



Sergey Kiriyenko

«ONE IS EITHER THE FIRST OR IS OUT OF THE MARKET»

Vladimir Orlov, editor-in-chief of the Security Index journal, interviews Sergey Kiriyenko, Director General of the Rosatom state corporation.¹

SECURITY INDEX: Soviet nuclear complex, most of which remained on the Russian territory after the collapse of the U.S.S.R, found itself in a difficult situation in the 1990s. It lost the coherence, its development stopped, the Chernobyl syndrome had its negative impact and global trends indicated low interest in the nuclear component of energy balance. You had to bring together all elements of the industry and initiate a profound reform. How is this process going? *Quo vadis?*

KIRIYENKO: One of the basic conditions for effectiveness of nuclear industry is the promotion of structural reforms, in order to set up the unified system of control and management. According to the law, the *Rosatom* state corporation is an economic entity and the government control body at the same time. All this distinguishes it from other companies – in fact, such practice was formed historically during the early years of the Soviet *Atomic Project* and proved its efficiency.

Such structure established thanks to the strong support of the Russian President enables us to concentrate all resources and necessary means without losing a single precious moment of time. If we hadn't started the reforms today, it would have made little sense to launch them in 5–10 years. We would miss the window of opportunity created by global *nuclear renaissance* and would lose the capacity to transfer knowledge and experience from one generation in nuclear sector to another. We are at the edge right now – in a number of spheres, which saw little investments, fewer serious contracts, such competence and experience nearly vanished. We have five-seven years to organize such knowledge transfer to a new generation entering the nuclear complex. If we had spared this time, Russian nuclear schools would have disappeared along with a number of valuable technologies.

SECURITY INDEX: May it happen that state funding would become another type of artificial support and lead to the establishment of a non-competitive enterprise?

KIRIYENKO: There is a government decision in principle to liberalize the heat and electricity markets starting from January 1, 2011. It is clear that primary reactors are built at the expense of the state budget, but then the industry will have to earn enough to finance its development, i.e. new construction sites. If market prices are set for gas and electricity, we get such opportunity. So far the Russian gas costs \$260 abroad and \$45 at home. So nuclear energy sector cannot compete with the gasified power plants. When the price balance is achieved, we can easily become business rivals of power plants based on gas, coal, and oil. If electricity prices are dictated by the market, nuclear power plants can gain enough to continue the funding of large-scale construction projects. Hence, the money that we receive from the state today is not the assistance to the weak, but a temporary support due to the lack of equal rules of the game in the energy sector. The government says – I cannot provide the sector with equal



terms, for some time you will have to be discriminated with respect to traditional energy sources, – and thus, it provides the means for the industry, at least, to make a start.

SECURITY INDEX: Russia is not the only country that intends to benefit from *nuclear renaissance*. Most of the nations with strong nuclear sectors set forth new proposals, intensify their policy at the service market – I mean reactor construction, fuel supplies, etc. What is the Russian place on the global market of nuclear services? What are the strong points of Russia in comparison with other players? How would you identify the areas of partnership and rivalry?

KIRIYENKO: Today we have a unique window of opportunity. Global *nuclear renaissance*, unique legacy of *Minsredmash*, huge human resources potential and strong government support – all this paves the way to the establishment of the largest company in the world that would become a leader in nuclear energy development.

Entering the world market with its tough competition, we should realize the logic of interaction and integration. Global nuclear energy sector is not only based on rivalry, it is a system of the most beneficial and most reasonable partnerships. After all, the *renaissance* occurred earlier than expected and is much more large-scale in nature than even bravest optimists dreamed of.

Atomic Energy of Canada Ltd. has recently published its calculations about the number of nuclear reactors to be built to replace the thermal power plants, so that global warming may not exceed two degrees in the 21st century. It turned out that at minimum we should have 4,000 reactors with the capacity of 1,000 MW each. This means that every year the world should construct more than 40 such reactors. In comparison to this figure, our plans look much more modest and less fantastic. Moreover, it may seem that they even lag behind the potential demand of global nuclear energy in the future.

Nowadays one can hardly find a key global nuclear corporation or country that is ready for such extensive *renaissance* of nuclear energy. Therefore, there are two strategic options. One is to build up all the elements that the country currently lacks. It will take time, while the *renaissance* demands all and now. This is why most of the global actors follow the second option – they complement each other in goods and services through appropriate integration. Large alliances are formed and despite all difficulties of such merger, they involve in their orbit more and more small satellites, since it is clear to everyone that knowledge and technologies are insufficient and should be expanded. *Rosatom* will most probably follow this way. In the next few years Russian nuclear industry will have to take a sharp strategic decision – to define which weak points should be compensated through the establishment of alliances, through integration. For that purpose, we need a clear and honest analysis of our capabilities. And there can be no arrogant faith in success – «we are the best in everything». Such approach is good for patriotic sentiments, but the reality is not always that simple.

We should learn, above all, to work with our partners inside the country, to open up for integration with the Russian economic champions in other sectors. One of the specific features of nuclear sector development was its closed character, and when we focused on military aspects only this could be justified – this was the only way to implement the government tasks. Today we should not resort to the other extreme, since economic rivalry is sometimes tougher than arms race and we should think about protecting our interests. On the other hand, without partnership with the best global corporations, global leaders in each direction of activities, we will not be able to ensure our own competitiveness. Natural economy, stubborn self-production is the wrong path to competitiveness in principle.

It is important that the format of nuclear sector development was clearly defined inside the country. At present, this is one of our strong points, as unlike our competitors, we have guaranteed state contracts with guaranteed funding until 2020. We plan to build 26 reactors and the construction sites have been chosen. None of our rivals have such large-scale program that ensures our progress, our good starting conditions. There are federal programs of nuclear power plants construction, nuclear and radiation safety and development of energy technologies for the new generation of reactors.

In accordance with the general scheme of deployment of generating facilities in Russia, we build two and then three power plants per year with the intention to reach the pace of four reac-

tors per annum. It would be easier to move from two to four blocks later, but now we have a much more complex task – to shift from one reactor in five years to two reactors annually. If we overcome this qualitative threshold, we will be able to make operational as many facilities as required.

Under the current level of competition, it is impossible to be the second. One is either the first or is out of the market. So in each sphere that we tackle, we should have the ambitious goal of becoming the best.

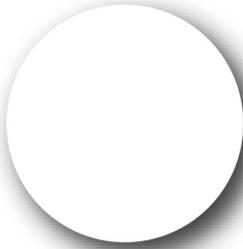
SECURITY INDEX: And last but not the least question. Beside attracting external resources, is there any set of measures to raise the efficiency of using the already available ones? What is the impact of this process on the development of your company and its employees?

KIRIYENKO: It is necessary to treat the management issues seriously. People in Russia are not used to cost management, but in the new market conditions it is a principal issue. For instance, until recently we could afford not to ask ourselves about the real cost of nuclear fuel production and its efficiency in comparison to our business rivals. Nowadays, we can no longer keep silent on the issue. If we compare *TVEL*'s plants with the facilities of our competitors that have similar capacity, it would become obvious that they occupy 100 times less space and employ 10 times fewer staff. So the alternative is evident – our employees may continue to get 10 times lower wages, or we start substantial restructuring. And if they continue to earn 10 times less, our nuclear sector will lose its best specialists tomorrow. This is not the matter of politics; this is the matter of normal competitiveness. In other Russian industries – banking, oil production – salaries rapidly reach the global level and even exceed it sometimes. So, a young professional will have a choice. And if we do not provide him with adequate salary at the level of world standards, we will never be able to recruit the best specialists. 

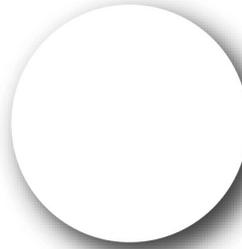
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¹ The interview took place on April 23, 2008.

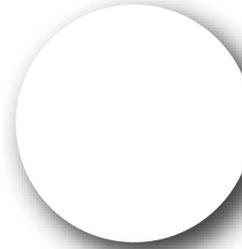




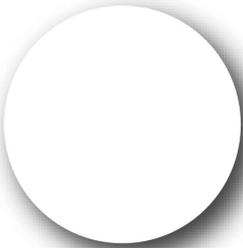
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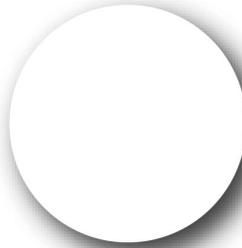
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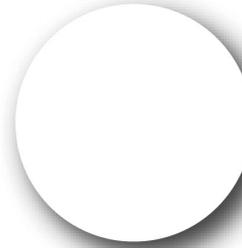
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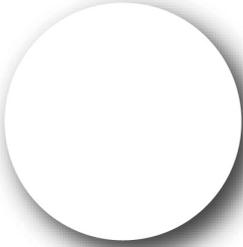
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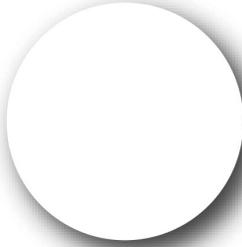
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