The Changing Geopolitics of the Nuclear Energy Market

Russia
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# Table of Contents

1 – Introduction .................................................................................................................. 9
   The Complexities of Describing Russia’s Nuclear Complex .................................................. 10
   Organization of Report ........................................................................................................... 11
   Work in Progress .................................................................................................................... 12

2 – Country Overview .......................................................................................................... 13
   Geography, People, Climate, and History ............................................................................. 13
   Government and Politics ........................................................................................................ 14
   Economy and Trade .............................................................................................................. 15
   - Pre-1998 Economy ........................................................................................................... 15
   - Post-1998 Economy .......................................................................................................... 16
   - Impact of the Current Financial Crisis ............................................................................. 18
   - Role of Nuclear Industry in Meeting Russia’s Economic Goals ....................................... 19
   Overview of the Energy Sector in Russia ............................................................................ 19
   - Electricity Supply Overview ............................................................................................. 20
   - Russian Gas Supply Disputes .......................................................................................... 21

3 – Overview of Russia’s Nuclear Industry ....................................................................... 22
   History of Russian Nuclear Energy ...................................................................................... 22
   Nuclear Industry Restructuring ............................................................................................. 23
   - State Corporations and their Structures ........................................................................... 25
   Current Status of the Civilian Nuclear Complex ................................................................. 26
   - Rosatom and Kremlin – Role of the Federal Government ............................................... 26
   - Atomenergoprom .............................................................................................................. 28
   Electricity Sector in Russia ................................................................................................... 30

4 – Russia’s Domestic Nuclear Reactor Program ................................................................. 35
   Reactor Program Overview .................................................................................................. 35
   Nuclear Energy Capacity and Generation in Russia ............................................................. 35
   - Energoatom Concern (Rosenergoatom) ............................................................................ 35
   - Nuclear Energy Capacity and Generation in Russia ........................................................ 36
   Domestic Nuclear Energy Plans and Prospects .................................................................. 38
   - State and Industry Plans .................................................................................................. 38
   - Rosatom’s Current Domestic Reactor Plan to 2020 ......................................................... 39
   New Nuclear Power Plants .................................................................................................. 42
   - Volgodonsk-2 (Rostov-2) ............................................................................................... 43
   - Volgodonsk-3 and 4 ......................................................................................................... 43
   - Kalinin-4 ......................................................................................................................... 43
   - Novovoronezh-II ............................................................................................................. 44
   - Leningrad-II .................................................................................................................... 44
   - Fast Breeders and Floating Nuclear Power Plants ............................................................ 45
   Private Sector Involvement in Domestic Reactor Program ................................................. 45
   - Rosatom-Russian Machines SVBR Joint Venture .............................................................. 45
   - Rosatom-RusAl ................................................................................................................. 46
   - Kursk-5 ............................................................................................................................ 47
   - Baltic Nuclear Power Plant ............................................................................................. 47
   - Ownership Issues ............................................................................................................. 48
   UxC Reactor Capacity Forecast for Russia to 2030 ............................................................. 48
   - Explanation of UxC Reactor Forecast Cases .................................................................... 50
     Base Case ......................................................................................................................... 50
     High Case ......................................................................................................................... 52
     Low Case ......................................................................................................................... 52
   UxC Reactor Market Size Forecast for Russia to 2030 ........................................................ 53
# Table of Contents

5 – Russia’s Nuclear Power Plant Exports ......................................................... 55
   History of Russian-built Nuclear Plants Abroad ............................................. 55
   Atomstroyexport .......................................................................................... 57
   Current Projects ............................................................................................ 58
      • Bulgaria .................................................................................................... 58
      • China ....................................................................................................... 58
      • India ........................................................................................................ 58
      • Iran .......................................................................................................... 59
      • Slovakia .................................................................................................. 59
   Marketing Strategy ........................................................................................ 59
      • Geographic Markets ................................................................................ 59
      • Review of All Russian Export Projects .................................................. 61
      • Export Reactor Joint Ventures and Alliances ......................................... 63
      • Export Reactor Contract Scopes.............................................................. 64
   UxC Forecasts for Russian Export Reactors ....... ................................. 64
   UxC Forecast Cases for Russian Export Reactors ........................................... 66
      • Base Case ............................................................................................... 66
      • High Case .............................................................................................. 67
      • Low Case ............................................................................................... 68
   Potential Russian Reactor Sales Based on UxC Forecasts ......................... 68
   Final Thoughts on Building Nuclear Power Plants Abroad ....................... 70

6 – Reactor Design and Construction ............................................................... 71
   Nuclear Power Plant Design Bureaus .......................................................... 71
   Reactor Designs .......................................................................................... 71
      • Reaktor Bolshoi Moschhnosti Kanalnii (RBMK) ................................... 71
      • Vodno-Vodyanoi Energetichestki Reaktor (VVER) .............................. 72
      • VVER-1200 (AES-2006) ...................................................................... 74
      • Super-VVER (VVER-1500 or V-448) ...................................................... 75
      • Fast Neutron Reactors .......................................................................... 75
      • Small and Medium Size Reactors ......................................................... 77
         Floating Nuclear Power Plants ............................................................... 77
         VBER-300 ......................................................................................... 78
         VVER-600 ......................................................................................... 79
      • Other Reactors ..................................................................................... 79
   Implementing Nuclear Reactor Projects ...................................................... 80
      • St. Petersburg Atomenergoproekt (SPbAEP) ......................................... 80
      • Atomenergoproekt (Moscow) ................................................................ 80
      • OJSC Nizhnii Novgorod Atomenergoproekt (NIAEP) ......................... 80
      • The Role and Place of the Engineering Companies ........................... 81
      • Potential Role of Private Sector in Nuclear Power Plant Construction .... 82
   Nuclear Power Equipment Manufacturing ................................................. 84
      • OJSC Machine-Building Plant ZIO-Podolsk ......................................... 85
      • OJSC Engineering Company ZIOMAR ............................................... 86
      • OMZ-Izhora Group ............................................................................. 86
      • Power Machines .................................................................................. 87
      • Atomenergomashe’s Expansion ............................................................ 88
   Joint Ventures with International Companies on Reactor Supply Chain .... 89
      • Alstom Atomenergomashe, LLC ............................................................ 89
      • Siemens-Power Machines .................................................................... 89
   Future of Nuclear Power Equipment Manufacturing ................................ 90

7 – Uranium Mining Sector ............................................................................ 92
   Historical Background and Overview .......................................................... 92
      • Uranium Mining in the Soviet Union .................................................... 92
      • Uranium Mining in the Russian Federation .......................................... 93
   Structure of the Uranium Industry in Russia .............................................. 94
## Table of Contents

1. Operating Mines in Russia ................................................................. 96  
   Priargunsky MMC ................................................................. 96  
   Khiagda ................................................................. 97  
   Dalur ................................................................. 97  
2. Planned/ Under Development Mines in Russia ................................. 97  
   Elenk (Aldinsky U District) ................................................................. 97  
   Lunnoye ................................................................. 98  
   Gornoye ................................................................. 99  
   Olov ................................................................. 99  
3. Service Companies ........................................................................... 99  
4. Foreign Uranium Joint Ventures for Exploration at Home and Abroad .................................................................................. 100  
   Exploration and Mining Abroad ................................................................. 100  
   Kazakhstan ...................................................................................... 100  
      Budenovskoye 1, 3, 4 (Akbastau JV) ................................................................. 100  
      Zarechnoye ................................................................. 100  
      Karatau JV ................................................................. 100  
   Armenia ......................................................................................... 101  
   Namibia ......................................................................................... 101  
   Mongolia ......................................................................................... 102  
   Joint Ventures for Domestic Exploration ....................................................... 102  
      Canada-Cameco ................................................................. 103  
      Japan-Mitsui ................................................................. 103  
      France-AREVA ................................................................. 103  
   ARMZ Mill and Mine Summary ................................................................. 103  
5. Uranium Requirements and Forecasts .................................................. 105  
   Domestic Uranium Requirements ................................................................. 105  
   Export Reactor Uranium Requirements ................................................................. 105  
   Impact of Uranium Demand on Future Supply Considerations ................................................................. 107  
6. Future Uranium Production Projections ................................................... 108  
   Development Plans of Uranium Mining Industry in Russia ................................................................. 108  
   Future Uranium Production Projections ................................................................. 109  
   Private Sector Involvement in Uranium Mining and Exploration ................................................................. 112  
7. Secondary Supplies of Uranium .............................................................. 113  
   Natural Uranium ..................................................................................... 113  
   Highly Enriched Uranium (HEU) ................................................................ 113  
   Reprocessed Uranium ................................................................. 114  
   Depleted Uranium ................................................................................. 114  
8. Uranium Conversion Sector .................................................................... 115  
   Historical Background ........................................................................... 115  
   Russian Conversion Industry Today ................................................................. 115  
      Main Enterprises .................................................................................... 115  
      OJSC United Company “Separation-Sublimation Complex” (United Company RSK) ................................................................................................. 116  
      JSC Chepetsk Mechanical Plant (ChMZ) ................................................................. 116  
      Siberian Chemical Combine (SCC) ................................................................. 116  
      Angarsk Electrolyses Chemical Combine (AECC) ................................................................. 116  
      Structure of the Conversion Industry in Russia ................................................................. 117  
   Conversion Production Methods ................................................................. 118  
      Production of UF₆ ...................................................................................... 118  
      Production of UF₄ ...................................................................................... 119  
      Conversion Process of Natural Uranium (U₃O₈) at SCC ................................................................. 120  
   Conversion Outlook ................................................................................. 121  
      Modernization of Conversion Sector ................................................................. 121  
      Angarsk Electrolytic Chemical Combine ................................................................. 121  
      Siberian Chemical Combine ........................................................................... 122  
      Chepetsk Mechanical Plant ........................................................................... 122  
   Conversion Requirements and Forecasts ................................................................. 123  
      Domestic Conversion Requirements ................................................................. 123  
      Export Reactor Conversion Requirements ................................................................. 124
## Table of Contents

### 9 – Uranium Enrichment Sector

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>History and Background</td>
<td>125</td>
</tr>
<tr>
<td>Russian Enrichment Capacities</td>
<td>126</td>
</tr>
<tr>
<td>• Structure of the Russian Enrichment Complex</td>
<td>126</td>
</tr>
<tr>
<td>• Reorganization of the Enrichment Sector</td>
<td>127</td>
</tr>
<tr>
<td>• Enrichment Enterprises</td>
<td>130</td>
</tr>
<tr>
<td>• Urals Electrochemical Combine (UECC)</td>
<td>130</td>
</tr>
<tr>
<td>• Angarsk Electrolysis and Chemical Combine (AECC)</td>
<td>131</td>
</tr>
<tr>
<td>• Siberian Chemical Combine (SCC)</td>
<td>132</td>
</tr>
<tr>
<td>• Production Association “Electrochemical Plant” (ECP)</td>
<td>132</td>
</tr>
<tr>
<td>• Functional Description of the Facilities</td>
<td>133</td>
</tr>
<tr>
<td>• Utilization of Russia’s Enrichment Capacity</td>
<td>133</td>
</tr>
<tr>
<td>• European Tails Enrichment</td>
<td>134</td>
</tr>
<tr>
<td>• Blendstock Production for the HEU Agreement</td>
<td>135</td>
</tr>
<tr>
<td>Techsnabexport (TENEX)</td>
<td>135</td>
</tr>
<tr>
<td>• 2007-20088 Techsnabexport’s Financial Results</td>
<td>136</td>
</tr>
<tr>
<td>HEU-LEU</td>
<td>137</td>
</tr>
<tr>
<td>• History and Background</td>
<td>137</td>
</tr>
<tr>
<td>• Current Status</td>
<td>137</td>
</tr>
<tr>
<td>• The Future of HEU in Russia</td>
<td>139</td>
</tr>
<tr>
<td>Second HEU Deal?</td>
<td>140</td>
</tr>
<tr>
<td>Use of HEU as Backup Supply</td>
<td>140</td>
</tr>
<tr>
<td>Plans for Expansion and Potential Impediments</td>
<td>141</td>
</tr>
<tr>
<td>• Enrichment Industry Modernization Program</td>
<td>141</td>
</tr>
<tr>
<td>• Russian Gas Centrifuge Program</td>
<td>142</td>
</tr>
<tr>
<td>• Uranium Enrichment Center</td>
<td>143</td>
</tr>
<tr>
<td>• Challenges to Capacity Expansion</td>
<td>144</td>
</tr>
<tr>
<td>Technological Challenges</td>
<td>144</td>
</tr>
<tr>
<td>Financial Challenges</td>
<td>145</td>
</tr>
<tr>
<td>Market Challenges</td>
<td>146</td>
</tr>
<tr>
<td>Export of Centrifuge Technology</td>
<td>147</td>
</tr>
<tr>
<td>Enrichment Requirements and Forecasts</td>
<td>148</td>
</tr>
<tr>
<td>• Domestic Enrichment Requirements</td>
<td>148</td>
</tr>
<tr>
<td>• Export Reactor Enrichment Requirements</td>
<td>149</td>
</tr>
</tbody>
</table>

### 10 – Fuel Fabrication Sector

<table>
<thead>
<tr>
<th>Topic</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>History of Nuclear Fuel Fabrication in Russia</td>
<td>150</td>
</tr>
<tr>
<td>• Structure of TVEL Corporation</td>
<td>150</td>
</tr>
<tr>
<td>• OJSC Mashinostroiteln Zavod (Machine Building Plant, MSZ or Elemash), Elektrostal</td>
<td>153</td>
</tr>
<tr>
<td>• Novosibirsk Chemical Concentrates Plant (NCCP), Novosibirsk</td>
<td>153</td>
</tr>
<tr>
<td>• Chepetsky Mechanical Plant (ChMZ), Glazov</td>
<td>154</td>
</tr>
<tr>
<td>• Ulba Metallurgical Plant, Ust-Kamenogorsk, Kazakhstan</td>
<td>154</td>
</tr>
<tr>
<td>TVEL’s Role as a Regional Fuel Supplier</td>
<td>155</td>
</tr>
<tr>
<td>Fuel Designs</td>
<td>156</td>
</tr>
<tr>
<td>• VVER-440 and VVER-1000</td>
<td>156</td>
</tr>
<tr>
<td>• Competition in the Domestic Fabrication Market</td>
<td>157</td>
</tr>
<tr>
<td>• New Generation of VVER-1000 Fuel: TVSA-ALFA and TVS-2M</td>
<td>159</td>
</tr>
<tr>
<td>• AES-2006</td>
<td>159</td>
</tr>
<tr>
<td>TVEL’s Joint Ventures</td>
<td>159</td>
</tr>
<tr>
<td>• JV UkrTVS</td>
<td>159</td>
</tr>
<tr>
<td>Non-VVER Fuel Fabrication</td>
<td>160</td>
</tr>
<tr>
<td>• Fabrication of Fuel for LGRs</td>
<td>160</td>
</tr>
<tr>
<td>• Fuel for Reactors of Western Design</td>
<td>162</td>
</tr>
<tr>
<td>• Fuel for Fast Neutron Reactors</td>
<td>162</td>
</tr>
<tr>
<td>Plans for Fabrication Expansion and Potential Impediments</td>
<td>163</td>
</tr>
<tr>
<td>• Plans to Enter Market for Western-designed Fuel</td>
<td>163</td>
</tr>
<tr>
<td>• Fabrication Plant Abroad</td>
<td>164</td>
</tr>
<tr>
<td>Fabrication Requirements and Forecasts</td>
<td>164</td>
</tr>
</tbody>
</table>
## Table of Contents

- Domestic Fabrication Requirements .......................................................... 164
  VVER Fuel Fabrication .............................................................................. 164
  RBMK Fuel Fabrication ............................................................................. 165
- Export Reactor Fabrication Requirements ................................................. 166

### 11 – Russia’s Role in World Nuclear Fuel Markets ........................................ 167

- Russia’s Targets for Nuclear Fuel Market Shares ...................................... 167
- Uranium Supply and Demand ..................................................................... 170
- Conversion Supply and Demand ................................................................. 171
- Enrichment Supply and Demand ................................................................. 172
- Fuel Fabrication Supply and Demand .......................................................... 173
- Conclusions from Fuel Supply/Demand Balances ....................................... 174

### 12 – Back-End of the Nuclear Fuel Cycle ..................................................... 175

- Spent Fuel Management .......................................................................... 175
- Reprocessing Facilities ............................................................................. 176
  - RT-1 Radiochemical Plant (“Mayak,” Chelyabinsk) ................................... 176
  - RT-2 Plant (planned) (Mining and Chemical Combine, Zheleznogorsk) .. 177
  - SNF Legislation in Russia ....................................................................... 177
  - International SNF Reprocessing Center .................................................. 179
- MOX Fuel Plans ......................................................................................... 179
- Radioactive Waste Management and Disposal ............................................ 180
  - Final Thoughts on SNF and Nuclear Waste Management and Disposal .. 183
  - Draft Law for SNF and Radwaste Management ........................................ 183
- Decommissioning and Dismantling of Nuclear Reactors ........................... 184
  - Decommissioning Policies of the Russian Federation ............................. 184
  - Foreign Assistance with Decommissioning ............................................. 186

### 13 – International Nuclear Trade ............................................................... 187

- Overview .................................................................................................. 187
- Trade with the United States ...................................................................... 188
  - Agreement for Peaceful Nuclear Cooperation (123 Agreement) ............. 188
  - U.S.-Russia Suspension Agreement ......................................................... 190
  - The Domenici Amendment ................................................................... 192
- Trade with Europe ..................................................................................... 194
  - The European Union ............................................................................. 194
  - Eastern Europe and Central Asia ............................................................... 196
    - Kazakhstan ......................................................................................... 196
    - Ukraine ............................................................................................ 196
- Trade with Asia and Oceania ..................................................................... 197
  - Australia ............................................................................................. 197
  - China .................................................................................................. 198
  - India ................................................................................................... 198
  - Japan ................................................................................................... 199
- Trade with Africa ....................................................................................... 201
  - South Africa ........................................................................................ 201
  - Namibia .............................................................................................. 201
- Trade with Middle East .............................................................................. 202
  - Turkey .................................................................................................. 202
  - Iran ..................................................................................................... 202

### 14 – Nuclear Nonproliferation Issues ......................................................... 203

- HEU Stockpiles and Disposition ................................................................ 203
  - Soviet HEU Production and Russian HEU Inventories .......................... 203
  - The U.S.-Russian HEU Agreement ......................................................... 204
    - Accelerating HEU Downblending ....................................................... 205
- Plutonium Stockpiles and Disposition ......................................................... 207
  - Russian Plutonium Stockpiles ................................................................. 207
List of Figures

- Plutonium Disposition Plans ................................................................. 207
- International Uranium Enrichment Center (IUEC) and Fuel Bank .................................................. 209
- Structure of Angarsk Uranium Enrichment Complex ................................................................. 210
- Fuel Bank .......................................................................................... 212

15 – Strategic Analysis and Potential Future Scenarios .......................................................... 214
- Inherent Strengths .............................................................................. 214
  - Political Consensus and Commitment to Nuclear Power ......................................................... 214
  - Sustained Economic Growth ......................................................................................... 214
  - Desire to Free up Oil and Natural Gas for Export ................................................................. 214
  - Stated Goal of Diversification of Exports ......................................................................... 215
  - Russian Nuclear Export Advantages ................................................................................ 215
  - State Financing of the Nuclear Sector ................................................................................ 215
  - Strong R&D Base ......................................................................................... 215
- Impediments to Growth ........................................................................ 216
  - Ongoing Global Financial Crisis ...................................................................................... 216
  - Human Resource Constraints ......................................................................................... 216
  - Supply Chain Constraints ............................................................................................... 216
  - High Cost of Nuclear Power ......................................................................................... 217
  - Restrictions on Private Sector Involvement ...................................................................... 217
  - Lack of Competition between Nuclear Enterprises .......................................................... 217
- Potential Future Scenarios ................................................................................. 218
  - Scenario 1: Most Likely Case ...................................................................................... 218
  - Scenario 2: Optimistic Case ......................................................................................... 219
  - Scenario 3: Pessimistic Case ......................................................................................... 221

16 – Conclusions ......................................................................................... 223
- Visions of the Future .............................................................................. 223
- Financial Crisis Correction ........................................................................ 224
- Last Words .......................................................................................... 225

Glossary ...................................................................................................... 226

Appendix A – Timeline of Russia’s Nuclear Program ........................................... 232

Appendix B – Selected Websites for Russian Organizations ............................................. 235
- Government Organizations......................................................................................... 235
- Government-Owned Corporations ............................................................................. 235
- Private Russian Corporations ..................................................................................... 236

List of Figures

Figure 1. Map of Russia ............................................................................. 13
Figure 2. Russian GDP Percentage change, 1993-2007 .................................. 17
Figure 3. Total Domestic Primary Energy Supply in 2006 .................................. 20
Figure 4. Total Electric Power Generation in 2006 .......................................... 21
Figure 5. Structure of the State Corporation Rosatom ......................................... 27
Figure 6. Structure of Atomenergoprom ......................................................... 29
Figure 7. Power Sector Structure in 2000 ....................................................... 30
Figure 8. Target Sector Structure ...................................................................... 31
Figure 9. Demand for Electricity in Russia, 1990-2020 ...................................... 31
Figure 10. Total Electricity Production in Russia .............................................. 32
Figure 11. Pace of Wholesale Electricity Market Liberalization, 2006-2011 ....... 33
Figure 12. Reactors in Operation in the Russian Federation ............................... 36
Figure 13. Russian Nuclear Reactor Fleetwide Capacity Factor, 1992-2015 .......... 37
Figure 14. Rosatom’s Domestic Nuclear Reactor Plans ...................................... 40
Figure 15. Planned Contributions of Different Reactor Types to Power Generation in Russia to 2050
Figure 16. Russia Nuclear Reactor Unit Forecasts Comparison, 2008-2030
Figure 17. Russia’s Installed Nuclear Capacity Forecasts, 2008-2030
Figure 18. Russia Reactor Market Size Forecasts, 2009-2030
Figure 19. UxC Forecasts for Russian Export Reactor Units, 2008-2030
Figure 20. UxC Forecasts for Russian Export Reactor Capacities, 2008-2030
Figure 21. Russia Export Reactor Sales Forecasts, 2009-2030
Figure 22. RBMK Reactor Design
Figure 23. VVER-440 Reactor Design
Figure 24. VVER-1200 (AES-2006) Reactor Design
Figure 25. Beloyarsk 4 (BN-800) Construction in August 2007
Figure 26. KLT-40S Reactor Design
Figure 27. VVER-600 Reactor Main Systems Design
Figure 28. Reactor Design and Engineering Company Roles
Figure 29. Structure of Russian Energy Machine-Building Company
Figure 30. Steam Generator for Bushehr NPP Produced by ZiO-Podolsk
Figure 31. Structure of Russian Uranium Mining Industry
Figure 32. Operating and Planned Mines in Russia
Figure 33. Russia Domestic Uranium Requirements Forecasts, 2008-2030
Figure 34. Russian Export Reactor Uranium Requirements, 2008-2030
Figure 35. Projected Production of ARMZ to 2025
Figure 36. Uranium Mined in the Russian Federation, 2003-2007
Figure 37. ARMZ’s Uranium Reserves (tU)
Figure 38. Uranium Reserves in Russia (Reasonably Assured Resources)
Figure 39. Conversion Industry Product Flow in Russia
Figure 40. Production of UF₆ in Russia Using Direct Method
Figure 41. Production of UF₄ in Russia
Figure 42. Russia Domestic Conversion Requirements Forecasts, 2008-2030
Figure 43. Russian Export Reactor Conversion Requirements, 2008-2030
Figure 44. Timing for Centrifuge Development and Enrichment Capacity Growth
Figure 45. Russia’s Enrichment Industry Structure
Figure 46. Uranium Enrichment Facilities
Figure 47. Russian Centrifuges
Figure 48. Proposed Uranium Enrichment Complex at AECC
Figure 49. Russian Enrichment Capacity Allocation in 2008
Figure 50. European Tails on Route to Russia
Figure 51. 2007 TENEX Financial Results
Figure 52. Principle of HEU Reprocessing in the Russian Federation
Figure 53. Russia Domestic Enrichment Requirements Forecasts, 2008-2030
Figure 54. Russian Export Reactor Conversion Requirements, 2008-2030
Figure 55. 2007 Structure of OJSC TVEL
Figure 56. 2009 Structure of OJSC TVEL
Figure 57. TVS-2 Fuel Assembly
Figure 58. RBMK-1500 Fuel Assembly
Figure 59. Russia Domestic VVER Fabrication Requirements, 2008-2030
Figure 60. RBMK Fabrication Requirements, 2008-2030
Figure 61. Russia Export Reactor Fabrication Requirements, 2008-2030
Figure 62. Russia Uranium Supply and Demand Balance, 2008-2030
Figure 63. Russia Conversion Supply and Demand Balance, 2008-2030
Figure 64. Russia Enrichment Supply and Demand Balance, 2008-2030
Figure 65. Russia Fabrication Supply and Demand Balance, 2008-2030
Figure 66. Dry Storage SNF Facility at Mining and Chemical Combine
List of Tables

Table 1. Russia's Operating Nuclear Reactors ......................................................................................... 36
Table 2. Rosatom’s Reactor Investment Plan............................................................................................ 41
Table 3. UxC High, Base, and Low Case Russia Reactor Unit Forecasts, 2008-2020 ............................... 49
Table 4. UxC Forecast Cases for Russia’s Installed Nuclear Capacity, 2008-2020 ................................. 50
Table 5. UxC Base Case New Reactor Projection for Russia, 2009-2030 .................................................. 51
Table 6. UxC New Reactor Construction Forecasts ..................................................................................... 53
Table 7. UxC Russia Reactor Market Size Forecasts .................................................................................. 54
Table 8. Completed Soviet/Russian Nuclear Power Plants Abroad............................................................ 55
Table 9. Suspected Soviet Nuclear Plant Projects Abroad ......................................................................... 56
Table 10. Russia’s Current and Potential Nuclear Power Plant Export Projects ......................................... 61
Table 11. Russian Export Reactor Unit Forecasts, 2008-2020 .................................................................. 65
Table 12. Russian Export Reactor Nuclear Capacity Forecasts, 2008-2020 ............................................... 66
Table 13. UxC Base Case New Reactor Projection for Russian Export Units, 2009-2030 ......................... 67
Table 14. UxC New Export Reactor Construction Forecasts ................................................................. 68
Table 15. UxC Russian Export Reactor Sales Forecasts ............................................................................. 69
Table 16. ARMZ Mill/Production Center Summary .................................................................................... 104
Table 17. ARMZ Mine/Project Summary ................................................................................................. 104
Table 18. Domestic Russian Uranium Requirements Forecasts ................................................................. 106
Table 19. Russian Export Reactor Uranium Requirements ......................................................................... 106
Table 20. Russian Uranium Mining Investment Program, 2009-2015 ....................................................... 108
Table 21. ARMZ Projected Production Based On Ownership Share ......................................................... 110
Table 22. Rosatom’s Investment Program for Conversion Complex by Type, 2009-2015 ......................... 121
Table 23. Rosatom’s Modernization Investments by Facility, 2009-2015 .................................................. 121
Table 24. Domestic Russian Conversion Requirements Forecasts ............................................................. 124
Table 25. Russian Export Reactor Conversion Requirements ............................................................... 124
Table 26. Functions of Russian Enrichment Plants ..................................................................................... 133
Table 27. Nameplate Capacities of Russia’s Five Enrichment Facilities: 2008 ............................................. 133
Table 28. Facilities Involved in HEU Downblending and their Roles ......................................................... 139
Table 29. Rosatom Long-Term Investment Program for Enrichment Industry Modernization (2009-2015) ......................................................................................................................... 141
Table 30. Federal Investment Program for Russian Enrichment Enterprises for 2007-2010 and up to 2015 ........................................................................................................................................... 142
Table 31. Domestic Russian Enrichment Requirements Forecasts ............................................................. 148
Table 32. Russian Export Reactor Conversion Requirements ............................................................... 149
Table 33. Current Russian Fuel Fabrication Capacity .................................................................................. 154
Table 34. Domestic VVER Russian Fabrication Requirements Forecasts .................................................. 165
Table 35. RBMK Fabrication Requirements Forecasts ............................................................................. 166
Table 36. Russian Export Reactor Fabrication Requirements ............................................................... 166
Table 37. Russian Uranium Supply and Demand Balances, 2008-2020 .................................................. 170
Table 38. Russian Conversion Supply and Demand Balances, 2008-2020 ............................................... 171
Table 39. Russian Enrichment Supply and Demand Balances, 2008-2020 ............................................... 172
Table 40. Russian Fabrication Supply and Demand Balances, 2008-2020 ............................................... 173
Table 41. Decommissioning Schedule of Reactors in the Russian Federation ............................................. 185
Table 42. Russian LEU Import Limits into the U.S. Under the Domenici Amendment ................................ 193
Table B-1. Timeline of the Russia’s Nuclear Industry, 1942-2009 ........................................................... 232
1 – Introduction

The motivation for this study, The Changing Geopolitics of the Nuclear Energy Market, is to examine the dramatic shift that is taking place in the nuclear energy market from the standpoint of not only expected growth in nuclear capacity and demand for nuclear fuel, but also in terms of geography and international political considerations. Nuclear power is expected to grow rapidly in the East in order to meet the growing electricity needs in certain Eastern nations, and this creates associated demand for reactor components and nuclear fuel, impacting prices and supply availability.

It would be no exaggeration to say that Russia’s nuclear industry has been going through “perestroika” – literally, restructuring. As a state-owned industry, nuclear followed (and continues to follow) Russia’s ups and downs, and ups and downs again. The break-up of the Soviet Union was followed by a period of time that is often thought of as “the lost decade” in Russia. The new millennium gave a new start to Russia and its nuclear industry. The nuclear complex has always been considered a strategic industry in Russia and it has managed to survive more or less intact during the period of privatization, save for the nuclear equipment manufacturing sector.

Russia’s newly found strength led to rethinking of the country’s political and economic structure. As a reaction to this period of instability, order was sought. President Putin’s solution was to build what he termed a “vertical vlasti” (power vertical), a top-down state structure that would be injected with some elements of private-sector-style corporate structure. Given this trend in state governance, it is no surprise that the nuclear industry followed a parallel path. The newly appointed head of Rosatom Sergei Kiriyenko’s plan for “perestroika” amounted to, in effect, creating a modernized version of the former Soviet behemoth Minsredmash.

The structure of any branch of the civil nuclear industry in Russia consists (from the top down) of Rosatom, Atomenergoprom, and then the appropriate holding company for a branch under consideration. Grouping is important for such a structure, and the holding companies play a crucial role as they serve as an umbrella and a governing body for enterprises with similar missions. Examples include recently created Atomredmetzoloto (ARMZ), OJSC Separation-Sublimation Complex (RSK), and Khimpromengineering.

Consistent with the vertical structure, the goals to be achieved by the industry are set from the top and targets for the nuclear industry are formulated by the federal government in federal target programs. The federal targets have been translated into the industry program and a few sub-programs are in the process of development as well. The process of setting targets vaguely resembles the “five-year plans” that were characteristic of the economic planning in the Soviet Union. The effectiveness of the current target plans has yet to be proven. However, at least one positive result of creating such programs is that they lend clarity to the overarching goals of Russia’s nu-
clear program. On the other hand, a federal mandate has several shortcomings. For example, the federal nuclear program has not been indexed to inflation or any cost increases, restricting payment to the amount put down on paper in 2006. This could potentially result in sub-contractors, some of which are private companies, under contract obliged to work at prices that are below cost, which is unsustainable.

The Complexities of Describing Russia’s Nuclear Complex

Russia’s nuclear enterprises do indeed form a unified complex. The industry is not simply an umbrella term for an aggregation of independent state-owned assets and companies; instead, the industry can be best represented by a flow chart of the nuclear fuel cycle: complete, inter-related, and co-dependent. It is for this reason that this study of the Russian nuclear complex could be nothing if not comprehensive.

An understanding of this unity and inter-relatedness is often underappreciated, but is critical to understanding Russia’s nuclear industry. It is difficult to examine only one part of the nuclear chain without giving at least some attention to other parts. The connectedness of the nuclear complex did not significantly diminish with the fall of the Soviet Union, as Russia retained most of it on its territory. Not surprisingly, during the planning of the nuclear industry, all facilities of any importance were purposefully located in Russia – only the placement of uranium deposits, determined by nature, could not be centrally planned. Thus, the only sector that was appreciably impacted by the dissolution of the Soviet empire was uranium mining, though a fuel fabrication facility in Kazakhstan was lost as well. These losses were felt; in 2006, Sergei Kiriyenko lamented the break-up and urged for the nuclear industries of Russia, Kazakhstan and Ukraine to be united yet once again into a single complex, bringing back the legacy of Minsredmash.

As of now, the Russian nuclear industry continues to be in a state of flux, positioning itself as a formidable, unified and efficient player in all the global nuclear markets. One cannot afford to ignore these changes and a failure to understand the current and future trends within the Russian nuclear program would, in fact, signify a failure to understand the nuclear marketplace altogether. This report provides comprehensive “A to Z” coverage of the nuclear industry in Russia while providing a significant level of detail, insight and analysis for each part of the nuclear fuel cycle.

Given this deep inter-relatedness and the continuing adjustments and retooling within Russia’s nuclear complex, this report attempts to provide both a comprehensive vision of the industry and its future as well as independent explanations of each separate sector comprising the overall industry. Thus, the reader can choose to review the entire report from start to finish, or just single chapters of specific interest. Each chapter covering a separate part of Russia’s nuclear industry can be viewed as a stand-alone discussion; however, it is naturally very important to realize the multitudinous relationships that each sector has with other parts of the industry. Thus, no part of this report can be truly detached from the rest, since no sector in Russia’s large nuclear industrial complex can be detached from the others.
Organization of Report

This report starts with a review of the overall Russian nuclear power program, including both national and international trends as well as efforts to revamp the program, and then focuses in separate detailed sections on the specific aspects of Russia’s nuclear power program. Following this Introduction, the report is organized as follows:

Chapter 2 – Country Overview provides an overview of Russia, including information on its geography, people, government, and economy. Additionally, this chapter discusses the position of the broader energy sector in Russia’s economy and future.

In Chapter 3 – Overview of Russia’s Nuclear Industry, the study reviews the history of nuclear power in Russia, and the latest facets of the restructuring of the industry, such as through the establishment of Rosatom and Atomenergoprom. This chapter also includes a detailed review of the domestic electric power sector and the impact of its restructuring on nuclear power prospects in Russia.

Chapter 4 – Russia’s Domestic Nuclear Reactor Program examines the reactors that are now in operation, under construction, and planned in Russia. This chapter also covers UxC’s latest forecast cases for Russian reactor development to 2030.

Russia is also a major player in the international reactor markets, and Chapter 5 – Russia’s Nuclear Power Plant Exports analyzes Russia’s current and future role in terms of nuclear power plant projects around the world. Along with Russian export reactor forecasts, the revenue potential for Russia is also examined.

Chapter 6 – Reactor Design and Construction looks at the history and future of Russian reactor designs, as well as Russia’s large industrial complex that is dedicated to engineering, manufacturing, and construction for the nuclear reactor projects.

Chapter 7 – Uranium Mining Sector examines Russia’s domestic uranium mining projects as well as its activities to procure U₃O₈ from international partners. This chapter also looks at the latest UxC forecasts for uranium fuel requirements from Russian domestic reactors as well as Russian export units through 2030.

Chapter 8 – Uranium Conversion Sector covers the second step in the front-end fuel cycle, with analysis of Russia’s modernization efforts for its conversion facilities and how the requirements for UF₆ will fit into these plans.

Chapter 9 – Uranium Enrichment Sector analyzes Russia’s supply of SWU and the latest in terms of Russia’s enrichment technologies. A detailed discussion of the role of the HEU-LEU downblending program and how this fits into the enrichment supply picture in Russia is also included. Again, UxC’s requirements forecasts for SWU from domestic and export units is included.

Chapter 10 – Fuel Fabrication Sector covers the various fuel fabrication facilities and companies involved in Russia. It also analyzes forecasts for VVER and RBMK fuel fabrication requirements domestically and abroad.
Chapter 11 – Russia’s Role in World Nuclear Fuel Markets ties together the preceding chapters and looks at Russia’s supply and demand balances in each fuel market and how this may allow for future Russian exports to additional countries.

Chapter 12 – Back-End of the Nuclear Fuel Cycle provides an overview of Russia’s reprocessing, MOX fuel, radioactive waste management, and decommissioning activities.

Chapter 13 – International Nuclear Trade looks at the role that various trade relations play in Russia’s nuclear sector, especially as it relates to Russia’s goals for expanded access to markets around the world.

Chapter 14 – Nuclear Nonproliferation Issues addresses the crucial role that Russia’s nuclear weapons program and disarmament efforts have played in shaping the civilian nuclear sectors. In addition, it examines the potential for some Russian initiatives to influence global nuclear nonproliferation goals.

Chapter 15 – Strategic Analysis and Potential Future Scenarios provides a look at key strengths that could help Russia’s nuclear program expand in the future along with potential hurdles that could hold back progress. It also offers broad predictions on the rate of Russia’s overall nuclear program expansion over the next two decades with three separate scenarios (realistic, optimistic, and pessimistic cases).

Chapter 16 – Conclusions offers the overall conclusions to this in-depth analysis of Russia’s nuclear power program and some final thoughts on its future.

In addition, there is a helpful Glossary as well as two appendices. Appendix A is a timeline of key events in Russia’s nuclear development, and Appendix B provides links to the websites of key Russian government organizations and companies (state-owned and private) that participate in the nation’s nuclear industry.

Work in Progress

It should be understood that this study of Russia’s situation is very much a work in progress. Constant changes are taking place in Russia in terms of demand, supply capacity, government and business structure. Along with providing information on Russia’s current nuclear reactor program, fuel cycle sector, as well as international trade and nonproliferation policies, the intention is for this report to give the reader a framework to view these changes as well as an indication of where things are headed in the future. In conjunction with the other reports in this Geopolitics Series, the aim is for the reader to gain an appreciation of the important ways that the nuclear energy markets are evolving, especially with much greater emphasis on growth in Eurasia. In addition to our Geopolitical Series, UxC is also expanding and enhancing coverage of the latest policy and related developments in key countries, such as Russia, through our Policy Watch briefing service.