	0	540000
VI.	Focus Regional Training Center	0	370000	505000	275000	1150000
VII.	Other Regional Training Center	0	0	230000	155000	385000
VIII.	Participant Training in U.S.	0	92500	242500	152500	487500
IX.	Coal Industry Project Evaluation	0	0	471250	0	471250
TOTAL PROJECT COSTS						
First Fifteen Months		540000	1460000	2500000	1300000	5800000
			2000000			

COST SUMMARY BY LINE ITEM						
A.	U.S. Dollar Costs					
1.	Salary and Benefits	0	572250	716250	452250	1740750
2.	Travel and Transportation	0	207832	72996	184655	465483
3.	Consultants	105792	19190	151430	9620	2286032
4.	Short-term Technical Advisors	0	62266	328500	100510	491276
5.	Office Operations	5000	111970	98998	59648	275616
6.	Training Operations	0	55000	53900	19300	128200
7.	Participant Training	0	92500	242500	152500	487500
8.	Equipment to Improve Mine Health, Safety and/or Other Costs	400000	0	300000	0	700000
9.	Subtotal U.S. Dollar Costs	1708	45492	49426	38517	135143
	Cross Check	512500	1166500	2014000	1017000	4710000
		512500	1166500	2014000	1017000	4710000
B.	Local Currency Costs					
1.	Salary and Benefits	6000	134100	279600	158400	578100
2.	Travel and Transportation	16400	37700	95500	45800	195400
3.	Office Operations	2000	56800	71400	44100	174300
4.	Other Costs	3100	64900	39500	34700	142200
	Subtotal Local Currency Costs	27500	293500	486000	283000	1090000
	Cross Check	27500	293500	486000	283000	1090000
TOTAL PROJECT COSTS						
First Fifteen Months		540000	1460000	2500000	1300000	5800000
			2000000			

MAR 6 1992

AGENCY FOR INTERNATIONAL DEVELOPMENT  
ADVICE OF PROGRAM CHANGE

COUNTRY: New Independent States Regional

PROJECT TITLE: Energy Efficiency and Market Reform

PROJECT NUMBER: 110-0002

FY 1992 CP REFERENCE: None

APPROPRIATION CATEGORY: Economic Support Fund (ESF)

LIFE-OF-PROJECT FUNDING: \$45,000,000 ESF Grant

INTENDED FY 1992 OBLIGATION: \$15,600,000 ESF Grant

This is to advise that A.I.D. now intends to obligate \$15,600,000 for the Energy Efficiency and Market Reform Project as follows: \$5,800,000 in FY 1991 Economic Support Fund (ESF) carryover grant funds originally planned for Pakistan, of which \$1,800,000 was notified by Congressional Notification # 056 submitted December 6, 1991, and \$9,800,000 in FY 1992 ESF grant funds. This is a new project which was not included in the FY 1992 Congressional Presentation. Life-of-project funding will be \$45,000,000. Life of project will be extended from two to four years.

The purpose of the Project is to improve the efficiency of energy production and consumption in the new independent states of the former Soviet Union and to help implement market reforms in this sector. In addition, improvement of oil and gas production and delivery systems, nuclear power plant safety, and reduction of environmental pollution are now included as project components.

Attachment: Activity Data Sheet

**AGENCY FOR INTERNATIONAL DEVELOPMENT  
ACTIVITY DATA SHEET**

PROGRAM: New Independent States Regional

CP 01 00 (4-88)

TITLE Energy Efficiency & Market Reform		FUNDING SOURCE Economic Support Fund	PHYSICAL OBLIGATION (in thousands of dollars) FY 15,600	LIFE OF PROJECT (years) 45,000
NUMBER 110-0002	NEW <input checked="" type="checkbox"/>	PRIOR REFERENCE CN # 056 submitted 12/6/91	INITIAL OBLIGATION FY 92	ESTIMATED FORMAL OBLIGATION FY 95
GRANT <input checked="" type="checkbox"/>	LOAN <input type="checkbox"/>	CONTINUING <input type="checkbox"/>		ESTIMATED COMPLETION DATE OF PROJECT FY 96

**PURPOSE:** To improve the efficiency of energy production and consumption in the new independent states of the former Soviet Union and to help implement market reforms in this sector.

**Background:** The dramatic collapse of the Soviet Union presents an historic opportunity for a transition to a more peaceful and stable international order and the gradual integration of the NIS into the community of democratic nations. The United States has a vital interest in the success of this transition. Based on a series of action plans developed in conjunction with the January 1992 Coordinating Conference held in Washington, an initial A I D program for the region has been developed. The six objectives of this program are: to encourage free-market economic systems; promote democracy; meet urgent humanitarian needs; convert defense-oriented economies; promote bilateral trade and investment; and increase the efficiency of the energy sector in the new states. This project is a principal component of the program.

**Project Description:** Quick-impact, low-cost measures can save significant quantities of energy, thereby reducing environmental pollution and degradation. A.I.D. will apply this principle in the NIS region, with activities tailored to the specific needs of states to which the U.S. has extended diplomatic recognition. The project will demonstrate these savings and promote the energy pricing, regulatory, safety, and investment reforms necessary to commercialize energy-efficient technologies and improve productivity and management in specific industries. This Project is expected to expand the availability of oil, gas and coal supplies in the NIS region and will increase exchange earnings for participating states.

The Project will provide expert U.S. assistance to NIS states to help implement energy efficiency and safety improvements in district heating plants, industrial and electrical facilities, refineries, and petroleum and coal production companies, and safety improvements in nuclear facilities. It will also help to develop energy policy

and pricing reforms and new institutional, safety and regulatory mechanisms which promote market competition, stimulate capital investment and facilitate interstate trade and contractual arrangements. The Project will support the ongoing Energy Roundtable which brings together officials from the U.S. private sector with officials and business people from the NIS; and will support the Partners in Economic Reform program, an initiative of the U.S. coal industry. The Partners program helps relieve logistical bottlenecks and provides training in mine safety.

**Relationship of Project to A.I.D. Strategy:** The Energy Efficiency and Market Reform Project is one of the programs to support and to assist the democratic and economic reforms taking place in the NIS. Its focus will be on those states which have made a commitment to democratic and market reforms and energy efficiency.

**Beneficiaries:** The direct beneficiaries of the Project will be industrial, mining and energy managers, both in the private and public sectors, who will receive the technical assistance and training. Indirect beneficiaries will include citizens of the NIS who will benefit from more reliable energy supplies and such things as improved heating and environmental quality and new job opportunities as market reforms take hold in the NIS.

**Host Country and Other Donors:** The Project will be coordinated with the World Bank, the European Economic Community and other international and bilateral donors to new independent states.

A.I.D.-Financed Inputs:	Life of Project (\$000)
Technical Assistance: Industry Technical Experts	25,000
Training	10,000
Commodities: Energy Efficiency Equipment	10,000
<b>Total</b>	<b>45,000</b>

U.S. FINANCING (in thousands of dollars)			Unobligated	PRINCIPAL CONTRACTORS OR AGENCIES
	Obligations	Expenditures		
Through September 30, 1990				
Estimated Fiscal Year 1991				
Estimated Through September 30, 1991				
Proposed Fiscal Year 1992	15,600	29,600	Estimated Total Cost 45,000	

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New Independent States Regional  
Energy Efficiency and Market Reform 110-0002

Clearances:

DAA/EUR: DMerrill DM date: 3/6/92  
GC/EUR: HMorris HM date: 3/4/92  
R&D/TF: BTurner (draft) date: 02/11/92  
EUR/OSA: PO'Farrell (draft) date: 02/11/92 3/5/92  
EUR/DR: RAnthony (draft) date: 02/03/92  
EUR/PDP: SSmith (draft) date: 02/05/92  
GC/LP: RLester (draft) date: 02/05/92  
EUR/PDP: RFanale (draft) date: 02/05/92  
EUR/RME/FM: BBrockie (draft) date: 02/04/92  
FA/B: LLeDuc (draft) date: 02/05/92  
EUR/OSA: JWiles (draft) date: 02/03/92  
EUR/OSA: EKvitashvili (draft) date: 02/03/92

ST:D/EEA:CRufenacht (draft) date: 02/11/92  
ST:EUR/ISCA/E:KVolker (draft) date: 02/11/92

Drafted: EUR/DR/EI: RIchord, 1/31/92: 78274

EUR/PDP: EBailly: 76389: CN Coordination

CC: FA/B: JPainter

TAB C  
2/3



REC'D S/S -IRM/RMD

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U.S. AGENCY FOR '92 MAR 30 P4:31 REC'D MAR 23 A 10:40  
INTERNATIONAL  
DEVELOPMENT S/S *P. 24*



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TO: The Deputy Secretary  
THROUGH: T - Reginald Bartholomew  
DA/A.I.D., Mark L. Edelmann  
FROM: PM - Richard A. Clarke  
DD/POL, Larry Saiers  
SUBJECT: Use of Foreign Assistance Act Funds for Procurement  
in Former Soviet Republics

ISSUES FOR DECISION

Whether to conclude that certain former Soviet Republics should no longer be considered as "non-Free World" countries for purposes of permitting foreign assistance procurement from them under a 1961 Presidential determination.

ESSENTIAL FACTORS

On October 31, 1991, you approved a determination that Eastern European countries and Mongolia should no longer be considered as "non-Free World" countries for purposes of permitting foreign assistance procurement from them under a 1961 determination by President Kennedy. The decision memorandum is attached at Tab A.

Your October determination recognized that certain countries, including the Soviet Union, would continue to be excluded from procurement eligibility. (The other countries were Afghanistan, Libya, Vietnam, Cuba, Cambodia, Laos, Iraq, Iran, North Korea, Syria, and the People's Republic of China). Your determination also recognized that, if warranted by changed conditions with respect to any of these countries, A.I.D. would seek a similar foreign policy determination from the Department.

In view of the break-up of the Soviet Union, the U.S. Government has taken a number of steps to support a peaceful transition toward democratic institutions and market economies in the former Soviet Republics. The President on December 25th proposed conducting full diplomatic relations with Russia, Ukraine, Armenia, Byelarus, Kazakhstan, and Kyrgyzstan; and assistance activities (primarily technical and humanitarian



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A. Agency for International Development  
Washington, D.C. 20523

TAB-A

ACTION MEMORANDUM

~~LIMITED OFFICIAL USE~~  
(Decontrol 10-1-52)

*Decontrolled  
Kenneth E. Fries  
11/27/91*

TO: The Deputy Secretary  
THROUGH: T-Reginald Bartholomew  
DA/A.I.D., Mark L. Edelman  
FROM: PM-William F. Rope, Acting  
D/POL, Larry Siders, Acting  
SUBJECT: Use of Foreign Assistance Act Funds for Procurement  
in Eastern European Countries and Mongolia

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ISSUES FOR DECISION

Whether to conclude that certain countries should be considered as "Free World" countries for purposes of permitting foreign assistance procurement from them under a 1961 Presidential determination.

ESSENTIAL FACTORS

Section 604(a) of the Foreign Assistance Act of 1961 prohibits use of foreign assistance funds for procurement outside the United States unless the President determines that "such procurement will not result in adverse effects upon the economy of the United States or the industrial mobilization base ...." On October 18, 1961, President Kennedy made a Determination pursuant to Section 604(a) to permit procurement from sources outside the United States where the procurement is less costly than procurement from United States sources. This 1961 Determination authorized procurement from "less developed countries" generally and, under specific circumstances, from selected industrialized countries. (See Tab A)

<sup>1</sup> This prohibition covers other Foreign Assistance Act procurement as well as A.I.D.-financed procurement, e.g., military and counter-terrorism procurement. In practice, however, it has at most a negligible effect in these other areas.

~~LIMITED OFFICIAL USE~~

*Decontrolled  
Kenneth E. Fries  
11/27/91*

~~LIMITED OFFICIAL USE~~

*Kenneth S. Fink*

4/27/91

President Kennedy specified, however, that "procurement outside the United States shall be from Free World sources, in any case." "Free World" has long been construed by A.I.D. to exclude all countries listed in the Foreign Assistance Act as "communist" (Section 620(f)), including the People's Republic of China, Cuba, Vietnam, the Soviet Union, the Baltic Republics, Mongolia, and all the countries of Eastern Europe, with the exception of Yugoslavia.

The characterization of a number of these countries as "non-Free World" for purposes of Section 604(a) no longer makes sense in view of their status as emerging democracies and recipients of A.I.D. assistance. In this category we place Poland, Hungary, Czech and Slovak Federal Republic, Bulgaria, Romania, Albania, Mongolia, and now the Baltic Republics. We recommend that you concur that these countries should no longer be considered as "non-Free World" within the meaning of President Kennedy's determination. This will allow them to participate as eligible sources for A.I.D.-financed procurement, as appropriate.

A.I.D. would continue to exclude certain countries from procurement eligibility because of their status under the anti-terrorism statutes and for other foreign policy reasons. The countries that would remain excluded are Afghanistan, Libya, the Soviet Union, Vietnam, Cuba, Cambodia, Laos, Iraq, Iran, North Korea, Syria, and the People's Republic of China. If warranted by changed conditions with respect to any of these countries, A.I.D. would seek a similar foreign policy determination from the Department, at the level of Under Secretary for International Security Affairs, with respect to the procurement eligibility of that country.

President Bush has delegated to the Secretary of State the authority to make determinations under Section 604(a) with respect to "procurement under Chapter 1 of Part I and Chapter 4 of Part II of the Act" (FAA Development Assistance and Economic Support Fund accounts). (See Executive Order 12738 of December 14, 1990, Section 3(3), amending Executive Order 12163). Such authority has been redelegated to the Under Secretary for International Security Affairs with respect to programs under Part II of the Act (State Dept. Delegation of Authority No. 145, Section 1(a)(1)), and may also be exercised by you (Section 4(d)). Although that delegation is not, technically, needed in order for you to agree with our proposed interpretation of the existing Presidential Determination, it is consistent with such action.

~~LIMITED OFFICIAL USE~~

*Donna W. ...  
Kenneth S. Fink*

4/27/91



Clearances:

State/D/EEA:RBarry (Draft) date 9/30/91  
State/L/PH:ECummings(Draft) per S.Murphy date 9/25/91  
State/S/CT:MKraft (Draft) date 10/01/91  
State/D/P&R:RBauerlein (Draft) date 9/30/91  
State/EUR/EEY:SByrnes (Draft) date 10/15/91  
State/EAP/CM:RPerito (Draft) date 10/01/91  
State/EB/IFD/ODF,LMoriarty (Draft) date 10/01/91  
State/INM:JVanWert (Draft) date 10/01/91  
AID/GC:(Acting):TGeiger (Draft) date 9/27/91  
AID/AA/ENE:Cadelman (Draft) date 10/15/91  
AID/AA/FA,(Acting):JOWens (Draft) date 9/25/91  
AID/MS/PPE:JMurphy (Draft) date 9/25/91  
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cc (w/attachment): A/A.I.D., Ronald W. Roskens

GC/CCM:KFries:cac:1/14/91:PDFAAP(WordPerfect):EXT. 78332

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Title 3—THE PRESIDENT

Memorandum of October 18, 1961

DETERMINATION UNDER SECTION 604(a) OF THE FOREIGN ASSISTANCE ACT OF 1961

Memorandum for the Secretary of State

The White House

Washington, October 18, 1961

Section 604(a) of the Foreign Assistance Act requires that:

Funds made available under this Act may be used for procurement outside the United States only if the President determines that such procurement will not result in adverse effects upon the economy of the United States or the industrial mobilization base, with special reference to any areas of labor surplus or to the net position of the United States in its balance of payments with the rest of the world, which outweigh the economic or other advantages to the United States of low cost procurement outside the United States, and only if the price of any commodity procured is not in excess of the market price prevailing in the United States at the time of procurement, adjusted for discounts in the case of transportation to destination, quality, and terms of payment.

This section requires that procurement outside the United States using funds available under the Foreign Assistance Act of 1961 may be undertaken only if I determine that, on balance, there is no net detriment to the United States. I am in clear and substantial agreement with this principle, and trade and foreign policy objectives which I have previously endorsed, including my message on the balance of payments of February 8, 1961, already substantially provide this assurance.

As I indicated in that message, "our foreign economic assistance programs are not being administered in such a way as to place primary emphasis on the procurement of American goods... This restriction will be maintained until reasonable over-all equilibrium has been achieved." Under this policy, which is contained in force by my declaration

below, the procedural bulk of foreign assistance procurement will be made in the United States. The security for this is clear; such procurement will contribute generally towards reducing our balance of payments difficulties, and also help stimulate industries in labor surplus areas.

On the other hand, recent trade and foreign policy objectives and assistance program goals require limited amounts of procurement outside the United States. Some commodities needed in our assistance programs are not produced in the United States or are not available in the quantities required at the time needed. Procurement from less developed countries, as provided under section 603, is necessary to promote their economic development, thereby contributing to the objectives of the economic program and increasing their opportunity for foreign assistance. Procurement of military material outside the United States is necessary, in some instances, to carry out projects important to our national security.

Therefore, I hereby direct that funds made available under the Foreign Assistance Act of 1961 for non-military procurement be used for procurement from the following countries: Australia, Austria, Belgium, Canada, Denmark, France, Germany, Great Britain, Italy, Japan, Luxembourg, Mexico, Netherlands, New Zealand, Norway, South Africa, Sweden, Switzerland, and United Kingdom. Upon certification by the Secretary of State, however, that inclusion of procurement in these countries would seriously impede attainment of U.S. foreign policy objectives and the objectives of the foreign assistance program, the Secretary of State may authorize specific exceptions which involve procurement in the excluded countries.

I also hereby direct that funds made available under the Foreign Assistance Act of 1961 for military assistance programs not be used for procurement outside the United States except to procure items required for military assistance which are not produced in the United States, to make local purchases for administrative purposes, and to use local currency available for military assistance purposes. Upon certification by the Sec-

retary of Defense, however, that inclusion of procurement outside the United States would seriously impede attainment of military assistance program objectives, the Secretary of Defense may authorize exceptions to these limitations.

In the event that changed domestic or foreign conditions warrant, the Secretary of State in the case of non-military assistance, and the Secretary of Defense in the case of military assistance, shall consult with the Secretary of the Treasury, and other appropriate agencies, and recommend modification as may be appropriate in policies for procurement using funds made available under the Foreign Assistance Act of 1961. In the event that procurement outside the United States under the above conditions seriously threatens to exert adversely the industrial mobilization base or the economy of an area of labor surplus, the Secretary of State in the case of non-military assistance and the Secretary of Defense in the case of military assistance, shall consult with the Secretary of Commerce and other appropriate agencies and recommend such action as may be appropriate.

For the reasons and under the conditions stated above, and pursuant to the requirements of Section 604(a) of the Foreign Assistance Act of 1961 (PL 87-195), I hereby determine that the use of funds made available under the Act for procurement from sources outside the United States will not result in adverse effects upon the economy of the United States or the industrial mobilization base, with special reference to any areas of labor surplus or to the net position of the United States in its balance of payments with the rest of the world, which outweigh the economic and other advantages of low cost procurement outside the United States. Procurement outside the United States shall be from free world sources, in any case. The effective date of this determination shall be September 30, 1961.

This determination shall be printed in the Federal Register.

JOHN F. KENNEDY  
772 Dec 31-1975; Final Ver. 2, 1961  
(16 pgs)

267.R.10543

Nov 9, 1961



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

January 18, 1992

TAB-B

**ACTION MEMORANDUM FOR THE ADMINISTRATOR**

**THRU:** Acting, AA/OPS, Howard M. Fry *HMf*  
**FROM:** AA/EUR, Carol C. Adelman *CA*

**SUBJECT:** Assistance to the Independent States  
of the former Soviet Union: Statutory  
Checklist

*Assistant  
Administrator  
for Europe*

**Problem:** To take into consideration relevant statutory requirements in light of whether ESF funds (and DA funds, to the extent such funding may be made available in the future) should be used to provide technical and other assistance to support the transition of the newly independent states of the former Soviet Union into democratic, free-market societies, and to help meet the energy needs of these societies.

**Discussion:** The former Soviet Union has undergone revolutionary changes within the past year which have resulted in the creation of twelve independent states, most of whom are loosely associated in a new Commonwealth of Independent States. The United States Government has established diplomatic relations with six of the former republics of the Soviet Union, namely: Armenia, Byelarus, Kazakhstan, Kyrgyzstan, Russia and Ukraine.

On September 10, 1991, the Secretary of State signed a determination, pursuant to §620(f)(2) of the Foreign Assistance Act (FAA) of 1961, as amended, permitting assistance to the Soviet Union. (See Tab A.) Pursuant to that determination, two Congressional Notifications, both of which expired on December 20, 1991, were sent to Congress describing two proposed projects to be implemented by A.I.D. (See Tab B.) These projects have been designed (1) to encourage the transformation of these republics into democratic,

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

market-based economies, and (2) to improve energy efficiency and encourage energy market reforms in these societies. ESF funds of \$3.2 million for the Democratic and Economic Initiatives Project and \$1.8 million for the Energy Efficiency and Market Reform Project are now pending authorization and obligation.

Although certain republics of the former Soviet Union would normally be prohibited from receiving assistance since each such republics are indebted to certain U.S. citizens, the State Department plans to issue on January 18, 1992 a determination pursuant to §620(c) of the FAA which would permit assistance to flow to these republics despite this fact. (This determination shall provide, in substance, that failing to provide assistance to these newly formed states is contrary to the national security interest of the United States.) Despite this determination by the State Department, however, certain factors must be "taken into consideration" by you before we may proceed with obligating funds for these two projects.

Please note that since the source of funding for these two proposed projects is the ESF account, the "notwithstanding any other provision of law" language is not available. (This language has been used in the past to permit assistance to proceed in Eastern European countries under the 1991 Appropriation Act despite prohibitions on assistance that would otherwise apply.) Therefore, certain factors must be "taken into consideration" by you before these proposed projects may be obligated from the ESF account (or the DA account, if such funding is later made available.) In fact, you normally take into consideration a number of conditions, to the extent that they may exist, on an annual basis before approving an allocation of assistance to specific countries. However, in light of the fact that the Coordinator's Office wishes to proceed with implementing the proposed projects on an expedited basis, we are presenting certain issues for your consideration at this time on an ad hoc basis.

In order to ensure that all relevant statutory requirements have been met, A.I.D. has developed a "country checklist", describing such requirements with particularity. The items on this checklist have been responded to in substance by the State Department, and its memorandum is attached hereto as Tab C. In the case of the states of the former Soviet Union, only two considerations are relevant in considering whether to provide assistance, and are discussed below. Please bear in mind, however, that statutorily mandated considerations in providing foreign assistance need only be "take into account". The mere existence of such factual considerations does not, in and of itself, prohibit assistance to the country in question.

(UNCLASSIFIED WITHOUT CLASSIFIED ATTACHMENTS)

(1) Section 620(1): Failure to enter into an OPIC Guaranty Agreement: As of this date, OPIC is in the process of initiating negotiations with each of the individual republics to whom we plan to render assistance to enter into OPIC investment guarantee agreements. Although such negotiations are in the process of being initiated, they have not yet been finalized and, to date, OPIC has not concluded any bilateral agreements with these new republics. Thus, in light of the fact that this process of negotiation has been initiated but not concluded, we request you to take this into consideration and permit assistance to move forward as planned.

(2) Section 620(u): U.N. Dues: According to U.N. records dated October 31, 1991, the combined arrearage of the U.S.S.R., Byelarus, and Ukraine totals \$196,376,749.00. Dues owed to the U.N. regular budget are as follows: U.S.S.R. (\$46,019,313); Byelarus (\$1,520,157); Ukraine (\$5,758,172). Further, dues are owed for the maintenance of U.N. peace-keeping forces in the following amounts: U.S.S.R. (\$126,773,350); Byelarus (\$5,116,578); Ukraine (\$11,189,179). Thus, the subtotal owed by the CIS for outstanding dues to the U.N. regular budget is \$53,297,642, and for the U.N. peacekeeping forces is \$143,079,107. Payment of this arrearage in U.N. dues is expected although, to our knowledge, specific arrangements to pay have not yet been made. It should also be borne in mind that ESF (and DA) funded assistance to Albania was allowed to proceed, despite its similar arrearages in U.N. dues, based on your consideration of this factor. Therefore, we request you to take the U.N. dues arrearage of these former republics of the Soviet Union into account, and urge you to permit the planned assistance to be implemented as expeditiously as possible.

Recommendation: That you, by your signature below, take into consideration the circumstances described above, and approve the use of ESF funds (and DA funds to the extent necessary in the future), subject to the availability of such funds, for assistance to the six states named above. Such assistance will be authorized by separate action, and shall be subject to the Secretary's determinations under §§620(c) and (f)(2) of the FAA.

Approved: 

Disapproved: \_\_\_\_\_

Date: 1-18-92

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**Attachments:**

- TAB A - Section 620(f)(2) determination by the Secretary  
 TAB B - Congressional Notifications  
 TAB C - State Memorandum dated 1/17/92 re: Statutory Checklist

**Clearances:**

GC/LP: RLester	<u>                    </u>	(phone)	Date: <u>1/16/92</u>
AA/LEG: RRandlett	<u>                    </u>	(draft)	Date: <u>1/15/92</u>
ENE/EUR: DMerrill	<u>                    </u>	(draft)	Date: <u>1/17/92</u>
EUR.OSA: PO'Farrell	<u>                    </u>	(draft)	Date: <u>1/15/92</u>
GC/EUR: HMorris	<u>                    </u>	(draft)	Date: <u>1/14/92</u>
STATE/EUR/ISCA/ECON: KVolker	<u>                    </u>	(draft)	Date: <u>1/16/92</u>
STATE/D/EEA: CRufenacht	<u>                    </u>	(subst)	Date: <u>1/16/92</u>
AA/R&D: RBissell	<u>                    </u>	<i>RB</i>	Date: <u>1/18/92</u>

Drafted: GC/EUR, Ruvu Sarkar: 1/14/92

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**INITIAL ENVIRONMENTAL EXAMINATION**

(A) PROGRAM COUNTRY: Newly Independent States

(B) ACTIVITY: Energy Efficiency and Market Reform (No. 110-0002), Amended

(C) FUNDING: \$45.0 million

(D) PERIOD OF FUNDING: FY 1992 - FY 1996

(E) STATEMENT PREPARED BY: A. de Graffenreid, EUR/PD

(F) RECOMMENDED ENVIRONMENTAL ACTION: POSITIVE DETERMINATION

(G) DECISION OF DIRECTOR NIS/TF: *Michael J. Boyle*  
Approved  
Disapproved  
Date MAY 21 1992

(H) DECISION OF NIS/TF ENVIRONMENTAL OFFICER: *Michael J. Boyle*  
Approved  
Disapproved  
Date 5-7-92

**EXAMINATION OF THE NATURE, SCOPE AND MAGNITUDE  
OF THE ENVIRONMENTAL IMPACT OF  
THE ENERGY EFFICIENCY AND MARKET REFORM PROJECT, NO. 110-0002**

A. DESCRIPTION OF THE PROGRAM:

The purpose of the project, as amended, is to improve the efficiency of energy production and consumption in the New Independent States (NIS, formerly known as the Soviet Union) and to help implement market reforms in this sector. The amended project will provide technical assistance in: (1) pricing and institutional reform; (2) oil, gas and coal production and delivery systems; (3) energy efficiency and environmental improvement in power, industry, and buildings; and, (4) nuclear power plant safety and regulation. All of these activities will contribute to economic and energy reform efforts that will enhance the environment, reduce pollution, introduce cleaner fuels and more efficient and safe technologies and management systems.

B. RECOMMENDED ENVIRONMENTAL ACTIONS:

The positive implications of this project on promoting energy efficiency and clean energy sources leads to an overall conclusion that the project will have a positive environmental impact. However, interventions (even if limited to technical assistance, training and feasibility studies) in nuclear safety, fossil fuels production and energy pricing reform could introduce incentives for expanding unregulated and risk-producing activities unless appropriate assessment and mitigation of these risks are undertaken. Generally, environmental considerations will be incorporated in technical assistance and project studies, and activities aimed at rehabilitation and/or energy production facilities will require full environmental review. Were negative effects may occur, project developers (consultants and/or participating agency officials) will prepare recommendations to avoid or mitigate these effects. Proposals will be reviewed and approved by the NIS/TF Director in consultation with the NIS Environmental Coordinator.

Action Recommended: Positive Determination under A.I.D.  
Regulation 22 CFR 216.

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United States Department of State

Washington, D. C. 20520

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EXECUTIVE SECRETARIAT

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ACTION MEMORANDUM *we 2/4*  
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AID TO: D - Mr. Eagleburger

FROM: EUR - Thomas M.T. Niles  
H - Janet G. Mullins

SUBJECT: Circular 175: Request for Blanket Authority to Negotiate and Conclude Assistance Agreements with Former Soviet Republics

ISSUE FOR DECISION

Whether to authorize the negotiation and conclusion of bilateral agreements as appropriate with the former Soviet republics in connection with the provision of assistance.

ESSENTIAL FACTORS

We are proceeding quickly with assistance programs for several of the former Soviet republics. We are moving forward with \$5 million of assistance funded from reprogrammed FY-91 ESF, a \$165 million USDA food aid program, and humanitarian assistance programs under a series of DOD authorities. A more extensive technical assistance program is in preparation and additional assistance will also follow.

A.I.D. believes, and we concur, that we need to obtain agreements with the concerned republics conferring certain essential legal protections for the ESF program. Under the proposed agreements, the republics would:

- provide tax and customs exemptions for U.S.-provided commodities or equipment, and for U.S. nongovernmental personnel responsible for implementing the assistance programs;
- provide immunity for USG assistance personnel from criminal jurisdiction of local courts, and from civil jurisdiction of local courts for official acts;

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United States Department of State

Washington, D.C. 20520

MEMORANDUM OF LAW

**Subject:** Circular 175: Request for Blanket Authority for Negotiation and Conclusion of Assistance Agreements with the Twelve Former Soviet Republics

The accompanying Circular 175 action memorandum requests blanket authority to negotiate and conclude agreements with each of the twelve former Soviet republics (the "countries") to obtain certain legal protections in connection with U.S. assistance programs.

The proposed agreements do not imply or promise any particular level of assistance. Instead, they establish terms and conditions regarding assistance that may be provided by the U.S. government in accordance with applicable laws and regulations. These terms and conditions include tax and customs exemptions for U.S.-provided commodities or equipment, and for nongovernmental personnel responsible for implementing assistance programs; provision to USG assistance personnel of status equivalent to that accorded administrative and technical staff under the Vienna Convention on Diplomatic Relations; authorization by each of the countries for USG representatives to inspect utilization of the assistance, and to inspect or audit any records or other documentation in connection with the assistance, wherever such records are located; commitment by each of the countries to use commodities, supplies or other property solely for agreed-upon purposes; in cases in which the republic is responsible for items being used for other purposes, to refund their value to the USG (if the USG deems doing so appropriate); and provide exemptions for aircraft and vessels from landing fees, navigation charges, port charges, tolls, and similar charges.

Legal authority to negotiate and conclude the agreements is provided by the President's constitutional responsibilities for the conduct of foreign relations (Article II, Section I, Clause I) and the Secretary of State's authority for the day-to-day conduct of foreign relations (22 U.S.C. section 2656).

In addition, with respect to assistance provided under the Foreign Assistance Act of 1961, as amended, section 635(b) of that Act provides that the President may make and perform agreements with any friendly government or government agency "in furtherance of the purposes and within the limitations of this Act." This authority has been delegated to the Secretary of State by Executive Order No. 12163 (Sept. 29, 1979), as amended.

For the foregoing reasons, there is no legal objection to the proposed negotiation and conclusion of executive agreements with each of the twelve countries as described in the accompanying action memorandum. Any changes in that text shall be subject to the concurrence of L, EUR and D/EEA.

*Todd F. Buchwald*

---

Todd F. Buchwald, Acting  
Assistant Legal Adviser for  
European and Canadian Affairs

X-6295 1/21/92  
cleared: L/T:Gtaft  
L/SFP:LJacobson  
L/PM:SMurphy  
Doc. No. 1415 (33)

AGREEMENT BETWEEN  
THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND  
THE GOVERNMENT OF \_\_\_\_\_  
REGARDING COOPERATION TO FACILITATE  
THE PROVISION OF ASSISTANCE

The Government of the United States of America and the Government of \_\_\_\_\_:

Recognizing the interests of the Government of the United States of America and the Government of \_\_\_\_\_ in cooperating to facilitate the provision of humanitarian and technical economic assistance to benefit the people of \_\_\_\_\_; and

Recognizing the need to make certain practical arrangements to help ensure the effectiveness of that assistance;

Have agreed as follows:

ARTICLE I

TAXES AND OTHER CHARGES

(a) Commodities, supplies or other property provided or utilized in connection with United States assistance programs may be imported into, exported from, or used in \_\_\_\_\_ free from any tariffs, dues, customs duties, import taxes, and other similar taxes or charges imposed by \_\_\_\_\_, or any subdivision thereof.

(b) Any United States Government or United States private organization that has responsibility for implementing United States assistance programs, and any personnel of such private organization who are not nationals of or ordinarily resident in \_\_\_\_\_ and that are present in \_\_\_\_\_ in connection with such programs, shall be exempt from (1) any income, social security or other taxes imposed by \_\_\_\_\_, or any subdivision thereof, regarding income received in connection with the implementation of United States assistance programs, and (2) the payment of any tariffs, dues, customs duties, import taxes, and other similar taxes or charges upon personal or household goods imported into, exported from, or used in \_\_\_\_\_ for the personal use of such personnel or members of their families.

(c) The access and movement of aircraft and vessels operated by or for the Government of the United States of America in connection with United States assistance programs in \_\_\_\_\_ shall be free of landing fees, navigation charges, port charges, tolls and similar charges by \_\_\_\_\_, or any subdivision thereof.

## ARTICLE II

### STATUS OF PERSONNEL

Civilian and military personnel of the United States Government present in \_\_\_\_\_ in connection with United States assistance programs shall be accorded status equivalent to that accorded administrative and technical staff personnel under the Vienna Convention on Diplomatic Relations of April 18, 1961.

## ARTICLE III

### INSPECTION AND AUDIT

Upon reasonable request, representatives of the Government of the United States of America may examine the utilization of any commodities, supplies, other property, or services provided under United States assistance programs at sites of their location or use; and may inspect or audit any records or other documentation in connection with the assistance wherever such records or documentation are located during the period in which the United States provides assistance to \_\_\_\_\_ and for three years thereafter.

## ARTICLE IV

### USE OF ASSISTANCE

Any commodities, supplies, or other property provided under United States assistance programs will be used solely for the purposes agreed upon between the Governments of the United States of America and \_\_\_\_\_. If use of any commodities, supplies or other property occurs for purposes other than those agreed upon under such programs, which the Government of the United States of America determines could reasonably have been prevented by appropriate action of the Government of \_\_\_\_\_, the Government of \_\_\_\_\_ upon request shall refund in United States dollars to the Government of the United States of America the amount disbursed for such commodities, supplies, or other property. The Government of the United States of America may, in its discretion, make available the amount refunded to finance other costs of the assistance activity involved.

ARTICLE V

OTHER AGREEMENTS

The Government of the United States of America and the Government of \_\_\_\_\_ recognize that further arrangements or agreements may be necessary or desirable with respect to particular United States assistance activities. In case of any inconsistency between this Agreement and any such further written agreements, the provisions of such further written agreements shall prevail. Nothing in this Agreement shall be construed to derogate from the privileges and immunities granted to any personnel under other agreements.

ARTICLE VI

ENTRY INTO FORCE

This Agreement shall enter into force upon signature by both parties.

DONE AT \_\_\_\_\_, this \_\_\_\_ day of \_\_\_\_\_, 1992.

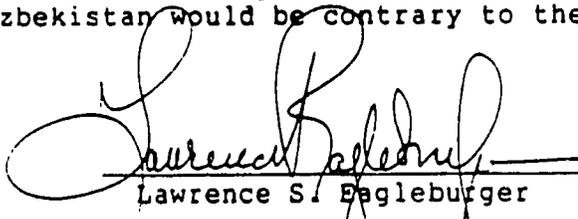
FOR THE GOVERNMENT OF  
THE UNITED STATES OF AMERICA:

FOR THE GOVERNMENT OF  
[NAME]:

Finding under Section 620(c) of the  
Foreign Assistance Act of 1961, as amended

Pursuant to section 620(c) of the Foreign Assistance Act of 1961, as amended (the "Act"), section 1-201(a)(12) of Executive Order 12163, as amended, and section 4(d) of State Department Delegation of Authority No. 145, as amended, I hereby find that application of the restriction contained in section 620(c) of the Act with respect to Armenia, Azerbaijan, Byelarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan would be contrary to the national security.

January 20, 1992  
Date

  
Lawrence S. Eagleburger



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

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MAR 25 1992

~~PERSON~~ ACTING

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: AA/OPS, Scott Spangler *SM*

FROM: AA/R&D, Richard Bissell *RB*  
AA/EUR, David N. Merrill *DM*

SUBJECT: Assistance to the Newly Independent States of the Former Soviet Union: Statutory Checklist

Problem: To take into consideration relevant statutory requirements in light of whether ESF funds (and DA funds, to the extent such funding may be made available in the future) should be used to provide technical and other assistance to support the transition of newly independent states of the former Soviet Union into democratic, free-market societies.

Discussion: A memorandum to you from the AA/EUR dated January 18, 1992 requested you to "take into account" certain statutorily mandated considerations before assistance to the newly independent states of the former Soviet Union could be authorized. Your consideration was limited, at that time, to the following republics of the former Soviet Union with whom the U.S. was establishing diplomatic relations: Armenia, Byelarus, Kazakhstan, Kyrgyzstan, Russia and the Ukraine. The State Department is now establishing full diplomatic relations with the remaining republics of the former Soviet Union (with the exception of Georgia), namely, Moldova, Azerbaijan, Tajikistan, Turkmenistan, and Uzbekistan. Thus, once again, we request that you take into consideration the factors described below before assistance to these republics may be authorized.

On September 10, 1991, the Secretary of State signed a determination, pursuant to §620(f)(2) of the Foreign Assistance Act (FAA) of 1961, as amended, permitting assistance to flow to the Soviet Union. (See Tab A.) Additionally, Deputy Secretary Eagleburger made a determination, dated January 20, 1992, under Section 620(c) of the FAA which permits assistance to the republics notwithstanding

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320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

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certain indebtedness to U.S. citizens that would otherwise prohibit these republics from receiving foreign assistance. This determination provides, in substance, that failing to provide assistance to these newly formed states is contrary to the national security of the United States. (See Tab B.) Pursuant to these determinations, assistance to the individual republics that formerly constituted the Soviet Union may be permitted provided that other statutory requirements are satisfactorily met.

Assistance to the republics is now being considered in the following areas: (1) increasing the levels of assistance for the previously authorized Democratic and Economic Initiative Project and the Energy Efficiency and Market Reform Project as well as developing activities in (2) private sector initiatives, (3) democratic pluralism initiatives, (4) housing sector reform, (5) health care improvement, (6) food systems restructuring, (7) economic restructuring and financial sector reform, and finally, (8) making an ESF grant to the Eurasia Foundation. All of this proposed assistance is now pending final Congressional notification and clearance.

Although we are working to include "notwithstanding any other provision of law" language in legislation for FY 92, such language is not now applicable to ESF funds to be used for the NIS. Therefore, certain factors must be "taken into consideration" by you before these proposed projects may be obligated from the ESF account (or the DA account, if such funding is later made available). In fact, you normally take into consideration a number of conditions, to the extent that they may exist, on an annual basis before approving an allocation of assistance to specific countries. However, in light of the fact that the Coordinator's Office wishes to proceed with implementing the proposed projects on an expedited basis, we are presenting certain issues for your consideration at this time on an ad hoc basis.

In order to ensure that all relevant statutory requirements have been met, A.I.D. has developed a "country checklist", describing such requirements with particularity. The items on this checklist have been responded to in substance by the State Department, and its memorandum is attached hereto as Tab C. In the case of the five republics of the former Soviet Union discussed herein, only one consideration is relevant in considering whether to provide assistance.

Section 620(l) of the FAA provides that assistance may be denied if the recipient country has failed to enter into an investment guaranty agreement with the United States. As of this date, OPIC is in the process of initiating negotiations with each of the five individual republics to whom we plan to render assistance. Although such negotiations are in the process of being initiated, they have not yet been finalized and, to date, OPIC has not concluded any bilateral investment guarantee agreements with these new republics. Please bear in mind, however, that

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statutorily mandated considerations in providing foreign assistance need only be "taken into account". The mere existence of such factual considerations does not, in and of itself, prohibit assistance to the country in question. Thus, in light of the fact that this process of negotiation has been initiated by OPIC but not concluded as of this date, we request you to take this into consideration and permit assistance to move forward as planned.

Recommendation: That you, by your signature below, take into consideration the circumstances described above, and approve the use of ESF funds (and DA funds to the extent necessary in the future), subject to the availability of such funds, for assistance to the five republics named above. Such assistance will be authorized by separate action, and shall be subject to the determinations made pursuant to §§620(f)(2) and (c) of the FAA.

Approved: Harold L. Edelman

Disapproved: \_\_\_\_\_

Date: 3-27-92

Attachments:

- TAB A - Section 620(f)(2) determination by the Secretary
- TAB B - Section 620(c) determination by the Deputy Secretary
- TAB C - Department of State Memorandum re: Statutory Checklist

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Determination under Section 620(f)  
of the  
Foreign Assistance Act of 1961, as amended

Pursuant to Section 620(f)(2) of the Foreign Assistance Act of 1961, as amended, (22 U.S.C. 2370(f)(2)), and Section 1-201(a)(12) of Executive Order No. 12163, as amended, I hereby determine that the removal of the Soviet Union from the application of Section 620(f) of the Foreign Assistance Act, for an indefinite period, is important to the national interest of the United States.

This determination shall be reported to the Congress and published in the Federal Register.

September 10, 1991

Date

  
James A. Baker, III

**JUSTIFICATION FOR THE PRESIDENT'S DETERMINATION  
TO REMOVE THE PROHIBITION ON OPIC ACTIVITIES  
IN THE SOVIET UNION**

A determination to remove the Soviet Union from the prohibition on assistance to Communist countries is in the national interest for several reasons. The U.S. supports efforts within the Soviet Union to establish a strong and functioning democracy and to move decisively toward a market economy. If these trends continue, the U.S. should support them by responding, step by step, to progress made.

At the recent Moscow Summit, President Bush underlined his support for market-oriented reforms in the Soviet Union by reaffirming his desire to promote U.S. trade and investment with the Soviet Union. To normalize our trade relations, he has already submitted the U.S.-Soviet Trade Agreement to Congress. He also reiterated his commitment to work with the Congress to lift the Stevenson and Byrd restrictions on official credit programs. The availability of OPIC programs for U.S. companies seeking to invest in the Soviet Union would complement these actions. Providing technical economic assistance is also consistent with the goal of helping the Soviets develop a market economy.

Moreover, the Soviet Union is giving evidence of fostering the establishment of a genuinely democratic system, with respect for internationally recognized human rights. The failed coup by hardline factions in the Soviet military and security forces has accelerated the establishment of a democratic system in the Soviet Union. The coup discredited the old guard in the Soviet Government and led to the collapse of the Communist Party, the primary obstacles to democratic reform and creation of a pluralistic political system.

The failure of the coup strengthened Soviet leaders, such as Boris Yeltsin and Leningrad Mayor Sobchak, who are committed to democracy and reform. President Gorbachev has replaced opponents of reform in key posts -- such as the Interior Minister, Defense Minister, and head of the KGB -- and appointed in their place men with strong reform credentials. More fundamentally, the opposition of the Soviet people to the coup showed that the principles of democracy and rule of law have taken root in the Soviet Union. There is a clear consensus for establishment of a genuinely democratic system that no Soviet or republic leader can choose to ignore.

The CPSU's reign of political dominance came to an end with the historic Supreme Soviet decree of August 29 suspending the activities of the party throughout the Soviet Union and seizing its assets. Several republics have gone further and outlawed the party completely. As President Bush stated, the collapse of the totalitarian non-democratic CPSU is a cause for cheer.

In recent years, the Soviets have demonstrated an increasing respect for internationally recognized human rights. Soviet citizens are freer to speak, write, practice their religion and participate in public life than ever before. As a reflection of this improvement, the U.S. Government, while continuing to express its concern at ongoing human rights abuses, is simultaneously working with the Soviet Government to institutionalize human rights progress. Substantial improvement has been seen in the Soviet human rights record in areas such as emigration, political prisoners and psychiatric abuse.

Initial developments after the coup suggest the potential for further human rights gains. A key reformist, Vadim Bakatin, was named to head the KGB, and the USSR Congress of Peoples' Deputies approved a declaration September 5 explicitly enumerating the rights of individuals.

In this environment, OPIC insurance and finance programs, along with technical economic assistance, can serve as useful tools to encourage the development of emerging private sector enterprises and institutions, as well as the normalization of bilateral economic relations.

Dear Mr. Chairman:

Section 620(f)(2) of the Foreign Assistance Act of 1961, as amended, authorizes the President to remove a Communist country from ineligibility to receive assistance under the Foreign Assistance Act if the President determines and reports to the Congress that such action is important to the national interest of the United States. The President's authority to make such determinations has been delegated to the Secretary of State pursuant to Section 1-201(a)(12) of Executive Order No. 12163 of September 29, 1979, as amended. On behalf of the Secretary of State, we wish to advise that, pursuant to these authorities, the Secretary of State has determined that it is important to the national interest to remove the Soviet Union from the application of Section 620(f). I enclose a copy of the Secretary's determination and justification.

Sincerely,

Janet G. Mullins  
Assistant Secretary  
Legislative Affairs

Enclosures:  
As stated.

The Honorable  
Dante B. Fascell,  
Chairman, Committee on Foreign Affairs,  
House of Representatives.

Dear Mr. Chairman:

Section 620(f) of the Foreign Assistance Act of 1961, as amended, authorizes the President to remove a Communist country from ineligibility to receive assistance under the Foreign Assistance Act if the President determines and reports to the Congress that such action is important to the national interest of the United States. The President's authority to make such determinations has been delegated to the Secretary of State pursuant to Section 1-201(a)(12) of Executive Order No. 12163 of September 29, 1979, as amended. On behalf of the Secretary of State, we wish to advise that, pursuant to these authorities, the Secretary of State has determined that it is important to the national interest to remove the Soviet Union from the application of Section 620(f). I enclose a copy of the Secretary's determination and justification.

Sincerely,

Janet G. Mullins  
Assistant Secretary  
Legislative Affairs

Enclosures:  
As stated.

The Honorable  
Claiborne Pell,  
Chairman, Committee on Foreign Relations,  
United States Senate.



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

TAB I

Associate  
Administrator  
for Operations

INTERIM REORGANIZATION  
DELEGATION OF AUTHORITY NO. 10

TO: Director of the Task Force for the  
Newly Independent States of the Former Soviet Union

FROM: Associate Administrator for Operations

SUBJECT: General Authorities

Pursuant to my authority as Associate Administrator for Operations, it is hereby ordered as follows:

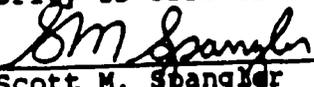
A. With respect to all former republics of the Soviet Union (except Latvia, Lithuania, and Estonia), there is delegated to the Director of the Task Force for the Newly Independent States of the Former Soviet Union all of the authorities delegated to me from the Administrator.

B. Any individual designated by the Director of the Task Force to be the acting Director of the Task Force during the absence of the Director of the Task Force is authorized to perform the functions delegated hereunder.

C. All references in A.I.D. Handbooks, policy statements, guidance cables, and regulations to Assistant Administrators having responsibility for geographic regions shall be deemed to include the Director of the Task Force.

D. The General Provisions of chapter 1 of Handbook 5 apply, unless provided otherwise in a specific delegation.

E. This Delegation of Authority is effective immediately.

  
\_\_\_\_\_  
Scott M. Spangler  
Associate Administrator  
for Operations

Date: 3/30/92